alBaraka

GLOBAL STRENGTH LOCAL EXPERTISE

ANNUAL REPORT 2016

Your Partner Bank

Contents (Click text below to open page link)

Al Baraka is unique amongst Islamic banks, combining deep local presence in our markets with international reach. Knowing customers and their businesses intimately has been the key to our success.

Our understanding of established customs and traditions and empathy with customers has been the key to our exceptional growth.

Our strength and stability as an international banking group enhances our capacity to meet the financial needs of our customers throughout their lifecycle.

Doing business responsibly is integral to our Group strategy. Our focus is to satisfy our customers' financial needs and help them succeed financially.

OUR VISION

We believe society needs a fair and equitable system: one which rewards effort and contributes to the development of the community.

OUR MISSION

To meet the financial needs of communities across the world by conducting business ethically in accordance with our beliefs, practicing the highest professional standards and sharing the mutual benefits with the customers, staff and shareholders who participate in our business success.

It's all about relationships

The Al Baraka brand is today at the forefront of Islamic banking and emphasizes the Group's commitment to becoming the natural global leader in Islamic banking. The brand is a strong symbol not only of the unison of all subsidiaries under a single banner, but it also stands for building trust and adding value to the lives of our customers.

The Unified Corporate Entity of Al Baraka links the philosophical dimension of participation and partnership and the equitable sharing of risk and reward – upon which Islamic banking is based.

At Al Baraka, we believe that our values and ambitions go beyond mere attainment of corporate size or product range and delivery. Instead, we believe that as we build our customer relationship based on the spirit of true partnership, our growth will be both inevitable and natural. We at Al Baraka believe that banking has, or ought to have, a crucial role to play in society, one in which as bankers we have an incredible responsibility of stewardship for the resources placed in our hands. To meet this responsibility and use these resources wisely, we rely on Shari'a principles to guide us as we participate in our customers' successes, sharing in the social development of families, businesses and society at large.

By 'partnership', therefore, we mean that our success and that of each of our customers are as intertwined as our jointly held beliefs. Taking part in the joint effort is therefore our reward. We view money as a means to capitalise on opportunities and create a better society for all. Money becomes the conduit by which we enter into new opportunities together and take part in common effort for mutual reward; as steward of the resources entrusted to us, our efforts contribute to building the community, both at home and in the wider world. We call this concept: "Beyond Banking."

Financial Highlights

	2016	2015	2014	2013	2012
EARNINGS (US$ MILLIONS)					
Total Operating Income	**1,074**	1,000	918	909	880
Net Operating Income	**507**	464	396	420	422
Net Income	**268**	286	275	258	235
Net Income Attributable to Equity Holders of the Parent	**152**	163	152	145	133
Basic and Diluted Earnings per Share - US Cents*	**13.29**	14.27	13.30	12.67	11.67
FINANCIAL POSITION (US$ MILLIONS)					
Total Assets	**23,425**	24,618	23,464	20,968	19,055
Total Financing and Investments	**17,465**	18,358	17,624	15,355	14,319
Total Customer Accounts	**19,179**	20,164	19,861	17,744	16,398
Total Owners' Equity	**2,009**	2,095	2,075	1,983	1,968
Equity attributable to Parent's Shareholders	**1,281**	1,356	1,338	1,299	1,294
CAPITAL (US$ MILLIONS)					
Authorised	**1,500**	1,500	1,500	1,500	1,500
Subscribed and Fully Paid-up	**1,149.2**	1,115.7	1,093.9	1,048.3	1,014.5
PROFITABILITY RATIOS					
Return on Average Owners' Equity	**13%**	14%	14%	13%	12%
Return on Average Parent's Shareholders' Equity	**12%**	12%	12%	11%	11%
Return on Average Assets	**1.1%**	1.2%	1.2%	1.3%	1.3%
Operating Expenses to Operating Income	**53%**	54%	57%	54%	52%
FINANCIAL POSITION RATIOS					
Owners' Equity to Total Assets	**9%**	9%	9%	9%	10%
Total Financing and Investments as a Multiple of Equity (times)	**8.7**	8.8	8.5	7.7	7.3
Liquid Assets to Total Assets	**24%**	24%	26%	27%	25%
Net Book Value per Share (US$)*	**1.12**	1.19	1.17	1.14	1.14
OTHER INFORMATION					
Total Number of Employees	**12,644**	11,458	10,853	9,891	9,398
Total Number of Branches	**697**	586	549	479	425

* Adjusted for treasury and bonus shares.

TOTAL ASSETS (US$ - MILLIONS) **23,425**

2012	19,055
2013	20,968
2014	23,464
2015	24,618
2016	23,425

TOTAL OWNERS' EQUITY (US$ - MILLIONS) **2,009**

2012	1,968
2013	1,983
2014	2,075
2015	2,095
2016	2,009

TOTAL CUSTOMER ACCOUNTS (US$ - MILLIONS) **19,179**

2012	16,398
2013	17,744
2014	19,861
2015	20,164
2016	19,179

TOTAL FINANCING & INVESTMENTS (US$ - MILLIONS) **17,465**

2012	14,319
2013	15,355
2014	17,624
2015	18,358
2016	17,465

TOTAL OPERATING INCOME (US$ - MILLIONS) **1,074**

2012	880
2013	909
2014	918
2015	1,000
2016	1,074

NET INCOME (US$ - MILLIONS) **268**

2012	235
2013	258
2014	275
2015	286
2016	268

TOTAL NUMBER OF BRANCHES **697**

2012	425
2013	479
2014	549
2015	586
2016	697

TOTAL NUMBER OF EMPLOYEES **12,644**

2012	9,398
2013	9,891
2014	10,853
2015	11,458
2016	12,644

Board of Directors & Unified Shari'a Supervisory Board

BOARD OF DIRECTORS

Shaikh Saleh Abdullah Kamel
Chairman

Mr. Abdulla A. Saudi ■
Vice Chairman

Mr. Abdullah Saleh Kamel ▲
Vice Chairman

Mr. Saleh Al Yousef ■ ▲ ●
Board Member

Mr. Adnan Ahmed Yousif ● ●
Board Member and President & Chief Executive

Mr. Abdul Elah Sabbahi ● ●
Board Member

Mr. Ebrahim Fayez Al Shamsi ■ ▲ ●
Board Member

Mr. Jamal Bin Ghalaita ■ ●
Board Member

Mr. Yousef Ali Fadil Bin Fadil ● ●
Board Member

Dr. Bassem Awadallah ■ ▲ ●
Board Member

Mr. Mohyedin Saleh Kamel ●
Board Member

Mr. Fahad Abdullah A. Al-Rajhi ● ●
Board Member

Mr. Saud Saleh Al Saleh ■ ▲
Board Member

Mr. Salah Othman Abuzaid
Secretary to the Board

UNIFIED SHARI'A SUPERVISORY BOARD

Shaikh Dr. Abdul Sattar Abu Ghuddah
Chairman

Shaikh Dr. Abdulla Bin Sulieman Al Mannea
Member

Shaikh Dr. Abdullatif Al Mahmood
Member

Shaikh Dr. Abdulaziz Bin Fowzan Al Fowzan
Member

Dr. Ahmed Mohiyeldin Ahmed
Member

Dr. Eltigani El Tayeb Mohammed
Secretary to the Unified Shari'a Supervisory Board

COMMITTEE NAME	CHAIRMAN OF THE COMMITTEE	MEMBER OF THE COMMITTEE
Board Executive Committee	▲	●
Board Audit and Governance Committee	▲	●
Board Affairs and Remuneration Committee	▲	●
Board Risk Committee	▲	●
Board Social Responsibility Committee	▲	●
Independent Directors		■

Executive Management

Mr. Adnan Ahmed Yousif
President & Chief Executive

Mr. Majeed H. Alawi
Executive Vice President - Head of Internal Audit

Mr. K. Krishnamoorthy
Executive Vice President - Head of Strategic Planning

Mr. Abdulrahman Shehab
Executive Vice President - Head of Operations & Administration

Mr. Hamad Abdulla Ali Eqab
Executive Vice President - Head of Finance

Mr. Jozsef Peter Szalay
Senior Vice President - Head of Credit & Risk Management

Mr. Salah Othman Abuzaid
Senior Vice President - Head of Legal Affairs

Mr. Mohammed A. El Qaq
Senior Vice President - Head of Commercial Banking

Mr. Khalid Al Qattan
Senior Vice President - Head of Treasury, Investments & Financial Institutions

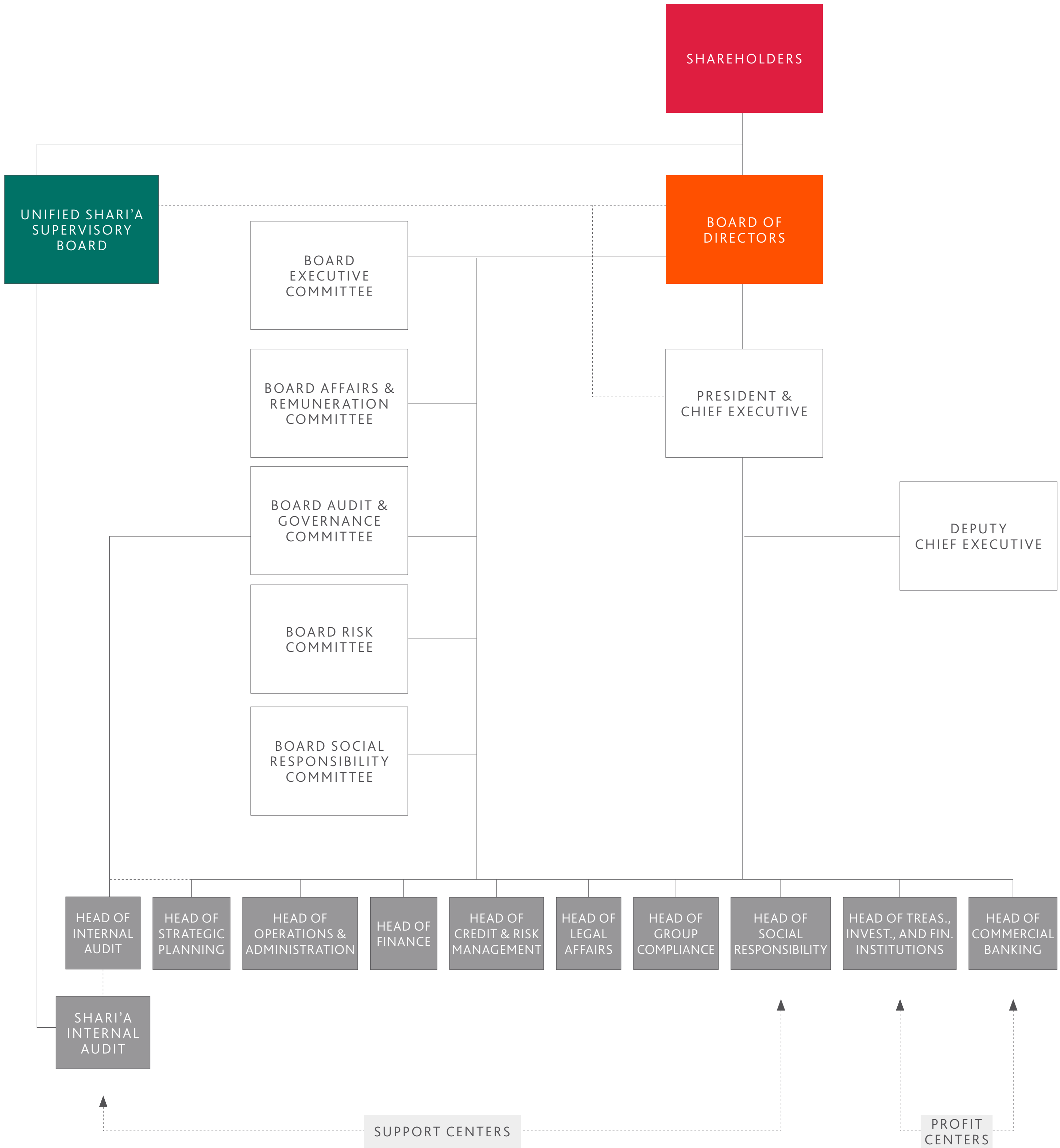
Mr. Qutub Yousafali
Head of Group Compliance

Dr. Ali Adnan Ibrahim
First Vice President - Head of Social Responsibility

Good Governance:

"Our commitment to forging deeper customer relationships begins with a good governance structure."

Head Office Organisation Chart



Directors' Report

Saleh Abdullah Kamel
Chairman

Our growth was achieved consistently in a socially responsible manner serving the needs of society.

2016 REVIEW

I am pleased to report that Al Baraka Group achieved robust financial progress in 2016, despite challenging economic and political conditions in many of our markets. Most units reported growth, although currency depreciations against the US dollar mean that the year's reported results do not fully reflect this.

Total operating income rose 7% to $1.1 billion ($1.0 billion in 2015) and net operating income before provisions, impairments and taxation by a similar 9% to $507 million. Net income was $268 million, just 6% below the result for 2015 ($286 million), although ahead in local currency terms.

The Group's share of total income from jointly financed contracts and investments, including its share as Mudarib, amounted to $619 million ($542 million in 2015), rising 14%. Its income from self-financed accounts and investments grew by 5% to $285 million, revenue from banking services declined by 12% to $177 million and its Mudarib share from managing off-balance sheet equity of investment account holders fell 10% to $5 million. However, this was partly offset by other operating income, which rose 127% to $79 million. Total operating expenses climbed 6% due to the inflationary effect of currency depreciation.

Total assets fell due to the translation effect of dollar appreciation. Total assets fell by 5% to $23.4 billion, as total financings and investments declined by 5% to $17.5 billion and cash and balances with banks declined 6% to $5.1 billion. The fall in total financings and investments was mainly attributable to a lower level of Murabaha financing and non-trading investments in US$ terms.

(All figures in US Dollars unless otherwise stated)

$1.1 BILLION

THE TOTAL OPERATING INCOME WAS $1.1 BILLION, 7% ABOVE THE RESULT FOR 2015.

$507 MILLION

NET OPERATING INCOME BEFORE PROVISIONS, IMPAIRMENTS AND TAXATION GREW BY 9% TO $507 MILLION.

In light of the Group's 2016 performance, the Board of Directors has recommended a cash dividend distribution to shareholders of 1.0% of the paid-up capital, amounting to $11.40 million, after a transfer of $15.16 million to the legal reserve, with the $124.99 million balance of the net income allocated to retained earnings. The Board has also recommended a bonus dividend of 1 share for every 20 shares issued, to be allocated from retained earnings and amounting to $57.46 million. The Board has further recommended a remuneration distribution of $1.50 million, to be paid following the approval of shareholders at the Annual General Meeting.

Ownership of shares in ABG by Board Members and Executive Management (except the Chairman) is immaterial and no major trading of such shares took place in 2016. Details of shares held by Directors and Executive Management are provided in the notes to the consolidated financial statements.

Turning to compliance, the past three years have seen a major investment in strengthening controls both at Bahrain head office and in the subsidiaries. This has been done to meet rising international requirements and new regulations in home markets.

Ten years after Al Baraka Group's 2006 IPO on the Bahrain Bourse and Nasdaq Dubai Stock Exchange, I am pleased to report that we have met the goals set out for shareholders at that time. Over the ten years, our total operating income has grown by an annualised 12.2% and total assets by an annualised 11.9%. The return on equity for 2016 was a high 13.0%.

We have achieved this growth in a socially responsible manner, serving the needs of society, while adhering always to the principles of Shari'a. Four years ago, we established the "Al Baraka Social Responsibility Programme", the first such programme to be introduced by any Islamic bank. In 2016, the Group took this to the next level by signing up to the UN Global Compact.

2017 AND BEYOND

Looking to the future, we will continue our strategy of growth through increasing market share and expanding into new markets. Our units will continue to emphasise product innovation and excellent service. Notably, we will seek to make digital banking a competitive advantage and have started to work with our subsidiary banks to advance this further.

2017 will be another challenging year in our markets. Correspondingly, we are expanding carefully, with great emphasis on managing costs and strengthening our operating units. Overall, this will further strengthen the Al Baraka Group.

Our Group has a culture of balanced and cautious approach to asset management. We congratulate our units for their commitment to these values and successful performance in the face of 2016's difficult operating environment. Thanks are also due to our Executive Management team, whose hard work and competence have ensured the excellent execution of our strategic plan.

Finally, we thank our Shari'a Supervisory Board, the Central Bank of Bahrain, the Ministry of Industry, Commerce and Tourism of Bahrain, Bahrain Bourse, Nasdaq Dubai and all our other subsidiaries' regulatory authorities, for their constant support and wise guidance over the past year.

For and on behalf of the Board of Directors

Saleh Abdullah Kamel
Chairman

President & Chief Executive's Report

Adnan Ahmed Yousif
President & Chief Executive

A strong influence in 15 countries

with 12,644 employees across 697 branches

MANAGEMENT DISCUSSION AND ANALYSIS

2016 was a year when Al Baraka Banking Group continued the record of growth. The bank recorded impressive growth in total operating income as well as net operating income, which illustrates the success of Al Baraka's strategy of expansion and partnership with customers.

This was a remarkable achievement considering difficult economic and geopolitical conditions in some of the Group's markets, as well as the weakness of some local currencies against the US dollar, the Group's reporting currency. Total operating income grew 7% to $1.1 billion (2015: $1.0 billion) and net operating income before provisions, impairments and taxation rose 9% to $507 million (2015: $464 million). However, there was an increase in provisioning and impairment due to an increase in non-performing assets in some units. This led to a decline of 6% in net income to $268 million (2015: $286 million). For reference, in local currency terms net income in 2016 would be higher than 2015 net income by 2%.

Total assets declined slightly, reflecting the Group's caution in such challenging markets and the translation effect of a strong dollar. Total assets fell 5% to $23.4 billion (2015: $24.6 billion).

The Group's track record over the past decade, particularly in the recent economic and financial crisis, has been strong and resilient. Guided by a clear growth strategy, the Group has achieved all the goals set out, whether in terms of geographic expansion, products launched or growth in total assets and operating income. Importantly, the recent crisis has impacted the Group's units less than most of their local competitors.

In 2016, expansion continued, although at a slower pace. The number of branches and representative offices increased by 111 to 697 in 15 countries.

(All figures in US Dollars unless otherwise stated)

◀ Return to contents

$905 MILLION

GROUP'S SHARE OF INCOME FROM FINANCE CONTRACTS AND INVESTMENTS INCLUDING MUDARIB SHARE WAS $905 MILLION, 11% ABOVE 2015.

$717 MILLION

RETURN ON EQUITY OF INVESTMENT ACCOUNT HOLDERS ALSO INCREASED BY 5% TO US $ 717 MILLION.

Notably, Al Baraka Pakistan merged with Burj Bank, another Islamic bank, to create a bank with 224 branches across 100 cities. Numerous new products were launched, and digital banking services began to be upgraded. In this way, the Group pursued its goal of providing economic empowerment for customers, which is driving fulfilment of the core objective of maximising shareholder value.

The other strategic initiative we have completed is the issuance of approval by the concerned authorities in Morocco to grant the Group a license to establish a new bank in Morocco. The new bank will be established in partnership with the Moroccan Bank for Foreign Commerce of Africa (BMCE Bank). The new bank will operate within ABG's network of subsidiary banking units. The entrance into the Moroccan market is a very important achievement. Morocco is considered one of the major markets in the Maghreb and Africa, and our new bank will foster greater diversity in the Group's assets and revenues which is considered one of the major markets in the Maghreb and Africa, and will achieve greater diversity in building assets portfolios and revenue sources for the Group.

In the past few years, the Group has made a major investment in strengthening compliance controls to meet rising regulations. In 2016, this drive continued as part of the bank's commitment to ensure complete regulatory compliance.

In "social responsibility", which is at the core of the Group's business model, the Group continues to be a market leader among Islamic banks. Over the past four years, increasing amounts have been contributed to communities in the forms of financing and donation. In 2016, the Al Baraka Social Responsibility Programme goals were aligned with the UN Global Goals for Sustainable Development.

Reaffirmation of the Group's rating in 2016 confirmed its strength. Dagong Global Credit Company Limited and Islamic International Rating Agency (IIRA) jointly confirmed the Group's international investment grade rating at BBB+/A3. IIRA reaffirmed the Group's national scale rating at A+(bh)/A2(bh). Furthermore, IIRA re-evaluated the group's overall fiduciary score in the range of '76-80', which indicates strong fiduciary standards and a well-developed, mature governance structure.

Turning specifically to 2017, there will be a focus on consolidation and strengthening of operations. The Group and its units will review and streamline their businesses, seeking to restrain costs and to focus on high-quality credits and investments.

REVIEW OF UNITS

The following pages review the performance of the units in 2016. Except where local currency sums are explicitly mentioned, all figures are stated in the US dollar equivalents of the audited local currency-based balance sheets and income statements, prepared in accordance with the Islamic Accounting Standards, issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (and IFRS where AAOIFI is silent) and without any Group level adjustments.

Each unit is managed by its respective Board of Directors. Reporting lines are to the Group, but decision making is decentralised, within the context of the Group's strategic direction and in full compliance with the regulations of the respective countries' central banks.

Al Baraka Global Network

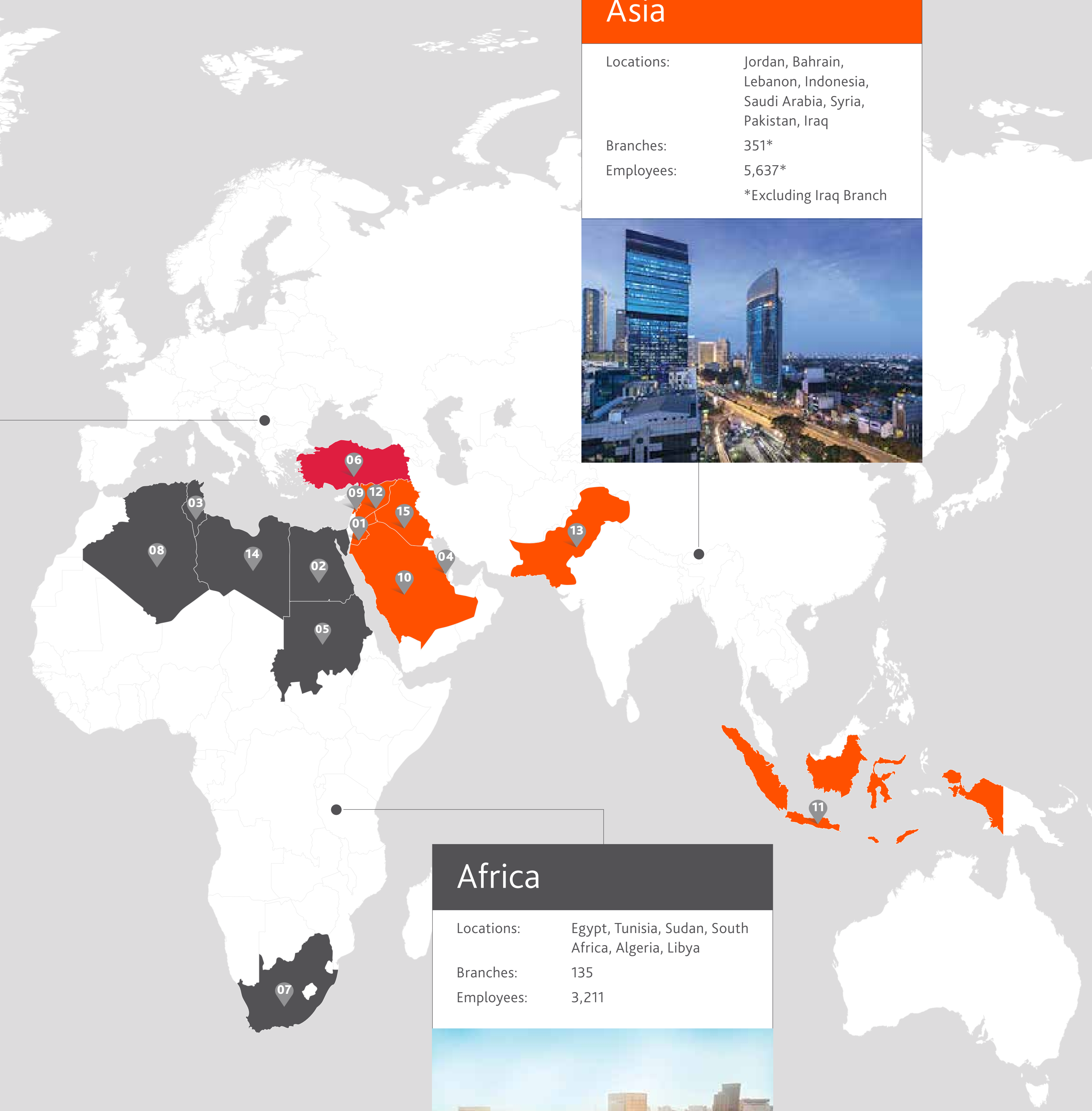
THE GLOBAL VISION OF LOCAL PARTNERSHIP

Country		Branches	Established In
01	Jordan	97	1978
02	Egypt	31	1980
03	Tunisia	34	1983
04	Bahrain	8	1984
05	Sudan	27	1984
06	Turkey	212	1985
07	South Africa	12	1989
08	Algeria	30	1991
09	Lebanon	7	1991
10	Saudi Arabia	1	2007
11	Indonesia*	1	2008
12	Syria	13	2009
13	Pakistan	224	2010
14	Libya*	1	2011
15	Iraq**	1	2011

* Representative Office
** Branch of Al Baraka Turk Participation Bank

Europe

Locations:	Turkey
Branches:	213*
Employees:	3,796*
	*Including Iraq Branch



Asia

Locations:	Jordan, Bahrain, Lebanon, Indonesia, Saudi Arabia, Syria, Pakistan, Iraq
Branches:	351*
Employees:	5,637*
	*Excluding Iraq Branch

Africa

Locations:	Egypt, Tunisia, Sudan, South Africa, Algeria, Libya
Branches:	135
Employees:	3,211

Global strength, Local expertise

Developing an intimate relationship with each and every customer, we aim to satisfy their financial needs and help them to succeed in their personal or business goals financially.

Over 40
Years of Successful Partnerships

◄ Return to contents

Al Baraka is consistently improving and continuing its fundamental approach to its customers – which is based on relationships.

3	15	697
CONTINENTS	COUNTRIES	BRANCHES

Al Baraka Türk Participation Bank

Established
1985

Branches
213*

Unit Head:
Mr. Meliksah Utku

Title:
Acting General Manager

Address:
Saray Mahallesi
Dr. Adnan Büyükdeniz Caddesi, No. 6
34768 Ümraniye,
Istanbul, Turkey

Tel: +90 216 666 01 01
Fax: +90 216 666 16 00
albaraka.com.tr

Turkey's slowing economy, the failed coup and the lira's sharp depreciation made 2016 a challenging year for the country's banks. Provisions rose significantly across the sector, just as foreign currency depreciation impacted the profits of banks reporting in US dollars.

Despite these harsh conditions, Al Baraka Turkey's expansion continued in local currency terms. Total assets rose 11% to TRY32.9 billion (TRY29.6 billion in 2015). However, in dollar terms they fell by 7% to $9.4 billion, following the fall in the lira.

Total operating income rose 15% to TRY1.2 billion (TRY1.1 billion in 2015), reflecting a strong performance from jointly financed accounts and investments. Yet in dollars total operating income was just 5% higher at $416 million ($398 million in 2015).

Substantially higher provisions impacted net income. At $78.2 million, net income was -30% lower than 2015's $112 million.

Even so, the bank's product launches continued, positioning it to resume growth once conditions improve. Major brand and digital advertising campaigns enhanced brand awareness. The number of customers also continued to increase, although the bank's number of branches remained at 213. Product innovations included the Bayi Kart car dealership card, with an Al Baraka guarantee. In trade finance, the bank launched a deferred payment letter of credit, which allows an exporter to receive payment for goods on submitting the necessary papers.

The bank is investing in digital banking, which puts banks with relatively small branch networks on a par with their larger peers. New features are continually being added to the mobile banking app that went live in 2015. At the same time, several new mobile banking products are being developed for the retail market. In the SME sector, an online platform dedicated to the needs of these businesses was launched.

In a step towards diversifying funding, Al Baraka Turkey issued its first sukuk denominated in Turkish lira.

Reflecting Al Baraka Turkey's leading market position, the Financial Times Group named it: Islamic Bank of the Year 2016 – Turkey.

(All figures in US Dollars unless otherwise stated)

* Including Iraq Branch

Jordan Islamic Bank

Established
1978

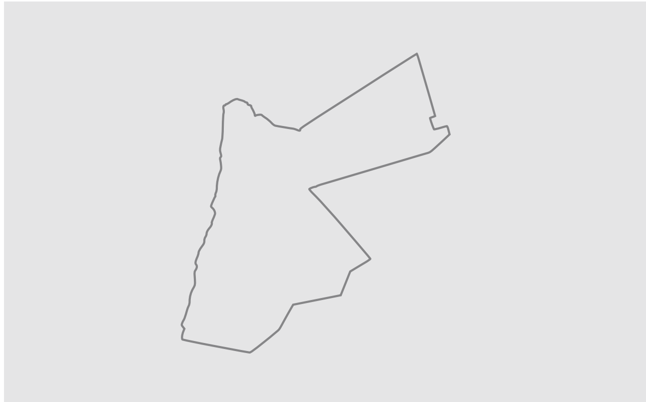
Branches
97

Unit Head:
Mr. Musa Shihadeh

Title:
CEO - General Manager

Address:
P.O. Box 926225
Amman 11190
Jordan

Tel: **+9626 567 7377**
Fax: **+9626 566 6326**
jordanislamicbank.com



Against a background of ongoing conflict in neighbouring countries, 2016 was a difficult year for Jordan's banks. The increasing budget deficit, depressed trade volumes and slowing sales volumes all suppressed banking activity. Set against this, the growing numbers of Syrian refugees needed banking services, particularly finance for housing.

Despite these challenges, Jordan Islamic Bank (Al Baraka Jordan) performed well. Total assets grew 8% to $5.8 billion ($5.4 billion in 2015), supported by a 8% growth in customer accounts. Ijarah Muntahia Bittamleek balances grew substantially, as did non trading investments.

Total operating income grew significantly, rising by 11% to $211 million ($190 million in 2015). This reflected an exceptionally strong growth in the bank's share of income from joint accounts. After a small rise in operating expenses to $90 million ($84 million in 2015), net income rose by 11% to $76 million ($69 million in 2015).

Al Baraka Jordan continued to expand organically. It added five branches and cash offices, expanding the total network to 97, well on the way to a long-term objective of 117. The ATM network also grew, from 174 to 220. Recent product launches judged particularly successful or innovative included Musawamah, which offers customer finance on a range of goods at cash prices, and a Murabaha facility for hybrid cars. Notably, more than 100 finance offers and agreements were reached with government ministries, universities, unions and key companies. The most important of these were agreements with Jordan's engineers' and teachers' unions.

Information technology improvement continued to be a priority. Notably, measures are being introduced to enhance security standards for payment cards, improve anti-money laundering and FATCA systems, and advance customer service through for example equipping ATMs to accept cash deposits.

Reflecting the bank's leading market position, *The Banker*, *Global Finance* and *World Finance* magazines named: Al Baraka Jordan the country's best Islamic bank in 2016.

President & Chief Executive’s Report (Continued)

Al Baraka Bank Egypt

Established
1980

Branches
31

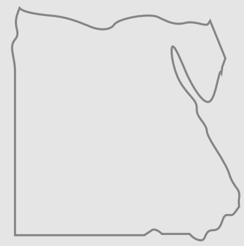
Unit Head:
Mr. Ashraf El Ghamrawi

Title:
Vice Chairman & CEO

Address:
60, Mohie Elddin Abu Elezz Street
P.O. Box 455, Dokki
Giza, Egypt

Tel: **+2023 748 1222**

Fax: **+2023 761 1436/7**
albaraka-bank.com.eg



Egypt intensified its economic reform programme, intended to restore balance to the country’s finances. After the Egyptian pound was devalued by a third in October, the IMF granted a $12 billion 3-year loan to buttress government finances.

Al Baraka Egypt maintained its rapid growth during 2016, although the pound’s devaluation masked its true extent when reported in dollars. Total assets in dollars fell by 40% to $2.2 billion (2015: $3.7 billion). However, they rose by 47% in local currency to EGP42.5 billion (2015: EGP28.9 billion). There was particularly strong growth in non-trading investments and Murabaha receivable.

Total operating income grew 2% to $150 million (2015: $147 million). Again, the dollar figure masked the true performance. In local currency, total operating income increased 24% to EGP1.4 billion (2015:EGP1.1 billion). This was mainly the result of a big increase in the bank’s share of income from joint accounts. Revenue from banking services also grew. Net operating income rose 30% to EGP941 million, as efficiency gains meant that expenses did not rise as fast as income. Net income almost doubled, increasing by 93% to EGP512 million, with a lower level of provisions than in 2015. In dollar terms, net income rose 60% to $55 million.

The bank continued to diversify, and calibrated its continued expansion to economic conditions. There was a significant increase in customer financing and deposits, despite fierce competition. Notably, a contract was signed with the Social Development Fund for a new EGP 50 million facility to finance small and medium-sized enterprises.

Two new branches were opened, broadening the bank’s geographic presence and taking the total number to 31 across the country. Work continued on the new head office, which is in New Cairo and scheduled to open in early 2017.

(All figures in US Dollars unless otherwise stated)

Banque Al Baraka D'algerie S.P.A

Established
1991

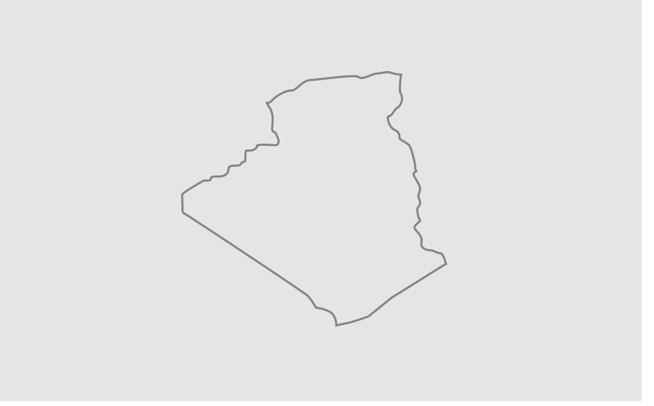
Branches
30

Unit Head:
Mr. Mohamed Seddik Hafid

Title:
Board Member & General Manager

Address:
Hai Bouteldja Houidef, Villa No. 1
Rocade Sud, Ben Aknoun
Algiers, Algeria

Tel: +213 23 38 12 73
Fax: +213 23 38 12 76/77
albaraka-bank.com



The low level of oil prices continued to impact Algeria's economy, reducing economic activity and government project expenditure. The devaluation of the Algerian dinar against the US dollar slowed during the year but it still held back Banque Al Baraka D'Algerie's (Al Baraka Algeria's) results.

Total assets were flat at $1.9 billion (2015: $1.9 billion). Rises in Salam financing and the Ijara Muntahia Bittamleek portfolio were offset by a fall in balances with banks.

Despite the dinar's depreciation, total operating income was flat at $82 million (2015: $83 million). A rise in the bank's share of income from joint accounts was partly offset by a decline in revenue from banking services. Net operating income rose 3% to $50 million, after a fall in operating expenses. However, net income fell 8% to $37 million, reflecting the fact that 2015's result was boosted by a write back of provisions.

Following the relaxation of a ban on loans to finance purchases of goods at least partly made in Algeria, there was growth in consumer finance. The bank reached consumer finance agreements with two government organisations: The General Management of National Safety and The Ministry of Interior. There was also a significant growth in car finance business.

As part of its drive to diversify, Al Baraka Algeria reached a DZD2 billion ($18.3 million) co-financing agreement with Banque de Développement Local for the development of 25,000 hectares for agricultural production. Notably, it also conducted a feasibility study for creating a Takaful insurance company.

The bank continued to operate with a current branch network of 30. There were also projects to introduce "e-payment", for paying bills through a card, and on an internet banking platform.

Recognising its strong position, Al Baraka Algeria was named "Best Islamic institution in Algeria" by Global Finance magazine and ranked in the ("Top 50") North African banks by Jeune Afrique magazine.

Al Baraka Islamic Bank B.S.C. (C) - Bahrain

Established
1984

Branches
8

Unit Head:
Mr. Mohamed Al Mutaweh

Title:
Board Member & CEO

Address:
Al Baraka Headquarters - Bahrain Bay
P.O. Box 1882
Manama, Kingdom of Bahrain

Tel: +973 17 535 300
Fax: +973 17 533 993
albaraka.bh

Low oil prices have led to a slowdown in the Gulf economy and a squeeze on financial liquidity. Furthermore, deteriorating geopolitical conditions have damaged regional trade.

Al Baraka Bahrain grew swiftly as total assets expanded by 13% to end the year at $1.2 billion (2015: $1.1 billion). Murabaha sales receivables and Mudaraba financing both grew.

The bank's total operating income rose by 45% to $39.0 million (2015: $27.0 million), lifted by a substantial rise in the bank's share of income from joint accounts and from banking services. After a relatively small rise in operating expense, the net operating income quadrupled to $13.2 million. There was a rise in provisions and hence net income declined by 5% to $2.9 million.

Activity in the retail market was buoyant. Al Barakat, a savings account with prizes, achieved new sales milestones. Mortgage financing also exceeded expectations. A new mobile banking product was launched late in the year.

SME financing under the Bahraini government's Tamkeen programme also performed well. SME customers also supported the continued growth of trade finance business.

(All figures in US Dollars unless otherwise stated)

Al Baraka Bank (Pakistan) Limited

Established
2010

Branches
224

Unit Head:
Mr. Shafqaat Ahmed

Title:
Board Member & CEO

Address:
Al Baraka House, 162 Bangalore Town
Main Shahrah-e-Faisal
Karachi, Pakistan

Tel: +92 21 34307000
Fax: +92 21 34530981
albaraka.com.pk

Pakistan provided a broadly positive economic backdrop, with robust growth, a falling inflation rate and a narrowing fiscal deficit. However, the central bank cut the discount rate to historic lows putting pressure on bank profitability.

Al Baraka Pakistan merged with Burj Bank, another Islamic bank, to create a bank with 224 branches across 100 cities. Completed on 31 October 2016, the merger transformed Al Baraka Pakistan's growth prospects as it lowered the cost of funds and boosted the combined entity's capital. Post-merger, capital exceeded the regulator's minimum capital requirement (MCR), removing the bank's previous cap on assets.

Following the merger, Al Baraka Pakistan's total assets reached $1.2 billion, up 47% from the 2015 year-end level of $823 million. In addition to exceeding the MCR, this increase in assets boosted the capital adequacy ratio.

As it was only in place for two months of the year, the merger did not have a substantial effect on income. Total operating income rose by 2% to $31.2 million (2015: $30.4 million) after the bank had to shed assets to meet the MCR. There was a 21% rise in income from banking services, offset by a 13% fall in other operating income. Higher expenses drove the bank into a loss of $878,000 at the net operating income level (2015: profit of $3 million) and a loss at the net income level of $588,000 (2015: profit of $3 million).

In addition to the merger, Al Baraka Pakistan continued its strategy of cautious expansion. Several branches were earmarked as commercial, enabling them to offer a specialist range of services. The bank also managed to reach the target set by the central bank for its SME and agricultural portfolios. Its lending to young entrepreneurs under the Prime Minister's Youth Scheme, offering subsidised financing, also progressed well. Additionally, Banca Takaful, which provides insurance, progressed well, and several investment banking mandates were won.

The retail internet banking service launched at the end of 2015 acquired customers. There is great potential for digital banking in a country where more than half of the population have cell phones but less than a quarter have a bank account.

Al Baraka Bank Tunisia

Established
1983

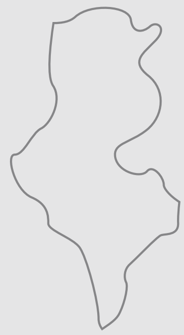
Branches
34

Unit Head:
Mr. Fraj Zaag

Title:
Board Member & General Manager

Address:
88, Avenue Hedi Chaker 1002,
Tunis, Tunisia

Tel: +216 71 186 500 / +216 71 186 600
Fax: +216 71 780 235 / +216 71 908 170
albarakabank.com.tn



Following subdued activity in tourism and services, Tunisia's economic growth continued to be weak. The central bank cut interest rates to stimulate economic activity. New banking regulations were introduced, both setting out new capital requirements and, importantly, establishing a framework for Islamic banking.

The combination of tough economic conditions and new restrictions on banking activity held back the bank's expansion. Total assets declined by 14% to $552 million (2015: $639 million). Reflecting the exchange rate volatility, in Tunisian dinar total assets were flat at TND1.3 billion (2015: TND1.3 billion). Falls in Murabaha sales receivables and Mudaraba financing were partially offset by a rise in non-trading investments.

Total operating income rose 6% to $21.6 million (2015: $20.4 million), but net operating income fell sharply to $2.9 million and net income to $1.6 million after a rise in expenses. In dinar, total operating income rose 10% to TND44.3 million (2015: TND40.1 million), with a rise in the contribution from self-financing and investments offset by a fall in the Mudarib share on off balance sheet EIAH. After a rise in expenses, however, net operating income fell 44% to TND5.9 million and net income to TND3.3 million.

Al Baraka Tunisia continued its geographical expansion, opening 12 offices to bring the network to 34. It also launched retail products for financing the purchase of home products and saving for education.

Global Finance magazine recognised the Al Baraka Tunisia's leading market position, naming it "Best Islamic Financial Institution" Tunisia.

(All figures in US Dollars unless otherwise stated)

Al Baraka Bank Syria S.A.

Established
2009

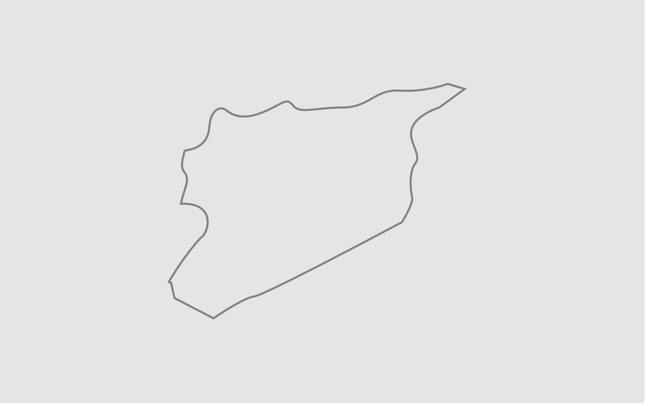
Branches
13

Unit Head:
Mr. Mohammed Halabi

Title:
Chief Executive Officer

Address:
Alshahbander Street
P.O. Box 100
Damascus, Syria

Tel: +963 11 443 78 20
Fax: +963 11 443 78 10
albarakasyria.com



The country's severe unrest continued, although Damascus and the coastal cities were stable. In the past few years there has been a huge decline in economic activity. Unemployment was estimated at 80% in 2016, inflation was extremely high and the Syrian pound depreciated significantly.

Given the exceptionally difficult economic situation, the bank is focusing on treasury operations and fee-earning services. Reporting in local currency provides the best picture of the bank's progress, although it is consolidated into the Group in US dollars.

Total assets fell by 2% to $478 million (2015: $489 million). In SYP, total assets grew 50% to SYP247 billion (2015: SYP164 billion). This was supported by a 54% increase in cash and balances with the central bank and other banks. There was also a 58% rise in Mudaraba financing.

Total operating income rose to SYP15.4 billion (2015: SYP10.5 billion), with substantial increases in the bank's share of income from joint accounts as well as its income from self-financing and investments. Rising revenue from banking services also contributed. Net operating income climbed 45% to SYP12.7 billion and net income 45% to SYP10.7 billion. In US$, net income rose by 12% to $24.7 million (2015: $22.0 million).

Despite the difficult security situation, Al Baraka Syria is continuing to expand. In 2016, one new branch was opened in Damascus and work continued on the new head office, also in Damascus. The bank also launched a micro finance product.

From an operational perspective, it became Syria's first organisation to be awarded ISO 2015: 9001.

Global Finance magazine recognised the Al Baraka Syria's leading market position, naming it "Best Islamic Financial Institution" Syria.

Al Baraka Bank Sudan

Established
1984

Branches
27

Unit Head:
Mr. Abdullah Khairy Hamid

Title:
General Manager

Address:
Al Baraka Tower
P.O. Box 3583, Qasr Street
Khartoum, Sudan

Tel: **+249187 112 000**
Fax: **+249183 788 585**
albaraka.com.sd

Sudan's economy continued to grow robustly, in spite of a severe shortage of foreign exchange, high inflation and the Sudanese pound's fall to historic lows against the US dollar.

Al Baraka Bank Sudan's total assets rose by 24% to SDG2.78 billion (2015: SDG 2.24 billion), supported mainly by growth in Murabaha sales receivable. In dollars, total assets grew by 12% to $391 million (2015: $348 million).

A substantial 58% increase in the bank's share of income from joint accounts (as fund owner and Mudarib) drove total operating income up 57% to a new high of SDG 332 million (2015: SDG 211 million). Total operating income rose a similar amount in dollars to $50.2 million (2015: $32.8 million). After a small rise in expenses, net operating income more than doubled to SDG 185 million and net income to SDG 142 million. In dollar terms, net income grew 128% to $ 21.5 million (2015: $9.4 million).

The number of branches remained the same at 27. However, development plans are underway for several more branches. Supported by this expansion, the number of customers will continue to grow.

The bank is launching electronic payment gateway services that allow its customers to pay utility and education bills. Additionally, enhanced digital banking services are being developed.

(All figures in US Dollars unless otherwise stated)

Al Baraka Bank Limited – South Africa

Established
1989

Branches
12

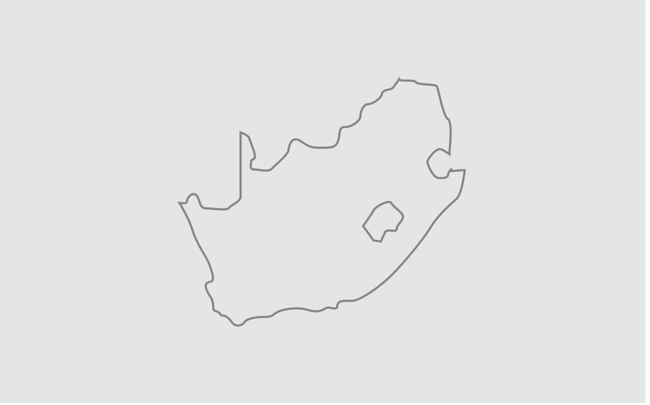
Unit Head:
Mr. Shabir Chohan

Title:
Board Member & CEO

Address:
2 Kingsmead Boulevard, Kingsmead Office Park,
Stalwart Simelane Street, P.O. Box 4395
Durban 4000
South Africa

Tel: +2731 364 9000

Fax: +2731 364 9001
albaraka.co.za



For South Africa, 2016 was a year of slow economic growth, political instability and currency volatility. This unfavourable backdrop has impacted demand for credit from the banking system.

As a result, Al Baraka South Africa's strong recent growth decelerated during the year. In dollar terms, total assets rose 19% to $387 million (2015: $325 million). However, in Rand, local currency terms, which is more reflective of the true growth rate, they were just 5% higher at ZAR5.3 billion (2015: ZAR 5.1 billion). Modest growth in Musharaka financing contributed to the increase.

Total operating income declined 10% to $17.4 million (2015: $19.3 million), with greater falls in net operating income and net income. Again, Rand figures give a more representative picture of progress. Total operating income was marginally higher in Rand at ZAR256 million (2015: ZAR248 million). A rise in the bank's share of income from joint accounts was offset by a fall in the revenue from banking services. After a rise in expenses, net operating income was down 22% to ZAR63.9 million and net income fell 24% to ZAR 41.9 million.

The launch of a Corporate Saver Account, aimed at lawyers holding money in trust for clients, attracted significant new deposits. However, aggressive marketing of high-yielding deposits by the Islamic windows of three major banks resulted in withdrawal of deposits from other accounts. The bank also launched a Shari'a-compliant forward foreign exchange contract.

To expand distribution and improve service, a user-friendly internet banking interface was launched and a new office was opened in Gauteng.

In recognition of its market leadership, Global Finance magazine named the bank "Best Financial Institution in South Africa 2016".

◀ Return to contents

Al Baraka Bank Lebanon S.A.L.

Established
1991

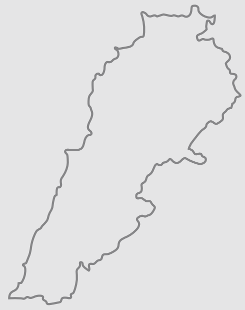
Branches
7

Unit Head:
Mr. Mutasim Mahmassani

Title:
Board Member & General Manager

Address:
Justinian Street
BAC Center, 12th Floor
Sanayeh, near Chamber of Com & Inds.
Beirut, Lebanon

Tel: **+9611 748061 to 65**
Fax: **+9611 748061 to 65 Ext: 700**
al-baraka.com



Following a modest rebound in Lebanon's economy, activity picked up in the banking sector. Illustrating this trend, private sector deposits expanded briskly.

However, the bank was not able to participate in this growth. Total assets declined slightly to $316 million (2015: $321 million). A rise in Murabaha sales receivable was offset by falls in Mudaraba financing and trading securities.

Total operating income fell by 35% to $8.2 million (2015: $12.6 million). There was a fall in the bank's other operating income and income from self-financed accounts and investments. At the net operating income and net income levels, the bank made losses of $2.8 million and $2.3 million respectively.

Several new products were launched. Several "green" financing products were launched, to help customer buy eco-friendly home appliances, hybrid cars and energy-efficient houses. There were also new long-term savings accounts for parents putting money aside for their children and for workers funding retirement.

While the bank's expansion was slowed, it opened another branch and an ATM. Further, a call centre was opened to enhance client service.

Global Finance magazine recognised the Al Baraka Lebanon's leading market position, naming it "Best Islamic Financial Institution" Lebanon for the fourth year.

(All figures in US Dollars unless otherwise stated)

Itqan Capital – Kingdom of Saudi Arabia

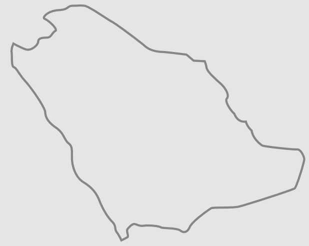
Established
2007

Unit Head:
Mr. Adil S. Dahlawi

Title:
Managing Director & CEO

Address:
The Headquarters Business Park-
West Tower - 15th Floor, Corniche Road
PO Box 8021, Jeddah 21482
Kingdom of Saudi Arabia

Tel: +966 12 510 6030
Fax: +966 12 510 6033
itqancapital.com



Itqan Capital is a Saudi Arabia-based investment company active in asset management, principal investment, investment banking and custodial services. It is strategically important as the only dedicated investment banking unit within the Group.

In 2016, continued low oil prices and the Saudi reform programme suppressed economic activity. Saudi institutional and high-net-worth investors alike have reacted to the difficult economic conditions by becoming increasingly risk averse. They are reluctant to invest in higher risk funds, preferring more conservative, income-generating investment vehicles.

Despite the tough environment, Itqan Capital's total operating income doubled to $1.5 million (2015: $796,000). While income from Itqan's own investment activities, such as trading securities, rose substantially in the year, there was a sizeable fall in its income from advisory and investment management activities. After a sharp reduction in operating expenses, the net operating loss shrank to $2.0 million and the net loss to $2.0 million.

Total assets fell a little, by 6%, to $32 million (2015: $34 million). A decline in the non-trading securities portfolio was partially offset by a rise in the trading securities.

Itqan won several prestigious mandates. It signed two merger and acquisition mandates, one in Bahrain's education sector and the other in Saudi Arabia's. It was also appointed to manage liquidity for a local financial institution, while three other financial institutions invested in the Itqan Murabahat & Sukuk Fund, the top performing local money market fund in Saudi Arabia over two and a half years.

2016 was a planning year for Itqan as it adapted to Saudi Arabia's changing economic environment. However, it reactivated its investment banking division to capitalise on expected merger and debt restructuring activity.

Al Baraka Banking Group, Indonesia (Representative Office)

Established
2008

Unit Head:
Ms. Nurul Bariah

Title:
Chief Representative

Address:
Ravindo Building, 10th Floor
Jalan Kebon Sirih, No. 75
Jakarta Pusat 10340
Indonesia

Tel: **+62 21 316 1345**
Fax: **+62 21 316 1074**
albaraka.com

While Indonesia's economy is still growing fast by the standards of most countries, it has slowed significantly in recent years. China's slowdown, and the related slide in commodity prices, hit the economy hard. Yet the IMF has forecast growth for 2016 at 5%, supported by domestic consumption.

ABG's Indonesia representative office reports on the potential for the Group to do business in the country or to acquire a local bank. It also maintains contact with local regulators and major banking groups while preserving ABG's image and brand value. With trade flows between Indonesia and many of the Group's markets continuing to grow, the representative office identifies business opportunities for ABG subsidiaries.

(All figures in US Dollars unless otherwise stated)

◄ Return to contents

Al Baraka Banking Group, Libya (Representative Office)

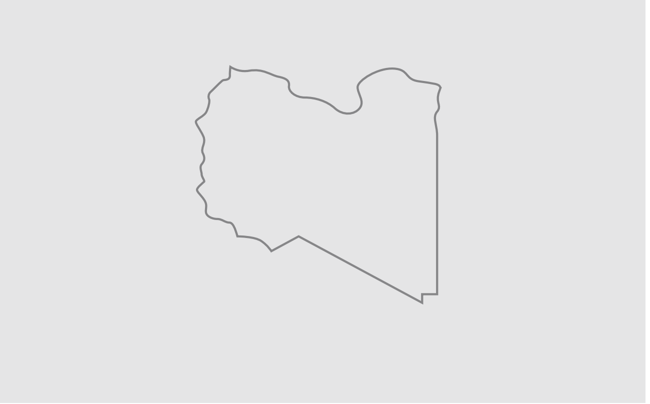
Established
2011

Unit Head:
Mr. Mohamed ElKhazmi

Title:
Chief Representative

Address:
Tripoli Tower, Tower 1
14th Floor, Office No. 144
P.O. Box 93271
Tripoli, Libya

Tel: +218 (21) 336 2310, +218 (21) 336 2311
Fax: +218 (21) 336 2312
albaraka.com



Protracted political standoff, coupled with lower international oil prices, have hit Libya's public finances and GDP hard in recent years, including 2016. The economic and social outlook depends on the restoration of lasting stability, as well as programmes to rebuild economic and social infrastructures.

ABG opened its new representative office in Tripoli in 2013, to position the Group for Libya's eventual return to relative normality. The representative office supports and liaises with ABG units to establish and maintain relationships with local regulators and banks, and to explore appropriate opportunities for business when appropriate.

Corporate Governance

Al Baraka Banking Group was formed in 2002 to bring together 11 individual banks, sharing common ownership and ethical vision but separate in all other respects, under a single management group focused on the achievement of strong yet sustainable financial returns and the building of consistent shareholder value over the long term. From the beginning, ABG regarded the inculcation of a disciplined corporate governance and risk management culture as a fundamental prerequisite to effective management of the Group. The adoption and maintenance, through continual and vigilant review, of the highest standards of corporate governance and risk management have thus been key to building a strong, ethical, responsible organisation. This has been essential for establishing an overarching governing structure under which the functions, roles and responsibilities are clearly divided between the Board of Directors and Executive Management, officers and staff of the organisation.

The Board of Directors

The Board of Directors is responsible for the establishment and oversight of the Group's business strategy and priorities, for setting its high-level policies and for overall management, and is accountable to shareholders for the financial and operational performance of the Group. It is responsible for the raising and allocation of capital, monitoring of Executive Management and its conduct of the Group's operations, for making critical business decisions and for building long-term shareholder value. The Board ensures that the Group manages risk effectively, through approving and monitoring the Group's risk appetite, and identifying and guarding against the longer term strategic threats to the business.

The Board is also responsible, inter alia, for:

- setting and reassessing periodically the Group's corporate goals and objectives;
- establishing policies to further the achievement of the Group's corporate goals and objectives;
- establishing and regularly reviewing the management structure and responsibilities, and monitoring the effectiveness of Executive Management, including its ability to plan and execute strategies;
- holding Executive Management accountable for results;
- putting in place adequate policies and processes for approving budgets, and reviewing performance against those budgets and against key performance indicators;
- ensuring that an adequate, effective, comprehensive and transparent corporate governance framework is in place;
- establishing and approving policies and procedures designed to ensure ethical behaviour and compliance with laws and regulations, auditing and accounting standards and the Group's own corporate governance policy;
- ensuring that ABG and its subsidiaries' operations are supported by an appropriate control environment, i.e. that internal audit, compliance, risk management and finance and reporting functions, are well resourced and structured;
- ensuring that the Group's operations are supported by a reliable, sufficient and well-integrated information system;
- recognising and communicating to Executive Management the importance of the internal audit function at ABG and its subsidiaries, periodically reviewing internal control procedures, and taking measures to enhance the function of internal audit and to act in a timely and effective manner on its findings;
- approving the writing off of credit facilities and investments where appropriate, in accordance with the Group's policies and procedures;
- approving strategic investments by ABG and its subsidiaries;
- monitoring potential conflicts of interest and preventing abusive related party transactions;
- approving material transactions outside the normal course of business or in excess of the limits of approval authority delegated to Executive Management;
- ensuring the preparation of financial statements which accurately disclose the Group's financial position, on a regular and consistent basis, and for reviewing and approving for dissemination its periodic financial statements and annual reports;
- approving all significant changes in the Group's accounting and reporting policies;
- ensuring compliance at all times with all relevant requirements of Shari'a and Islamic Accounting Standards, issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI);
- ensuring that the Group establishes and maintains an approved employee Code of Conduct and is in compliance therewith;
- ensuring that the control environment maintains necessary client confidentiality, and that clients' rights and assets are properly safeguarded;
- convening and preparing the agenda for shareholder meetings;
- ensuring equitable treatment of all shareholders including minority shareholders; and
- performing any other functions required of the Board of Directors under applicable laws and regulations.

In its regular review of the Group's strategy, the Board reviews the Group's business plans and the inherent level of risk in those plans. It also assesses the adequacy of capital to support the business risks of the Group; sets performance objectives; and oversees major capital expenditures, divestitures and acquisitions.

The Board of Directors has overall responsibility for the Group's system of internal control and its effectiveness, and for defining and enforcing standards of accountability that enable Executive Management to achieve the Group's corporate objectives. The Board ensures that the systems and controls framework, the Board structure and the organisational structure of the Group are appropriate for the Group's business and associated risks, and regularly assesses the systems and controls framework to that end. There are established and ongoing procedures in place for identifying, evaluating and managing significant risks faced by the Group, which are regularly reviewed by the Board. The Group's system of internal control provides for a documented and auditable trail of accountability and applies across its operations. This system is designed to ensure effective and efficient operation and compliance with all applicable laws and regulations, and seeks to manage risk with a view to avoiding material errors, losses and fraud.

In meeting its responsibility to ensure efficient governance in all matters related to ABG, the Board has established a written compliance policy governing the Group's compliance with all laws and regulations, in particular those enunciated by the Central Bank of Bahrain (CBB) and other local regulators. The Board has delegated responsibility for monitoring compliance to the President & Chief Executive. This responsibility is carried out through a dedicated Compliance Department, with a mandate to cover all aspects of compliance including: formulation of effective policies and processes for the management of the Group's compliance risk; assisting Executive Management and staff in managing risk; advising on laws and regulations and applicable compliance standards; disseminating compliance policies and providing guidelines to ABG staff members; ensuring an effective compliance methodology; providing periodical reports to the Board in connection with compliance controls; and establishing operational controls and a robust Know Your Customer (KYC) and Anti-Money Laundering (AML) framework. ABG is continuously enhancing its compliance framework and that of each of its subsidiaries.

In 2010, the CBB introduced new requirements to be met by all licensees under Volumes 2 and 6 of Module HC of its Rulebook, with respect to corporate governance principles. These requirements were in line with the Principles relating to the Corporate Governance Code issued by the Ministry of Industry & Commerce of the Kingdom of Bahrain, international best practice corporate governance standards set by bodies such as the Basel Committee for Banking Supervision and related high-level controls and policies. In 2014, the CBB introduced further requirements addressing the matter of remuneration of Approved Persons and Material Risk Takers (see below), which requirements were duly adopted by ABG. ABG conducts annually detailed internal assessments to ensure compliance with these requirements and, in the event that any shortfall is identified, sets specific milestones for implementation of measures to address the shortfall. The CBB, ABG's shareholders, the Board of Directors and Executive Management are all kept fully apprised of such shortfalls, if any, and the milestones set. In accordance with this procedure, ABG earlier applied for and received the CBB's consent to appoint the Chairman of the Board of Directors, although he is not an independent director as defined in the CBB Rulebook.

The Board Audit and Governance Committee members possess adequate awareness of Shari'a principles in relation to Islamic banking transactions. They are, therefore, competent to oversee the audit of Shari'a-related governance issues.

ABG continuously ensures that the Group's minority shareholders are well represented on the Board of Directors through the independent directors, who have additional responsibility for protection of the rights of minority shareholders.

The Board of Directors meets regularly (at least four times a year) and has a formal schedule of matters reserved for it, considering key aspects of the Group's affairs referred to it for decision. The Board reviews the Group's strategy and financial plans, all proposed material changes to the Group's policies, structure and organisation, reports provided to it on the operations of the Group (with emphasis on organisational, risk management and information technology development) and the performance of Executive Management. All Directors attend all Board meetings whenever possible and in any event not less than 75% of meetings in any year, and maintain informal contact between themselves in between meetings.

The Chairman is responsible for leadership of the Board and for its efficient functioning. He ensures that all members receive an agenda, minutes of prior meetings and background information in writing before each Board meeting and between meetings when necessary. The Board and its Committees are supplied with full and timely information to enable them to discharge their responsibilities. In this respect, the Board, its Committees and all Directors individually have access to Executive Management, external legal or other professional consultants and advisors at the Group's expense, and to the Board Secretary, who is responsible for ensuring that the Board procedures and applicable rules and regulations are observed. The Board encourages participation by members of Executive Management at Board meetings, if appropriate, regarding matters which the Board is considering and where the President & Chief Executive believes management should have exposure to the Board.

Under ABG's Articles of Association, the Board of Directors shall consist of no fewer than five and no more than 15 members. Members of the Board of Directors hold office for a three-year renewable term, although the term of office may be extended at the request of the Board for a period not exceeding six months with the approval of the Minister of Industry & Commerce of Bahrain.

There is no maximum age limit at which a Director must retire from the Board of Directors. Each Director's membership of the Board shall terminate upon the expiry of his/her term, or upon the resolution of the shareholders in General Meeting, or as a result of one of a number of specified events or circumstances, including:

- the original appointment being found to be contrary to the provisions of ABG's Articles of Association;
- abuse by the individual of his/her position as Director or failure to comply with the provisions of his/her appointment or the terms of the Charter of the Board or of its Committees;
- the individual's failure to attend three consecutive Board meetings without lawful excuse notified in writing to the Board;
- upon the individual's formal resignation from the Board following reasonable prior notice; or
- occupation of any other remunerative office within ABG unless specifically approved by the Board of Directors.

When an announcement is made requesting nominations for the position of membership of the Board of Directors to replace those members whose three-year term is due to expire, such nominations must be submitted to the Chairman of the Board, within the time frame provided in the announcement, then to the Board Affairs and Remuneration Committee for it to make its recommendations to the Board. As part of the nomination process, each nomination must comply with local rules and regulations, and must be submitted for approval to the CBB in order to ensure compliance with the CBB's "Fit and Proper" criteria. The names of all nominated individuals so approved by the CBB are then submitted to the shareholders at the next AGM for consideration and election. Election of ABG Directors takes place in accordance with the rules and procedures set out in the Commercial Companies Law and ABG's Articles of Association.

In line with best corporate governance best practice, there is a succession plan for the Board of Directors. This is reviewed annually and submitted to the CBB.

Corporate Governance (Continued)

Each new Director elected to the Board receives a written appointment letter, detailing the powers, duties, responsibilities and obligations of that Director, and other relevant terms and conditions of his appointment.

There are currently 13 Directors on the Board. They have varied backgrounds and experience and are, individually and collectively, responsible for performing the responsibilities of the Board, and for exercising independent and objective judgement. No individual Director or group of Directors has unfettered powers of decision making or dominates the Board's decision making. Other than the President & Chief Executive, all Directors are non-executive and fully independent of management, and are individually responsible for scrutinising and challenging management decisions and performance. The posts of Chairman, Vice Chairman and President & Chief Executive are held by different Directors, and the President & Chief Executive has separate, clearly defined responsibilities. The size and composition of the Board and its Committees are regularly assessed, while the effectiveness, contribution and independence of individual Directors are assessed annually in light of interests disclosed and conduct. The independence or non-independence of Directors is, likewise, reviewed annually.

All Directors are remunerated solely by means of an annual retainer fee and sitting fees paid for each meeting attended. Their travel expenses are also reimbursed as appropriate.

The Board of Directors has adopted a formal Code of Business Conduct and Ethics applicable to Directors and Executive Management, officers, employees and agents, consultants and others representing or acting for the Group. Details of the Code are provided in the Additional Public Disclosures section of this report.

In line with international best practice and the CBB Rulebook, the Board has instituted corporate governance measures to ensure that the interests of the shareholders are protected, including the appointment to the Board of more than one third of Directors as independent Directors, as defined in the CBB Rulebook.

In 2016, the members of the Board were:

Non-Executive Directors

1. Shaikh Saleh Abdullah Kamel – Chairman
2. Mr. Abdullah Saleh Kamel – Vice Chairman
3. Mr. Abdul Elah Sabbahi
4. Mr. Yousef Ali Fadil Bin Fadil
5. Mr. Mohyedin Saleh Kamel
6. Mr. Fahad Abdullah A. Al-Rajhi

Independent Directors

1. Mr. Abdulla A. Saudi - Vice Chairman
2. Mr. Saleh Al Yousef
3. Mr. Ebrahim Fayez Al Shamsi
4. Mr. Jamal Bin Ghalaita
5. Dr. Bassem Awadallah
6. Mr. Saud Saleh AlSaleh

Executive Director

Mr. Adnan Ahmed Yousif – President & Chief Executive

All current Directors were elected for a 3-year term on 23 March 2014.

BOARD COMMITTEES

The Board has put in place a number of Board committees, membership of which is drawn from the Board membership and to which it has delegated specific responsibilities. The principal Board committees are:

Board Executive Committee

The Board Executive Committee is chaired by Mr. Abdullah Saleh Kamel, and the other members are Mr. Adnan Ahmed Yousif, President & Chief Executive, Mr. Abdul Elah Sabbahi and Mr. Yousef Ali Fadil Bin Fadil. The Board Executive Committee comprises a minimum of four Directors and meets at least four times a year. The Board has delegated to the Board Executive Committee, under a formal written charter adopted by it, the responsibility to make recommendations to the Board, for the Board's approval, concerning the Group's overall strategies and business plan, or any significant change to them, or any major change to its capital or organisation structure, assets or investments.

Board Affairs and Remuneration Committee

The Board Affairs and Remuneration Committee operates in accordance with a formal written charter adopted by it. The Committee is chaired by Mr. Ebrahim Fayez Al Shamsi (Independent Director), and its other members are Mr. Saleh Al Yousef (Independent Director) and Mr. Yousef Ali Fadil Bin Fadil (Non-executive Director). The Committee meets at least twice a year and considers all material elements relating to remuneration policy, including, inter alia, the approval of the remuneration of the Directors, based on their attendance at Board and Committee meetings. It also recommends to the Board of the level of remuneration of the Executive Management members and other ABG employees under an approved performance-linked incentive structure. The Committee also performs the role of a Nominations Committee, as described below.

The Committee conducts an annual evaluation of the performance of the Board, Board Committees and the President & Chief Executive. When an issue relating to the personal interest of a Director is discussed in the Committee, the interested Director withdraws from the meeting and abstains from voting. The Committee is responsible for identifying persons qualified to become members of the Board or the Chief Executive Officer, the Chief Financial Officer, the Board Secretary and other executive officers considered appropriate (with the exception of the Head of the Internal Audit Department), and for making recommendations accordingly. It is also responsible for inducting, educating and orienting new Directors, and for conducting seminars and other training programmes from time to time for Members of the Board.

Board Audit and Governance Committee

The Board Audit and Governance Committee is chaired by Mr. Saleh Al Yousef. Other members are Mr. Ebrahim Fayez Al Shamsi and Dr. Bassem Awadallah. They are all Independent Directors. The Committee is governed by a formal written Charter, adopted by it and approved by the Board. The Committee meets formally at least four times a year. External auditors attend at least one meeting annually; moreover, external auditors have unrestricted access to the Committee and its Chairman throughout the year.

The Board of Directors has delegated to the Board Audit and Governance Committee the responsibility for ensuring that an effective internal auditing and continuous internal controls monitoring environment, and a sound system of accounting and financial control, are in place. The Committee achieves this through regular review of internal audit reporting, external auditors' management letters, central banks' inspection reports and the Group's accounting and financial policies and practices, financial reporting and disclosure controls and procedures, and the adequacy and effectiveness of the internal control procedures at the Head Office and at ABG's subsidiaries. The Committee considers all matters relating to financial control and reporting, internal and external audits and their scope and results, risk management and compliance with regulatory and legal requirements, accounting standards and Shari'a requirements. It also considers and approves the annual audit plans, ensures coordination between the internal and external auditors, monitors the independence, qualifications, effectiveness and performance of the external auditors, and makes recommendations to the Board regarding the appointment, retirement and remuneration of the external auditors and the appointment of the Head of the Group's Internal Audit Department.

The Committee reviews the Group's annual and interim financial statements to recommend their approval to the Board of Directors, the adequacy of provisions and any reports by external consultants on specific investigative or advisory engagements.

The Committee ensures that there are in place systems of control appropriate to the business of the Group and the information needs of the Board. These include systems and functions for identifying and monitoring risk, the financial position of the Group and compliance with applicable laws, regulations and best banking practice. The Committee ensures that all such information is produced on a timely basis. The various internal controls and processes are subject to independent review by the Group's Internal Audit Department, which reports directly to the Committee, as stated above, and external auditors and regulators as appropriate. Management letters and other issues of importance raised by external auditors, and inspection reports issued by the CBB's inspectors, or inspectors of any other applicable authorities where ABG or its subsidiaries operate, are reviewed by the Committee once issued. Acting on behalf of the Board, the Committee ensures that appropriate corrective action is taken.

The Committee also oversees and monitors the implementation of the corporate governance policy framework, providing the Board with reports and recommendations based on its findings.

The Board has adopted a 'whistleblower' programme, allowing employees confidentially to raise concerns about possible improprieties in financial or legal matters. Under the programme, concerns may be communicated directly to any member of the Board Audit and Governance Committee or, alternatively, to an identified officer or employee who, in turn, reports the matter to the Committee.

Board Risk Committee

The Board Risk Committee is chaired by Mr. Saud Saleh Al Saleh (Independent Director) , with its other members being Mr. Jamal Bin Ghalaita (Independent Director) , Mr. Fahad A. Al Rajhi and Mr. Mohyedin Saleh Kamel (both are Non-executive Directors). The Board Risk Committee meets formally at least twice a year but will meet more frequently at the request of the Chairman of the Committee. It can call for the attendance of the President & Chief Executive, Head of Credit and Risk Management and other senior executives of the Group at any of its meetings.

The Group's risk appetite is determined by the Board, based on the recommendations of the Board Risk Committee. The Board Risk Committee is responsible for setting acceptable levels of risks to which the Group may be exposed, for approving management's strategy for the managing of risk and for ensuring that all necessary steps are taken by management to identify, measure, monitor and control risk. The Committee's objective is to oversee the Group's risk management systems, practices and procedures, as well as to ensure effective risk identification, management and compliance with internal guidelines and external requirements. The Committee reviews issues identified by the Internal Audit and Compliance departments of ABG and/or any of its subsidiaries, such as weaknesses or breakdowns in controls.

Board Social Responsibility Committee

The Board Social Responsibility Committee is chaired by Dr. Bassem Awadallah (Independent Director), and other members are Mr. Adnan Ahmed Yousif, President & Chief Executive, Mr. Abdul Elah Sabbahi and Mr. Fahad Abdulla Al Rajhi. The Committee leads the Al Baraka Social Responsibility Programme. It oversees the formulation of policies and strategies by Executive Management and the Management Social Responsibility Committee, intended to make ABG and its subsidiaries a model Islamic banking group, offering banking and financial services in a socially responsible manner and in conformity with the objectives of Shari'a.

The Committee aims to adhere to the spirit of Islamic finance that enjoins social responsibility as a principal feature of Islamic banking and finance. The Committee demonstrates its commitment to the spirit of social responsibility inherent in Islamic finance by setting various quarterly and annual targets for Executive Management.

Under the terms of its written Charter, which has been adopted by it, the Committee comprises no fewer than four Board Members. All minutes and reports of meetings of the Committee are disseminated to all members of the Board of Directors.

SHARI'A SUPERVISORY BOARD

ABG's Shari'a Supervisory Board (SSB) is elected by the shareholders at Annual General Meeting upon recommendation by the Board of Directors. The SSB is actively involved in the development of the Group's products and services and certifies or oversees the certification by individual subsidiaries' SSBs of every product and service accordingly as complying with the standards and principles of Shari'a.

The SSB operates within its own charter which covers its policies, procedures and responsibilities. In carrying out its responsibilities, the SSB has full access to the Board, Executive Management and management and officers of the subsidiaries. In addition to reviewing and advising on Shari'a compliance of all products and services, it oversees the audit of the operations of the Group from a Shari'a perspective.

The SSB meets at least 6 times a year. Its members are remunerated by annual retainer fee and sitting fees per meeting attended, with travel expenses reimbursed as appropriate. Its members are not paid any performance-related remuneration.

Corporate Governance (Continued)

DIRECTORS' ATTENDANCE AT MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES IN 2016

Name the Board/ Committees	No. meetings in 2016	Dates of the meetings	Member's name	No. of meetings attended
Board of Directors	7	21/02/2016 20/03/2016 10/05/2016 12/06/2016 07/08/2016 13/11/2016 23/12/2016	Sh. Saleh Abdullah Kamel	6
			Mr. Abdulla A. Saudi	7
			Mr. Abdullah Saleh Kamel	7
			Mr. Saleh Al Yousef	7
			Mr. Adnan Ahmed Yousif	7
			Mr. Abdul Elah Sabbahi	7
			Mr. Ebrahim Fayez Al Shamsi	7
			Mr. Jamal Bin Ghalaita	6
			Mr. Yousef Ali Fadil Bin Fadil	7
			Dr. Bassem Awadallah	7
			Mr. Mohyedin Saleh Kamel	7
			Mr. Fahad Abdullah A. Al-Rajhi	7
			Mr. Saud Saleh Al Saleh	7
Board Executive Committee	4	28/01/2016 09/05/2016 23/10/2016 12/12/2016	Mr. Abdullah Saleh Kamel	3
			Mr. Abdul Elah Sabbahi	4
			Mr. Yousef Ali Fadil Bin Fadil	4
			Mr. Adnan Ahmed Yousif	4
Audit & Governance Committee	6	21/02/2016 10/05/2016 07/08/2016 15/08/2016 13/11/2016 22/12/2016	Mr. Saleh Al Yousef	6
			Mr. Ebrahim Fayez Al Shamsi	6
			Dr. Bassem Awadallah	6
Board Affairs & Remuneration Committee	4	13/01/2016 09/05/2016 04/09/2016 11/12/2016	Mr. Ebrahim Fayez Al Shamsi	4
			Mr. Saleh Al Yousef	4
			Mr. Yousef Ali Fadil Bin Fadil	4
Risk Committee	3	10/02/2016 09/05/2016 10/11/2016	Mr. Saud Saleh Al Saleh	3
			Mr. Jamal Bin Ghalaita	3
			Mr. Fahad Abdullah A. Al-Rajhi	3
			Mr. Mohyedin Saleh Kamel	3
Social Responsibility Committee	3	20/02/2016 12/06/2016 12/11/2016	Dr. Bassem Awadallah	3
			Mr. Adnan Ahmed Yousif	2
			Mr. Abdul Elah Sabbahi	3
			Mr. Fahad Abdullah A. Al-Rajhi	3

BOARD OF DIRECTORS

Shaikh Saleh Abdullah Kamel
Chairman

Chairman, Dallah Albaraka Holding Company E.C., General Council for Islamic Banks and Financial Institutions, Jeddah Chamber of Commerce & Industry and the Islamic Chamber of Commerce, Industry and Agriculture, and member of the Advisory Panel of the Islamic Development Bank. He also serves as Director on the Boards of a number of organisations and associations across the world. Shaikh Saleh Abdullah Kamel, a well-known and highly respected international businessman and a pioneer of Islamic banking, with a lifetime of experience spanning over five decades, is the founder of Dallah Albaraka Group and the founder of the Al Baraka Banking Group. As a renowned expert in the field of Islamic banking and in recognition of his achievements and his role in promulgating Islamic economic principles - encapsulated in the message of his Group: "Reconstruction of the Earth" - Shaikh Saleh Kamel has been awarded the highest of certificates, trophies, and accolades too many to mention by many countries and organisations over his lifetime. Shaikh Saleh Abdullah Kamel, a Saudi national, holds a Bachelor of Commerce Degree.

Mr. Abdulla A. Saudi
Vice Chairman

Chairman, United Bank for Commerce and Investments, Tripoli, Libya and Executive Chairman, ASA Consultants W.L.L., Bahrain. Board member of Credit Lebanese Bank Beirut. Previously, Founder, President & Chief Executive, Arab Banking Corporation (B.S.C.), Bahrain from 1980 to 1994. He also founded Arab Financial Services (E.C.) and ABC Islamic Bank (E.C.), Bahrain. Prior to that he was the Founder, Chairman and General Manager of Libyan Arab Foreign Bank, Tripoli 1972 – 1980. In addition, he held various positions at the Central Bank of Libya spanning a period of 14 years. Mr. Saudi is a world-renowned international banker of over five decades standing. Over his distinguished career, he has received many international accolades and decorations, including: the title of one of the "Most Innovative Bankers" in 1980 at a presentation at Georgetown University, Washington D.C., the "Best Banker" award from the Association of Arab American Banks in 1990, the "Arab Banker of the Year" award from the Union of Arab Banks in 1993. He also has several gold medals and awards, notably those bestowed by the King of Spain and the President of Italy in 1977, and the Grand Medal of the Republic of Tunisia in 1993. Recently, he was honoured with the Integrity Award for Combating Forgery by the Arab Union - subordinate of the Arab League – in 2012. Mr. Saudi, a Libyan national, holds a Certificate in Management and Accounting.

Mr. Abdullah Saleh Kamel
Vice Chairman

President and CEO of Dallah Albaraka Group, Saudi Arabia. Chairman of Aseer Company, Chairman of Amlak Real Estate Development and Finance; Chairman of Okaz Press and Publishing Corporation; Vice-Chairman of King Abdullah Economic City Eimaar. Previously held a number of executive positions at Dallah Group, culminating in the position of Vice President for Business Sector until 1999 when he assumed his current position. Mr. Abdulla Kamel has over 28 years' experience in various fields. Mr. Abdulla Kamel is active in public and charitable activities through his membership of many international and local organizations and associations, such as Jeddah Chamber of Commerce (twice as Board Member), Young Presidents' Organization, Friends of Saudi Arabia, The Centennial Fund and the Board of Trustees of the Prince of Wales Business Leaders Forum. Mr. Abdulla Kamel, a Saudi national, studied Economics at University of California at Los Angeles, USA.

Mr. Saleh Al Yousef
Board Member

Board Member, Al Baraka Bank Lebanon. Previously, Chairman and Managing Director of The Industrial Bank of Kuwait K.S.C. Prior to that, Mr. Al Yousef held a number of executive positions with The Industrial Bank of Kuwait and the Central Bank of Kuwait. He has also served as Chairman of ABC Islamic Bank (E.C.), Bahrain and of the Supervisory Board of Arab Banking Corporation – Daus & Co. GmbH, Frankfurt; as Chairman and Managing Director of Afkar Holding Co., Commissioner, Capital Markets Authority, Kuwait; and on the Boards of Directors of the Financial Securities Group; Gulf Bank K.S.C. Kuwait; Arab Banking Corporation (B.S.C.), Bahrain; Ahli United Bank B.S.C., London; and Gulf Investment Corporation. He has over 34 years' experience in the banking Industry. A Kuwaiti national, he holds a Bachelor of Commerce Degree from Kuwait University.

Mr. Adnan Ahmed Yousif
Board Member and President & Chief Executive

Mr. Yousif has led Al Baraka Banking Group (ABG) since inception. He is the Chairman of Al Baraka Turk Participation Bank, Banque Al Baraka D'Algerie, Al Baraka Bank Limited - South Africa, Al Baraka Bank Lebanon, Jordan Islamic Bank, Al Baraka Bank Egypt, Al Baraka Bank Syria, Al Baraka Bank Sudan, Al Baraka Bank (Pakistan) Limited, Vice Chairman of Al Baraka Islamic Bank, Bahrain and a Board member of Al Baraka Bank Tunisia. Mr. Yousif was the Chairman of the Union of Arab Banks, Lebanon for two terms (2007-2013). He is the recipient of the Medal of Efficiency, a unique honour conferred by His Royal Highness - King Hamad Bin Isa Al Khalifa, the King of the Kingdom of Bahrain during the year 2011. He holds the title of the CSR International Ambassador (Kingdom of Bahrain) from the CSR Regional Network, and was twice named Islamic Banker of the Year (2004 and 2009). In addition, he was awarded the 2012 "LARIBA Award for Excellence in Achievement". The Al Jinan University of Lebanon has granted him an Honorary Doctorate of Philosophy in Business Administration and he has been awarded the Accolade of the Sudanese Presidency for Excellency in Social Responsibility. In 2016, Mr. Yousif was decorated with the Title of "High Commissioner to preach the United Nations Sustainable Development Goals 2030". He also won the Gold Award for Sustainable Development at Oman International Conference on Social Responsibility 2016. He holds a Master of Business Administration degree from University of Hull, UK. He was earlier with Arab Banking Corporation for over 20 years and last served as Director on its Board.

Mr. Abdul Elah Sabbahi
Board Member

Vice President, Dallah Albaraka Group; Chairman of Al Baraka Bank Tunisia. Chairman of Arab Leasing International Finance, Saudi Arabia and La Société de Promotion du Lac de Tunis. Mr. Sabbahi is also a Member of the Boards of Dallah Albaraka Holding Co. E.C., Bahrain, Al Amin Investment Co., Jordan and a number of other international companies. Mr. Sabbahi has had over 37 years' experience in international banking and business, the last 26 of which were with the Dallah Albaraka Group in Saudi Arabia. Mr. Sabbahi, a Saudi national, holds a Bachelor of Science Degree in Accounting from King Abdulaziz University, Saudi Arabia.

Corporate Governance (Continued)

Mr. Ebrahim Fayez Al Shamsi
Board Member

Board Member, Al Baraka Turk Participation Bank and Al Baraka Bank Syria. Previously Member of the Board of Arab Fund for Economic & Social Development, Kuwait, Chief Executive Officer of Emirates Islamic Bank, Dubai and Deputy General Manager, Abu Dhabi Fund for Development. Mr. Al Shamsi brings with him 44 years' varied experience in the financial services industry and in service of the U.A.E. Government. Mr. Al Shamsi, a UAE national, holds a Bachelor of Commerce degree.

Mr. Jamal Bin Ghalaita
Board Member

Chief Executive Officer, Emirates Islamic and Chairman of Emirates Islamic Financial Brokerage L.L.C. Additionally, a Board Member of ABG and Tanfeeth LLC. Mr. Ghalaita, a U.A.E. national, has been a banker for 26 years, with key roles in the corporate, retail, trade finance and human resources sectors at Emirates Islamic and Emirates NBD Group. His achievements include planning for the launch of Emirates Islamic and establishing new areas of business at Emirates NBD, including private banking, asset management and Emirates Money. In addition, he is credited with overseeing the growth of the consumer banking and wealth management business. Mr. Ghalaita holds a degree in Business Administration from the University of Arizona, USA.

Mr. Yousef Ali Fadil Bin Fadil
Board Member

Board Member, Al Baraka Islamic Bank, Bahrain, Ajman Bank and Gulfa Mineral Water. Previously General Manager of the Emirates Financial Company and before that Executive Manager for Investment, Dubai Islamic Bank and a number of senior positions at National Bank of Umm Al Qaiwain. Mr. Fadil has also served as Member of the Boards of Directors of several financial institutions including, amongst others, Union Insurance Company, U.A.E., Bahrain Islamic Bank, Bosnia International Bank and Dubai Islamic Insurance Company. He has gained more than 31 years' experience in the banking field. Mr. Bin Fadil, a UAE national, holds a Bachelor's degree in Mathematics & Computer Science from Gonzaga University, Spokane, Washington State, USA.

Dr. Bassem Awadallah
Board Member

Personal Representative of His Majesty King Abdullah II of the Hashemite Kingdom of Jordan and Special Envoy to the Kingdom of Saudi Arabia. He is also the Chief Executive Officer of Tomoh Advisory, a strategy and financial consultancy based in the United Arab Emirates. Vice Chairman of the Arab Bank, Jordan, and a member of the Board of Directors; member of the Board of Directors of Arab National Bank, Saudi Arabia; member of the Board of Directors of ABG, Kingdom of Bahrain. Previously, he held the following positions in Jordan: Economic Secretary to the Prime Minister (1992-1996), Economic Advisor to the Prime Minister (1996-1999), Director of the Economic Department at the Royal Hashemite Court (1999-2001), Minister of Planning and International Cooperation (2001-2005), Minister of Finance (2005), Director of the Office of His Majesty King Abdullah II (April 2006-November 2007), and Chief of the Royal Hashemite Court (November 2007-October 2008). Dr. Awadallah also served as the Secretary General of the Islamic Chamber of Commerce and Industry (2010-2013). He was awarded the King Abdullah Bin Abdulaziz Visiting Fellowship at the Oxford Centre for Islamic Studies in 2012. He is also a member of the Advisory Board of the Middle East Centre, of the London School of Economics and Political Science, and is the Vice Chairman of the Board of Trustees of Al-Quds University, Palestine. Dr. Awadallah is the recipient of the Al Hussein Medal for Distinguished Service, the Al Kawkab Decoration of the First Order, and the Al Istiqlal Decoration of the First Order of the Hashemite Kingdom of Jordan, as well as a number of other decorations from several countries. He has 31 years of diverse experience and holds Phd in Economics and Master of Science in Economics degrees from the London School of Economics and Political Science. He also holds a Bachelor of Science in Foreign Service, International Economics, International Finance and Commerce, from Georgetown University.

Mr. Mohyedin Saleh Kamel
Board Member

Deputy Chief Executive Officer for Projects, Dallah Albaraka Holding Company. Previously, Chairman of the Boards of Directors of Dallah Media Production Company and of Al Rabie Saudi Foods Co. Ltd.; Member of the Boards of Directors of Dallah Real Estate Investment Company, Egypt; Almaza Real Estate Development Company, Egypt; Jabal Omar Development Company; Al Khozami Company; Saudi Research and Marketing Group; Dallah Health Co.; Saudi Fund Equestrian; Okaz Organization for Press and Publication; and Member of the Management Committee of Dallah Albaraka Holding Company E.C. Mr. Mohyedin Kamel is a past member of the Board of Directors of Jeddah Chamber of Commerce and Industry and is active in public and community work in Saudi Arabia. A Saudi national with 15 years of varied experience, he studied Economics at the University of San Francisco, USA.

Mr. Fahad Abdullah A. Al-Rajhi
Board Member

Chairman, FAR Venture Holding Company; Member of the Boards of Deutsche Gulf Finance, Resort Cement Co., Najran Cement Co. and Al Baraka Turk Participation Bank. Previously Mr. Al-Rajhi was a treasurer in Al-Rajhi Bank between February 1995 and May 2008. He has over 37 years' experience in a variety of business and financial fields. Mr. Al-Rajhi, a Saudi national, holds a Bachelor of Science degree in Industrial Management from King Fahad University of Petroleum and Minerals, Saudi Arabia.

Mr. Saud Saleh Al Saleh
Board Member

Chairman, MAAD International and Board member, Gulf Company for Real Estate. Previously Chairman of SAIB-BNP Paribas Assets Management, Vice Chairman, American Express (Saudi Arabia) Limited (ASAL) and Member of the Boards of Saudi Arabian General Investment Authority (SAGIA), General Organization for Social Insurance (GOSI), The Higher Education Fund and Saline Water Conversion Corporation (SWCC), Saudi Orix Leasing Company (SOLC), Boeing Industrial Technology Group L.P. (BITG), AMLAK International for Real Estate Development and Mortgage Finance and The Mediterranean & Gulf Cooperative Insurance & Reinsurance Co. (MEDGULF). Mr. AlSaleh's more than 32 years' experience in banking includes 25 years' service with Arab National Bank, Riyadh followed by management positions at The Saudi Investment Bank, Riyadh, culminating in the position of General Manager, which was followed by service as Secretary General of the Supreme Economic Council of the Kingdom of Saudi Arabia. Mr. Al Saleh, a Saudi national, holds a Bachelor of Science degree in Business Administration from Portland State University, Oregon, USA and an M.A. in Economics from The University of Rhode Island, USA.

EXECUTIVE MANAGEMENT

The Board of Directors has delegated to the Group's Executive Management Team the primary responsibility for implementing the strategy of the Group, identifying and evaluating significant risks to the business of the Group and for the design and operation of appropriate internal controls. Its other responsibilities include: ensuring that resolutions of the Board of Directors are carried out; ensuring that the Group operates at all times in accordance with the principles of Shari'a and that the decisions and recommendations of the Shari'a Supervisory Board are carried out; providing the Board of Directors with analyses, assessments and recommendations regarding the Group's activities and supplying the CBB with all information required under the CBB Law and relevant regulations. Executive Management disseminates to Group units strategic and other central decisions taken at the parent level, thus ensuring the implementation of Group-wide policies and common operational processes and procedures.

As at the end of 2016, the Executive Management Team consisted of the President & Chief Executive and the Heads of: Internal Audit; Strategic Planning; Operations and Administration; Finance; Credit and Risk Management; Legal Affairs; Treasury, Investments and Financial Institutions; Commercial Banking; Compliance and Social Responsibility. All members of the Executive Management Team have been provided with a written appointment agreement specifying the rights and obligations attaching to the office of each member.

Executive Management also exercises control via a number of committees with specific responsibilities, among which are:

Executive Management Committee

The Executive Management Committee's role is to oversee the implementation of the strategic objectives of the Group in relation to its business direction, operations, risk, expansion plans and overall policies and procedures. The Committee is chaired by the President & Chief Executive with the remaining membership comprising the Heads of: Strategic Planning; Operations and Administration; Finance; Credit and Risk Management; Treasury, Investments and Financial Institutions; Commercial Banking; Social Responsibility; and Legal Affairs with Head of Internal Audit as observer.

Asset and Liability Committee

The Asset and Liability Committee's mandate is to monitor the liquidity and capital adequacy of the Group and review the Group's long term equity investments and its penetration into the different markets. The Committee reviews liquidity and cash flow of ABG and the Group and sets balance sheet growth targets, besides monitoring the distribution of profits to investors. The Committee is chaired by the President & Chief Executive and its remaining members are the Heads of: Strategic Planning; Operations and Administration; Finance; Credit and Risk Management; and Treasury, Investments and Financial Institutions, together with a senior member from the Bahrain-based subsidiary, Al Baraka Islamic Bank (Al Baraka Bahrain).

Head Office Credit Committee

The Head Office Credit Committee is the authority that approves credits and considers issues of Group credit policy and Group credit exposures, problem credits and provisioning levels. The Head Office Credit Committee is chaired by the President & Chief Executive, with the remaining membership being drawn from among Executive Management.

Management Risk Committee

The Management Risk Committee's role is to assist the Board Risk Committee in managing and controlling risks and to introduce and support such measures which enhance the efficiency of risk management policies, procedures, practices and controls within the Group. It is chaired by the President & Chief Executive with remaining membership comprising the Heads of: Operations and Administration; Finance and Credit and Risk Management, together with the Manager of Credit Review and Analysis and the Manager - Credit Portfolio Analysis.

Head Office IT Steering Committee

The Head Office IT Steering Committee's role is to draw up the Group's short and long term IT strategy and oversee and monitor its implementation throughout the Group with a view to effecting standardisation in information and operation management. The Committee is chaired by the Head of Operations and Administration and the other members are the Heads of: Finance; Strategic Planning and Credit and Risk Management, together with senior support nominees drawn from the Group.

Human Resources & Compensation Committee

The role of the Human Resources & Compensation Committee is to review the Human Resources policies, management and planning at the Group's Head Office. The Committee is chaired by the Head of Operations and Administration and the other members are the Heads of Strategic Planning and Finance.

Head Office Insiders' Committee

The Head Office Insiders' Committee was set up in accordance with the guidelines issued by the CBB and the Bahrain Bourse (BB) and is aimed at ensuring the maintenance of a fair, orderly and transparent securities market and enhancing and developing the practices relating to the risk management systems and internal controls within listed companies and similar institutions. The Committee is responsible for monitoring and supervising issues relating to insiders in order to regulate their dealings in the Group's securities and to ensure that Group insiders are acquainted with and aware of the legal and administrative requirements regarding their holdings and dealings in the Group's securities, in addition to preventing the abuse of inside information by such insiders. The Committee is chaired by the President & Chief Executive and the other members are the Heads of: Internal Audit; Operations and Administration; Legal Affairs; and Investors Relations.

Other committees

The Executive Management also forms ad hoc committees as and when required to address specific initiatives in which the Group may be engaged from time to time.

Mr. Adnan Ahmed Yousif

President & Chief Executive

Mr. Yousif has more than 40 years' international banking experience. He has been a Director of ABG since inception and the President & Chief Executive since August 2004. He is the Chairman of Jordan Islamic Bank, Banque Al Baraka D'Algérie, Al Baraka Turk Participation Bank, Al Baraka Bank Limited, South Africa, Al Baraka Bank Egypt, Al Baraka Bank Lebanon, Al Baraka Bank Syria, Al Baraka Bank Sudan and Al Baraka Bank (Pakistan) Limited, Vice Chairman of Al Baraka Islamic Bank, Bahrain and Director of Al Baraka Bank Tunisia and Itqan Capital. Mr. Yousif holds a Master of Business Administration degree from the University of Hull, UK.

Corporate Governance (Continued)

Mr. Majeed H. Alawi
Executive Vice President - Head of Internal Audit

Mr. Alawi has over 36 years of international banking experience, mainly in audit. He reports directly to the Audit and Governance Committee of the Board of ABG, for which he also acts as Secretary. He participates as an observer member in Audit Committee meetings of all ABG's subsidiaries. The audit function reviews the IT controls environment of IT systems, controls to ensure Shari'a compliance and compliance with local and international regulatory requirements. Previously he was an audit team leader at Arab Banking Corporation (B.S.C.)'s Internal Audit Department, prior to which he was Head of Operations at Banque National de Paris in Bahrain. Mr. Alawi is a Fellow of the Chartered Association of Certified Accountants, UK (1980).

Mr. K. Krishnamoorthy
Executive Vice President - Head of Strategic Planning

Mr. Krishnamoorthy has over 40 years' experience in financial and management reporting, corporate and structured finance, credit, strategic planning, project management, equity research, fund management and administration. Before joining ABG in 2004, he headed the worldwide banking solutions business of a major Canadian IT solutions company in Toronto, Canada, after two years as a partner in a regional investment bank in the Gulf. Prior to that, he spent 11 years at Arab Banking Corporation (B.S.C.), latterly managing its mutual fund investment portfolio and Treasury Mid-Office. His early career was spent as an accountant in India and Bahrain. Mr. Krishnamoorthy is an Associate of the Institute of Chartered Accountants of India and holds a B.Com. degree from Osmania University, India.

Mr. Abdulrahman Shehab
Executive Vice President - Head of Operations and Administration

Mr. Shehab has over 40 years of banking experience with various international financial institutions, both Islamic and conventional. He is a Member of the Boards of Banque Al Baraka D'Algerie, Algeria and Al Baraka Bank (Pakistan) Ltd., Pakistan. Before joining the ABG in May 2006, he was Assistant Chief Executive Officer – Head of Operations & Administration at Bahrain Islamic Bank, which he joined from Faysal Islamic Bank of Bahrain (now Ithmaar Bank), prior to which he worked at Bahrain Middle East Bank and the Bahrain branches of American Express Bank, Bank of America and Chase Manhattan Bank. He started his career with Habib Bank Ltd. in 1973. Mr. Shehab holds a Master degree in Business Administration from Hull University, UK.

Mr. Hamad Abdulla Ali Eqab
Executive Vice President - Head of Finance

Mr. Eqab has over 23 years' experience in finance and auditing. He is Chairman of the Accounting Standards Board of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). He is also a Member of the Boards of Al Baraka Turk Participation Bank, Jordan Islamic Bank and Banque Al Baraka D'Algerie, Algeria. In addition, he serves as Chairman of the Audit Committee of Al Baraka Turk Participation Bank, is a member of the audit committees of Jordan Islamic Bank and Banque Al Baraka D'Algerie, and a member of the Social Responsibility Committee of Jordan Islamic Bank. Before joining ABG in February 2005, he worked at Shamil Bank as Senior Manager, Internal Audit. Prior to this, he was a member of the audit team at Arthur Andersen. Mr. Eqab is a Certified Public Accountant and a Chartered Global Management Accountant.

Mr. Jozsef Peter Szalay
Senior Vice President - Head of Credit and Risk Management

Mr. Szalay has over 40 years' international banking experience, encompassing credit and risk management, corporate banking and trade finance. Mr. Szalay has been a member of ABG's executive management team since September 2006. Previously, he worked with Gulf International Bank B.S.C., which he joined in 1979 as Regional Marketing and Credit Officer for Central Europe, subsequently working in credit and business development before becoming Chief Credit Officer and Member of the Group Risk Committee. Prior to that, he worked at Bank of Montreal, Canada, latterly being appointed its Middle East Representative. Mr. Szalay holds an M.A. (Econ.) from University of Budapest and a Banking Certificate from the Institute of Canadian Bankers. He is a graduate of the Advanced Management Program at INSEAD France.

Mr. Salah Othman Abuzaid
Senior Vice President - Head of Legal Affairs

Mr. Abuzaid has over 32 years' professional experience as a judge, a practicing advocate and legal consultant to a number of local, regional and international law firms and financial institutions. He also serves as Secretary to the Board of Directors of ABG and some of its Board Committees. He joined ABG as First Vice President - Head of Legal Affairs & Compliance, from which position he was subsequently promoted to Senior Vice President. Before joining ABG, he worked at Al Baraka Islamic Bank (Bahrain) as Manager, Legal Affairs, prior to which he was based in the Sultanate of Oman from 2001- 2004 where he worked for an international law firm. In Oman, he was admitted to practice before all Omani courts. Before that, he spent 20 years working in legal practice in Sudan. Mr. Abuzaid has an LLB degree from the Faculty of Law, University of Khartoum, Sudan.

Mr. Mohammed A. El Qaq
Senior Vice President – Head of Commercial Banking

Mr. El Qaq has over 25 years of experience in commercial banking. Before joining ABG in August 2014, Mr. El Qaq was General Manager, International Banking & Syndications at Commercial Bank of Kuwait, prior to which he was a First Vice President at Arab Banking Corporation (B.S.C.), Bahrain, Deputy Chief Executive & Head of Corporate Banking Group at Arab Banking Corporation (Jordan). He also served as Member of the Board of Directors of ABC Islamic Bank 2009-2012. Having started his career with the Housing Bank for Trade and Finance, Jordan in 1990, he then worked with Arab Bank in Jordan and Qatar National Bank in Qatar. Mr. El Qaq holds a Master of Business Administration degree from Howard University, USA.

Mr. Khalid Al Qattan
Senior Vice President - Head of Treasury, Investments and Financial Institutions

Mr. Al Qattan has over 33 years of banking experience in Treasury and Operations. Before joining ABG in June 2007 as Vice President - subsequently appointed to his present post in 2008 - he was Treasury Manager at Eskan Bank, Bahrain where he was responsible for liquidity management and served on several management committees. Prior to that, he worked at Shamil Bank, Bahrain, as Manager of Treasury Operations, and at United Gulf Bank, Bahrain. Mr. Al Qattan holds a Master of Business Administration degree from the University of Hull, UK.

Mr. Qutub Yousafali

Head of Group Compliance

Mr. Qutub Yousafali is a banking professional with more than 36 years' experience who joined ABG in January 2012. Previously, Mr. Yousafali worked with Arab Banking Corporation (B.S.C.) in Bahrain for nearly 18 years, latterly as Group Head of Compliance. In this role he was responsible for overseeing and coordinating compliance functions and activities, including regulatory compliance, corporate governance, anti-money laundering and international sanctions across the network of offices worldwide. Prior to this appointment in 2009, Mr. Yousafali had held a number of senior positions in the Arab World Division & Universal Banking in Arab Banking Corporation (B.S.C.). Previously, he worked for an affiliate bank in a number of senior positions, including Head of Internal Audit and Finance. Mr. Yousafali started his professional career with Peat Marwick Mitchell & Co. (now KPMG), London. Mr. Yousafali is a Fellow of The Institute of Chartered Accountants in England & Wales, UK.

Dr. Ali Adnan Ibrahim

First Vice President - Head of Social Responsibility

Dr. Ibrahim has over 20 years of experience. He is the Head of the Group Social Responsibility Department, and specialises in market-based strategies for economic development, corporate sustainability, impact investing, Islamic micro-and-SME finance, mergers and acquisitions, and Sharia-structuring. He develops strategies and processes to ensure that Al Baraka's businesses contribute to its communities. Previously, Dr. Ibrahim was a counsel at Baker & McKenzie. As a Fulbright Scholar, Dr. Ibrahim received his doctorate in financial regulation from the Georgetown University (with distinction). He has also attended leadership programs such as "Global Leadership and Public Policy in 21st Century" at Harvard University and "Transformational Leadership" at Oxford University. He has twice served as Co-Chair of the Islamic Finance Committee of the American Bar Association. Dr. Ibrahim has been published internationally on market-based strategies for economic development, financial inclusion, Islamic finance and its regulation, Islamic microfinance, comparative corporate governance and capital markets in the developing countries. He is a World Economic Forum Young Global Leader.

COMPLIANCE, POLICIES AND PROCEDURES

Group Compliance

ABG Group is committed to complying with ever increasing international regulatory requirements. The Group Compliance function supports the units, updating policies when necessary. There is a continual drive to enhance the compliance culture through investments in advanced systems and effective staff training. The Group has never hesitated to decline business that might risk breaching the letter or the spirit of applicable laws, rules and regulatory standards.

The Group Compliance Officer (GCO) has formulated a Group compliance strategy and compliance management framework for implementation throughout the ABG Group. They reflect the following core principles and practices which are firmly embedded in ABG and all its subsidiaries:

- comply with both the letter and the spirit of all applicable laws, rules and regulatory standards;
- conduct business strictly in accordance with all regulatory and ethical standards;
- encourage a strong compliance culture, with every individual held personally responsible for compliance; and
- maintain a robust corporate governance environment at all times.

An independent function

Group Compliance in ABG is an independent function responsible for:

- proactively identifying and evaluating compliance risks;
- developing and implementing compliance policies, programmes and plans;
- monitoring, managing, mitigating and reporting compliance risks;
- monitoring, investigating and reporting compliance breaches, incidents and risks; and
- advising management and staff on compliance and regulatory matters.

The GCO reports directly to the President & Chief Executive. He provides independent oversight on behalf of the Board of Directors, and reports to the Board of Directors whenever deemed necessary. In addition, the GCO has the right and the authority to contact the Central Bank of Bahrain (CBB), as and when he considers it necessary. The GCO is supported by dedicated compliance teams in all ABG subsidiaries. At the Group level, the GCO is responsible for coordinating the identification and management of the ABG Group's compliance risks, in collaboration with local Heads of Compliance in each of the subsidiaries.

Throughout its network of offices, ABG has issued written guidelines for staff. They describe the appropriate implementation of laws, regulations, rules and standards through policies and procedures, including the overarching Group Compliance Policy. This policy requires all subsidiaries, officers and staff to comply with all relevant laws, rules, regulations and standards of good market practice.

In the ABG Group, compliance risks fall broadly into the following categories:

- Regulatory Compliance and Corporate Governance;
- Anti-Money Laundering and Countering Financing of Terrorism;
- International Sanctions; and
- Foreign Account Tax Compliance Act and Common Reporting Standard (FATCA and CRS).

Regulatory Compliance and Corporate Governance

At the Group level, policies are continuously developed for managing compliance risks in all the above categories. These policies are systematically cascaded down to the subsidiaries, which adapt and implement them in accordance with local regulatory requirements. In addition, the ABG Group has a strict Code of Conduct in place that all employees must adhere to at all times. The Code sets out to deter wrongdoing and to promote ethical conduct.

It outlines the responsibilities of all members of the ABG Group, its officers and staff, who are expected to read, understand and uphold these standards and principles at all times.

The ABG Group has a whistleblowing policy in place, which provides a formal channel for staff to report any unethical conduct, gross mismanagement or corporate wrongdoing. Staff members are encouraged to report their concerns through specified communication channels which protect their identities, without fear of reprisal or victimisation. Reportable disclosures may include legal or regulatory wrongdoing, fraud or any other malpractice.

Corporate Governance (Continued)

Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT)

Risks relating to financial crime are proactively managed at the Group and subsidiary levels. The ABG Group is committed to complying with AML/ CFT laws and regulations, as well as the recommendations of the Basel Committee and Financial Action Task Force. These laws, regulations and recommendations are reflected in the AML/CFT policies of ABG and each of its subsidiaries. The Group has strict Know Your Customer policies, which include detailed requirements for identifying and verifying customers. These policies preclude all operating units from establishing a new business relationship until all relevant parties to the relationship have been identified and verified, and the nature of the business they expect to conduct has been clearly established.

In line with the requirements of the CBB and the Group AML Policy, suitably qualified Money Laundering Reporting Officers (MLROs) are appointed in all subsidiaries. The MLROs are responsible for ensuring compliance with all relevant laws, regulations and policies in respect of AML/CFT. They also have responsibility for reviewing and monitoring customers and transactions, and reporting to their respective host regulators any suspicions concerning them.

At the Group level, ABG has appointed a Group MLRO, who is responsible for formulating and implementing ABG's AML strategies and policies on an ongoing basis. The Group MLRO coordinates the activities of each subsidiary's MLRO, overseeing appropriate AML training for all relevant staff, and reporting to the Board Audit and Governance Committee and the Board of Directors on all critical money laundering issues.

International Sanctions

Owing to a raft of sanctions imposed by local and international regulatory bodies, sanctions compliance is one of the primary challenges faced by banks today, particularly those operating across multiple geographies. Breaches of sanctions expose banks to significant regulatory, reputational and commercial risks, including potential financial losses. As evidenced by the large number of cases reported and the very sizeable fines imposed, sanctions risk has become one of the most serious risks faced by banks worldwide.

Being mindful of such risks, ABG has a Group Sanctions Policy in place, which is implemented throughout its network in order to ensure uniform adherence to all relevant sanctions orders. This policy sets out various restrictions and prohibitions relating to customers and transactions subject to sanctions. These restrictions sometimes extend beyond the strict requirements of applicable laws in order to safeguard the ABG's reputation and standing.

ABG's strategy and policy for managing sanctions risk is determined at the Group level and implemented across all subsidiaries. The Group is increasing staff awareness of sanctions compliance and investing in screening systems to manage and minimise sanctions risk. Being mindful of its responsibilities, ABG is committed to further enhancing its sanctions risk management framework on an ongoing basis.

Foreign Account Tax Compliance Act and Common Reporting Standard (FATCA/CRS)

US legislation known as FATCA, aimed at preventing tax evasion by US citizens and residents by hiding their assets in accounts with non-US banks, became law in 2010. FATCA requires Foreign Financial Institutions (FFIs) such as ABG and its subsidiaries to enter into FFI agreements, under which they agree to identify and provide the US Internal Revenue Service (IRS) with information on accounts held by US persons and US-owned foreign entities, or otherwise face 30% withholding tax on certain payments made to them. FFIs are also required to withhold tax on certain payments made to other FFIs that have not entered into an FFI agreement, and on payments made to account holders who do not respond to requests to confirm their US person status and/or do not agree to the FFI reporting certain account-related information to the IRS.

Intergovernmental Agreements (IGAs) Models 1 and 2 were offered by the IRS to reduce the compliance costs and operational issues arising from the implementation of FATCA. A number of countries, including Bahrain, where ABG subsidiaries operate have either signed or are expected to sign an IGA Model 1 with the US. If the IGAs are signed in accordance with the FATCA regulations, ABG subsidiaries will be required to report the necessary US account-related information to their competent local authorities only, which in turn will provide the information to the IRS.

From the outset, the ABG Group has taken necessary steps to build awareness about FATCA. It has also made substantial investments in training people and introducing systems in order to implement the new CRS legislation throughout its network of offices. A robust Group FATCA strategy and policy is in place and is being implemented throughout the Group. As a result, all our subsidiaries comply with the applicable FATCA reporting and withholding requirements.

The OECD published the CRS in 2014, which is supported by the G20 countries to improve tax transparency through automatic exchange of information about the financial assets of tax residents of a country in other jurisdictions participating in the CRS programme. ABG and its subsidiaries are expanding their FATCA policies and frameworks to include CRS. As a result, all members of the ABG Group are taking all steps necessary to become fully compliant with CRS requirements, as and when these are adopted by the countries in which ABG subsidiaries operate.

Group Disclosure Policy

The Group communication strategy aims to keep the market informed of material information in a timely, accurate and balanced manner. The Group's communications with the market ensures compliance with the CBB's directives as detailed in the Public Disclosure Module of its Rulebook, Volume 2, Part A and the CBB Disclosure Standards as specified under the CBB Capital Markets Regulations.

Material information is any information, financial or non-financial, relating to the business and affairs of ABG, the Group or any of ABG's subsidiaries that results in, or would reasonably be expected to result in, a significant change in the market price of the Group's shares or in the decision of a prudent investor to sell, buy or hold the Group's shares or cause to change a prudent investor's decision to transact or refrain from transacting with the Group or its units. Material information consists of, but is not limited to, both material facts and material changes relating to the business and affairs of the Group and ABG's subsidiaries.

In order for the Group to comply fully with the CBB disclosure requirements as specified in the CBB Rulebook, the Group will disclose all the required information in its published quarterly reviewed financial statements, and its annual audited financial statements, and any applicable ad hoc information requirement of the CBB from time to time.

Further, as a listed company on the Bahrain Bourse (BB) and NASDAQ Dubai, ABG is committed to adhering on a timely basis to all periodic information dissemination requirements of the BB and NASDAQ Dubai, as stipulated in their respective regulations and directives.

Additionally, the Group will publicly disclose and broadly disseminate material information immediately upon becoming aware of circumstances or events that underlie such material information, or when a decision to implement a material change is made by the Board of Directors or Executive Management.

As a listed company, ABG adheres to a strict policy which delegates to certain specific individuals the authority to issue press releases or make announcements to the public, financial or non-financial, about the Group. Only the following persons are authorised to make public information via the media:

- Chairman of the Board of Directors
- Vice-Chairmen of the Board of Directors
- President & Chief Executive.

In the event that any of the abovementioned persons is requested to make statements relating to the financial statements, financial indicators or general financial performance of the Group, that person will consult and/or confirm with the Head of Finance with regard to the accuracy, timeliness and reliability of the information prior to making any public announcements.

The Group distributes its Financial Statements and Prudential Returns to the CBB, BB and NASDAQ Dubai on a quarterly and an annual basis. Then the Group makes this information available on its website.

Press releases are posted on the Group's website and published in a minimum of one local newspaper either in Arabic or English. Persons authorised by the Group to make public disclosures will not make any announcement on a one-to-one basis before disseminating the information on the Group's website or in local newspapers as appropriate.

The Group has in place an effective framework for dealing with complaints received from its shareholders and other stakeholders. Different channels have been established to enable communication with investors, including through the offices of the Registrar, an online enquiry centre on the Group's website and dedicated telephone and facsimile lines. All complaints received are transmitted to the concerned department, Executive Management and the Board. In accordance with the CBB's disclosure requirements, the Group maintains at least the previous three years' financial performance information on its website.

Regulations

The Group complies with all the regulatory requirements governing Islamic Banks issued by the CBB, which include, inter alia, regulations governing the Group's capital adequacy, asset quality and risk management, liquidity and fund management and corporate governance.

The CBB, as the home supervisor, sets and monitors ABG's capital requirements on both a consolidated and an unconsolidated basis, while ABG's banking subsidiaries are directly regulated by their local banking supervisors, which set and monitor their capital adequacy requirements.

The CBB requires each Bahrain-based bank or banking group to maintain a minimum capital adequacy ratio of 8% on a solo basis and 12.5% (including capital conservation buffer (CCB) of 2.5%) on a consolidated basis.

By the end of 2014, the CBB had issued the final regulation to give effect to the Basel III framework, which came into effect on 1 January 2015. The Basel III framework significantly revises the definition of regulatory capital. The framework emphasises common equity as the predominant component of tier 1 capital by introducing a minimum common equity tier 1 (CET1) capital ratio. The Basel III rules also require institutions to hold capital buffers. For the purpose of calculating CET1 capital, the regulatory adjustments including amounts above the aggregate limit for significant investments in financial institutions, mortgage servicing rights, and deferred tax assets from temporary differences, will be deducted from CET1 over a phased manner to be fully deducted by 1 January 2019. The current capital position is sufficient to meet the new regulatory capital requirements.

Pursuant to the Group's Compliance Policy, which was approved and adopted by the Board of Directors in November 2009, as mentioned earlier ABG appointed a Compliance Officer, whose role is to assist management to ensure the Group's adherence to the Group Compliance Policy, in particular that all Group activities are conducted in conformity with all applicable laws and regulations and in accordance with best practice.

Financial performance monitoring

Executive Management has in place various measures that help monitor and control the activities of the Group worldwide. A comprehensive financial consolidating procedure exists and is working effectively. All subsidiaries submit their financial data in a format that is compatible with Islamic Accounting Standards issued by AAOIFI and with International Financial Reporting Standards (IFRS). These are consolidated quarterly and a consolidated set of financial results is produced. Additionally, subsidiaries submit a monthly return to Group headquarters providing details of their financial performance, measured against approved budgets.

Related party transactions

Dealings with persons or entities connected with the Group (including directors and shareholders) are called "related party transactions". The Group treats all such transactions at arm's length and requires that they have the specific approval of the Board. If a director is an interested party, he is required to abstain from voting on the respective matter. The Related Party Transactions pertaining to 2016 are reflected in Note 23 to the Consolidated Financial Statements.

Code Of Business Conduct And Ethics

ABG maintains a board-approved policy on the employment of immediate family members or other relatives of employees. The policy prohibits the employment and internal transfers where applicable, of first and second-degree relatives. However, the policy permits third and fourth degree relatives to be employed in positions other than where there is an actual, potential or perceived conflict of interest, or an opportunity for collusion. The Human Resources and Internal Audit departments are responsible for examining potential applications for employment to check whether there is likely to be an actual or potential conflict of interest as defined by the Group's policies, with particular reference to the code of conduct and conflict of interest policies.

Corporate Governance (Continued)

REMUNERATION POLICY AND RELATED DISCLOSURES

The Group's total compensation approach, which includes the variable remuneration policy, sets out the Group's policy on remuneration for Directors and senior management and the key factors that are taken into account in setting the policy.

Through the remuneration framework summarised below, the Group aims to comply with the CBB's regulations concerning Sound Remuneration Practices.

Remuneration strategy

It is the Group's basic compensation philosophy to provide a competitive level of total compensation to attract and retain qualified and competent employees. The Group's variable remuneration policy is driven primarily by a performance-based culture that aligns employee interests with those of the Group's shareholders. These elements support the achievement of the Group's objectives, through balancing rewards for both short-term results and long-term sustainable performance. The Group's strategy is designed to share its success, and to align employees' incentives with its risk framework and risk outcomes.

The quality and long-term commitment of all of the Group's employees is fundamental to its success. The Group therefore aims to attract, retain and motivate the very best people, who are committed to maintaining a career with the Group, and who will perform their role in the long-term interests of its shareholders. The Group's reward package is comprised of the following key elements:

1. Fixed pay;
2. Benefits;
3. Annual performance bonus; and
4. The Long-Term Performance Incentive Plan.

A robust and effective governance framework ensures that the Group operates within clear parameters of its compensation strategy and policy. All compensation matters, and overall compliance with regulatory requirements, are overseen by the Board Affairs & Remuneration Committee (BARC) and approved by the Board of Directors thereafter.

The Group's remuneration policy, in particular, considers the role of each employee and has set guidance on whether an employee is a "Material Risk Taker" and/or an "Approved Person" in a business line, control or support function. An Approved Person is an employee whose appointment requires prior regulatory approval because of the significance of the role within the Group, while an employee is considered a Material Risk Taker if he/she is the head of a significant business line, or any individuals within thier control have a material impact on the Group's risk profile.

In order to ensure alignment between what the Group pays its people and its business strategy, the Group assesses individual performance against annual and long-term financial and non-financial objectives, summarised in its performance management system. This assessment also takes into account adherence to the Group's values, risks and compliance measures and, above all, acting with integrity. Altogether, performance is, therefore, judged not only on what is achieved over the short and the long-term but also importantly on how it is achieved, as the BARC believes the latter contributes to the long-term sustainability of the business.

BARC role and focus

The BARC has oversight of all reward policies for the Group's employees. The BARC is the supervisory and governing body for compensation policy, practices and plans. It is responsible for determining, reviewing and proposing variable remuneration policy for approval by the Board. It is responsible for setting the principles and governance framework for all compensation decisions. The BARC ensures that all persons must be remunerated fairly and responsibly. The remuneration policy is reviewed on a periodic basis to reflect changes in market practices, the business plan and risk profile of the Group.

The responsibilities of the BARC with regard to the Group's variable remuneration policy, as stated in its mandate, include, but are not limited to:

- Approving, monitoring and reviewing the remuneration system to ensure the system operates as intended;
- Approving the remuneration policy and amounts for each Approved Person and Material Risk Taker, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits;
- Ensuring remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees who earn the same short-run profit but take different amounts of risk on behalf of the Group;
- Ensuring that for Material Risk Takers variable remuneration forms a substantial part of their total remuneration;
- Reviewing the stress testing and back testing results before approving the total variable remuneration to be distributed, including salaries, fees, expenses, bonuses and other employee benefits;
- Carefully evaluating practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain; the BARC will question payouts for income that cannot be realised or whose likelihood of realisation remains uncertain at the time of payment;
- Ensuring that for approved persons in risk management, internal audit, operations, finance and compliance functions the mix of fixed and variable remuneration is weighted in favour of fixed remuneration;
- Recommending Board members' remuneration based on their attendance and performance, and in compliance with Article 188 of the Bahrain Commercial Companies Law; and
- Ensuring appropriate compliance mechanisms are in place to make sure that employees commit themselves not to use personal hedging strategies or remuneration and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

The aggregate remuneration paid to BARC members during the year in the form of sitting fees amounted to $49,000 (2015: $42,623), Other details concerning BARC membership are disclosed elsewhere in this report.

External consultants

The Bank used external consultants for some small updates to its remuneration process during the year and for generation of suitable reports for the BARC.

Scope of application of the remuneration policy

The remuneration policy has been adopted on a Group-wide basis.

Board remuneration

The Board of Directors' remuneration is determined in line with the provisions of Article 188 of the Bahrain Commercial Companies Law, 2001. Board remuneration is subject to approval of the shareholders in the Annual General Meeting. Remuneration of non-executive Directors does not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits.

Variable remuneration for staff

Variable remuneration is performance related and consists primarily of the annual performance bonus award. As a part of the staff's variable remuneration, the annual bonus rewards delivery of operational and financial targets set each year, the individual performance of the employees in achieving those targets, and their contribution to delivering the Group's strategic objectives.

The Group has adopted a Board-approved framework to develop a transparent link between variable remuneration and performance. The framework is designed on the basis of meeting both satisfactory financial performance and the achievement of other non-financial factors that will, all other things being equal, deliver a target bonus pool for employees, prior to consideration of any allocation to business lines and employees individually. In the framework adopted for determining the variable remuneration pool, the BARC aims to balance the distribution of the Group's profits between shareholders and employees.

Key performance metrics at the Group level include a combination of short-term and long-term measures, and include profitability, solvency, liquidity and growth indicators. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

In determining the amount of variable remuneration, the Group starts from setting specific targets and other qualitative performance measures that result in a target bonus pool. The bonus pool is then adjusted to take account of risk via the use of risk-adjusted measures (including forward-looking considerations).

The BARC carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The BARC demonstrates that its decisions are consistent with an assessment of the Group's financial condition and future prospects.

The Group uses a formalised and transparent process to adjust the bonus pool for quality of earnings. It is the Group's objective to pay bonuses out of realised and sustainable profits. If the quality of earnings is not strong, the profit base may be adjusted at the discretion of the BARC.

Funding for distribution of a bonus pool is dependent on threshold financial targets being achieved by the Group. The performance measures ensure that total variable remuneration is generally considerably contracted where subdued or negative financial performance of the Group occurs. Furthermore, the target bonus pool, as determined above, is subject to risk adjustments in line with the risk assessment and linkage framework.

Remuneration of control functions

The remuneration level of staff in the control and support functions is maintained at a level which enables the Group to attract and thus employ qualified and experienced personnel in these functions. The Group ensures that the mix of fixed and variable remuneration for control and support function personnel is weighted in favour of fixed remuneration. The variable remuneration of control functions is based on function-specific objectives and is not determined by the financial performance of the business areas they monitor.

The Group's performance management system plays a major role in deciding the performance of the support and control units on the basis of the objectives set for them. Such objectives are more focused on non-financial targets that include risk, control, compliance and ethical considerations as well as the market and regulatory environment, apart from value-adding tasks which are specific to each unit.

Variable compensation for business units

The variable remuneration of the business units is primarily determined by key performance objectives set through the performance management system of the Group. Such objectives contain financial and non-financial targets, including risk control, compliance and ethical considerations, as well as market and regulatory requirements. The consideration of risk assessments in the performance evaluation of individuals ensures that any two employees who generate the same short-run profits but take different amounts of risk on behalf of the Group are treated differently by the remuneration system.

Risk assessment framework

The purpose of risk linkages is to align variable remuneration to the risk profile of the Group. In its endeavour to do so, the Group considers both quantitative measures and qualitative measures in the risk assessment process. Both quantitative measures and human judgment play a role in determining any risk adjustments. The risk assessment process encompasses the need to ensure that the remuneration policy as designed reduces employees' incentives to take excessive and undue risks, is symmetrical with risk outcomes and delivers an appropriate mix of remuneration that is risk aligned.

The BARC considers whether the variable remuneration policy is in line with the Group's risk profile and ensures that, through the Group's ex-ante and ex-post risk assessment framework and processes, remuneration practices where potential future revenues whose timing and likelihood remain uncertain are carefully evaluated.

Risk adjustments take into account all types of risk, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Group undertakes risk assessments to review financial and operational performance against business strategy and risk performance prior to distribution of the annual bonus. The Group ensures that total variable remuneration does not limit its ability to strengthen its capital base. The extent to which capital needs to be built up is a function of the Group's current capital position and its ICAAP.

Corporate Governance (Continued)

The bonus pool takes into account the performance of the Group which is considered within the context of the Group's risk management framework. This ensures that the variable pay pool is shaped by risk considerations and Group-wide notable events.

The size of the variable remuneration pool and its allocation within the Group takes into account the full range of current and potential risks, including:

a) The cost and quantity of capital required to support the risks taken;

b) The cost and quantity of the liquidity risk assumed in the conduct of business; and

Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

The BARC keeps itself abreast of the Group's performance against the risk management framework. The BARC will use this information when considering remuneration to ensure that returns, risks and remuneration are aligned.

Risk adjustments

The Group has an ex-post risk assessment framework, which is a qualitative assessment to back-test actual performance against prior risk assumptions. In any year where the Group suffers material losses in its financial performance, the risk adjustment framework will work as follows:

- There will be considerable contraction of the Group's total variable remuneration;
- At an individual level, poor performance by the Group will mean individual KPIs are not met and hence employee performance ratings will be lower;
- Reduction in the value of deferred shares or awards;
- Possible changes in vesting periods and additional deferral applied to unvested rewards;
- Lastly, if the qualitative and quantitative impact of a loss incident is considered significant, a malus or clawback of previous variable awards may be considered.

The BARC, with the Board's approval, can rationalise and make the following discretionary decisions:

- Increase/reduce the ex-post adjustment;
- Consider additional deferrals or increase in the quantum of non-cash awards;
- Recovery through malus and clawback arrangements.

Malus and clawback framework

The Group's malus and clawback provisions allow the Board of Directors to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited/adjusted or the delivered variable remuneration recovered in certain situations. The intention is to allow the Group to respond appropriately if the performance factors on which reward decisions were based turn out not to reflect the corresponding performance in the longer term. All deferred compensation awards contain provisions that enable the Group to reduce or cancel the awards of employees whose individual behaviour has had a materially detrimental impact on the Group during the relevant performance year.

Any decision to take back an individual's award can only be made by the Board of Directors.

The Group's malus and clawback provisions allow the Board to determine that, if appropriate, vested/unvested elements under the deferred bonus plan can be adjusted/cancelled in certain situations. These events include the following:

- Reasonable evidence of wilful misbehaviour, material error, negligence or incompetence of the employee causing the Group/employee's business unit to suffer material loss in its financial performance, material misstatement of the Group's financial statements, material risk management failure or reputational loss or risk due to such employee's actions, negligence, misbehaviour or incompetence during the relevant performance year.
- The employee deliberately misleads the market and/or shareholders in relation to the financial performance of the Group during the relevant performance year.

Clawback can be used if the malus adjustment on the unvested portion is insufficient given the nature and magnitude of the issue.

Components of Variable remuneration

Variable remuneration has the following main components:

Up front cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred Cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of 3 years.
Up front share awards	The portion of variable compensation that is awarded and issued in the form of shares on conclusion of the performance evaluation process for each year.
Deferred shares	The portion of variable compensation that is awarded and paid in the form of shares on a pro-rata basis over a period of 3 years.

All deferred awards are subject to malus provisions. All share awards are released to the benefit of the employee after a six-month retention period from the date of vesting. The number of equity share awards is linked to the Group's share price as per the rules of the Group's Share Incentive Scheme. Any dividend on these shares is released to the employee along with the shares (i.e. after the retention period).

Deferred compensation

All employees earning over BHD 100,000, or equivalent, in total compensation shall be subject to deferral of variable remuneration as follows:

Element of variable remuneration	Deferral	Deferral period	Retention	Malus	Clawback
Upfront cash	40%	Immediate	-	-	Yes
Upfront shares	-	Immediate	6 months	Yes	Yes
Deferred cash	0%	Over 3 years	-	Yes	Yes
Deferred share awards	60%	After 3 years	6 months	Yes	Yes

The BARC, based on its assessment of role profile and risk taken by an employee, may increase the coverage of employees that are subject to deferral arrangements.

Details of remuneration paid

a) Board of Directors

	2016	2015
Sitting Fees	US$ 475,000	$417,000
Remuneration	US$ 1,500,000*	$1,500,000
Other	US$ 220,689	$229,911

The category 'Other' includes the reimbursement of air fares and payment of per diem allowances for attending Board of Directors and Board Committees' meetings.

*To be approved by AGM in March 2017

b) Employee remuneration

Total fixed remuneration for Approved Persons and Material Risk Takers affected by the policy amounted to $3,695,923 (2015: $3,564,175,)and the number of persons affected: 9 (2015: 9).

The total variable remuneration for 2016 was $2,886,278 (2015: $2,361,029)

c) Deferred awards

Selected members of management in ABG's subsidiaries are entitled to deferred variable remuneration under a Management Incentive Programme based on pre-defined objectives and thresholds of performance. Annual amounts of such variable remuneration, in accordance with the said programme, are used to purchase shares in ABG, which purchases are deferred over a three year period, with annual vesting. Total amounts of deferred variable remuneration amounted to $4,329,419 (2015: $3,541,544)

d) Severance pay – Nil (2016-2015)

(1) Employee remuneration

Details Of Remuneration Paid For The Financial Year Ended 2016

Categories of Employees	No.	Fixed Remuneration			Variable Remuneration						Total
		Salaries and Wages	Other Benefits & Allowances	Total	Performance Bonuses (in Cash)	Performance Bonuses (in Shares)	Other Performance Linked Incentives	Deferred Compensation paid during the perdod	Others	Total	
Employees engaged in risk taking activities (business areas)	2	1,748,013	433,233	2,181,246	2,434,655	3,651,984				6,086,639	8,267,885
Employees, other than approved persons, engaged in functions under 3.	7	1,947,910	630,005	2,577,915	451,623	677,435				1,129,058	3,706,973
Total	9	3,695,923	1,063,238	4,759,161	2,886,278	4,329,419	0	0	0	7,215,697	11,974,858

Details Of Remuneration Paid For The Financial Year Ended 2015

Categories of Employees	No.	Fixed Remuneration			Variable Remuneration						Total
		Salaries and Wages	Other Benefits & Allowances	Total	Performance Bonuses (in Cash)	Performance Bonuses (in Shares)	Other Performance Linked Incentives	Deferred Compensation paid during the perdod	Others	Total	
Employees engaged in risk taking activities (business areas)	2	1,653,308	620,753	2,274,061	1,889,788	2,834,682				4,724,470	6,998,531
Employees, other than approved persons, engaged in functions under 3.	7	1,910,867	600,446	2,511,313	471,241	706,862				1,178,103	3,689,416
Total	9	3,564,175	1,221,199	4,785,374	2,361,029	3,541,544	0	0	0	5,902,573	10,687,947

(2) Deferred awards

	2016				
		Shares			
	Cash (USD)	Number	(USD)	Others (USD)	Total (USD)
Opening balance					
Awarded during the period	2,361,029		3,541,544	1,221,199	7,123,772
Paid / released during the period	2,886,278		4,329,419	1,063,238	8,278,935
Service in value unvested opening awards					
Closing balance					
	5,247,307		7,870,963	2,284,437	15,402,707

	2015				
		Shares			
	Cash (USD)	Number	(USD)	Others (USD)	Total (USD)
Opening balance					
Awarded during the period	0		0		0
Paid / released during the period	2,361,029		3,541,544	1,221,199	7,123,772
Service in value unvested opening awards					
Closing balance					
	2,361,029		3,541,544	1,221,199	7,123,772

RISK MANAGEMENT

The Group is committed to complying with internationally established principles and policies in relation to risk management. In particular the Group fully subscribes to the guiding principles of risk management for Islamic financial services institutions set down by the Islamic Financial Services Board and the need for a comprehensive risk management and reporting process.

ABG's Head of Credit and Risk Management is responsible for formulating and monitoring the Group's policies relating to all aspects of risk, developing the framework for risk measurement and coordinating with the Group subsidiaries all necessary steps for adhering to the requirements of Basel III and, where and when still applicable, Basel II, under the Central Bank of Bahrain (CBB) rules. He is also responsible for introducing and implementing risk measurement software, monitoring the Group's compliance with risk measurement standards and providing the Risk Committee of the Board of Directors and Group management with reports on the various risks.

Risk management is an integral part of the Group's decision making process. The Board of Directors, acting on recommendations made by the Risk Committee of the Board, defines and sets the Group's overall risk appetite, risk diversification and asset allocation strategies. This includes the policies regarding related party transactions, their reporting and approval. The Management Risk Committee and other executive committees guide and assist with management of the Group's balance sheet risks. The Group manages exposure by setting limits approved by the Board of Directors or under delegated authorities by committees of the management. Risk policies and processes to mitigate the risks are regularly reviewed.

The Group's risk management has the following objectives:

Unified Group-wide risk management with the ultimate aim of enabling the Group to calculate risk-adjusted return on capital; inculcation of a professional risk management culture throughout the Group with a prudent, disciplined approach to risk-taking based on comprehensive Group-wide policies, processes and limits; professionally qualified staff and ongoing credit training; investing in technology and systems enabling best practice risk management; throughout the Group, strict segregation of duties and reporting lines between personnel transacting business and personnel processing that business; strict compliance with all Shari'a and legal requirements and regulatory directives; and maintaining clear, well documented policies via a "Group Credit and Risk Policies and Guidelines Manual" and credit and risk management manuals in each of the subsidiaries, which incorporate the policies and guidelines of the Group in addition to the local requirements.

Each of ABG's subsidiaries is governed by its respective Board of Directors. Group subsidiaries follow documented credit policies and procedures which, as stated above, reflect Group-wide policies and so ensure that sound risk management is in place in all ABG's subsidiaries.

A consolidating system for the calculation of capital adequacy, taking into account credit, market and operational risk, all in accordance with Basel III requirements, is in operation. This allows Head Office to retrieve data automatically. Furthermore, new operational risk systems were introduced by the subsidiaries in 2016, ensuring a consistent approach to operational risk.

The Group has continued to maintain momentum towards achieving optimal risk management policies, practices and procedures, pursuing five key objectives:

Continuous improvement in credit and risk management practices and intensified efforts on collections, recoveries and settlement of outstanding debts to bring about resilient asset quality in face of increased challenges in some of the Group's markets.

All subsidiaries ensure that their NPA provisioning policies are in line with both Group policies and local regulatory requirements.

Subsidiaries continue to strive to ensure a high degree of cooperation between their business arms and risk management departments. Hiring and training of credit and risk management staff is an ongoing priority in each unit.

Each subsidiary has an approved Credit and Risk Management Manual, covering all relevant risks to which it is subject, which accords with Group policies and procedures.

All subsidiaries submit timely quarterly risk management reports to Head Office, which fully meet regulatory requirements. The contents of these reports are continuously expanded in order to provide Head Office with increasingly comprehensive data.

A standard risk management framework has been established across the Group, reflected in operational manuals that closely adhere to Group policy regarding all the major categories of risk that the Group faces when carrying out its business. These are: Credit, Liquidity, Market (including Equity Price, Profit Rate and Foreign Exchange risk), Operational (including Fraud Risk and Information Security Risk) and Shari'a Compliance risks. Each of these major risks is discussed below.

Credit Risk

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. It applies to the Group in its management of the financing exposures arising out of receivables and leases (for example, Murabaha and Ijarah) and working capital and other financing transactions (Salam, Istisna'a, Musharaka or Mudaraba).

Each Group subsidiary has in place a framework for credit risk management that includes identification, measurement, monitoring, reporting and control of credit risks. Each subsidiary controls credit risk through the process of initial approval and granting of credit, subsequent monitoring of counterparty creditworthiness and the active management of credit exposures. Authority to approve credits is delegated by the subsidiary's Board of Directors to committees entrusted with the task of credit assessment and evaluation, under specific credit policies and operational procedures in place in that subsidiary.

Mitigation of credit risk is chiefly achieved through obtaining various forms of collateral if this is deemed necessary.

Each subsidiary maintains an internal audit department responsible for carrying out reviews of credit exposures to counterparties, and assessing their quality and adherence to laid down approval procedures. Each subsidiary also maintains policies and procedures covering "single obligor large exposures" and case-by-case approvals of "related party transactions".

ABG and its subsidiaries have come a long way in implementing credit rating system for a better management of the credit risk, calculation of Probability of Default (PD) and Loss Given Default (LGDs) for computing the Expected Credit Loss (ECL).

Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal or stressed circumstances.

ABG and its subsidiaries each has in place a liquidity management framework, taking into account its liquidity exposures in respect of its current and savings accounts, deposits from banks and other financial institutions, and its restricted and unrestricted investment accounts. This ensures that it maintains liquid assets at prudential levels so that cash can quickly be made available to honour all its obligations. Liquidity management also recognizes the impact of potential cash outflows arising from irrevocable commitments to fund new assets, as well as the potential risk impact of withdrawals by large single depositors, ensuring that ABG does not rely excessively on one customer or small groups of customers. In addition to its own internal liquidity management policies, each subsidiary is further required to maintain cash deposits with its respective central bank equal to a percentage of its deposits as directed by that central bank – in most cases 20%. ABG additionally holds liquid funds which are earmarked and available for its subsidiaries in the unlikely event that they should require assistance. Liquidity management reporting conforms to all local regulations.

Equity Price Risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity indices and the value of individual stocks.

Each Group subsidiary has in place appropriate strategies, risk management and reporting processes in respect of the risk characteristics of equity investments, including Mudaraba, Musharaka and other investments. Based on Group policies, each subsidiary ensures that its valuation methodologies are appropriate and consistent, and assesses the potential impact of its methods on profit calculations and allocations mutually agreed between that subsidiary and its partners. Further, each subsidiary has defined and established appropriate exit strategies and risk management and reporting processes in respect of its equity investment activities.

Profit Rate Risk or Rate of Return Risk

Profit rate risk or rate of return risk is the risk that the Group will incur a financial loss as a result of a mismatch in the profit rate on the Group's assets and unrestricted investment accounts. The Group is not liable to pay any predetermined returns to investment account holders, although it does apply appropriate income smoothing techniques to ensure that profits are fairly distributed to the investment account holders.

Foreign Exchange Risk

Foreign exchange rate risk arises from the movement of currency exchange rates over a period of time, leading to an adverse impact on the Group's earnings or shareholders' equity. The Group is exposed to foreign exchange rate risk in that the value of a financial instrument, or its net investment in its foreign subsidiaries, may fluctuate due to changes in foreign exchange rates. The Group's significant net foreign currency exposures as at 31 December 2016 are detailed in Note 26 to the Financial Statements.

Operational Risk

Operational risk is the risk of financial loss or damage resulting from inadequate or failed internal processes, people and systems or from external events.

Management of risk associated with carrying out the Group's operations is through internal procedures and monitoring and control mechanisms, while management of legal risk is through effective consultation with internal and external legal counsel. Other kinds of operational risk are managed by ensuring that trained and competent people – and appropriate infrastructure, controls and systems – are in place to ensure the identification, assessment and management of all substantial risks.

The Group is also exposed to risks relating to its fiduciary responsibilities towards fund providers. Fiduciary risk arises from the failure to perform in accordance with explicit and implicit standards applicable to an Islamic bank's fiduciary responsibilities, leading to losses in investments or failure to safeguard the interests of the investment account holders. Group subsidiaries have in place appropriate mechanisms to safeguard the interests of all fund providers. Where investment account holders' funds are commingled with an ABG subsidiary's own funds, the respective subsidiary ensures that the bases for asset, revenue, expense and profit allocations are established, applied and reported in a manner consistent with the Group's fiduciary responsibilities.

As mentioned above, Group policy dictates that the operational functions of booking, recording and monitoring transactions are carried out by staff independent of the staff initiating the transactions. Group subsidiaries have primary responsibility for identifying and managing their own operational risks. Each subsidiary is guided by policies, procedures and controls that are relevant for each function. Internal control policies and procedures dictate the segregation of duties, delegation of authorities, exceptions reporting, exposures management and reporting, and reconciliations, and are based on the submission of timely and reliable management reporting.

Separate and independent Internal Control units carry out ongoing monitoring of day-to-day procedures and ensure adherence to key control functions.

Finally, a new Fraud Risk Policy was introduced in 2016 to help prevent, control and investigate fraud.

Information Security (Cyber Security) Risk

The Group stepped up its efforts to manage Information Security (cyber security) risk in 2016. It has assessed the risks, identified controls and is implementing solutions. The Group already has comprehensive Information Security policy and procedures in place, which are in line with leading industry practices. It has established an Information Security Risk Management Committee at Head Office, and is developing a new Information Risk Management Framework and Group Policy and Guidance.

Compliance Risk

Compliance risk is defined as the risk of legal or regulatory sanctions, material or financial loss or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, reporting requirements, codes of conduct and standards. The landscape for compliance has changed substantially in recent years. As a result, ABG and its subsidiaries are continuously enhancing their compliance risk management framework. Please refer to separate section on Group Compliance function.

Shari'a Compliance Risk

Shari'a compliance risk arises from the failure to comply with the rules and principles of Shari'a and, in this respect, is akin to reputation risk. It also includes the risk of legal or regulatory sanctions that the Group or its subsidiaries may suffer as a result of failure to comply with laws and regulations. As mentioned above, the Group has in place a Compliance Policy that provides for the assessment of compliance risks, the implementation of appropriate controls, monitoring of effectiveness, and correction and eradication of exceptions. Group subsidiaries have in place systems and controls, including their respective Shari'a Supervisory Boards, to ensure compliance with all Shari'a rules and principles. In accordance with CBB regulations and AAOIFI Standards, the Group has been certified by the Shari'a Supervisory Board to be in compliance with Shari'a Standards and Principles.

CAPITAL MANAGEMENT/CAPITAL ADEQUACY

Capital is managed at ABG with a view to meeting the capital maintenance requirements directed by the CBB and achieving optimum utilisation in the course of carrying out its business, in accordance with its predetermined risk appetite and intended risk profile, and with the ultimate aim of maximising shareholders' returns. Capital management includes pro-actively making appropriate and necessary adjustments to reflect changes in the economic environment or in the degree or nature of risk associated with the Group's activities, including adjustment to its dividend policy, issue of Tier 1 or Tier 2 securities by way of public issue or private placement, etc.

Optimum capital management, therefore, addresses such crucial issues as:

- ensuring that adequate capital is held at all times to meet unexpected calls occasioned by such events as sudden withdrawals by depositors, earlier than expected drawdown of facilities, or unexpected losses;
- achieving the Group's return on capital objectives;
- meeting capital adequacy ratio targets and regulatory imperatives; and
- maintaining the Group's strong credit rating.

The Group's capital adequacy ratio as at 31 December 2016 was 15.49%, comfortably above the CBB's minimum regulatory requirement of 12.5%. (including CCB of 2.5%).

Each of ABG's banking subsidiaries is directly regulated by its own home regulator, which stipulates a minimum capital adequacy ratio for that subsidiary. ABG ensures that each subsidiary adheres to these local capital adequacy requirements.

INFORMATION TECHNOLOGY

The Head Office IT Steering Committee governs and supports IT strategies, policies, projects and initiatives across all ABG subsidiaries, and ensures that they are consistent with the Group's strategic aims as well as each subsidiary's local strategy. The Group's short, medium and long-term IT strategies are now well established, standardised around a few carefully chosen core banking solutions that have been successfully implemented across all ABG subsidiaries. The Head Office IT Steering Committee monitors the Group's IT strategy, updating it periodically to make sure it can enable ABG's strategic objectives.

ABG's web-based financial consolidation and reporting solution measures corporate performance against key performance indicators based on the Group's strategic objectives. It is used to set benchmarks for each subsidiary and to monitor their performances continuously. This tool captures data from each subsidiary in its local currency and performs monthly, quarterly and annual consolidations in US dollars. In this way, it enables the collection, processing, reporting and analysing of data from across the various subsidiaries.

All of the subsidiaries have implemented core banking systems selected from a list approved by Head Office, so meeting central bank requirements for greater automation. The subsidiaries are now introducing satellite systems in areas such as risk management, cyber security, internet and mobile banking as well as many other areas. Following the merger of Al Baraka Bank (Pakistan) Ltd and Burj Bank Ltd, the two banks have started the process of adopting one banking system as part of their integration. Broadly speaking, the new core banking systems implemented across ABG subsidiaries reduce the time to market for retail products and campaigns. They also increase automation, leading to greater effectiveness and efficiency.

The Head Office IT Steering Committee is working with subsidiaries to introduce systems that automate the process of complying with international anti-money laundering and know-your-client regulations, as well as the Foreign Account Tax Compliance Act FATCA and IFRS9 regulations. These systems also screen transactions against the Office of Foreign Assets Control (OFAC) sanctions list.

Each subsidiary has a disaster recovery centre, which is tested and audited at least once a year. The Group has adopted a unified standard of business continuity and disaster recovery, helping all subsidiaries to adopt best practices.

A Group-level cyber security committee was set up in 2016 to make sure that the Group and its subsidiaries have the right people, technology and policies to guard against cyber frauds or attacks.

Social Responsibility

As an Islamic bank, Al Baraka Banking Group (ABG) conducts all of its business in a socially responsible manner. Making a positive, sustainable impact is part of the Group's philosophy and a strategic business goal.

The concept of Social Responsibility (SR) fits easily with the business ethics of Islam and, therefore, with ABG's foundation philosophy and vision.

Islam and SR

Our philosophy is that Allah grants mankind the capacity to inherit the land on this earth and therefore that mankind is not the owner of wealth but is entrusted with it. As the purpose of mankind is to construct, embellish and build on this earth, we are therefore ordained to create opportunities for others. Thus, the wealth bestowed upon us must be invested in creating the wealth and opportunities in society.

As members of a banking group founded on Islamic principles and values, we at Al Baraka believe that we have a particular obligation to society, through patronage and sponsorship of a wide range of social projects, to enhance the living conditions and quality of life of needful individuals in the local communities where we operate. In making this commitment to society we strive to apply one of the important philosophical pillars of Islamic banking: the concept of E'mar Al Ardh – construction, or development, of land – which means adding tangible value to assets (whether natural or human).

This concept has a direct relevance to the development of society and its social and economic progress. The Group seeks to apply it through active investment mediation, which complements real and value-added production, and through the exchange of commodities and services, which enables us to offer practical alternatives to those financial intermediaries that provide no benefit to society at large.

Social Responsibility is fundamental to the Group's business model in all the countries where it operates. All of the subsidiaries embrace Islamic ethical principles and apply them to their banking operations and services.

Three guiding principles

These principles may be summarised as:

- Investments may only be made in sectors and industries that meet ethical standards. The moral values of Islam dictate that Muslims must only invest in the production of, and trade in, useful and beneficial goods. They, therefore, forbid investment activities such as the production of alcoholic beverages, tobacco or weapons; or those associated in any way with gambling, pornography or the abuse of children, women and minorities; or any other morally questionable practices.
- All Islamic banks and financial institutions eschew the payment of interest to depositors, consumers and businesses, as Islam prohibits the paying or charging of interest. Instead ABG's banking subsidiaries, like all Islamic banks, accept deposits on an investment basis whereby depositors share with the bank in the actual results of the realisation of their investments. Financing is provided to businesses in turn mainly on the basis of instalment sale, leasing or equity participation. In this way, ABG's subsidiaries and their depositors share financial risk with entrepreneurs and, together, they reap the benefits of The investments. The essential difference in Islam is that the practice of profit sharing is such that wealth creation is the result of a partnership between investors and entrepreneurs. Both the risks and the rewards are shared: returns on invested capital are based on profits actually generated rather than predetermined interest rates.
- All contracts entered into by ABG's banking subsidiaries, and all their relations with businesses and depositors, must comply with the ethical standards of the Shari'a.

The Al Baraka Social Responsibility Programme

In 2012, ABG established the "Al Baraka Social Responsibility Programme", the first such programme to be introduced by any Islamic banking and financial services institution.

The programme includes the following activities:

1. Assessing the social impact of ABG's business at the local and transactional levels.
2. Investing in and supporting socially responsible businesses.
3. Supervising and monitoring development of the Al Baraka Microfinance Programme.
4. Supporting local economies.
5. Supporting academic institutions and centres of excellence.
6. Promoting Islamic classical arts and literature.
7. Promoting scholarly works of Islamic banking and finance.
8. Investing in people.
9. Nurturing and encouraging local talent.
10. Promoting programmes that protect the environment by adopting various conservation strategies, such as carbon mitigation, reduction of paper usage, energy and water conservation.

Governance

A Board Committee for Social Responsibility oversees the Al Baraka Social Responsibility Programme and the Department of Social Responsibility, which is also overseen directly by the President and CEO. The Department's role is to:

Maintain the continuity of the Al Baraka Social Responsibility Programme, and update it with the most recent international research and popular strategies to enhance Shari'a objectives.

Manage and supervise the Group's implementation of the programme.

Ensure that the programme continues to set best practice within the Islamic banking and finance industry, by conducting Shari'a and economic analyses on the subject.

Provide appropriate guidance for the programme's implementation.

Compile, consolidate and publish annual and periodic social responsibility reports.

Develop and update procedures that may result in enhancing the adequacy and effectiveness of the programme at Group level.

Exercise all powers needed to achieve the programme's objectives and to remain consistent with the Committee's rationale.

Coordinate with other local and international social responsibility programmes.

A detailed report of the Group's activities and progress in the area of social responsibility is posted on the ABG website. Furthermore, a report covering progress over the past year will be available annually on that website. Each of ABG's subsidiaries will also produce an annual report of its activities in this area, which will similarly be available on their individual websites.

Activities

The Al Baraka Social Responsibility Programme is based on the following four pillars:

Al Baraka Philanthropic Programme: covering the promotion and funding of a broad spectrum of activities including the arts, literature and culture, scholarly and literary works, and activities aimed at providing assistance to people with special needs and facilitating them in their own efforts through vocational training.

Al Baraka Economic Opportunities & Social Investments Programme: covering community development including financing and investments in projects supporting affordable housing and a spectrum of healthcare and related activities, micro, small and medium- sized enterprises, local and other industries.

Al Baraka Qard-Hassan Programme: covering benevolent loans extended on a charitable or goodwill basis.

Al Baraka Time Commitment Programme: ABG units commit a certain number of hours of their officers' time in social and educational contributions to the local community.

Al Baraka's target is to make keep all of our businesses socially responsible. As far as possible, we measure our progress. However, in some areas we are still developing the right tools to do so. Based on the existing measurement tools. According to the measurements we have, which are not completely comprehensive, the amounts contributed to communities in financing and donation are as follows:

2012: US$ 940 million

2013: US$ 1,647 million

2014: US$ 1,675 million

2015: US$ 2,024 million

Al Baraka Goals 2016-2020

The Group has decided to take our Social Responsibility Programme to yet another level. We plan to integrate specific targets and priorities for the next five years. Accordingly, by 2020 we would like to impact the communities we operate in by:

a) Adding 50,000 jobs across the countries where the Group operates as a result of financing new and existing customers' operations. We have started to prioritise working with customers that are adding and retaining jobs, and that offer equal opportunities for men and women.

b) Financing, and donating to, a variety of educational institutions.

c) Financing, and donating to, children's hospitals, cancer hospitals, diabetic hospitals, kidney dialysis units.

d) Working with customers that are more closely aligned with the above Al Baraka Social Responsibility Priorities and the UN Global Goals for Sustainable Development.

The Al Baraka Goals are directly linked to the UN Global Goals for Sustainable Development. In particular, our targets are focused on the following UN goals: no poverty, good health and well-being, quality education, gender equality, affordable and clean energy, decent work and economic growth, industry innovation and infrastructure.

In total, the Group pledges to contribute U$ 635 million over the five years towards the Al Baraka Goals 2016-2020. It plans to do so through job creation, healthcare financing and donation, education financing and donation, and other initiatives that support the development of communities.

Credit approval process and social responsibility

We have developed an internal mechanism to ensure that our entire business model remains socially responsible. We have added new procedures to our credit approval process as a result of which we will not only encourage our existing customers to adopt the Al Baraka Social Responsibility Priorities, but we will also give preference to working with such new customers as are equally committed to consistently adding more value to their respective communities.

The future

In 2016, ABG signed up to the UN Global Compact. With this, we hope that we can kick- start an industry-wide trend by Al Baraka leading by example. Given that our business model is uniquely tailored around adding economic value to the communities that we serve, our contribution (and as a result our economic value-added contribution to society) will increase in line with our growth.

Unified Shari'a Supervisory Board Report

For the year ended 31 December 2016

In the name of Allah, The Beneficent, The Merciful, Ever Merciful

Praise be to Allah and peace be upon our Prophet Mohamed, His Apostles and Companions

To: Al Baraka Banking Group Shareholders

May peace and Allah's Mercy and Blessings Be upon You

In accordance with Article (58) of the Articles of Association of Al Baraka Banking Group, we are required to submit the following report:

First:

We have conducted six meetings during 2016, five of which was conducted at the premises of Al Baraka Banking Group and one in the premises of the Group's subsidiaries, Al Baraka Bank Tunis in which we studied Shari'a audit reports prepared by the Group's Shari'a Audit for the year ended 31 December 2016 and gave few Shari'a related comments on those reports. These reports were rectified through coordination between Shari'a Audit and the relative local subsidiaries' Shari'a Boards. In addition, the executive committee of the Unified Shari'a Supervisory Board conducted several meetings in which a number of commercial contracts and agreements signed by the Financial Institutions Department in the Group with the subsidiaries and other financial institutions and organizations has been reviewed.

Second:

We have reviewed the principles applied by the Group and reviewed the 2016 Shari'a reports issued by the Group Units' Shari'a Supervisory Boards. We have also reviewed their financial statements when needed. In addition, we examined the Group's financial position as of 31 December 2016 and Statement of Income and their notes for the year then ended. We have queried from some of the Technical's on the points that need explanation and statement. We have also reviewed the process of calculating Zakah in accordance with the Shari'a Standard number (35) and the Financial Accounting Standard number (9) issued by the Accounting and Auditing Organization for Islamic financial Institutions and according to what was approved by Al Baraka Symposium 1/31 and by the Unified Shari'a Supervisory Board.

Third:

The Group and Units' management are responsible for the execution and implementation of the Unified Shari'a Supervisory Board resolutions and to bring to the attention of the Unified Shari'a Supervisory Board any transactions or issues that require Shari'a approval. The Unified Shari'a Supervisory Board is responsible for supervising the implementation of the resolution from a Shari'a point of view and issue opinion based on the Group and Units' Shari'a reports and financial statements.

The Unit's Shari'a Supervisory Boards, as is clear from their report, have supervised the Units' business activities including examining on test basis documentations and procedures applied by the Group and its Units.

The Units' Shari'a Supervisory Boards, as is clear from their reports, planned and performed reviews so as to obtain all the information and explanations they considered necessary in order to provide them with sufficient evidence to provide reasonable assurance that the Group and its Units have not violated Shari'a Rules and Principles.

In our opinion:

1. The Contracts, transactions and dealings entered into by the Group and its Units during the year ended 31 December 2016 are made in compliance with Shari'a Rules and Principles.
2. The allocation of profit and charging of losses relating to investment accounts conform to the basis that have been approved by the Units' Shari'a Supervisory Boards in accordance with Shari'a Rules and Principles.
3. All earnings realized from sources or by means prohibited by Islamic Shari'a Rules and Principles have been committed by the Management to dispose it off to Charitable Causes.
4. The attached Zakah calculation was prepared in accordance with the provisions and principles of Islamic Shari'a according to the Net Invested Fund Method in accordance to the Shari'a Standard number (35) and the Financial Accounting Standard number (9) issued by the Accounting and Auditing Organization for Islamic financial Institutions and according to what was approved by the Unified Shari'a Supervisory Board.

As the General Assembly in its annual meeting conducted on 20 March 2016 empowered the Executive Management of Al Baraka Banking Group to pay an amount of US$ 3,962 thousand as Zakah on behalf of the shareholders deducted from the Retained Earnings for the financial year of 2015. The Group has paid and distributed an amount of US$ 3,078 thousand to those who's entitled to receive Zakah as per Shari'a boundaries and as approved by Unified Shari'a Board. The remaining amount of US$ 884 thousands has been allocated to be paid maximum by end of first quarter of 2017.

For the year 2016, the Group is not required to pay Zakah on behalf of the shareholders, unless there is a direct empowerment from the general assembly to the Group to pay Zakah on the behalf of the shareholders. Therefore if the shareholders have not empower the Group to pay Zakah, the shareholders have to pay the Zakah related to their shares, which equal to US Cent 0.38. In case of unavailability of such empowerment, the shareholders should pay their share of Zakah as per the enclosed calculation. In case of unavailability of liquidity, it is allowed to postpone the Zakah and become debt until the liquidity become available.

Praise be to Allah

Issued on 15 Jamadi Alakherah 1438 H, corresponding to 12 February 2017 AD.

Chairman and Members

Shaikh Dr. Abdul Sattar Abu Ghuddah
Chairman

Shaikh Dr. Abdulla bin Sulaiman Al Mannea
Member

Shaikh Dr. Abdullatif Al Mahmood
Member

Shaikh Dr. Abdulaziz Al Fawzan
Member

Dr. Ahmed Mohiyeldin
Member

Zakah Calculation for the year ended 31 December 2016

	US$ '000
Equity Attributable to Shareholders	1,280,958
Less: Investment of the parent on the shareholding of Al Baraka Bank Egypt, Al Baraka Bank Sudan and Itqan Capital	(146,970)
Net Zakatable Equity Attributable to Shareholders	**1,133,988**
Less:	
Musharaka underlined by unzakatable assets	(96,439)
Investment in Islamic Sukuk underlined by unzakatable assets	(50,043)
Ijarah Muntahia Bittamleek	(398,331)
long-term investment in real estate	(43,812)
Properties and equipment	(247,478)
Intangible assets	(80,721)
Investment in Associates	(58,321)
Prepayments	(47,938)
Deferred tax asset	(108)
Add:	
Shareholders share on Zakatable Assets by Associates	14,927
Borrowing to finance Unzakatable Assets	2,052
Sale of long-term investment in real estate during the year	873
Deferred tax liability	6,217
Employees' end of services benefit	32,553
Zakatable amount	**167,419**
Zakah Percentage	2.5775%
Total Zakah due	**4,315**
Number of Shares (thousands)	1,139,630
Zakah per share (US$ cents)	**0.38**

alBaraka

Independent Auditors' Report to the Shareholders of Al Baraka Banking Group B.S.C.

Report on the consolidated financial statements

We have audited the accompanying consolidated statement of financial position of Al Baraka Banking Group B.S.C. ("the Bank") and its subsidiaries ("the Group") as of 31 December 2016, and the related consolidated statements of income, cash flows, changes in owners' equity and changes in off-balance sheet equity of investment accountholders for the year then ended. These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2016, the results of its operations, its cash flows, changes in owners' equity and changes in off-balance sheet equity of investment accountholders for the year then ended in accordance with Financial Accounting Standards issued by AAOIFI.

Report on other regulatory requirements

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 2), we report that:

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith; and

b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements.

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association having occurred during the year ended 31 December 2016 that might have had a material adverse effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests. The Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group.

Ernst & Young

Partner's registration no: 45

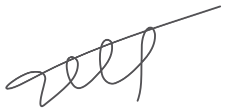
22 February 2017

Manama, Kingdom of Bahrain

Consolidated Statement of Financial Position

At 31 December 2016

	Notes	2016 US$ '000	2015 US$ '000
ASSETS			
Cash and balances with banks	3	**5,073,418**	5,373,409
Receivables	4	**11,423,448**	11,959,052
Mudaraba and Musharaka financing	5	**1,582,396**	1,558,593
Investments	6	**2,629,131**	3,105,750
Ijarah Muntahia Bittamleek	7	**1,830,339**	1,734,457
Property and equipment	8	**417,295**	444,608
Other assets	9	**469,238**	442,332
TOTAL ASSETS		**23,425,265**	24,618,201
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
LIABILITIES			
Customer current and other accounts		**4,983,772**	4,841,099
Due to banks		**918,395**	808,268
Long term financing	10	**1,381,256**	1,497,208
Other liabilities	11	**856,467**	862,444
Total liabilities		**8,139,890**	8,009,019
EQUITY OF INVESTMENT ACCOUNTHOLDERS	12	**13,276,794**	14,514,599
OWNERS' EQUITY	13		
Share capital		**1,149,218**	1,115,746
Treasury shares		**(9,588)**	(8,464)
Share premium		**18,574**	17,662
Reserves		**181,971**	165,459
Cumulative changes in fair values		**41,271**	38,529
Foreign currency translations		**(666,719)**	(461,948)
Retained earnings		**497,374**	433,631
Proposed appropriations		**68,857**	55,787
Equity attributable to parent's shareholders		**1,280,958**	1,356,402
Non-controlling interest		**727,623**	738,181
Total owners' equity		**2,008,581**	2,094,583
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		**23,425,265**	24,618,201



Saleh Abdullah Kamel
Chairman

Adnan Ahmed Yousif
Member of the Board and
President and Chief Executive

The attached notes 1 to 30 form part of these consolidated financial statements.

Consolidated Statement of Income

For the year ended 31 December 2016

	Notes	2016 US$ '000	2015 US$ '000
INCOME			
Net income from jointly financed contracts and investments	14	**1,336,569**	1,223,215
Return on equity of investment accountholders before Group's share as a Mudarib		**(1,114,019)**	(1,026,367)
Group's share as a Mudarib	15	**396,762**	345,415
Return on equity of investment accountholders		**(717,257)**	(680,952)
Group's share of income from equity of investment accountholders (as a Mudarib and Rabalmal)		**619,312**	542,263
Mudarib share for managing off-balance sheet equity of investment accountholders		**5,022**	5,583
Net income from self financed contracts and investments	14	**285,499**	272,941
Other fees and commission income	16	**176,837**	200,513
Other operating income	17	**78,859**	34,794
		1,165,529	1,056,094
Profit paid on long term financing	18	**(91,370)**	(56,541)
TOTAL OPERATING INCOME		**1,074,159**	999,553
OPERTAING EXPENSES			
Staff expenses		**325,501**	298,927
Depreciation and amortisation	19	**44,579**	50,054
Other operating expenses	20	**197,136**	186,890
TOTAL OPERATING EXPENSES		**567,216**	535,871
NET OPERATING INCOME FOR THE YEAR BEFORE PROVISIONS AND IMPAIRMENT AND TAXATION		**506,943**	463,682
Provisions and impairment	21	**(122,154)**	(58,371)
NET INCOME BEFORE TAXATION		**384,789**	405,311
Taxation		**(117,153)**	(119,125)
NET INCOME FOR THE YEAR		**267,636**	286,186
Attributable to:			
Equity holders of the parent		**151,545**	162,741
Non-controlling interest		**116,091**	123,445
		267,636	286,186
Basic and diluted earnings per share - US cents	22	**13.29**	14.27

Saleh Abdullah Kamel
Chairman

Adnan Ahmed Yousif
Member of the Board and
President and Chief Executive

The attached notes 1 to 30 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Notes	2016 US$ '000	2015 US$ '000
OPERATING ACTIVITIES			
Net income before taxation		**384,789**	405,311
Adjustments for:			
Depreciation and amortisation	19	**44,579**	50,054
Depreciation on Ijarah Muntahia Bittamleek	14.4	**238,315**	191,729
Unrealised gain on equity and debt-type instruments at fair value through statement of income	14.3	**(152)**	(145)
Gain on sale of property and equipment	17	**(14,804)**	(10,502)
(Gain) loss on sale of investment in real estate	14.3	**(5,502)**	1,332
Gain on sale of equity type instruments at fair value through equity	14.3	**(3,585)**	(1,509)
Gain on sale of equity and debt-type instruments at fair value through statement of income	14.3	**(667)**	(1,636)
Gain from associates	14.3	**(2,059)**	(652)
Provisions and impairment	21	**122,154**	58,371
Operating profit before changes in operating assets and liabilities		**763,068**	692,353
Net changes in operating assets and liabilities:			
Reserves with central banks		**859,261**	(804,579)
Receivables		**443,093**	(18,818)
Mudaraba and Musharaka financing		**(40,793)**	(10,608)
Ijarah Muntahia Bittamleek		**(334,197)**	(431,386)
Other assets		**(24,167)**	3,510
Customer current and other accounts		**142,675**	331,783
Due to banks		**110,126**	(403,225)
Other liabilities		**10,143**	(25,342)
Equity of investment accountholders		**(1,238,504)**	378,244
Taxation paid		**(147,598)**	(104,730)
Net cash from (used in) operating activities		**543,107**	(392,798)
INVESTING ACTIVITIES			
Net purchase of investments		**495,992**	(514,289)
Net purchase of property and equipment		**2,890**	(57,424)
Dividends received from associates		**2,329**	2,068
(Purchase) disposal of investment in associate		**(14,587)**	3,556
Net cash from (used in) investing activities		**486,624**	(566,089)
FINANCING ACTIVITIES			
Long term financing		**(115,952)**	841,539
Dividends paid to equity holders of the parent		**(22,143)**	(32,816)
Net movement in treasury shares		**(212)**	171
Net changes in non-controlling interest		**(9,018)**	(33,494)
Net cash (used in) from financing activities		**(147,325)**	775,400
Foreign currency translation adjustments		**(323,137)**	(258,945)
NET CHANGES IN CASH AND CASH EQUIVALENTS		**559,269**	(442,432)
Cash and cash equivalents at 1 January		**2,292,689**	2,735,121
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	23	**2,851,958**	2,292,689

The attached notes 1 to 30 form part of these consolidated financial statements.

Consolidated Statement of Changes in Owners' Equity

For the year ended 31 December 2016

	Attributable to equity shareholders of the parent												
				Reserves		Cumulative changes in fair values							
	Share capital US$'000	Treasury shares US$'000	Share premium US$'000	Statutory reserve US$'000	Other reserves US$'000	Investments US$'000	Property and equipment US$'000	Foreign currency translations US$'000	Retained earnings US$'000	Proposed appropriations US$'000	Total US$'000	Non-controlling interest US$'000	Total owners' equity US$'000
Balance at 1 January 2016	**1,115,746**	**(8,464)**	**17,662**	**124,585**	**40,874**	**2,229**	**36,300**	**(461,948)**	**433,631**	**55,787**	**1,356,402**	**738,181**	**2,094,583**
Dividends paid	-	-	-	-	-	-	-	-	172	(22,315)	(22,143)	-	(22,143)
Bonus shares issued (note 13)	33,472	-	-	-	-	-	-	-	-	(33,472)	-	-	-
Movement in treasury shares	-	(1,124)	912	-	-	-	-	-	-	-	(212)	-	(212)
Net movement in cumulative change in fair value for investments	-	-	-	-	-	2,742	-	-	-	-	2,742	579	3,321
Net movement in other reserves	-	-	-	-	1,357	-	-	-	-	-	1,357	156	1,513
Foreign currency translation	-	-	-	-	-	-	-	(204,771)	-	-	(204,771)	(118,366)	(323,137)
Net income for the year	-	-	-	-	-	-	-	-	151,545	-	151,545	116,091	267,636
Transfer to statutory reserve	-	-	-	15,155	-	-	-	-	(15,155)	-	-	-	-
Proposed dividends	-	-	-	-	-	-	-	-	(11,396)	11,396	-	-	-
Proposed bonus shares	-	-	-	-	-	-	-	-	(57,461)	57,461	-	-	-
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(31,424)	(31,424)
Zakah paid on behalf of shareholders (Note 13)	-	-	-	-	-	-	-	-	(3,962)	-	(3,962)	-	(3,962)
Net movement in non- controlling interest	-	-	-	-	-	-	-	-	-	-	-	22,406	22,406
Balance at 31 December 2016	**1,149,218**	**(9,588)**	**18,574**	**139,740**	**42,231**	**4,971**	**36,300**	**(666,719)**	**497,374**	**68,857**	**1,280,958**	**727,623**	**2,008,581**

	Attributable to equity shareholders of the parent												
				Reserves		Cumulative changes in fair values							
	Share capital US$'000	Treasury shares US$'000	Share premium US$'000	Statutory reserve US$'000	Other reserves US$'000	Investments US$'000	Property and equipment US$'000	Foreign currency translations US$'000	Retained earnings US$'000	Proposed appropriations US$'000	Total US$'000	Non-controlling interest US$'000	Total owners' equity US$'000
Balance at 1 January 2015	1,093,869	(8,261)	17,288	108,311	39,310	3,073	-	(313,602)	343,398	54,693	1,338,079	736,544	2,074,623
Dividends paid	-	-	-	-	-	-	-	-	-	(32,816)	(32,816)	-	(32,816)
Bonus shares issued (note 13)	21,877	-	-	-	-	-	-	-	-	(21,877)	-	-	-
Movement in treasury shares	-	(203)	374	-	-	-	-	-	-	-	171	-	171
Net movement in cumulative change in fair value for Investments	-	-	-	-	-	(844)	-	-	-	-	(844)	(357)	(1,201)
Net movement in cumulative change in fair value for property and equipment	-	-	-	-	-	-	36,300	-	-	-	36,300	21,690	57,990
Net movement in other reserves	-	-	-	-	1,564	-	-	-	-	-	1,564	505	2,069
Foreign currency translation	-	-	-	-	-	-	-	(148,346)	-	-	(148,346)	(110,599)	(258,945)
Net income for the year	-	-	-	-	-	-	-	-	162,741	-	162,741	123,445	286,186
Transfer to statutory reserve	-	-	-	16,274	-	-	-	-	(16,274)	-	-	-	-
Proposed dividends	-	-	-	-	-	-	-	-	(22,315)	22,315	-	-	-
Proposed bonus shares	-	-	-	-	-	-	-	-	(33,472)	33,472	-	-	-
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(33,494)	(33,494)
Effects of acquisition of non-controlling interest	-	-	-	-	-	-	-	-	(447)	-	(447)	447	-
Balance At 31 December 2015	1,115,746	(8,464)	17,662	124,585	40,874	2,229	36,300	(461,948)	433,631	55,787	1,356,402	738,181	2,094,583

The attached notes 1 to 30 form part of these consolidated financial statements.

Consolidated Statement of Changes in Off-Balance Sheet Equity of Investment Account Holders

For the year ended 31 December 2016

	Cash US$ '000	Sales receivables US$ '000	Mudaraba financing US$ '000	Investment in real estate US$ '000	Ijarah Muntahia Bittamleek US$ '000	Investments US$ '000	Others US$ '000	Total US$ '000
Balance at 1 January 2016	11,579	170,139	257,719	38,277	81,173	200,535	18,537	777,959
Deposits	203,295	218,488	493,715	889	22,485	34,223	29,845	1,002,940
Withdrawals	(141,316)	(165,701)	(474,455)	(1,474)	(27,893)	(78,255)	(31,333)	(920,427)
Income net of expenses	-	22,922	9,664	495	7,782	3,653	(690)	43,826
Mudarib's share	-	(3,452)	(442)	(37)	(585)	(365)	(141)	(5,022)
Foreign exchange translations	-	(19,073)	-	-	-	(2,119)	(6,041)	(27,233)
Balance at 31 December 2016	**73,558**	**223,323**	**286,201**	**38,150**	**82,962**	**157,672**	**10,177**	**872,043**
Balance at 1 January 2015	82,015	192,109	313,924	37,588	41,747	160,405	20,228	848,016
Deposits	94,839	346,958	662,398	3,967	40,005	364,780	27,933	1,540,880
Withdrawals	(165,275)	(350,704)	(723,665)	(4,446)	(5,586)	(300,018)	(21,584)	(1,571,278)
Income net of expenses	-	17,104	5,282	1,256	5,291	1,413	80	30,426
Mudarib's share	-	(3,369)	(220)	(88)	(284)	(1,573)	(49)	(5,583)
Foreign exchange translations	-	(31,959)	-	-	-	(24,472)	(8,071)	(64,502)
Balance at 31 December 2015	11,579	170,139	257,719	38,277	81,173	200,535	18,537	777,959

The attached notes 1 to 30 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

At 31 December 2016

1. ACTIVITIES

Al Baraka Banking Group B.S.C. ("the Bank") is a joint stock company incorporated in the Kingdom of Bahrain on 27 June 2002, under Commercial Registration (CR) number 48915. The Bank is engaged in banking activities in the Middle East, Europe, North African and South African region. The address of the Bank's registered office is Bahrain Bay, P.O. Box 1882, Manama, Kingdom of Bahrain. The Bank is listed on Bahrain Bourse and NASDAQ Dubai.

The Bank operates under an Islamic wholesale banking license issued by the Central Bank of Bahrain ('the CBB').

The principal activities of the Bank and its subsidiaries ("the Group") comprise of international and commercial banking, financing, treasury and investment activities. The Bank is supervised and regulated by the CBB.

The consolidated financial statements were approved by the Board of Directors on 22 February 2017.

2. ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for investment in real estate, equity and debt-type instruments at fair value through statement of income, equity-type instruments at fair value through equity and land occupied by the Group (classified as property and equipment) that have been measured at fair value. The consolidated financial statements are presented in United States Dollars ('US$') being the functional and reporting currency of the Group. All values are rounded to the nearest US$ thousand ('US$ '000') unless otherwise indicated.

Statement of compliance

The consolidated financial statements have been prepared in accordance with Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ('AAOIFI'), the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group, the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association. In accordance with the requirements of AAOIFI, for matters for which no AAOIFI standard exists, the Group uses the relevant International Financial Reporting Standards ('the IFRS') as issued by the International Accounting Standards Board (the 'IASB'), given it does not contradict with Shari'a Rules and Principles and the conceptual framework of AAOIFI.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at and for the year ended 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Non-controlling interest in a subsidiary's net assets is reported as a separate item in the Group's owners' equity. In the consolidated statement of income, non-controlling interest is included in net profit, and shown separately from that of the shareholders.

Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in owners' equity since the date of combination. Losses applicable to the non-controlling interest in excess of the non-controlling interest in a subsidiary's owners' equity are allocated against the interests of the Group except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses. Changes in the ownership interest in a subsidiary that do not result in a loss of control are accounted for as an owners' equity transaction.

2. ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

The following are the principal subsidiaries of the Bank, which are consolidated in these consolidated financial statements:

	Ownership for 2016	Ownership for 2015	Year of incorporation	Country of incorporation	No. of branches/ offices at 31 December 2016
Held directly by the Bank					
Banque Al Baraka D'Algerie (BAA)	**55.90%**	55.90%	1991	Algeria	**30**
Al Baraka Islamic Bank - Bahrain (AIB)	**91.12%**	91.12%	1984	Bahrain	**233**
Al Baraka Bank Tunis (ABT)	**78.40%**	78.40%	1983	Tunisia	**34**
Al Baraka Bank Egypt (ABE)	**73.68%**	73.68%	1980	Egypt	**31**
Al Baraka Bank Lebanon (ABBL)	**98.94%**	98.94%	1991	Lebanon	**7**
Jordan Islamic Bank (JIB)	**66.01%**	66.01%	1978	Jordan	**97**
Al Baraka Turk Participation Bank (ATPB)	**56.64%**	56.64%	1985	Turkey	**213**
Al Baraka Bank Limited (ABL)	**64.51%**	64.51%	1989	South Africa	**12**
Al Baraka Bank Sudan (ABS)	**75.73%**	75.73%	1984	Sudan	**27**
Al Baraka Bank Syria (ABBS) *	**23.00%**	23.00%	2009	Syria	**13**

* The Group has control over Al Baraka Bank Syria through the power to govern the financial and operating policies.

The following are the subsidiaries held indirectly through the principal subsidiaries of the Bank:

	Subsidiary held through	Effective Ownership for 2016	Effective Ownership for 2015	Year of incorporation	Country of incorporation
Held indirectly by the Bank					
Al Baraka Bank (Pakistan) Limited	AIB	**52.30%**	58.90%	2010	Pakistan
Itqan Capital	AIB	**75.69%**	75.69%	2007	Saudi Arabia
Al-Omariya School Company	JIB	**65.61%**	62.31%	1987	Jordan
Al-Samaha Real Estate Company	JIB	**66.01%**	65.15%	1998	Jordan
Future Applied Computer Technology Company	JIB	**66.01%**	66.01%	1998	Jordan
Sanable Alkhair for Financial Investment	JIB	**66.01%**	66.01%	2006	Jordan
Al Baraka Properties (Pty) Ltd.	ABL	**64.51%**	64.51%	1991	South Africa

Significant accounting policies

The significant accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year, except for the adoption of new standards and interpretations effective as of 1 January 2016:

New standards, interpretations and amendments adopted by the Group

FAS 27 Investment Accounts

FAS 27 has replaced FAS 5 - 'Disclosures of Bases for Profit Allocation between Owner's Equity and Investment Account Holders' and FAS 6 - 'Equity of Investment Account Holders and their Equivalent'. Due to the adoption of this standard certain disclosures with respect to investment account holders and bases of profit allocation are enhanced without having any significant impact on the financial statements of the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below:

a. Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash and cash in transit, balances with central banks excluding mandatory reserves and balances with other banks with an original maturity of three months or less.

2. ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

b. Receivables

Receivables comprise Sales (Murabaha) receivables, Ijarah receivables, Salam receivables and Istisna'a receivables.

Sales (Murabaha) receivables

Sales (Murabaha) receivables consist mainly of murabaha and international commodities stated net of deferred profits and provision for doubtful amount. The Group considers promise made in sales (murabaha) receivables to the purchase orderer as obligatory.

Ijarah receivables

Ijarah receivables is the outstanding rental at the end of the year less any provision for doubtful amount.

Salam receivables

Salam receivables is the outstanding amount at the end of the year less any provision for doubtful amount.

Istisna'a receivables

Istisna'a receivables is the outstanding amount at the end of the year less any provision for doubtful amount.

c. Mudaraba and Musharaka financing

Mudaraba and Musharaka financing are partnerships in which the Bank contributes capital. These are stated at the fair value of consideration given less impairment.

d. Investments

Investments comprise equity and debt-type instruments at fair value through statement of income, equity-type instruments at fair value through equity, debt-type instruments at amortised cost, investment in real estate and investment in associates.

Investment in real estate

Properties held for rental, or for capital appreciation purposes, or both, are classified as investment in real estate. Investments in real estate are initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, investments in real estate are re-measured at fair value and changes in fair value (only gains) are recognised as property fair value reserve in the consolidated statement of changes in owners' equity.

Losses arising from changes in the fair values of investment in real estate are firstly adjusted against the property fair value reserve to the extent of the available balance and then the remaining losses are recognised in the consolidated statement of income. If there are unrealised losses that have been recognised in the consolidated statement of income in the previous financial periods, the current period unrealised gain shall be recognised in the consolidated statement of income to the extent of crediting back such previous losses in the consolidated statement of income. When the property is disposed of, the cumulative gain previously transferred to the property fair value reserve, is transferred to the consolidated statement of income.

Investment in associates

The Group's investment in associates is accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The consolidated statement of income reflects the Group's share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in owners' equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The reporting dates of the associates and the Group are identical and the associates accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Equity and debt-type instruments at fair value through statement of income

This includes instruments held for trading purposes to gain profits from market fluctuations in the short term. These are initially recognised at cost, being the fair value of the consideration given excluding acquisition costs. These are subsequently re-measured at fair value. All related realised and unrealised gains or losses are included in the consolidated statement of income.

All other investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs.

Equity-type instruments at fair value through equity

This includes all instruments that are not covered above. Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealised gains or losses recognised proportionately in owners' equity and equity of investment accountholders until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in owners' equity or equity of investment accountholders is recognised in consolidated statement of income.

Debt-type instruments at amortised cost

Debt-type instruments which are managed on a contractual yield basis and are not held for trading and has not been designated at fair value through statement of income are classified as debt-type instruments at amortised cost. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such investment is recognised in the consolidated statement of income, when the investment is de-recognised or impaired.

2. ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

e. Ijarah Muntahia Bittamleek

Assets acquired for leasing (Ijarah) are stated at cost, less accumulated depreciation.

Depreciation is provided on the straight line method over the useful life of the asset or the period of the lease, whichever is lower.

f. Property and equipment

Property and equipment are initially recognised at cost. Subsequent to initial recognition property and equipment are stated at cost less accumulated depreciation and accumulated impairment in value except for land which is carried at fair value. The cost of additions and major improvements are capitalised; maintenance and repairs are charged to the consolidated statement of income as incurred. Gains or losses on disposal are reflected in other operating income. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets other than freehold land, which is deemed to have an indefinite life.

The calculation of depreciation is on the following basis:

Buildings	30 - 50 years
Office furniture and equipment	4 - 10 years
Vehicles	3 years
Others	4 - 5 years

g. Fair values

For investments actively traded in organised financial markets, fair value is determined by reference to quoted market bid prices.

For investment where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument, which is substantially the same or is based on the assessment of future cash flows. The cash equivalent values are determined by the Group at current profit rates for contracts with similar term and risk characteristics.

For Sales (Murabaha) receivables the fair value is determined at the Bank or subsidiary level at the end of the financial period at their cash equivalent value.

h. Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

i. Intangible assets

Intangible assets comprise principally the value of computer software. Intangible assets acquired are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

j. Collateral pending sale

Collateral acquired in settlement of certain financing facilities is stated at the lower of the net realisable value of the related financing facilities and the current fair value of such assets. Gains or losses on disposal, and revaluation losses, are recognised in the consolidated statement of income.

k. Employees' end of service benefits

The Group provides for end of service benefits to its employees. Entitlement to these benefits is based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued for over the period of employment.

l. Provision

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount of the obligation.

m. Dividends

Dividends to shareholders are recognised as liabilities in the year in which they are declared.

n. Equity of investment accountholders

All equity of investment accountholders are carried at cost plus accrued profit and related reserves. Investment risk reserves and profit equalisation reserves are made at the Bank or subsidiary level.

Notes to the Consolidated Financial Statements

At 31 December 2016

2. ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

o. Investment risk reserve

Investment risk reserves are amounts appropriated out of the income of equity of investment accountholders, after allocating the mudarib share, in order to cater against future losses for equity of investment accountholders.

p. Profit equalisation reserve

Profit equalisation reserves are amounts appropriated out of the Mudaraba income, before allocating the mudarib share, in order to maintain a certain level of return on investments for equity of investment accountholders.

q. Sukuk

Sukuk issued by the Group are treated based on the underlying contracts and structure.

r. Off-balance sheet equity of investment accountholders

Off-balance sheet equity of investment accountholders represent funds received by the Group from third parties for investment in specified products as directed by them. These products are managed in a fiduciary capacity and the Group has no entitlement to these products. Third parties bear all of the risks and earn all of the rewards on these products. Off-balance sheet equity of investment accountholders are not included in the consolidated statement of financial position since the Group does not have the right to use or dispose these products except within the conditions of the contract between the Group and third parties.

s. Treasury shares

Own equity instruments which are reacquired (treasury shares) are deducted from equity of the parent and accounted for at weighted average cost. Consideration paid or received on the purchase, sale, issue or cancellation of the Group's own equity instruments is recognised directly in equity of the parent. No gain or loss is recognised in consolidated statement of income on the purchase, sale, issue or cancellation of own equity instruments.

t. Revenue recognition

Sales (Murabaha) receivables

Profit from Sales (Murabaha) receivables is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised on time-apportioned basis over the period of the transaction. Where the income from a contract is not contractually determinable or quantifiable, it is recognised when the realisation is reasonably certain or when actually realised. Income related to accounts that are 90 days overdue is excluded from the consolidated statement of income.

Salam and Istisna'a receivables

Income on Salam and Istisna'a is recognised on time-apportioned basis when the income from a contract is contractually determinable or quantifiable.

Mudaraba and Musharaka financing

Income on Mudaraba and Musharaka financing is recognised when the right to receive payment is established or on distribution by the Mudarib. Income related to accounts that are 90 days overdue is excluded from the consolidated statement of income.

Ijarah Muntahia Bittamleek

Income net of depreciation is recognised on a time-apportioned basis over the lease term.

Fee and commission income

Fee and commission income is recognised when earned.

Other income

Other income on investments is recognised when the right to receive payment is established.

Group's share as a Mudarib

The Group's share of profit as a Mudarib for managing equity of investment accountholders is based on the terms and conditions of the related mudarib agreements.

Mudarib's share of off-balance sheet equity of investment accountholders

The Group shares profit for managing off-balance sheet equity of investment accountholders based on the terms and conditions of related contracts.

u. Return on equity of investment accountholders

Equity of investment accountholders' share of income is calculated based on the applicable local laws and based on the underlining individual Mudaraba contract. It represents the income generated from joint investment accounts and after deducting other expenses. Other expenses include all expenses incurred by the Group including specific provisions. The Group's share is deducted before distributing such income.

v. Joint and self financed

Investments, financing and receivables that are jointly owned by the Group and the equity of investment accountholders are classified under the caption "jointly financed" in the consolidated financial statements. Investments, financing and receivables that are financed solely by the Group are classified under "self financed".

w. Taxation

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on foreign operations is provided in accordance with the fiscal regulations of the respective countries in which the subsidiaries operate. The Group accounts for its share of associates profit after accounting for corporate taxation. Deferred income tax is provided using the liability method on temporary differences at the financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2. ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

x. Shari'a supervisory board

The Group's business activities are subject to the supervision of a Shari'a supervisory board consisting of five members appointed by the general assembly.

y. Zakah

As the article of association of Al Baraka Banking Group is not empowering the Group for paying Zakah on behalf of the shareholders and there is no such law in Kingdom of Bahrain requiring the Group to pay Zakah on behalf of the shareholders, unless there is a direct empowerment from the general assembly to the Group to pay Zakah on the behalf of the shareholders.

z. Earnings prohibited by Shari'a

The Group is committed to avoid recognising any income generated from non-Islamic source. Accordingly, all non-Islamic income is credited to a charity account where the Group uses these funds for various social welfare activities.

aa. Impairment of financial assets

An assessment is made at each financial position date to determine whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the assessment by the Group of the estimated cash equivalent value, is recognised in the consolidated statement of income. Specific provisions are created to reduce all impaired financial contracts to their realisable cash equivalent value. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment value was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated statement of income.

In addition, the Group maintains a provision to reflect a potential loss that may occur as a result of currently unidentifiable risks in relation to receivables, financings or investment assets. The amount reflects estimated losses affecting these assets attributable to events that have already occurred at the date of the financial statements, and not estimated losses attributable to future events.

bb. Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

cc. Foreign currencies

Foreign currency transactions at the subsidiary level

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. The monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the financial position date. All differences are taken to income statement at the entity level.

Foreign currency translations

As at the reporting date, the assets and liabilities in foreign currencies are translated into the presentation currency of the Group (United States Dollars) at the rate of exchange ruling at the financial position date and their income statements are translated at the average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of owners' equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in owners' equity relating to that particular foreign entity is recognised in the consolidated statement of income.

dd. Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which affects the amounts recognised in the consolidated financial statements:

Classification of investments

Management decides on acquisition of an investment whether it should be classified as equity and debt-type instrument at fair value through statement of income, equity-type instrument at fair value through equity or debt-type instrument at amortised cost.

Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

ee. Use of estimates in preparation of the consolidated financial statements

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of financial assets and liabilities at the date of the consolidated financial statements. The use of estimates is used primarily to the determination of provisions for sales (Murabaha) receivable, mudaraba financing, musharaka financing, equity-type instrument at fair value through equity, debt-type instrument at amortised cost, ijarah receivable and other assets.

Notes to the Consolidated Financial Statements

At 31 December 2016

2. ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

ff. Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

(i) the right to receive cash flows from the asset has expired;

(ii) the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of income.

3. CASH AND BALANCES WITH BANKS

	2016 US$ '000	2015 US$ '000
Balances with central banks*	**3,883,925**	3,821,899
Balances with other banks	**585,491**	789,692
Cash and cash in transit	**604,002**	761,818
	5,073,418	5,373,409

* Balances with central banks include mandatory reserves amounting to US$ 2,221,460 thousand (2015: US$ 3,080,720 thousand). These amounts are not available for use in the Group's day-to-day operations.

4. RECEIVABLES

	2016 US$ '000	2015 US$ '000
Sales (Murabaha) receivables (note 4.1)	**11,119,981**	11,727,017
Ijarah receivables (note 4.2)	**57,086**	34,832
Salam receivables (note 4.3)	**154,649**	125,339
Istisna'a receivables (note 4.4)	**91,732**	71,864
	11,423,448	11,959,052

4.1 Sales (Murabaha) receivables

	2016			2015		
	Self financed US$ '000	**Jointly financed US$ '000**	**Total US$ '000**	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
International commodity murabaha	**22,247**	**299,812**	**322,059**	22,455	299,631	322,086
Other murabaha	**2,273,439**	**10,430,331**	**12,703,770**	1,906,274	11,339,803	13,246,077
Gross sales (murabaha) receivables	**2,295,686**	**10,730,143**	**13,025,829**	1,928,729	11,639,434	13,568,163
Deferred profits	**(340,823)**	**(1,210,482)**	**(1,551,305)**	(246,887)	(1,214,990)	(1,461,877)
	1,954,863	**9,519,661**	**11,474,524**	1,681,842	10,424,444	12,106,286
Provisions (note 21)	**(79,487)**	**(275,056)**	**(354,543)**	(48,452)	(330,817)	(379,269)
Net sales (murabaha) receivables	**1,875,376**	**9,244,605**	**11,119,981**	1,633,390	10,093,627	11,727,017

	2016 US$ '000	2015 US$ '000
Non-performing	**564,550**	459,013

Notes to the Consolidated Financial Statements
At 31 December 2016

4. RECEIVABLES (Continued)

4.2 Ijarah receivables

	2016			2015		
	Self financed US$ '000	**Jointly financed US$ '000**	**Total US$ '000**	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Gross ijarah receivables	**-**	**69,557**	**69,557**	-	45,064	45,064
Provisions (note 21)	**-**	**(12,471)**	**(12,471)**	-	(10,232)	(10,232)
Net ijarah receivables	**-**	**57,086**	**57,086**	-	34,832	34,832

	2016 US$ '000	2015 US$ '000
Non-performing	**59,539**	28,134

4.3 Salam receivables

	2016			2015		
	Self financed US$ '000	**Jointly financed US$ '000**	**Total US$ '000**	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Gross salam receivables	**-**	**160,603**	**160,603**	-	130,806	130,806
Provisions (note 21)	**-**	**(5,954)**	**(5,954)**	-	(5,467)	(5,467)
Net salam receivables	**-**	**154,649**	**154,649**	-	125,339	125,339

	2016 US$ '000	2015 US$ '000
Non-performing	**13,763**	**9,755**

4.4 Istisna'a receivables

	2016			2015		
	Self financed US$ '000	**Jointly financed US$ '000**	**Total US$ '000**	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Gross istisna'a receivables	**-**	**94,007**	**94,007**	-	72,274	72,274
Provisions (note 21)	**-**	**(2,275)**	**(2,275)**	-	(410)	(410)
Net istisna'a receivables	**-**	**91,732**	**91,732**	-	71,864	71,864

	2016 US$'000	2015 US$'000
Non-performing	**6,868**	693

5. MUDARABA AND MUSHARAKA FINANCING

	2016 US$ '000	2015 US$ '000
Mudaraba financing (note 5.1)	**821,729**	1,043,517
Musharaka financing (note 5.2)	**760,667**	515,076
	1,582,396	1,558,593

5. MUDARABA AND MUSHARAKA FINANCING (Continued)

5.1 Mudaraba financing

	2016			2015		
	Self financed US$ '000	**Jointly financed US$ '000**	**Total US$ '000**	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Gross mudaraba financing	**277,816**	**555,861**	**833,677**	275,967	778,812	1,054,779
Provisions (note 21)	**-**	**(11,948)**	**(11,948)**	-	(11,262)	(11,262)
Net mudaraba financing	**277,816**	**543,913**	**821,729**	275,967	767,550	1,043,517

	2016 US$'000	2015 US$'000
Non-performing	**12,351**	11,262

5.2 Musharaka financing

	2016			2015		
	Self financed US$ '000	**Jointly financed US$ '000**	**Total US$ '000**	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Gross musharaka financing	**146,365**	**620,903**	**767,268**	124,764	394,549	519,313
Provisions (note 21)	**-**	**(6,601)**	**(6,601)**	-	(4,237)	(4,237)
Net musharaka financing	**146,365**	**614,302**	**760,667**	124,764	390,312	515,076

	2016 US$'000	2015 US$'000
Non-performing	**20,154**	6,487

6. INVESTMENTS

	2016 US$ '000	2015 US$ '000
Equity and debt-type instruments at fair value through statement of income (note 6.1)	**27,842**	20,652
Equity-type instruments at fair value through equity (note 6.2)	**107,225**	102,810
Debt-type instruments at amortised cost (note 6.3)	**2,250,764**	2,748,405
	2,385,831	2,871,867
Investment in real estate (note 6.4)	**191,565**	187,412
Investment in associates (note 6.5)	**51,735**	46,471
	2,629,131	3,105,750

Notes to the Consolidated Financial Statements
At 31 December 2016

6. INVESTMENTS (Continued)

6.1 Equity and debt-type instruments at fair value through statement of income

	2016			2015		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Quoted investments						
Debts	6,865	1,504	8,369	6,093	6,374	12,467
Equities	286	642	928	271	551	822
	7,151	2,146	9,297	6,364	6,925	13,289
Unquoted investments						
Equities	18,545	-	18,545	7,363	-	7,363
	18,545	-	18,545	7,363	-	7,363
	25,696	2,146	27,842	13,727	6,925	20,652

6.2 Equity-type instruments at fair value through equity

	2016			2015		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Quoted investments						
Equities	12,009	34,467	46,476	9,185	31,595	40,780
Managed funds	11,842	6,636	18,478	8,946	9,418	18,364
	23,851	41,103	64,954	18,131	41,013	59,144
Unquoted investments						
Equities	26,987	7,779	34,766	29,121	11,693	40,814
Managed funds	668	9,735	10,403	-	6,901	6,901
	27,655	17,514	45,169	29,121	18,594	47,715
Provisions (note 21)	(774)	(2,124)	(2,898)	(1,396)	(2,653)	(4,049)
	50,732	56,493	107,225	45,856	56,954	102,810

6.3 Debt-type instruments at amortised cost

	2016			2015		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Quoted investments						
Sukuk and similar items	607,418	604,812	1,212,230	625,592	1,023,816	1,649,408
Unquoted investments						
Sukuk and similar items	136,078	906,718	1,042,796	117,207	986,235	1,103,442
Provisions (note 21)	(2,500)	(1,762)	(4,262)	-	(4,445)	(4,445)
	740,996	1,509,768	2,250,764	742,799	2,005,606	2,748,405

Notes to the Consolidated Financial Statements

At 31 December 2016

6. INVESTMENTS (Continued)

6.4 Investment in real estate

	2016			2015		
	Self financed US$ '000	**Jointly financed US$ '000**	**Total US$ '000**	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Land	**756**	**106,559**	**107,315**	2,154	90,655	92,809
Buildings	**7,994**	**76,256**	**84,250**	6,719	87,884	94,603
	8,750	**182,815**	**191,565**	8,873	178,539	187,412

The following is a reconciliation between carrying amounts of investment in real estate at the beginning and end of the year:

	2016 US$ '000	2015 US$ '000
Beginning balance of the year	**187,412**	159,549
Acquisitions	**14,479**	35,905
Net gain (loss) from fair value adjustments	**1,253**	(2,629)
Disposals	**(8,660)**	(4,719)
Foreign exchange translation / others - net	**(2,919)**	(694)
	4,153	27,863
Ending balance of the year	**191,565**	187,412

6.5 Investment in associates

Investment in associates comprise the following:

	2016			
	Self financed US$ '000	**Jointly financed US$ '000**	**Total US$ '000**	**Market value US$ '000**
Quoted associates	**-**	**10,802**	**10,802**	**9,729**
Unquoted associates	**40,814**	**119**	**40,933**	
	40,814	**10,921**	**51,735**	

	2015			
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Market value US$ '000
Quoted associates	-	21,250	21,250	18,163
Unquoted associates	24,930	291	25,221	
	24,930	21,541	46,471	

7. IJARAH MUNTAHIA BITTAMALEEK

	2016			2015		
	Self financed US$ '000	**Jointly financed US$ '000**	**Total US$ '000**	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Land and building						
Cost	**179,444**	**1,730,599**	**1,910,043**	220,812	1,453,236	1,674,048
Accumulated depreciation	**(27,795)**	**(472,851)**	**(500,646)**	(10,927)	(323,693)	(334,620)
Net book value	**151,649**	**1,257,748**	**1,409,397**	209,885	1,129,543	1,339,428
Equipment						
Cost	**130,730**	**368,355**	**499,085**	146,615	324,408	471,023
Accumulated depreciation	**(22,326)**	**(90,333)**	**(112,659)**	(14,467)	(108,764)	(123,231)
Net book value	**108,404**	**278,022**	**386,426**	132,148	215,644	347,792
Others						
Cost	**-**	**56,469**	**56,469**	-	61,492	61,492
Accumulated depreciation	**-**	**(21,953)**	**(21,953)**	-	(14,255)	(14,255)
Net book value	**-**	**34,516**	**34,516**	-	47,237	47,237
Total						
Cost	**310,174**	**2,155,423**	**2,465,597**	367,427	1,839,136	2,206,563
Accumulated depreciation	**(50,121)**	**(585,137)**	**(635,258)**	(25,394)	(446,712)	(472,106)
Net book value	**260,053**	**1,570,286**	**1,830,339**	342,033	1,392,424	1,734,457

8. PROPERTY AND EQUIPMENT

	Buildings US$ '000	**Lands US$ '000**	**Office furniture and equipment US$ '000**	**Vehicles US$ '000**	**Others US$ '000**	**Total US$ '000**
Cost:						
At 1 January 2015	215,287	92,693	203,396	10,560	73,476	595,412
Additions	15,728	3,190	25,061	3,158	40,557	87,694
Revaluation	-	72,275	-	-	-	72,275
Disposals	(25,256)	-	(2,488)	(1,342)	(1,616)	(30,702)
Foreign exchange translations	(28,864)	(5,222)	(15,994)	(742)	(11,526)	(62,348)
At 31 December 2015	176,895	162,936	209,975	11,634	100,891	662,331
Additions	46,288	20,618	19,450	1,282	23,135	110,773
Disposals	(2,319)	(654)	(1,507)	(872)	(52,979)	(58,331)
Foreign exchange translations	(20,948)	(19,834)	(20,708)	(1,248)	(12,559)	(75,297)
At 31 December 2016	**199,916**	**163,066**	**207,210**	**10,796**	**58,488**	**639,476**
Depreciation:						
At 1 January 2015	69,119	-	124,335	5,493	17,142	216,089
Provided during the year (note 19)	12,055	-	19,132	1,301	6,456	38,944
Relating to disposals	(11,345)	-	(3,107)	(855)	(882)	(16,189)
Foreign exchange translations	(8,085)	-	(8,341)	(486)	(4,209)	(21,121)
At 31 December 2015	61,744	-	132,019	5,453	18,507	217,723
Provided during the year (note 19)	9,750	-	22,217	1,265	5,996	39,228
Relating to disposals	(677)	-	(835)	(573)	(565)	(2,650)
Foreign exchange translations	(18,766)	-	(8,956)	(668)	(3,730)	(32,120)
At 31 December 2016	**52,051**	**-**	**144,445**	**5,477**	**20,208**	**222,181**
Net book values:						
At 31 December 2016	**147,865**	**163,066**	**62,765**	**5,319**	**38,280**	**417,295**
At 31 December 2015	115,151	162,936	77,956	6,181	82,384	444,608

9. OTHER ASSETS

	2016 US$ '000	2015 US$ '000
Bills receivables	**144,327**	148,108
Goodwill and intangible assets (note 9 (a))	**91,735**	102,284
Collateral pending sale	**62,151**	65,069
Good faith qard	**19,136**	13,799
Deferred taxation	**34,693**	19,331
Prepayments	**40,540**	60,594
Others	**91,485**	45,517
	484,067	454,702
Provisions (note 21)	**(14,829)**	(12,370)
	469,238	442,332

9 (a) Goodwill and intangible assets

	2016			2015		
	Goodwill US$ '000	Intangible assets US$ '000	Total US$ '000	Goodwill US$ '000	Intangible assets US$ '000	Total US$ '000
At 1 January	**72,781**	**29,503**	**102,284**	82,177	21,596	103,773
Additions	**10,498**	**9,134**	**19,632**	-	22,021	22,021
Amortisation charge for the year (note 19)	**-**	**(5,351)**	**(5,351)**	-	(11,110)	(11,110)
Impairment loss for the year	**(9,082)**	**-**	**(9,082)**	(4,000)	-	(4,000)
Foreign exchange translations	**(4,031)**	**(11,717)**	**(15,748)**	(5,396)	(3,004)	(8,400)
At 31 December	**70,166**	**21,569**	**91,735**	72,781	29,503	102,284

Goodwill acquired through business combinations with indefinite lives have been allocated to five individual cash-generating units. The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2016 US$ '000	2015 US$ '000
Al Baraka Turk Participation Bank	**14,572**	17,522
Al Baraka Bank Egypt	**767**	1,871
Jordan Islamic Bank	**26,646**	26,646
Al Baraka Bank (Pakistan) Limited	**28,181**	17,660
Itqan Capital	**-**	9,082
	70,166	72,781

The recoverable amounts of the cash-generating units were determined based on value in use calculation using cash flow projections from financial budgets approved by the Group's senior management covering a five year period. Management determined budgeted spreads based on the cash-generating units' past performance and its expectation of market development.

10. LONG TERM FINANCING

	2016 US$ '000	2015 US$ '000
Murabaha financing	**762,752**	918,520
Subordinated financing obtained by a subsidiary	**456,600**	411,327
Wakala	**161,904**	167,361
	1,381,256	1,497,208

◀ Return to contents

10. LONG TERM FINANCING (Continued)

Murabaha financing and wakala

During 2014, ATPB issued sukuk listed in Irish Stock Exchange for a tenure of 5 years with an expected profit rate of 6.25%, through its fully owned subsidiary Bereket Varlık Kiralama A.Ş., amounting to US$ 350 million. The sukuk subscriptions to an extent of not less than 51% will be utilised to purchase asset portfolio based on wakala contract, while the remaining portion to an extent of not more than 49% will be utilised as commodity murabaha.

Subordinated financing obtained by a subsidiary

During 2015, ATPB obtained US$ 225 million subordinated financing with an annual profit rate of 10.5% for a period of 10 years. Further included in Subordinated financing US$ 200 million obtained by ATPB during 2013 with an annual profit rate of 7.75%, for a period of ten years. These subordinated financing are obtained in US$ and are considered part of Tier II capital in the capital adequacy calculation of ATPB as per the banking regulations in the Republic of Turkey.

11. OTHER LIABILITIES

	2016	2015
	US$ '000	US$ '000
Payables	**299,433**	269,771
Cash margins	**222,008**	269,557
Managers' cheques	**103,969**	87,963
Other provisions (note 21) *	**11,091**	13,809
Current taxation **	**68,055**	84,581
Deferred taxation **	**12,933**	11,491
Accrued expenses	**71,303**	77,472
Charity fund	**10,658**	7,224
Others	**57,017**	40,576
	856,467	862,444

* Other provisions mainly comprise of general provisions and specific provisions on commitment and contingent items.

** In view of operations of the Group being subject to various tax jurisdictions and regulations, it is not practical to provide a reconciliation between the accounting and taxable profits together with details of effective tax rates.

12. EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH)

	2016	2015
	US$ '000	US$ '000
Equity of investment accountholders *	**13,081,209**	14,313,084
Profit equalisation reserve (note 12.1)	**6,091**	10,037
Investment risk reserve (note 12.2)	**176,583**	179,238
Cumulative changes in fair value attributable to equity of investment accountholders - net (note 12.3)	**12,911**	12,240
	13,276,794	14,514,599

*** Medium term Sukuk**

This includes unsecured, sub-ordinated and privately placed unrestricted mudaraba sukuk amounting to US$ 13,923 thousand (2015: US$ 16,708 thousand) issued by Al Baraka Bank (Pakistan) Limited (ABPL) during 2014. The issuance of sukuk is intended to comply with regulatory requirements related to capital adequacy ratio of ABPL. The tenure of the sukuk is seven years maturing in 2021. The principal repayment, started after six months of the drawdown date and is being made semi-annually on a straight line basis.

12.1 Profit equalisation reserve

The following shows the movement in profit equalisation reserve:

	2016	2015
	US$ '000	US$ '000
Balance at 1 January	**10,037**	13,045
Amount apportioned from income allocable to equity of investment accountholders	**297**	49
Amount used during the year	**(3,580)**	(1,229)
Foreign exchange translations	**(663)**	(1,828)
Balance at 31 December	**6,091**	10,037

12. EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH) (Continued)

12.2 Investment risk reserve

The following shows the movement in investment risk reserve:

	2016 US$ '000	2015 US$ '000
Balance at 1 January	**179,238**	198,559
Amount appropriated to provision (note 21)	**7,324**	(9,549)
Amount apportioned from income allocable to equity of investment accountholders	**1,057**	10,711
Foreign exchange translations	**(11,036)**	(20,483)
Balance at 31 December	**176,583**	179,238

12.3 Movement in cumulative changes in fair value attributable to equity of investment accountholders - net

	2016 US$ '000	2015 US$ '000
Balance at 1 January	**12,240**	15,677
Change in fair values during the year	**3,840**	(5,966)
Realised gain transferred to consolidated statement of income	**(3,210)**	(144)
Deferred taxation effect	**(221)**	935
Transfer to shareholders equity	**262**	1,738
	12,911	12,240
Attributable to investment in real estate	**11,256**	10,375
Attributable to equity-type instruments at fair value through equity	**1,655**	1,865
	12,911	12,240

13. OWNERS' EQUITY

	2016 US$ '000	2015 US$ '000
Share capital		
Authorised: 1,500,000,000 (2015: 1,500,000,000) ordinary shares of US$ 1 each	**1,500,000**	1,500,000

	2016 US$ '000	2015 US$ '000
Issued and fully paid up:		
At beginning of the year		
1,115,746,069 (2015: 1,093,868,695) shares of US$1 each	**1,115,746**	1,093,869
Issued during the year		
33,472,382 bonus shares (2015: 21,877,374) of US$1 each	**33,472**	21,877
At end of the year		
1,149,218,451 (2015: 1,115,746,069) shares of US$1 each	**1,149,218**	1,115,746

Proposed appropriations

At the Annual General Meeting held on 20 March 2016 (2015: 23 March 2015), the shareholders of the Group resolved to distribute US$ 22,315 thousand (2015: US$ 32,816 thousand) as cash dividends and US$ 33,472 thousand (2015: US$ 21,877 thousand) as bonus shares.

Treasury shares

	Number of shares ('000)	2016 US$ '000	2015 US$ '000
At 1 January	**8,464**	**8,464**	8,261
Purchase of treasury shares	**1,714**	**1,714**	304
Sale of treasury shares	**(590)**	**(590)**	(101)
At 31 December	**9,588**	**9,588**	8,464

The market value of the treasury shares is US$ 4,698 thousand (2015: US$ 4,824 thousand) and it represents 0.8% (2015: 0.8%) of the outstanding shares.

◀ Return to contents

13. OWNERS' EQUITY (Continued)

Additional information on shareholding pattern

i) Names and nationalities of the major shareholders and the number of shares in which they have an interest of 5% or more of outstanding shares:

At 31 December 2016

Names	**Nationality/ Incorporation**	**Number of shares**	**% holding**
Saleh Abdullah Kamel	Saudi	**346,035,112**	**30.11%**
Dallah AlBaraka Holding Company E.C.	Bahrain	**283,120,383**	**24.64%**
Altawfeek Company For Investment Funds	Cayman Island	**222,074,022**	**19.32%**
Abdulla AbdulAziz AlRajihi	Saudi	**80,733,424**	**7.03%**

At 31 December 2015

Names	Nationality/ Incorporation	Number of shares	% holding
Saleh Abdullah Kamel	Saudi	335,956,420	30.11%
Dallah AlBaraka Holding Company E.C.	Bahrain	274,874,159	24.64%
Altawfeek Company For Investment Funds	Cayman Island	215,605,847	19.32%
Abdulla AbdulAziz AlRajihi	Saudi	78,381,966	7.03%

ii) The Bank has only one class of shares and the holders of these shares have equal voting rights.

iii) Distribution schedule of shares, setting out the number and percentage of holders in the following categories:

At 31 December 2016

Categories:	**Number of shares**	**Number of shareholders**	**% of total outstanding shares**
Less than 1%	**86,408,191**	**1,092**	**7.52%**
1% up to less than 5%	**130,847,319**	**6**	**11.39%**
5% up to less than 10%	**80,733,424**	**1**	**7.03%**
10% up to less than 20%	**222,074,022**	**1**	**19.32%**
20% up to less than 50%	**629,155,495**	**2**	**54.75%**
	1,149,218,451	**1,102**	**100.00%**

At 31 December 2015

Categories:	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	85,681,614	1,119	7.68%
1% up to less than 5%	125,246,063	6	11.22%
5% up to less than 10%	78,381,966	1	7.03%
10% up to less than 20%	215,605,847	1	19.32%
20% up to less than 50%	610,830,579	2	54.75%
	1,115,746,069	1,129	100.00%

a. Share premium/Equity transaction cost

Amounts collected in excess of the par value of the issued share capital during any new issue of shares, net of issue costs, are treated as share premium. This amount is not available for distribution, but can be utilised as stipulated in the Bahrain Commercial Companies Law (BCCL).

Equity transaction cost, represent costs incurred by the Bank that are directly related to raising capital and have been incurred in cash.

b. Statutory reserve

In accordance with the BCCL and the Bank's articles of association, 10% of the parent's share of the net income for the year is transferred to the statutory reserve until such time as the reserve reaches 50% of the Bank's paid-up share capital. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law. During the year US$ 15,155 thousand (2015: US$ 16,274 thousand) was transferred to statutory reserve.

c. Cumulative changes in fair values

This represents the net unrealised fair value gains and losses relating to the equity of the parent on equity-type instruments at fair value through equity, investment in real estate and land occupied by the Group (classified as property and equipment).

Notes to the Consolidated Financial Statements

At 31 December 2016

13. OWNERS' EQUITY (Continued)

d. Foreign currency translations

The foreign currency translations are used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

The following table summarises the subsidiary wise foreign currency translation reserve as at 31 December:

Subsidiary	Currency	2016 US$ '000	2015 US$ '000
Banque Al Baraka D'Algerie (BAA)	Algerian Dinar	**50,617**	42,424
Al Baraka Bank (Pakistan) Limited	Pakistani Rupees	**7,890**	10,174
Al Baraka Bank Egypt (ABE)	Egyptian Pound	**144,651**	41,040
Al Baraka Turk Participation Bank (ATPB)	Turkish Lira	**350,455**	274,067
Al Baraka Bank Limited (ABL)	South African Rand	**17,279**	20,474
Al Baraka Bank Sudan (ABS)	Sudanese Pound	**36,901**	30,912
Al Baraka Bank Tunis (ABT)	Tunisian Dinar	**23,166**	14,582
Al Baraka Bank Syria (ABBS)	Syrian Pound	**35,760**	28,275
		666,719	461,948

e. Other reserves

Other reserves mainly consist of general banking risk reserves maintained by the subsidiaries in accordance with local regulations.

f. Zakah paid on behalf of shareholders

The General Assembly in its annual meeting conducted on 20 March 2016 empowered the Executive Management of Al Baraka Banking Group to pay an amount of US$ 3,962 thousand as Zakah on behalf of the shareholders deducted from the Retained Earnings for the financial year of 2015. The Group has paid and distributed an amount of US$ 3,078 thousand to those who's entitled to receive Zakah as per Shari'a boundaries and as approved by the Unified Shari'a Board. The remaining amount of US$ 884 thousands has been allocated to be paid maximum by end of first quarter of 2017.

	2016 US$ '000	2015 US$ '000
Zakah to be paid on behalf of shareholders for the year 2015	**3,962**	-
Uses of Zakah:		
Zakah for the poor and needy	**1,650**	-
Zakah for welfare	**143**	-
Zakah for new converts to islam	**177**	-
Scholarships	**1,100**	-
Others	**8**	-
Total uses	**3,078**	-
Remaining Zakah to be paid	**884**	-

g. Proposed Appropriations

	2016 US$ '000	2015 US$ '000
Cash dividend 1% (2015: 2%)	**11,396**	22,315
Bonus shares	**57,461**	33,472
	68,857	55,787

The above proposed appropriations exclude appropriations to the statutory reserve as mentioned above and will be submitted for formal approval at the Annual General Meeting subject to regulatory approval.

The Bank proposed issuance of bonus shares from the retained earnings at one bonus share for each 20 shares held (2015: three bonus shares for each 100 shares held). This will be submitted for formal approval at the Annual General Meeting subject to regulatory approval.

The proposed appropriations for the year 2015 was approved at the Annual General Meeting on 20 March 2016 and was effected in 2016 following the approval.

h. Net movement in non-controlling interest

This mainly includes the effect of changes in capital of subsidiaries, buying (selling) by the non-controlling interest from (to) the Group.

Notes to the Consolidated Financial Statements

At 31 December 2016

14. NET INCOME FROM JOINTLY AND SELF FINANCED CONTRACTS AND INVESTMENTS

	2016 US$ '000	2015 US$ '000
Receivables (note 14.1)	**1,099,779**	1,050,895
Mudaraba and Musharaka financing (note 14.2)	**126,248**	101,177
Investments (note 14.3)	**293,096**	256,661
Ijarah Muntahia Bittamleek (note 14.4)	**135,999**	126,010
Others	**3,532**	731
	1,658,654	1,535,474
Net income from jointly financed contracts and investments	**1,336,569**	1,223,215
Gross income from self financed contracts and investments	**322,085**	312,259
	1,658,654	1,535,474
Gross income from self financed contracts and investments	**322,085**	312,259
Profit paid on wakala financing	**(36,586)**	(39,318)
Net income from self financed contracts and investments	**285,499**	272,941

14.1 Receivables

	2016 US$'000	2015 US$'000
Sales (Murabaha) receivables	**1,085,461**	1,034,312
Salam receivables	**9,980**	12,165
Istisna'a receivables	**4,338**	4,418
	1,099,779	1,050,895

14.2 Mudaraba and Musharaka financing

	2016 US$ '000	2015 US$ '000
Mudaraba financing	**64,789**	46,063
Musharaka financing	**61,459**	55,114
	126,248	101,177

14.3 Investments

	2016 US$ '000	2015 US$ '000
Equity-type instruments at fair value through equity	**4,357**	4,589
Debt-type instruments at amortised cost	**275,095**	247,630
Unrealised gain on equity and debt-type instruments at fair value through statement of income	**152**	145
Gain on sale of equity-type instruments at fair value through equity	**3,585**	1,509
Gain on sale of equity and debt-type instruments at fair value through statement of income	**667**	1,636
Rental income	**1,679**	1,832
Income from associates	**2,059**	652
Gain (loss) on sale of investment in real estate	**5,502**	(1,332)
	293,096	256,661

14.4 Ijarah Muntahia Bittamleek

	2016 US$ '000	2015 US$ '000
Income from Ijarah Muntahia Bittamleek	**374,314**	317,739
Depreciation on Ijarah Muntahia Bittamleek	**(238,315)**	(191,729)
	135,999	126,010

15. GROUP'S SHARE AS A MUDARIB

Group's share as a Mudarib is determined at the level of each subsidiary and is based on the terms and conditions of the related agreements.

16. OTHER FEES AND COMMISSION INCOME

	2016 US$ '000	2015 US$ '000
Banking fees and commissions	**95,393**	116,547
Letters of credit	**30,623**	33,743
Guarantees	**41,597**	41,883
Acceptances	**9,224**	8,340
	176,837	200,513

17. OTHER OPERATING INCOME

	2016 US$ '000	2015 US$ '000
Foreign exchange gain	**58,824**	18,267
Gain on sale of property and equipment	**14,804**	10,502
Others	**5,231**	6,025
	78,859	34,794

18. PROFIT PAID ON LONG TERM FINANCING

	2016 US$ '000	2015 US$ '000
Murabaha financing	**16,280**	11,586
Subordinated financing obtained by a subsidiary	**45,469**	20,759
Wakala	**29,621**	24,196
	91,370	56,541

19. DEPRECIATION AND AMORTISATION

	2016 US$ '000	2015 US$ '000
Property and equipment depreciation (note 8)	**39,228**	38,944
Intangible assets amortisation (note 9 (a))	**5,351**	11,110
	44,579	50,054

20. OTHER OPERATING EXPENSES

	2016 US$ '000	2015 US$ '000
General and administration expenses	**102,807**	101,470
Professional and business expenses	**29,777**	26,740
Premises related expenses	**64,552**	58,680
	197,136	186,890

21. PROVISIONS AND IMPAIRMENT

2016	Sales (Murabaha) receivables US$ '000 (note 4.1)	Ijarah receivables US$ '000 (note 4.2)	Salam receivables US$ '000 (note 4.3)	Istisna'a receivables US$ '000 (note 4.4)	Mudaraba financing US$ '000 (note 5.1)	Musharaka financing US$ '000 (note 5.2)	Investments US$ '000 (note 6.2 & 6.3)	Other assets US$ '000 (note 9)	Other liabilities US$ '000 (note 11)	Total US$ '000
Provisions at 1 January	379,269	10,232	5,467	410	11,262	4,237	8,494	12,370	13,809	445,550
Charged during the year	113,131	3,455	1,453	1,192	18,388	795	1,040	4,756	1,480	145,690
Written back during the year	(22,518)	(3,157)	(747)	(300)	-	(2,195)	(1,302)	(1,636)	(815)	(32,670)
	90,613	298	706	892	18,388	(1,400)	(262)	3,120	665	113,020
	469,882	10,530	6,173	1,302	29,650	2,837	8,232	15,490	14,474	558,570
Written off during the year	(33,282)	(36)	(131)	-	(21,817)	(37)	(465)	(737)	(968)	(57,473)
Amount appropriated from investment risk reserve (note 12.2)	(7,472)	144	-	-	-	4	-	-	-	(7,324)
Foreign exchange translations/others - net	(74,585)	1,833	(88)	973	4,115	3,797	(607)	76	(2,415)	(66,901)
Provisions at 31 December	354,543	12,471	5,954	2,275	11,948	6,601	7,160	14,829	11,091	426,872

During the year, an impairment loss of US$ 9,134 thousand (2015: US$ 4,118 thousand) was charged against investments and goodwill.

2015	Sales (Murabaha) receivables US$ '000 (note 4.1)	Ijarah receivables US$ '000 (note 4.2)	Salam receivables US$ '000 (note 4.3)	Istisna'a receivables US$ '000 (note 4.4)	Mudaraba financing US$ '000 (note 5.1)	Musharaka financing US$ '000 (note 5.2)	Investments US$ '000 (note 6.2 & 6.3)	Other assets US$ '000 (note 9)	Other liabilities US$ '000 (note 11)	Total US$ '000
Provisions at 1 January	403,488	6,390	5,131	518	10,956	4,179	9,136	13,416	11,521	464,735
Charged during the year	85,905	4,026	1,032	85	1,269	736	1,878	1,708	6,940	103,579
Written back during the year	(29,771)	(1,494)	(338)	(131)	-	(204)	(3,381)	(1,395)	(12,612)	(49,326)
	56,134	2,532	694	(46)	1,269	532	(1,503)	313	(5,672)	54,253
	459,622	8,922	5,825	472	12,225	4,711	7,633	13,729	5,849	518,988
Written off during the year	(59,696)	(12)	(1)	-	-	(16)	(122)	(382)	(236)	(60,465)
Amount appropriated from investment risk reserve (note 12.2)	7,378	2,169	-	-	-	2	-	-	-	9,549
Foreign exchange translations/others - net	(28,035)	(847)	(357)	(62)	(963)	(460)	983	(977)	8,196	(22,522)
Provisions at 31 December	379,269	10,232	5,467	410	11,262	4,237	8,494	12,370	13,809	445,550

Notes to the Consolidated Financial Statements

At 31 December 2016

21. PROVISIONS AND IMPAIRMENT (Continued)

The provisions relate to the following geographical areas:

2016	Sales (Murabaha) receivables US$ '000 (note 4.1)	Ijarah receivables US$ '000 (note 4.2)	Salam receivables US$ '000 (note 4.3)	Istisna'a receivables US$ '000 (note 4.4)	Mudaraba financing US$ '000 (note 5.1)	Musharaka financing US$ '000 (note 5.2)	Investments US$ '000 (note 6.2 & 6.3)	Other assets US$ '000 (note 9)	Other liabilities US$ '000 (note 11)	Total US$ '000
Middle East	**153,603**	**2,438**	**-**	**-**	**11,948**	**248**	**6,215**	**6,342**	**10,798**	**191,592**
North Africa	**17,434**	**6,265**	**1,493**	**79**	**-**	**6**	**490**	**972**	**293**	**27,032**
Europe	**148,934**	**-**	**-**	**-**	**-**	**-**	**-**	**2,104**	**-**	**151,038**
Others	**34,572**	**3,768**	**4,461**	**2,196**	**-**	**6,347**	**455**	**5,411**	**-**	**57,210**
Total	**354,543**	**12,471**	**5,954**	**2,275**	**11,948**	**6,601**	**7,160**	**14,829**	**11,091**	**426,872**
2015										
Middle East	233,083	2,294	-	-	11,262	244	7,461	4,090	13,607	272,041
North Africa	22,346	6,209	1,235	382	-	39	610	2,048	202	33,071
Europe	96,213	-	-	-	-	-	-	1,620	-	97,833
Others	27,627	1,729	4,232	28	-	3,954	423	4,612	-	42,605
Total	379,269	10,232	5,467	410	11,262	4,237	8,494	12,370	13,809	445,550

The fair value of collateral the Group holds relating to non-performing facilities as at 31 December 2016 amounts to US$ 554.1 million (2015: US$ 335.5 million). The collateral consists of cash margin, securities and properties. The utilisation of the collaterals will be on customer by customer basis and will be limited to the customer's total exposure.

22. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share amounts are calculated by dividing net income for the year attributable to equity holders of the parent by the weighted average number of shares outstanding during the year as follows:

	2016	2015
Net income attributable to the equity shareholders of the parent for the year - US$ '000	**151,545**	162,741
Number of shares outstanding at the beginning of the year (in thousands)	**1,140,818**	1,107,485
Treasury shares effect (in thousands)	**(610)**	(139)
Bonus shares effect during the year (in thousands)*	**-**	33,472
Weighted average number of shares outstanding at the end of the year (in thousands)	**1,140,208**	1,140,818
Earnings per share - US cents	**13.29**	14.27

*The weighted average number of shares of the previous year has been adjusted on account of the bonus share issue made in 2016.

23. CASH AND CASH EQUIVALENTS

	2016 US$ '000	2015 US$ '000
Balances with central banks excluding mandatory reserve	**1,662,465**	741,179
Balances with other banks	**585,491**	789,692
Cash and cash in transit	**604,002**	761,818
	2,851,958	2,292,689

24. RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders, directors of the Group, entities owned or controlled, jointly controlled or significantly influenced by them, companies affiliated by virtue of shareholding in common with that of the Group and Shari'a supervisory board members.

The income and expenses in respect of related parties were as follows:

	Associated companies US$'000	Major shareholders US$'000	Directors and key management personnel US$'000	Other related parties US$'000	2016 US$'000	2015 US$'000
Net income from jointly financed contracts and investments	**2,029**	**-**	**62**	-	**2,091**	2,368
Net income from self financed contracts and investments	**729**	**35**	**-**	-	**764**	330
Return on equity of investment accountholders	**161**	**17**	**88**	2	**268**	386
Other fees and commission income	**418**	**-**	**-**	-	**418**	776

Compensation of key management personnel of the Bank, included in consolidated statement of income, is as follows:

	2016 US$'000	2015 US$'000
Short term benefits	**8,164**	**6,014**
Long term benefits	**1,398**	**1,272**

Short term benefits includes basic salaries, bonuses, allowances and other benefits paid during the year and long term benefits includes indemnity, social insurance benefits and investment scheme.

Director's remuneration accrued for the year ended 31 December 2016 amounted to US$ 1.5 million (2015: US$ 1.5 million).

The balances with related parties at 31 December were as follows:

	Associated companies US$ '000	Major shareholders US$ '000	Directors and key management personnel US$ '000	Other related parties US$ '000	2016 US$ '000	2015 US$ '000
Assets:						
Receivables	**1,987**	**-**	**781**	**-**	**2,768**	10,679
Mudaraba and Musharaka financing	**-**	**-**	**-**	**-**	**-**	1,420
Investments	**62,533**	**1,022**	**-**	**-**	**63,555**	52,497
Ijarah Muntahia Bittamleek	**-**	**-**	**559**	**-**	**559**	740
Other assets	**1,775**	**1**	**105**	**-**	**1,881**	1,782
liabilities:						
Customer current and other accounts	**5,110**	**2,595**	**1,298**	**73**	**9,076**	10,844
Due to banks	**-**	**-**	**-**	**-**	**-**	4,262
Other liabilities	**-**	**2**	**-**	**-**	**2**	19,763
Equity of investment accountholders	**19,072**	**5,532**	**401**	**66**	**25,071**	29,373
Off-balance sheet equity of investment accountholders	**13,337**	**9,015**	**6,762**	**-**	**29,114**	23,896

All related party exposures are performing and are free of any provision for possible credit losses.

Details of Directors' and Executive Management's direct and indirect interests in the Bank's shares as at the end of the year were:

Name of directors	Position	Nationality	2015 Number of shares	Transaction Number of shares	**2016* Number of shares**
Saleh Abdulla Kamel	Chairman	Saudi	610,830,579	-	**629,155,495**
Abdulla Ammar Saudi	Vice Chairman	Bahraini	598,191	-	**616,136**
Abdulla Saleh Kamel	Vice Chairman	Saudi	303,964	-	**313,082**
Fahad Abdulla AlRajhi	Board Member	Saudi	22,569,793	2,057,760	**25,305,763**
Mohydin Saleh Kamel	Board Member	Saudi	635,559	-	**654,625**
AbdulElah Sabbahi	Board Member	Saudi	202,794	-	**208,877**
Adnan Ahmed Yousif	Board Member (President & Chief Executive)	Bahraini	327	-	**336**
Abdulrahman Shehab	Executive Vice President, Head of Operations and Administration	Bahraini	122,307	-	**125,976**

* Includes the effect of the Bank's issuance of bonus shares at three bonus shares for each 100 shares held as per the approval of the shareholders at the Annual General Meeting on 20 March 2016.

25. COMMITMENTS AND CONTINGENCIES

	2016 US$ '000	2015 US$ '000
Letters of credit	**704,307**	810,168
Guarantees	**2,680,992**	3,105,059
Acceptances	**53,791**	52,315
Undrawn commitments	**834,915**	654,138
Sharia'a compliant promise contracts	**323,915**	-
Others	**321**	249
	4,598,241	4,621,929

26. SEGMENTAL ANALYSIS

Segmental information is presented in respect of the Group's geographical segments. The geographical segments are based upon the location of the units responsible for recording the transactions and reflects the manner in which financial information is evaluated by the Group's management and the Board of Directors.

For financial reporting purposes, the Group is divided into the following geographic segments:

- Middle East
- North Africa
- Europe
- Others

The results reported for the geographic segments are based on the Group's internal financial reporting systems. The accounting policies of the segments are the same as those applied in the preparation of the Group's consolidated financial statements as set out in Note 2. Transactions between segments are conducted at estimated market rates on an arm's length basis.

No business segment are presented as that is not applicable to the Group.

Segment assets, liabilities and equity of investment accountholders were as follows:

	2016			2015		
Segment	**Assets US$ '000**	**Liabilities US$ '000**	**IAH US$ '000**	Assets US$ '000	Liabilities US$ '000	IAH US$ '000
Middle East	**9,710,447**	**2,782,561**	**6,057,888**	10,589,649	2,659,913	6,984,027
North Africa	**2,419,901**	**1,171,716**	**974,704**	2,489,812	1,113,612	1,084,982
Europe	**9,304,781**	**3,546,164**	**5,103,850**	10,035,619	3,733,314	5,586,129
Others	**1,990,136**	**639,449**	**1,140,352**	1,503,121	502,180	859,461
	23,425,265	**8,139,890**	**13,276,794**	24,618,201	8,009,019	14,514,599

Segment operating income, net operating income and net income were as follows:

	2016			2015		
Segment	**Total operating income US$ '000**	**Net operating income US$ '000**	**Net income US$ '000**	Total operating income US$ '000	Net operating income US$ '000	Net income US$ '000
Middle East	**446,026**	**223,014**	**119,332**	407,929	207,450	103,137
North Africa	**103,411**	**48,527**	**34,413**	101,996	48,886	42,101
Europe	**425,986**	**203,709**	**90,022**	407,121	184,264	124,478
Others	**98,736**	**31,693**	**23,869**	82,507	23,082	16,470
	1,074,159	**506,943**	**267,636**	999,553	463,682	286,186

27. RISK MANAGEMENT

Risk management is an integral part of the Group's decision-making process. The management risk committee and executive committees guide and assist with overall management of the Group's balance sheet risks. The Group manages exposures by setting limits approved by the Board of Directors. These risks and the processes to mitigate these risks have not significantly altered from the previous year.

The most important types of risk are liquidity risk, credit risk, concentration risk, market risk and other operational risk. Market risk includes profit rate risk, equity price risk and foreign exchange risk.

a) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on regular basis. Each of the Group's subsidiaries has a documented and implemented domestic and foreign currency liquidity policy appropriate to the nature and complexity of its business. The policy addresses the subsidiaries' goal of protecting financial strength even for stressful events.

The table below summarises the maturity profile of the Group's assets and liabilities based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's retention history of its investment account holders and the availability of bank lines.

The maturity profile at 31 December 2016 was as follows:

	Up to 1 month US$ '000	1 to 3 months US$ '000	3 to 6 months US$ '000	6 months to 1 year US$ '000	1 to 3 years US$ '000	3 to 5 years US$ '000	5 to 10 years US$ '000	10 to 20 years US$ '000	20 years and above US$ '000	Undated US$ '000	Total US$ '000
Assets											
Cash and balances with banks	3,909,408	-	24,107	10,000	174,568	7,303	-	-	-	948,032	5,073,418
Receivables	1,504,074	810,358	1,378,701	2,087,664	3,126,846	1,861,219	463,466	190,549	571	-	11,423,448
Mudaraba and Musharaka financing	691,754	15,944	11,995	29,133	217,576	334,008	241,125	40,861	-	-	1,582,396
Investments	833,342	242,353	238,977	224,864	384,115	261,045	131,311	42,864	-	270,260	2,629,131
Ijarah Muntahia Bittamleek	96,173	61,860	56,550	81,838	412,325	305,851	382,191	418,041	15,510	-	1,830,339
Property and equipment	-	-	-	-	-	-	-	-	-	417,295	417,295
Other assets	89,262	44,747	19,492	42,513	27,030	50,777	774	-	1,865	192,778	469,238
Total assets	7,124,013	1,175,262	1,729,822	2,476,012	4,342,460	2,820,203	1,218,867	692,315	17,946	1,828,365	23,425,265
Liabilities											
Customer current and other accounts	4,983,772	-	-	-	-	-	-	-	-	-	4,983,772
Due to banks	324,835	203,088	114,013	21,899	60,000	-	-	194,560	-	-	918,395
Long term financing	-	-	269,171	258,670	359,452	33,405	460,558	-	-	-	1,381,256
Other liabilities	296,977	83,044	64,699	57,579	22,444	26,147	205	305,372	-	-	856,467
Total liabilities	5,605,584	286,132	447,883	338,148	441,896	59,552	460,763	499,932	-	-	8,139,890
Equity of investment accountholders	5,330,813	1,480,775	1,110,258	1,494,765	1,378,054	2,249,865	84,222	148,042	-	-	13,276,794
Total liabilities and equity of investment accountholders	10,936,397	1,766,907	1,558,141	1,832,913	1,819,950	2,309,417	544,985	647,974	-	-	21,416,684
Net liquidity gap	(3,812,384)	(591,645)	171,681	643,099	2,522,510	510,786	673,882	44,341	17,946	1,828,365	2,008,581
Cumulative net liquidity gap	(3,812,384)	(4,404,029)	(4,232,348)	(3,589,249)	(1,066,739)	(555,953)	117,929	162,270	180,216	2,008,581	
Off-balance sheet equity of investment accountholders	140,557	154,324	105,977	351,537	71,373	47,561	180	534	-	-	872,043

◄ Return to contents

27. RISK MANAGEMENT (Continued)

b) a) Liquidity risk (Continued)

The maturity profile at 31 December 2015 was as follows:

	Up to 1 month US$ '000	1 to 3 months US$ '000	3 to 6 months US$ '000	6 months to 1 year US$ '000	1 to 3 years US$ '000	3 to 5 years US$ '000	5 to 10 years US$ '000	10 to 20 years US$ '000	20 years and above US$ '000	Undated US$ '000	Total US$ '000
Assets											
Cash and balances with banks	4,289,731	-	6,008	21,721	269,961	6,038	-	-	-	779,950	5,373,409
Receivables	1,429,128	1,325,093	1,665,527	2,134,547	3,445,455	1,484,743	455,435	18,028	1,096	-	11,959,052
Mudaraba and Musharaka financing	840,924	3,874	10,854	27,969	137,139	303,719	210,508	23,606	-	-	1,558,593
Investments	1,337,184	276,766	128,852	303,888	531,753	113,159	115,963	40,135	-	258,050	3,105,750
Ijarah Muntahia Bittamleek	58,860	55,649	59,230	143,850	474,625	305,365	231,333	392,699	12,846	-	1,734,457
Property and equipment	-	-	-	-	-	-	-	-	-	444,608	444,608
Other assets	52,631	43,376	14,526	53,855	37,814	44,519	956	2,051	-	192,604	442,332
Total assets	8,008,458	1,704,758	1,884,997	2,685,830	4,896,747	2,257,543	1,014,195	476,519	13,942	1,675,212	24,618,201
Liabilities											
Customer current and other accounts	4,841,099	-	-	-	-	-	-	-	-	-	4,841,099
Due to banks	428,917	141,867	63,309	83,077	38,000	-	-	53,098	-	-	808,268
Long term financing	-	2,009	29,172	192,200	525,997	373,531	374,299	-	-	-	1,497,208
Other liabilities	315,516	79,479	20,749	42,955	18,618	44,695	366	340,066	-	-	862,444
Total liabilities	5,585,532	223,355	113,230	318,232	582,615	418,226	374,665	393,164	-	-	8,009,019
Equity of investment accountholders	5,582,600	2,073,919	986,483	1,426,318	1,520,286	2,587,763	59,397	277,833	-	-	14,514,599
Total liabilities and equity of investment accountholders	11,168,132	2,297,274	1,099,713	1,744,550	2,102,901	3,005,989	434,062	670,997	-	-	22,523,618
Net liquidity gap	(3,159,674)	(592,516)	785,284	941,280	2,793,846	(748,446)	580,133	(194,478)	13,942	1,675,212	2,094,583
Cumulative net liquidity gap	(3,159,674)	(3,752,190)	(2,966,906)	(2,025,626)	768,220	19,774	599,907	405,429	419,371	2,094,583	
Off-balance sheet equity of investment accountholders	133,468	152,036	186,308	124,433	11,134	11,368	-	159,212	-	-	777,959

b) Credit risk

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Group controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are mostly secured by the personal guarantees of individuals who own the counterparty, by collateral in form of mortgage of the objects financed or other types of tangible security.

Type of credit risk

Financing contracts mainly comprise Sales (Murabaha) receivables, Salam receivables, Istisna'a receivables, Mudaraba financing, Musharaka financing and Ijarah Muntahia Bittamleek.

Sales (Murabaha) receivables

The Group finances these transactions through buying a commodity which represents the object of the Murabaha and then resells this commodity to the murabeh (beneficiary) at a profit. The sale price (cost plus the profit margin) is repaid in instalments by the murabeh over the agreed period. The transactions are secured at times by the object of the Murabaha (in case of real estate finance) and other times by a total collateral package securing all the facilities given to the client.

Salam receivables

Salam is a contract whereby the Group makes an immediate payment to a seller for the future delivery of a commodity. To protect itself from risk associated with the commodity the Group simultaneously enters into Parallel Salam contract whereby it sells the commodity for deferred delivery for immediate payment.

Istisna'a receivables

Istisna'a is a sale agreement between the Group as the seller and the customer as the ultimate purchaser whereby the Group undertakes to have manufactured (or acquire) goods and sell it to the customer for an agreed upon price on completion at future date.

Mudaraba financing

The Group enters into Mudaraba contracts by investing in funds managed primarily by other banks and financial institutions for a definite period of time.

Musharaka financing

An agreement between the Group and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared as per the agreement set between both parties while the loss is shared in proportion to their shares of capital or the enterprise.

27. RISK MANAGEMENT (Continued)

b) Credit risk (Continued)

Maximum exposure to credit risk before collateral held or other credit enhancements

	Maximum exposure	
	2016	2015
	US$ '000	US$ '000
Balances with central banks	**3,883,925**	3,821,899
Balances with other banks	**585,491**	789,692
Receivables	**11,423,448**	11,959,052
Mudaraba and Musharaka financing	**1,582,396**	1,558,593
Investments	**2,629,131**	2,760,872
Other assets	**240,119**	195,054
Total	**20,344,510**	21,085,162
Commitments and contingencies	**4,598,241**	4,621,929
	24,942,751	25,707,091

Credit quality by type of islamic financing contracts

The table below shows the credit quality by type of islamic financing contracts, based on the Group's credit rating system as of:

	31 December 2016			
Type of Islamic Financing Contracts	**Neither past due nor non performing US$ '000**	**Past due but performing US$ '000**	**Non performing islamic financing contracts US$ '000**	**Total US$ '000**
Receivables	**10,563,395**	**590,576**	**644,720**	**11,798,691**
Mudaraba and Musharaka financing	**1,542,585**	**25,855**	**32,505**	**1,600,945**
Other assets	**244,934**	**311**	**9,703**	**254,948**
	12,350,914	**616,742**	**686,928**	**13,654,584**

	31 December 2015			
Type of Islamic Financing Contracts	Neither past due nor non performing US$ '000	Past due but performing US$ '000	Non performing islamic financing contracts US$ '000	Total US$ '000
Receivables	11,067,995	788,840	497,595	12,354,430
Mudaraba and Musharaka financing	1,505,150	51,193	17,749	1,574,092
Other assets	195,303	2,149	9,972	207,424
	12,768,448	842,182	525,316	14,135,946

27. RISK MANAGEMENT (Continued)
b) Credit risk (Continued)

Aging analysis of past due but performing Islamic financing contracts

The following table summarises the aging of past due but performing islamic financing contracts as of:

	31 December 2016			
Type of Islamic Financing Contracts	**Less than 30 days US$ '000**	**31 to 60 days US$ '000**	**61 to 90 days US$ '000**	**Total US$ '000**
Receivables	**235,857**	**160,144**	**194,575**	**590,576**
Mudaraba and Musharaka financing	**20,067**	**4,296**	**1,492**	**25,855**
Other assets	**309**	**1**	**1**	**311**
	256,233	**164,441**	**196,068**	**616,742**

	31 December 2015			
Type of Islamic Financing Contracts	Less than 30 days US$ '000	31 to 60 days US$ '000	61 to 90 days US$ '000	Total US$ '000
Receivables	541,872	129,228	117,740	788,840
Mudaraba and Musharaka financing	44,786	3,593	2,814	51,193
Other assets	2,037	112	-	2,149
	588,695	132,933	120,554	842,182

Credit Risk Mitigation

All the Group's subsidiaries, with exposures secured by real estate or other collateral carry out regular and periodic collateral verification and evaluation. This collateral verification and valuation is conducted by an independent qualified assessor or Collateral Analyst at the subsidiary. The frequency of such collateral verification is determined as a part of the credit or investment policy and approval process. The Group's subsidiaries allow cars, ships, aircraft, satellites, railcars, and fleets as collateral for a credit and investment product but do not accept perishable assets or any other assets with depreciable life of less than five years. Subsidiaries do not accept any assets as collateral if the assets are susceptible for obsolescence in case they are moved (e.g. furniture). Subsidiaries also ensure that these assets are insured in order to be accepted as collateral.

Third party cheques are accepted as collateral by the Group's subsidiaries. The Group's subsidiaries accept commercial papers as qualifying collateral if they are issued by banks or corporations of good credit standing. Since the maturity tenure of the commercial papers are generally short in nature, they are not accepted as collateral for long–term facilities (i.e. the financing tenure should not exceed the commercial papers maturity tenure). The subsidiaries do not accept vehicle or equipments, if new, as qualifying collateral for more than 80% of its market value. No vehicles or equipments, if used, are accepted as qualifying collateral for more than 50% of its insured value.

Collaterals listed hereunder may attract capital relief from capital adequacy requirements as per the Central Bank of Bahrain's stipulations:

1) Hamish Jiddiyyah (Good faith deposit): Subsidiaries take this type of collateral in the transactions for which non-binding promises to perform is given by the customer. If a customer does not honor his promise to perform, the subsidiary has recourse to the deposit.
2) Third party guarantee: The subsidiary should have recourse to the guarantor in case of customer's default. In order to qualify as eligible collateral, the guarantee should be unconditional and irrevocable. The guarantor must be solvent and, if applicable of investment grade rating.
3) Urbon: This is the amount that should be taken from a purchaser or lessee when a contract is established and it is the first line of defense for the subsidiary if the purchaser or lessee breaches the contract.
4) Underlying assets of the lease contract: The underlying asset must be of monetary value and the subsidiary must have legal access to it, own it and sell it to cover the open exposure with the customers in question. The assets have also to be free of any of any kind of encumbrance.

   Any excess amount resulting from the closure of the pledge by the subsidiary should be returned to the customer (pledger). The subsidiary should conduct at least annual evaluation of the pledged assets and keep adequate documentation of this evaluation.
5) Cash deposit free from any legal encumbrance with the subsidiary either in the form of equity of investment accountholders or off-balance sheet equity of investment accountholders.
6) Rated and unrated senior sukuk issued by first class financial institutions or by GCC sovereigns.

Credit Quality

Credit Risk Management at the Group will be based upon the creation and maintenance of a Credit Rating System (CRS) for the non-retail business. All the Group's units are to incorporate into their respective credit policies the CRS as the framework for credit management taking into consideration the methodology requirements of their local central banks, in this respect. The methodology for obligor (issuer) rating will reflect the specifics of the Group's main business and the geographical diversity of its operations. Ratings of countries, governments and financial institutions are carried out in centralised fashion at the Bank in Bahrain whereas rating of corporates is done at the subsidiaries level, unless the exposure to the corporate involves cross-border risk, in which case, that rating will also be at the Bank as part of the credit limit approval.

27. RISK MANAGEMENT (Continued)
b) Credit risk (Continued)
Credit Quality (Continued)

The CRS at the Bank has also been designed to be comparable to the rating system of major international rating agencies (Moody's, Standard & Poor's, Fitch) in respect of their foreign currency rating of countries, governments and financial institutions.

Accordingly, countries, governments and financial Institutions will be rated on the basis of their unsecured medium term foreign currency obligations. This means that for governments and financial institutions the cross-border risk will also be part of the rating and the country's rating will be, in most cases, the ceiling on the financial institution's rating.

The basic approach of the major credit rating agencies to rating is the same as what the Group credit policies require i.e. a comprehensive fundamental analysis of all relevant quantitative and non quantitative factors aimed at identifying actual and potential vulnerability. Credit rating will be applied to countries and single obligors. Single obligors, in turn are categorised as financial institutions, corporates, governments and retail. CRS therefore rates obligors (issuers) and not facilities. The obligor rating of countries and single obligors will identify the relative probability of default but will not take into account the impact of collateral security and other mitigants in the event of default. Facility ratings by contrast, combine both the probability of default and loss severity in case of defaults. However, initially the Group wide policy will be to set up obligor ratings only (which does not prevent individual subsidiaries internally to also rate facilities if they so wish).

c) Concentration risk
Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group policies and procedures include specific guidelines to focus on country and counter party limits and maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

The distribution of assets, liabilities and equity of investment accountholders items by economic sectors was as follows:

	2016			2015		
	Assets US$ '000	**Liabilities US$ '000**	**IAH US$ '000**	Assets US$ '000	Liabilities US$ '000	IAH US$ '000
Manufacturing	**3,922,073**	**240,393**	**173,444**	4,048,955	218,528	342,991
Mining and quarrying	**169,465**	**1,498**	**27,218**	106,609	4,054	36,328
Agriculture	**149,542**	**11,922**	**9,644**	124,537	11,471	9,003
Construction and real estate	**3,211,074**	**22,924**	**39,222**	2,826,010	30,049	23,667
Financial	**2,377,485**	**2,388,226**	**1,672,165**	3,091,392	2,463,290	1,406,834
Trade	**1,451,128**	**193,639**	**153,379**	1,686,693	247,035	254,479
Personal and consumer finance	**2,620,213**	**3,705,500**	**9,486,208**	2,507,063	3,571,598	10,646,130
Government	**6,592,359**	**84,263**	**149,594**	7,050,655	47,360	130,081
Other Services	**2,931,926**	**1,491,525**	**1,565,920**	3,176,287	1,415,634	1,665,086
	23,425,265	**8,139,890**	**13,276,794**	24,618,201	8,009,019	14,514,599

d) Market risk
Market risk arises from fluctuations in profit rates, equity prices and foreign exchange rates. Under Market Risk Policies currently implemented by management of the Group, have set certain limits on the level of risk that may be accepted. This is monitored by local management at the subsidiary level.

Profit rate risk
Profit rate risk is the risk that the Group will incur a financial loss as a result of mismatch in the profit rate on the Group's assets and on equity of investment accountholders. The profit distribution to equity of investment accountholders is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

However, the profit sharing agreements will result in displaced commercial risk when the Group's results do not allow the Group to distribute profits in line with the market rates.

Equity price risk
Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the investment portfolio. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

The Group has total equity portfolio of US$ 126,698 thousand (2015: US$ 110,995 thousand) comprising of equity-type instruments at fair value through equity amounting to US$ 107,225 thousand (2015: US$ 102,810 thousand) and equity-type instruments at fair value through statement of income amounting to US$ 19,473 thousand (2015: US$ 8,185 thousand). Variation of 10% increase or decrease in the portfolio value will not have a significant impact on the Group's consolidated net income or owners' equity.

27. RISK MANAGEMENT (Continued)

c) Concentration risk (Continued)

Foreign exchange risk
Foreign exchange risk arise from the movement of the rate of exchange over a period of time. Positions are monitored on a regular basis to ensure positions are maintained within established approved limits.

Following is the Group's exposure to different currencies in equivalent US dollars:

	2016		
Currency	**Operational equivalent Long (Short) US$ '000**	**Strategic equivalent Long (Short) US$ '000**	**Total equivalent Long (Short) US$ '000**
Turkish Lira	**(9,102)**	**370,890**	**361,788**
Jordanian Dinar	**11,512**	**346,283**	**357,795**
Egyptian Pound	**(22,903)**	**76,503**	**53,600**
Sudanese Pound	**2,998**	**47,434**	**50,432**
Algerian Dinar	**(189)**	**113,815**	**113,626**
Lebanese Pound	**3,983**	**19,097**	**23,080**
Pound Sterling	**(3,143)**	**-**	**(3,143)**
Tunisian Dinar	**(982)**	**54,779**	**53,797**
Euro	**2,510**	**-**	**2,510**
South African Rand	**(567)**	**29,276**	**28,709**
Pakistani Rupees	**9,609**	**82,936**	**92,545**
Syrian Pound	**40,267**	**11,846**	**52,113**
Others	**139,238**	**-**	**139,238**

	2015		
Currency	Operational equivalent Long (Short) US$ '000	Strategic equivalent Long (Short) US$ '000	Total equivalent Long (Short) US$ '000
Turkish Lira	(55,951)	405,675	349,724
Jordanian Dinar	16,007	315,025	331,032
Egyptian Pound	(20,117)	141,138	121,021
Sudanese Pound	192	38,669	38,861
Algerian Dinar	-	117,166	117,166
Lebanese Pound	400	21,303	21,703
Pound Sterling	(2,155)	-	(2,155)
Tunisian Dinar	(48,380)	63,986	15,606
Euro	2,230	-	2,230
South African Rand	(509)	24,890	24,381
Pakistani Rupees	23,435	62,234	85,669
Syrian Pound	(27,516)	12,242	(15,274)
Others	109,877	-	109,877

The strategic currency risk represents the amount of equity of the subsidiaries.

Foreign currency risk sensitivity analysis
In order to measure its exposures to currency risk, the Group stress tests its exposures following the standard shocks adopted by Derivatives Policy Group in this respect which calculates the effect on assets and income of the Group as a result of appreciation and depreciation in foreign currencies in relation to the reporting currency of the Group. This is done using various percentages based upon the judgment of the management of the Group.

27. RISK MANAGEMENT (Continued)

c) Concentration risk (Continued)

Following is the sensitivity analysis that calculates the effect of a reasonable possible movement of the currency exchange rate against the US Dollar with all other variables held constant on the consolidated statement of income and the consolidated statement of owners' equity.

At 31 December 2016

Currency	Particular	Exposures in US$ '000	Maximum expected decrease %	Change in net income and owners' equity US$ '000	Maximum expected increase %	Change in net income and owners' equity US$ '000
Algerian Dinar	Net Income	**33,231**	**(15%)**	**(4,334)**	**5%**	**1,749**
	Total owners' equity	**203,609**	**(15%)**	**(26,558)**	**5%**	**10,716**
Egyptian Pound	Net Income	**50,860**	**(20%)**	**(8,477)**	**5%**	**2,677**
	Total owners' equity	**103,829**	**(20%)**	**(17,305)**	**5%**	**5,465**
Turkish Lira	Net Income	**90,022**	**(20%)**	**(15,004)**	**5%**	**4,738**
	Total owners' equity	**654,767**	**(20%)**	**(109,128)**	**5%**	**34,461**
Sudanese Pound	Net Income	**21,652**	**(20%)**	**(3,609)**	**5%**	**1,140**
	Total owners' equity	**62,633**	**(20%)**	**(10,439)**	**5%**	**3,296**
S.African Rand	Net Income	**2,803**	**(15%)**	**(366)**	**5%**	**148**
	Total owners' equity	**45,381**	**(15%)**	**(5,919)**	**5%**	**2,388**
Syrian Pound	Net Income	**8,467**	**(20%)**	**(1,411)**	**5%**	**446**
	Total owners' equity	**51,503**	**(20%)**	**(8,584)**	**5%**	**2,711**
Pakistani Rupees	Net Income	**(588)**	**(10%)**	**53**	**5%**	**(31)**
	Total owners' equity	**102,321**	**(10%)**	**(9,302)**	**5%**	**5,385**
Tunisian Dinar	Net Income	**1,183**	**(10%)**	**(108)**	**5%**	**62**
	Total owners' equity	**69,872**	**(10%)**	**(6,352)**	**5%**	**3,677**

At 31 December 2015

Currency	Particular	Exposures in US$ '000	Maximum expected decrease %	Change in net income and owners' equity US$ '000	Maximum expected increase %	Change in net income and owners' equity US$ '000
Algerian Dinar	Net Income	36,591	(15%)	(4,773)	10%	4,066
	Total owners' equity	209,602	(15%)	(27,339)	10%	23,289
Egyptian Pound	Net Income	30,441	(15%)	(3,971)	20%	7,610
	Total owners' equity	191,552	(15%)	(24,985)	20%	47,888
Turkish Lira	Net Income	124,478	(20%)	(20,746)	20%	31,120
	Total owners' equity	716,176	(20%)	(119,363)	20%	179,044
Sudanese Pound	Net Income	9,208	(15%)	(1,201)	25%	3,069
	Total owners' equity	51,059	(15%)	(6,660)	25%	17,020
S.African Rand	Net Income	4,285	(20%)	(714)	20%	1,071
	Total owners' equity	38,583	(20%)	(6,430)	20%	9,646
Syrian Pound	Net Income	21,978	(20%)	(3,663)	20%	5,495
	Total owners' equity	53,226	(20%)	(8,871)	20%	13,306
Pakistani Rupees	Net Income	2,977	(10%)	(271)	15%	525
	Total owners' equity	51,840	(10%)	(4,713)	15%	9,148
Tunisian Dinar	Net Income	5,509	(10%)	(501)	10%	612
	Total owners' equity	81,616	(10%)	(7,420)	10%	9,068

27. RISK MANAGEMENT (Continued)

e) Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

Operational Risk Management Framework

The Group guidelines have the following sections: (1) Operational Risk Appetite, (2) Operational Risk Management – Structure and Rules, (3) Risk and Control Assessment, (4) Internal Audit, (5) Operational Risk and Basel II and (6) Operational Risk Capital Requirement.

The Group's Operational Risk Appetite is defined as the level of risk which the Group chooses to accept in its identified risk categories. Operational risk appetite is expressed in terms of both impact (direct loss) and the probability of occurrence.

The Operational Risk framework is subject to periodic Internal Audit.

The Group categorizes operational risk loss events into the following categories:

Infrastructure Risks

Availability of information technology is of paramount importance to the Group's infrastructure. The operations of the Group and the subsidiaries might be disrupted and severe operational risks could occur.

In order to hedge the subsidiaries from the infrastructure risk as outlined above, every subsidiary must take all the necessary measures indicated in the Business Continuity Plan and/or Disaster Recovery Plan (BCP and DRP) to cater for these risks.

Information Technology Risks

The main risks that the Group is exposed to in this context is from inadequate software and hardware quality, unauthorized access by third parties or employees, etc.

Staff risk

The main risks that arises from staff risks are risks due to larceny, fraud, corruption, crime, etc. In order to prevent these risks from occurring, the Group has established Group Human Resources Policies and Code of Conduct which entails constructive ways in dealing with mistakes and frauds. The Group has also established approval control steps in business processes as well as creating separate internal control processes. Further, the Group has established measures of organizational structure in terms of segregation of duties as well as diverse training measures to reduce human errors and frauds, etc.

Business risk

This risk may take on the following forms:

1. Processes without clear definitions, for example, when insufficient time was spent on documenting or updating the already documented processes.
2. Outdated process descriptions in cases where "reality" already strongly differs from the guidelines laid down in the past.
3. The extreme case of a completely missing documentation. To hedge this risk, the Group adopts sound documentation policies of business processes as it is a basic requirement for a well functioning process organization. The process description are up to date and clear; furthermore, it is accessible to all employees.

f) Corporate governance

Board of Directors

The Board of Directors is responsible for approving the Group's overall business strategy, monitoring its operations and taking critical business decisions. In line with international leading practices, the Board has instituted corporate governance measures to ensure that the interests of the shareholders are protected, including the appointment to the Board of four independent non-executive directors as defined in the Rule Book of the CBB.

The Bank is administered by a Board of Directors consisting of not less than five and not more than fifteen members. However, subject to the provisions of the law, the shareholders at an Ordinary General Meeting may determine that the number of directors shall exceed fifteen in certain circumstances. Members of the Board of Directors hold office for a three-year renewable term, although the term of office may be extended at the request of the Board for a period not exceeding six months by resolution of the Bahrain Minister of Industry and Commerce.

There are currently thirteen Directors on the Board, who have varied backgrounds and experience and who individually and collectively exercise independent and objective judgment. Other than the President and Chief Executive, all Directors are non-executive. The posts of Chairman and President and Chief Executive are held by different Directors and each has separate, clearly defined responsibilities.

The Board of Directors meets regularly (usually four times a year) and has a formal schedule of matters reserved to it, considering key aspects of the Group's affairs referred to it for decision. The Board reviews the Group's strategy and financial plans, all proposed material changes to the Group's policies, structure and organisation, reports provided to it on the operations of the Group (with emphasis on organisational development, risk management and information technology development) and the performance of executive management. The Board and its committees are supplied with full and timely information to enable them to discharge their responsibilities. All Directors have access to the advice and services of the secretary, who is responsible for ensuring that the Board procedures and applicable rules and regulations are observed.

The Board of Directors has overall responsibility for the Group's system of internal control and its effectiveness. There are established and ongoing procedures in place for identifying, evaluating and managing significant risks faced by the Group, which are regularly reviewed by the Board. The Group's system of internal control provides for a documented and auditable trail of accountability and applies across its operations, is designed to ensure effective and efficient operation and compliance with all applicable laws and regulations, and seeks to manage risk with a view to avoiding material errors, losses and fraud.

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the value representing the estimate of the amount of cash or cash equivalent that would be received for an asset sold or the amount of cash or cash equivalent paid for a liability extinguished or transferred in an orderly transaction between a willing buyer and a willing seller at the measurement date.

Quoted equity type instruments are investments which are fair valued using quoted prices in active markets for identical instruments and unquoted equity type instruments are investments that are fair valued using directly or indirectly observable inputs.

The Group's investments in sukuk held at amortised cost have fair values amounting to US$ 2,275 million (2015: US$ 2,821 million).

Also included under investments are unquoted equity-type instruments at fair value through equity amounting to US$ 45,169 thousand (2015: US$ 47,095 thousand) which are carried at cost due to lack of other reliable methods for arriving at a reliable fair value for these investments.

The fair values of other on-balance sheet financial instruments are not significantly different from the carrying values included in the consolidated financial statements.

29. EARNINGS PROHIITED BY SHARI'A

Earnings realised during the year from transactions that were not permitted by Shari'a amounted to US$ 8 million (2015: US$ 5 million). This amount has been taken to charity.

30. COMPARATIVE FIGURES

Certain of the prior year's figures have been reclassified to conform to the presentation adopted in the current year. Such reclassification did not affect previously reported consolidated income or consolidated owners' equity.

◀ Return to contents

Additional Public Disclosures and Regulatory Capital Disclosures

At 31 December 2016

(UNAUDITED)

Additional Public Disclosures
At 31 December 2016

1. CAPITAL STRUCTURE AND CAPITAL ADEQUACY

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

The Group's capital structure is primarily made of its paid-up capital, including the share premium and reserves. From regulation's perspective, the significant amount of the Group's capital are in Tier I as defined by the CBB, i.e., most of the consolidated capital are of permanent nature.

To assess its capital adequacy requirements in accordance with the CBB requirements, the Group adopts the standardised approach for its Credit Risk, Basic Indicator Approach for its Operational Risk and Standardised Measurement Approach for its Market Risk. To calculate its capital adequacy, the Group follows the accepted approaches approved by the CBB Rulebook. The Group consolidates all subsidiaries for Capital Adequacy Ratio (CAR) calculation. The Group strives to sustain reasonably higher capital cushion that strikes the balance between its business conduct and the regulatory requirements stipulated in the CBB capital adequacy requirements as a minimum accepted level of capital adequacy.

Table – 1. Capital Structure (PD-1.3.12 & 1.3.14)

The following table summarises the eligible capital as of:

	31 December 2016		
	CET 1 US$ '000	AT1 US$ '000	T2 US$ '000
Tier 1 Capital			
Common Equity Tier 1 (CET1)			
Issued and fully paid up ordinary shares	1,149,218	-	-
Less: Treasury Shares	9,588	-	-
Legal / statutory reserves	139,738	-	-
Share premium	18,574	-	-
Retained earnings	414,685	-	-
Current net income	151,392	-	-
Unrealized gains and losses on available for sale financial instruments	(127)	-	-
Gains and losses resulting from converting foreign currency subsidiaries to the parent currency	(666,716)	-	-
All other reserves	42,232	-	-
Unrealized gains and losses from fair valuing equities	152	-	-
Total CET1 capital before minority interest	1,239,560	-	-
Total minority interest in banking subsidiaries given recognition in CET1 capital	589,606	-	-
Total CET1 capital prior to regulatory adjustments	1,829,166	-	-
Less:			
Goodwill	70,167	-	-
Intangibles other than mortgage servicing rights	8,628	-	-
Deferred tax assets	13,678	-	-
Total CET 1 capital after the regulatory adjustments above (CET1 d)	1,736,693	-	-
Other Capital (AT1 & T2)			
Instruments issued by banking subsidiaries to third parties		24,258	60,283
Assets revaluation reserve - property, plant, and equipment		-	41,396
General financing loss provision		-	38,507
Total Available AT1 & T2 Capital		24,258	140,186
Net available capital after regulatory adjustments before applying haircut		24,258	140,186
Net available capital after applying haircut	1,736,693	24,258	140,186
Total Tier 1		1,760,951	
Total Capital			1,901,137

Additional Public Disclosures

At 31 December 2016

1. CAPITAL STRUCTURE AND CAPITAL ADEQUACY (Continued)

Table – 2. Capital requirement for different type of risks (PD - 1.3.18, 1.3.19)

The following table summarises the capital requirements for credit risk, market risk and operational risk as of:

	31 December 2016	
	Risk weighted assets US$ '000	Minimum capital requirements US$ '000
Credit Risk	9,119,179	1,139,897
Market Risk	1,335,850	166,981
Operational Risk	1,869,546	233,693
Total risk weighted exposures	12,324,575	1,540,571
Investment risk reserve (30% only)	(1,827)	(228)
Profit equalization reserve (30% only)	(52,975)	(6,622)
	12,269,773	1,533,721

Table – 3. Capital requirement by type of Islamic financing contracts (PD-1.3.17)

The following table summarises the capital requirements by type of Islamic financing contracts as of:

	31 December 2016	
	Risk weighted assets US$ '000	Minimum capital requirements US$ '000
Islamic financing contracts		
Receivables	5,284,465	660,558
Mudaraba and Musharaka financing	612,460	76,558
Ijarah Muntahia Bittamleek	916,138	114,517
	6,813,063	851,633

Table – 4. Capital Adequacy Ratios (PD-1.3.20 (a))

The following are capital adequacy ratios for Total capital and Tier 1 capital as of:

	31 December 2016
Total capital ratio	15.49%
Tier 1 capital ratio	14.35%

1. CAPITAL STRUCTURE AND CAPITAL ADEQUACY (Continued)

Table – 5. The Group's subsidiaries capital adequacy ratios (PD-1.3.20 (b))

The following are the Group's subsidiaries capital adequacy ratios prepared on the basis of the CBB requirements, which may differ form the local requirements of the countries in which the subsidiaries operate, as of:

	31 December 2016	
	Tier 1 capital ratio	Total capital ratio
Banque Al Baraka D'Algerie	17.91%	18.64%
Al Baraka Islamic Bank *	12.69%	15.05%
Al Baraka Bank Tunis	18.14%	18.27%
Al Baraka Bank Egypt	14.21%	15.08%
Al Baraka Bank Lebanon	15.54%	15.54%
Jordan Islamic Bank	27.50%	27.50%
Al Baraka Turk Participation Bank	9.41%	11.41%
Al Baraka Bank Limited	19.28%	19.93%
Al Baraka Bank Sudan	16.44%	17.61%
Al Baraka Bank Syria	22.00%	22.00%

* These ratios represents the consolidated ratios and Al Baraka Pakistan has tier 1 capital ratio of 16.93% and total capital ratio of 20.41%.

Legal restrictions on capital and income mobility (PD-1.3.6 (c))

There are no major restrictions in distributing profits by the subsidiaries to the Bank. Such distribution should go through the legal and regulatory channels applicable in each jurisdiction. Mobilisation of capital, reserves and equivalent funds out of the subsidiaries to the parent is subject to the local rules and regulations. The parent is not subject to any restriction to support its subsidiary in the form of deposits or capital. However, as a procedure, a prior written approval has to be obtained from the CBB for increasing investments in subsidiaries.

Table – 6. Distribution of ownership of shares by nationality (PD-1.3.10(i))

The following table summarises the distribution of ownership of shares by nationality/ incorporation as of:

	31 December 2016 % holding
Nationality/ Incorporation	
Bahraini	27.28
Saudi	43.12
Cayman Islands	19.32
Emirati	7.40
Others	2.88

2. RISK MANAGEMENT

The Group's risk management strategies have been effectively implemented and the objectives outlined at the beginning of year 2016 across subsidiaries were successfully achieved. The Group is striving to bolster and instil the best practices of risk management in subsidiaries' risk management functions for the next reporting period by ensuring prudent implementation of risk management policies which entails risk identification, limit controls, monitoring and reporting.

The Group's risk management has the following objectives:

a. Unified Group-wide risk management to enable the Group to produce risk adjusted return on capital.

b. Creation of professional risk management culture throughout the Group with prudent, disciplined approach to risk taking based on comprehensive Group-wide policies, processes and limits.

c. Professionally qualified staff and ongoing credit training.

d. Investing in technology and systems for best practice risk management.

e. Throughout the Group, strict segregation of duties and reporting lines between personnel transacting business and personnel processing that business.

f. Strict compliance with all Shari'a and legal requirements and regulatory directives.

g. Maintaining clear, well documented policies via Group Risk Management Manual and also Risk Management Manuals by each of the Group's subsidiaries which incorporate the uniform policies and procedures of the Group in addition to the local requirements.

a) Liquidity risk

The liquidity management policy at a minimum includes the following:

a. Provide clear guidance on the composition and role of the asset/liability committee or such other committee or department responsible for managing liquidity.

b. Establish approval processes to ensure adherence to liquidity risk management processes.

c. Require periodic calculations to determine the extent to which the subsidiary is funding long-term assets with short-term liabilities.

d. Establish liquidity ratio benchmarks, e.g. parameters for the funding of long-term assets with short-term liabilities to guide liquidity management and the method for computing liquidity indicators.

e. Establish limits on the degree of concentrations that are deemed acceptable. This should:

i) Ensure diversification of funding by origin and term structure by, for example, guarding against concentration by individuals or groups of deposiv tors, types of deposit instruments, market sources of deposit, geographical sources, term to maturity, and deposit currencies. Where concentrations occur, the Group's subsidiaries manage their assets and liquidity profile to mitigate the risk; and

ii) Set procedures for the orderly restoration of the liquidity position in the event of loss of funding where such concentrations are unavoidable. In addition, the Group's subsidiaries conduct an impact analysis on its dependency on any such concentrations.

f. Periodic review of the deposit structure. The review should include the volume and trend of various types of deposits offered, maturity distributions of time deposits, profit rate paid on each type of deposit, prevailing market profit rate, limits on large time deposits, public funds, and non-resident deposits.

g. Review of alternate funding sources including stand-by facilities and lines of credit.

h. Establish a framework for the composition of assets.

i. Assess the acceptable mismatch in combination with currency commitments. The Group's subsidiaries undertake separate analysis of their strategy for each currency individually. They set and regularly review limits on the size of cash flow mismatches over particular time horizons for foreign currencies in aggregate, and for each significant currency.

2. RISK MANAGEMENT (Continued)

a) Liquidity risk (Continued)

Table – 7. Liquidity Ratios (PD-1.3.37)

The following table summarises the liquidity ratios as of:

	31 December 2016
Short term assets to short term liabilities	78%
Liquid assets to total assets	24%

b) Credit risk

General credit policies and guiding principles

The following principles summarise the Group's financing and investing policies and form the framework of all financing decisions:

a) Financing will be extended when the Group can confidently expect that it will be repaid by the customer as agreed. This necessitates a thorough knowledge of the customer and clear understanding of the risks underlying the credit requests.

b) Financing should be extended where there are at least two clear sources of repayments.

c) It is generally preferred that the repayments are from cash generated by the customers' productive and ongoing income or activities.

d) Amounts, profits/other charges and terms under the prevailing market conditions for any proposed financing are to be consistent with the perceived quality of the risk being undertaken.

e) Financing should generally be extended where the Group's seniority as creditors is pari passu or better than any other financing.

f) Financing should be structured appropriately considering the purpose of the credit and the source of repayment.

g) Financing needs to be assessed on a stand alone basis as well as on portfolio basis to assess its impact on the total financing portfolio.

h) Compliance with all applicable local statutory and regulatory directives guidelines should be ensured in all cases.

i) Propriety and ethical standards should be taken into account in all financing decisions.

Table – 8. Gross funded and unfunded exposure (PD-1.3.23(a))

The Group's assets are funded by equity of investment accountholders (IAH) as well as the Group's own capital and current accounts (Self). The percentage of funding varies for each of the Group's subsidiary based on market conditions and applicable rules and regulations. However, at the Group level the percentage of funding of self financed represent 44% and of IAH represent 56%.

The following table summarises the amount of gross funded and unfunded credit exposure and average gross funded and unfunded exposure as of:

	31 December 2016				
	Self financed		Financed by IAH		Total
	Total gross credit exposure US$ '000	*Average gross credit exposure over the year US$ '000	Total gross credit exposure US$ '000	*Average gross credit exposure over the year US$ '000	Total self financed and financed by IAH US$ '000
Funded Exposure					
Receivables	3,083,757	4,005,770	8,339,691	8,110,425	11,423,448
Mudaraba and Musharaka financing	768,044	757,326	814,352	896,155	1,582,396
Investments	1,434,537	1,460,993	1,194,594	1,539,841	2,629,131
Ijarah Muntahia Bittamleek	699,309	782,329	1,131,030	1,009,763	1,830,339
Other assets	117,136	118,443	122,983	118,829	240,119
Unfunded Exposure					
Commitments and contingencies	4,598,241	5,010,888	-	-	4,598,241
	10,701,024		11,602,650		22,303,674

*Average Balances are computed based on quarter-end balances.

2 RISK MANAGEMENT (Continued)

b) Credit risk (Continued)

Table – 9. Geographic distribution of the gross funded exposure (PD-1.3.23(b))

The following table summarises the geographic distribution of gross funded exposure as of 31 December 2016, broken down into significant areas by major types of credit exposure:

	Self financed					Financed by IAH					IAH & Self financed
	Middle East US$ '000	North Africa US$ '000	Europe US$ '000	Others US$ '000	Total US$ '000	Middle East US$ '000	North Africa US$ '000	Europe US$ '000	Others US$ '000	Total US$ '000	Total US$ '000
Receivables	506,244	425,361	1,924,437	227,715	3,083,757	3,564,896	310,376	4,164,715	299,704	8,339,691	11,423,448
Mudaraba and Musharaka financing	403,570	57,592	142,464	164,418	768,044	363,658	49,076	-	401,618	814,352	1,582,396
Investments	510,978	83,990	612,780	226,789	1,434,537	1,064,719	57,409	-	72,466	1,194,594	2,629,131
Ijarah Muntahia Bittamleek	149,930	292,844	241,776	14,759	699,309	889,854	205,729	8,645	26,802	1,131,030	1,830,339
Other Assets	62,608	1,548	3,241	49,739	117,136	73,107	997	3,786	45,093	122,983	240,119
	1,633,330	861,335	2,924,698	683,420	6,102,783	5,956,234	623,587	4,177,146	845,683	11,602,650	17,705,433

Table – 10. Exposure by counterparty type (PD-1.3.23(c))

The following table summarises the distribution of funded and unfunded exposure by counterparty type, broken down by major types of credit exposures as of 31 December 2016:

	Funded Exposures										Unfunded Exposures		Funded and Unfunded Exposures	
	Receivables		Mudaraba and Musharaka financing		Investments		Ijarah Muntahia Bittamleek		Other Assets		Commitments and contingencies		Total	
	Self US$ '000	IAH US$ '000	Self US$ '000	IAH US$ '000	Self US$ '000	IAH US$ '000	Self US$ '000	IAH US$ '000	Self US$ '000	IAH US$ '000	Self US$ '000	IAH US$ '000	Self US$ '000	IAH US$ '000
Claims on sovereigns	172,616	888,784	-	151,414	1,134,130	800,254	18,302	-	-	-	18,799	-	1,343,847	1,840,452
Claims on banks	69,974	157,644	535,007	40,842	48,189	76,549	11,490	7,984	-	-	148,137	-	812,797	283,019
Claims on corporates	1,759,752	3,768,532	43,692	380,056	117,540	49,607	343,539	356,541	-	-	3,266,468	-	5,530,991	4,554,736
Claims on retail	680,895	2,206,195	-	52,022	-	-	48,912	21,974	-	-	932,284	-	1,662,091	2,280,191
Mortgage	303,153	1,169,595	-	-	-	-	277,066	730,233	-	-	197,743	-	777,962	1,899,828
Past due receivables	97,367	148,941	437	8,345	-	1,655	-	14,298	-	-	732	-	98,536	173,239
Equity investment	-	-	-	-	75,205	111,362	-	-	-	-	-	-	75,205	111,362
Investment in funds	-	-	-	-	15,932	7,142	-	-	-	-	-	-	15,932	7,142
Specialized lending	-	-	188,908	181,673	-	-	-	-	-	-	34,078	-	222,986	181,673
Other assets	-	-	-	-	43,541	148,025	-	-	117,136	122,983	-	-	160,677	271,008
Total	3,083,757	8,339,691	768,044	814,352	1,434,537	1,194,594	699,309	1,131,030	117,136	122,983	4,598,241	-	10,701,024	11,602,650

Large Credit Exposure (PD - 1.3.23 (f))

The Group follows the CBB's guidelines with respect to the definition and measurement of large exposures at the consolidated level as stipulated in the CBB Rulebook for Islamic Banks.

There are no large exposures to individual counterparties where the exposure is in excess of the 15% individual obligor limit that qualifies for extra risk weight as per CBB's guidelines.

Additional Public Disclosures

At 31 December 2016

2 RISK MANAGEMENT (Continued)

b) Credit risk (Continued)

Past due, non-performing Islamic financing contracts and provisions (PD-1.3.22 (a))

Past due represents instalments that are not received on the contractual repayments date. The Group considers non-performing Islamic financing contracts as the contracts that are overdue for a period of 90 or more days. These exposures are placed on a non-accrual status with profit being recognised to the extent that it is actually received. It is the Group's policy that when an exposure is overdue for a period of 90 or more days, the whole financing facility extended is considered as past due, not only overdue instalments/payments.

Table – 11. Credit quality of Islamic financing contracts by counterparty type (PD-1.3.23(h), 1.3.24 (b))

The following table summarises the total past due, non performing and neither past due nor non performing Islamic financing contracts and aging of non performing Islamic financing contracts disclosed by counterparty type as of 31 December 2016:

					Aging of non performing Islamic financing contracts		
	Total US$ '000	Neither past due nor non performing US$ '000	Past due but performing US$ '000	Non performing Islamic financing contracts US$ '000	90 days to 1 year US$ '000	1 year to 3 years US$ '000	Over 3 years US$ '000
Sovereign	1,047,485	1,047,223	262	-	-	-	-
Bank	675,096	671,496	-	3,600	-	-	3,600
Investment Firms	24,209	5,131	433	18,645	6,841	6,587	5,217
Corporates	8,056,436	7,012,223	532,267	511,946	269,275	140,068	102,603
Retail	3,851,358	3,614,841	83,780	152,737	31,243	26,617	94,877
	13,654,584	12,350,914	616,742	686,928	307,359	173,272	206,297

Table – 12. Specific provisions by counterparty type (PD-1.3.23 (h), 1.3.24 (d))

The following table summarises the total specific provisions disclosed by counterparty type as of 31 December 2016:

	Specific provisions						
	Opening balance US$ '000	Charged during the year US$ '000	Write-back during the year US$ '000	Write-offs during the year US$ '000	Appropriation from IAH during the year US$ '000	Foreign exchange translations/ others - net US$ '000	Balance at the end of the year US$ '000
Bank	2,174	-	(29)	-	-	(585)	1,560
Investment Firms	26,028	8,196	(8,567)	(465)	-	(2,948)	22,244
Corporates	231,867	125,159	(130)	(51,948)	(15,257)	(42,778)	246,913
Retail	107,233	8,663	(32)	(4,078)	7,933	(2,070)	117,649
	367,302	142,018	(8,758)	(56,491)	(7,324)	(48,381)	388,366

Table – 13. General provisions movement (PD-1.3.23 (h), 1.3.24 (d))

The following table summarises the movement of general provisions during the year ended:

	31 December 2016 US$ '000
Opening balance	78,250
Charged during the year	3,673
Write-back during the year	(13,913)
Write-offs during the year	(982)
Foreign exchange translations/ others	(28,522)
Balance at the end of the year	38,506

This represents collective there provisions against exposures which, although not specifically identified, have a greater risk of default than when originally granted.

Additional Public Disclosures

At 31 December 2016

2 RISK MANAGEMENT (Continued)

b) Credit risk (Continued)

Table – 14. Past due and non-performing Islamic financing contracts and provisions by geographic areas (PD-1.3.23(i), PD-1.3.24(c))

The following table summarises the total past due and non performing Islamic financing contracts and provisions disclosed by geographical area as of:

	31 December 2016		
	Past due and non performing Islamic financing contracts US$ '000	Specific provision US$ '000	General provision US$ '000
Middle East	240,352	174,905	16,687
North Africa	86,129	25,843	1,189
Europe	834,982	133,672	17,366
Others	142,207	53,946	3,264
	1,303,670	388,366	38,506

Table – 15. Renegotiated Islamic financing contracts (PD-1.3.23(j))

	31 December 2016 US$ '000
Renegotiated Islamic financing contracts	385,456

There is no significant impact of the renegotiated Islamic financing contracts on the provisions as well as present and future earnings. In addition, the magnitude of the restructuring activities is immaterial. These facilities has been renegotiated mainly to enter into new contracts with different tenor, profit or enhance the collaterals.

Others (PD-1.3.23(k), (l), PD-1.3.25(b) & (c))

The Group has no significant obligations with respect to recourse transaction.
The Group has not imposed any material penalties on customers for defaults.
The Group does not make use of eligible collaterals and guarantees in its credit risk analysis.

Table – 16. Counterparty Credit (PD-1.3.26 (b))

The following table summarises the counterparty Credit risk exposure covered by collateral after the application of haircuts as of:

	31 December 2016 US$ '000
Gross positive fair value of contracts	17,465,314
Netting Benefits	-
Netted Current Credit Exposure	17,465,314
Collateral held:	
Cash	731,976
Others	4,283,185
Real Estate	13,621,623
	18,636,784

The utilisation of the collaterals will be on a customer by customer basis and will be limited to the customer's total exposure.

Additional Public Disclosures

At 31 December 2016

2 RISK MANAGEMENT (Continued)

c) Market Risk

Market risk includes profit rate risk, displaced commercial risk, equity price risk and foreign exchange rate risk. The management of the Group have set limits on the level of risk that may be accepted. This is monitored by the local management at the subsidiary level.

Table – 17. Market Risk Capital Requirements (PD-1.3.27 (b))

The following table summarises the capital requirement for each category of market risk as of:

	31 December 2016	
	Equity position risk US$ '000	Foreign exchange risk US$ '000
Risk weighted exposure (RWE)	-	1,335,850
Capital requirements (12.5%)	-	166,981
Maximum value of RWE	-	**1,409,500**
Minimum value of RWE	-	**1,335,850**

Profit rate risk

Profit rate risk is the risk that the Group will incur a financial loss as a result of mismatch in the profit rate on the Group's assets and IAH. The profit distribution to IAH is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

Displaced Commercial Risk

The Group is exposed to displaced commercial risk in the event of having IAH profit rates that are lower than market rates. The Group has partially mitigated this risk through the setting up of reserves that will be used in case of a drop in IAH profit rates. The policies and procedures for displaced commercial risk are formulated and implemented at the individual subsidiary level.

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment portfolio.

Equity-type instruments at fair value through equity and investments in real estate are kept for capital gain purposes.

If financial instruments qualify to be included in the trading book, these must not exceed 25% of the total subsidiary's assets portfolio. For equity securities, the subsidiaries are required to observe the sectoral concentration limits outlined by the Group and/or their local requirement in this respect. Since trading securities in the trading book would be under marked-to-market requirement, the Risk Manager at the subsidiary level should immediately bring to the Credit and Risk Management at the Group as well as the subsidiary's asset/liability committee any volatility of position's value that is 15% or higher than the subsidiary's eligible capital to decide upon the appropriate course of action.

Table – 18. Equity Position Risk in Banking Book (PD-1.3.31 (b) (c) & (f))

The following table summarises the total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 31 December 2016:

	Total gross exposure US$ '000	Average gross exposure over the year US$ '000	Publicly held US$ '000	Privately held US$ '000	Capital requirement US$ '000
Sukuk and similar items	2,259,133	2,647,150	1,220,599	1,038,534	33,573
Equity Investment	150,697	137,161	58,206	92,491	13,231
Managed funds	27,736	27,216	18,478	9,258	2,884
	2,437,566	2,811,527	1,297,283	1,140,283	49,688

Additional Public Disclosures

At 31 December 2016

2 RISK MANAGEMENT (Continued)

c) Market Risk (Continued)

Table – 19. Equity gains or losses in banking book (PD-1.3.31 (d) and (e))

The following table summarises the cumulative realised and unrealised gains or losses during the year ended:

	31 December 2016 US$ '000
Cumulative realised gains arising from sales or liquidations in the reporting year	667
Total unrealized losses recognised in the consolidated statement of financial positions but not through consolidated statement of income	3,585

Foreign exchange risk

Foreign exchange risk arise from the movement of the rate of exchange over a period of time. Positions are monitored on a regular basis to ensure positions are maintained within established approved limits.

d) Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

Table – 20. Operational risk exposure (PD-1.3.30 (a), (b) & (c))

The following table summarises the amount of exposure subject to basic indicator approach of operational risk and related capital requirements:

	Gross income		
	2016 US$ '000	2015 US$ '000	2014 US$ '000
Total Gross Income	**1,074,158**	999,553	917,562

	2016
Indicators of operational risk	
Average Gross income (US$ '000)	997,091
Multiplier	12.5
	12,463,638
Eligible Portion for the purpose of the calculation	15%
TOTAL OPERATIONAL RISK WEIGHTED EXPOSURE (US$ '000)	**1,869,546**

The Group has no material legal contingencies including pending legal action.

The Group guidelines have the following sections: (1) Operational Risk Appetite, (2) Operational Risk Management – Structure and Rules (3) Risk and Control Assessment (4) Internal Audit (5) Operational Risk and Basel II (6) Operational Risk Capital Requirement.

The Group's Operational Risk Appetite is defined as the level of risk which the Group chooses to accept in its identified risk categories. Operational risk appetite is expressed in terms of both impact (direct loss) and the probability of occurrence.

The Group's policy also lays out the Operational Risk Management structure and the roles of all staff associated with operational risk. The major functional roles are defined for:

- Risk Management Committee
- Head of Credit and Risk Management
- Head of Operational, Liquidity and Market Risk
- Various departments

Operation Risk Management Framework

The Risk Control Self Assessment exercise is viewed as an important part of the Group's Operational Risk Framework. It is proposed to be conducted every year by the Risk Management Department in coordination with the Internal Audit Department. In addition, the assessment shall also be based on the severity of the residual risks identified through Internal Audit reviews

The Key processes identified in a Risk Control Self Assessment are:

– Risk and Control Identification Process
– Measurement of Operational Risk Exposures
– Identifying Unacceptable Risk Exposures
– Risk Action Plans.

The Operational Risk framework will be subject to periodic internal audit.

3. CORPORATE GOVERNANCE

Code of business conduct and ethics for members of the board of directors

Purpose:
The primary objectives of the following Code of Business Conduct and Ethics (the "Code") is to enable each Director to focus on areas of ethical risks, to help them recognize and deal with ethical issues, to provide mechanisms for reporting unethical conduct, and to foster a culture of honesty and accountability within the Group.

Conflict of interest:
Each Director must avoid any situation which may give rise to a conflict between their interests and those of the Group. Any situation which either will or may involve, a conflict of interest should be disclosed promptly to the Board of Directors in writing in advance of the meeting or verbally in the meeting itself. The concerned Director shall abstain from any discussion or decision on the matter of question. A conflict of interest can occur when a Director's personal interest is adverse to, or appears to be, adverse to the interests of the Group. Conflicts of interest also arise when a Director, or a member of their immediate family, receives an improper personal benefit as a result of their position as a Director of the Group. Common conflicts which Directors must endeavor to avoid include, but are not limited to, the following:

1. Engagement in any conduct or activity which may conflict with the best interests of the Group, or which may disrupt or impair Group's standing with any person or entity with whom or which the Group has to proposes to enter into a business or contractual relationship.
2. Acceptance of compensation (in any form) for services performed in relation to the Group from any source other than from the Group.
3. Acceptance by them or any member of their family of gifts from persons or entities who or which deal with the Group where acceptance of such gifts could generate a sense of obligation and thereby create a potential conflict of interest.
4. Utilization of the Group's assets, employees or information for personal use without obtaining the prior approval of the Board of Directors.

Confidentiality:
Confidential information includes all non-public information relating to the Group, whether in written or in oral form. Directors are under continuous obligation to maintain the confidentiality of information entrusted directly to them by the Group and any other confidential information about the Group which comes to them, from whatever source, in their capacity as a Director. Directors may disclose confidential information if such disclosures are mandated by the law.

Compliance with Rules, Laws and Regulation:
Directors shall, at all times, comply with all laws, rules and regulations applicable to the Group, including insider trading laws.

Remuneration
The Group incentivise its Board members, executives and senior management and its Shari'a Board members in accordance to the remuneration policies and procedures approved by the Board. This policy links the incentives to the performance appraisal. The Group's corporate governance policy details the performance appraisal for the Board members.

The following table summarises remuneration of the Group's Directors, Shari'a Committee members, President & Chief Executive, Deputy Chief Executive and the Department Heads at Group Headquarters during the year ended:

	31 December 2016 US$ '000
Directors remuneration	**1,500**
Executive Management	
Salary and other remuneration, including meeting allowance	**6,397**
Fees	**376**
Bonuses	**1,296**
Benefits-in-kind	**1,493**
	9,562
Shari'a Committee Members fee and remuneration	**231**
	11,293

Complaints
The Group has adopted a special media approach to ensure that all the Group's stakeholders are well channelled through to the management. The contracted special media watch detect any news or complaints related to the Group and bring them to the attention of the Group's executive management

Financial Penalty
During the year a financial penalty of USD 3,183 (BD 1,200) was paid to the CBB on account of late submission by one wokring day of large exposure report (form BR-19). The Group had submitted the details of such information earlier in the Quarterly Prudential Information Report for Islamic Banks (PIRI) within the required deadline.

Related party transactions
Related party transactions are governed by the Group corporate governance policy and individual subsidiaries' local rules and regulations. All related party transactions were conducted at arm's length.

3. CORPORATE GOVERNANCE (Continued)

External Auditors

The Board Audit Committee has continued to review the work carried out by the external auditors during the year, in particular timeliness of reporting, quality of work and related fees. Overall the Audit Committee believes that the work of the external auditors has been of a sufficiently high standard and that the fees are reasonable and therefore recommended to the Board and accordingly to the annual general meeting (AGM) to re-appoint the external auditors as auditor for the 2016 financial year. The AGM has approved the reappointment of the external auditor for the year 2016 on 20 March 2016 and the related regulatory approval were taken.

For the year 2016, annual audit and quarterly review services amounted to US$ 214,854, other attestation services amounted to US$ 105,040, and other non-audit services amounted to US$ 58,355.

4. EQUITY OF INVESTMENT ACCOUNTHOLDERS

The Group is exposed to some of the price risk on assets funded by IAH. The CBB requires the Group to maintain capital to cover the price risk arising from 30% of assets funded by IAH on a pro-rata basis.

The Group invests its own funds separately or jointly with amount received from Equity of Investment Account Holders. These funds received are managed in accordance with Shari' a requirements and standard of prudence is applied in the context of managing the overall portfolios to enable the Group to exercise its responsibilities. The Group is authorised by Equity of Investment Accountholders to invest the funds on the basis of Mudaraba, Murabaha, Salam, Ijarah transactions and other forms of contract in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. Those investment accounts are available for different type of customers and investors ranging from retail to corporate.

The composition, characteristics, diversification, and concentration of portfolios are monitored within appropriate risk limits and indicators detailed in the Group's credit risk, liquidity risk, and other risks policies of the group. The strategic objectives of the investments of the funds are:

a) Targeted returns;

b) Compliance with credit and Investment policy and overall business plan; and

c) Diversified portfolio.

Funds are invested in Shari' a compliant commercial or consumer financing as well as short, medium, and long term investments excluding strategic investments. A due diligence process is in place which is consistent with business and risk policy guidelines of the Group after deduction of mandatory reserves and making allowance for short-term liquidity requirements.

Under all the aforesaid arrangement the Group can commingle the IAH funds with its own funds (Self-Financed). Some of the assets right from inception is designated exclusively as Self Financed by the Group.

The Group's share of profit as a Mudarib for managing equity of IAH and their share of income is based on the terms and conditions of the related Mudarib agreements. These funds are invested in Islamic modes of financing and investments including murabaha, musharaka, mudaraba and ijarah. There are no separate designations for portfolio managers, investment advisors and trustee. IAH accounts are managed at subsidiary levels by relevant departments.

Investors' share of income is calculated based on the income generated from joint investment accounts after deducting the expenses related to investment pool "mudarib share". Mudarib expenses include all expenses incurred by the Group, including specific provisions, but excluding staff cost and depreciation. The Group's "mudarib profit" is deducted from investors' share of income before distributing such income. In some cases, equity of IAH withdrawn before maturity are not entitled to any income and might be subject to charges. The practice varies for each subsidiary based on the business model, local market practices and prudential requirements for each subsidiary.

The basis applied by the Group in arriving at the investment account holders share of income varies for each subsidiary based on the business model, local market practices and prudential requirements for each subsidiary.

Table – 21. Equity of IAH (PD-1.3.33 (a), (b) & (c))

The following table summarises the breakdown of IAH and return on IAH as of:

	31 December 2016 US$ '000
IAH - Banks	489,691
IAH - Non-banks	12,591,518
Profit equalisation reserve (PER) - Banks	230
Profit equalisation reserve (PER) - Non-banks	5,861
Investment risk reserve (IRR) - Banks	6,677
Investment risk reserve (IRR) - Non-banks	169,906
Cumulative changes in fair value attributable to IAH	12,911
	13,276,794

4. EQUITY OF INVESTMENT ACCOUNTHOLDERS (Continued)

Table – 22. Return on average IAH (PD-1.3.33 (d))

	2016 %
Return on average IAH Equity	8.0
Return on average IAH Assets	5.2

Table – 23. Ratio by type of IAH (PD-1.3.33 (g))

	31 December 2016 %
IAH - Banks	4
IAH - Non-banks	96

The appropriation percentage of IAH into profit equalisation reserve and investment risk reserve varies between each of the Group's subsidiary based on market conditions and applicable rules and regulations.

Table – 24. IAH by Islamic financing product type (PD-1.3.33 (h))

The following table summarises the percentage of IAH financing for each type of Shari'a-compliant contract to total IAH financing as of:

	31 December 2016 %
Receivables	81
Mudaraba and Musharaka financing	8
Ijarah Muntahia Bittamleek	11

Table – 25. IAH by Counterparty Type (PD-1.3.33 (i))

The following table summarises the percentage of financing for each category of counterparty to total financing as of:

	31 December 2016 %
Sovereign	6
Bank	4
Investment Firms	9
Corporates	9
Retail	72

IAH Share of Profit (PD-1.3.33 (e) & (q))

The Group's share of profit as a Mudarib for managing IAH and the IAHs' share of income is based on the terms and conditions of the related Mudaraba agreements. These Mudaraba agreements are done at the individual subsidiary level. The rates and return are highly variable based on each of the subsidiaries' local environment as well as local rules and regulations. Detailed disclosures on IAH returns are analysed at the local level.

Additional Public Disclosures

At 31 December 2016

4. EQUITY OF INVESTMENT ACCOUNTHOLDERS (Continued)

Table – 26. IAH by type of Assets (PD-1.3.33 (r) & (s))

The following table summarises the types of assets in which the funds are invested, the actual allocation among various types of assets and the changes in the asset allocation in the last six months of the year ended:

	31 December 2016		
	Opening actual allocation US$ '000	Movement US$ '000	Closing actual allocation US$ '000
Cash and balances with banks	1,592,443	14,070	1,606,513
Receivables	9,035,861	(696,170)	8,339,691
Mudaraba and Musharaka financing	890,641	(76,289)	814,352
Investments	1,656,172	(461,578)	1,194,594
Ijarah Muntahia Bittamleek	1,042,758	88,272	1,131,030
Other assets	227,891	(37,277)	190,614
	14,445,766	(1,168,972)	13,276,794

Table – 27. Treatment of Assets financed by Equity of IAH (PD-1.3.33 (v))

The following table summarises the treatment of assets financed by IAH in the calculation of risk weighted assets (RWA) for capital adequacy purposes as of:

	31 December 2016		
	RWA US$ '000	RWA for capital adequacy purposes US$ '000	Capital charges US$ '000
Type of Claims			
Claims on Sovereign	674,693	202,408	25,301
Claims on PSEs	8,028	2,408	301
Claims on MDBs	-	-	-
Claims on Banks	369,000	110,700	13,838
Claims on Corporates	4,007,141	1,202,142	150,268
Claims on Investment Firms	-	-	-
Regulatory Retail Portfolio	1,670,529	501,159	62,645
Mortgage	1,543,867	463,160	57,895
Past due facilities	214,425	64,328	8,041
Investment in securities	56,094	16,828	2,104
Holding of Real Estates	345,494	103,648	12,956
Other Assets	336,966	101,090	12,636
	9,226,237	2,767,871	345,985

4. EQUITY OF INVESTMENT ACCOUNTHOLDERS (Continued)

Table – 28. Historical data over past five years related to IAH (PD-1.3.41 (b),(c),(d),(e),(f) & (g))

	2016 US$ '000	2015 US$ '000	2014 US$ '000	2013 US$ '000	2012 US$ '000
The profit available for shareholders before smoothing	**222,550**	196,848	147,945	118,939	144,012
The profit available for IAH before smoothing	**1,114,019**	1,026,367	1,018,827	912,092	874,470
The profit available for sharing between IAH and shareholders before smoothing	**1,336,569**	1,223,215	1,166,772	1,031,031	1,018,482
The percentage of profit available for shareholders	**1%**	1%	1%	1%	1%
The percentage of profit available for IAH	**7%**	6%	7%	6%	6%
The profit available for shareholders after smoothing	**222,550**	196,848	147,945	118,939	144,012
The profit available for IAH after smoothing	**1,117,965**	1,029,375	1,017,908	909,410	873,060
The profit available for sharing between IAH and shareholders after smoothing	**1,340,515**	1,226,223	1,165,853	1,028,349	1,017,072
The percentage of profit available for shareholders	**1%**	1%	1%	1%	1%
The percentage of profit available for IAH	**7%**	6%	7%	6%	6%
Profit equalisation reserve					
Balance at 1 January	**10,037**	13,045	12,126	9,444	8,034
Amount apportioned from income allocable to equity of IAH	**297**	49	2,377	2,643	1,842
Amount used during the year	**(3,580)**	(1,229)	-	-	-
Foreign exchange translations	**(663)**	(1,828)	(1,458)	39	(432)
Balance at 31 December	**6,091**	10,037	13,045	12,126	9,444
Investment risk reserve					
Balance at 1 January	**179,238**	198,559	110,424	98,429	93,653
Amount appropriated to provision	**7,324**	(9,549)	(5,288)	(21,807)	(3,946)
Amount apportioned from income allocable to equity of IAH	**1,057**	10,711	102,728	48,634	4,895
Foreign exchange translations	**(11,036)**	(20,483)	(9,305)	(14,832)	3,827
Balance at 31 December	**176,583**	179,238	198,559	110,424	98,429

The market benchmark rates for Equity of IAH for the Group differ at the subsidiaries' level based on local market environments.

5. OFF-BALANCE SHEET EQUITY OF INVESTMENT ACCOUNTHOLDERS

Off-balance sheet equity of investment accountholders funds are invested and managed in accordance with Shari'a requirements.

The Group as fund manager will manage and administer the investment account in a proper, diligent and efficient manner in accordance with applicable laws and local regulations.

The Group has appropriate procedures and controls in place commensurate to the size of its portfolio which includes:

(a) Organizing its internal affairs in a responsible manner, ensuring it has appropriate internal controls and risk management systems and procedures and controls designed to mitigate and manage such risks;

(b) Observing high standards of integrity and fair dealing in managing the scheme to the best interest of its investors; and

(c) Ensuring that the Group has the requisite level of knowledge and experience for the tasks that is undertaken and is competent for the work undertaken.

The range and measures of risks facing off balance sheet IAH are similar to those risks and measures for the relevant type of investment as disclosed by the Group.

Additional Public Disclosures
At 31 December 2016

5. OFF-BALANCE SHEET EQUITY OF INVESTMENT ACCOUNTHOLDERS (Continued)

Table – 29. Off-balance sheet equity of IAH by Islamic Financing product type (PD-1.3.33 (h))

The following table summarises the percentage of financing for each type of Sharia'a - compliant contract to total financing as of:

	31 December 2016 %
Receivables	**38**
Mudaraba and Musharaka financing	**48**
Ijarah Muntahia Bittamleek	**14**

Table – 30. Off-balance sheet equity of IAH by Counterparty Type (PD-1.3.33 (i))

The following table summarises the percentage of financing for each category of counterparty to total financing as of:

	31 December 2016 %
Sovereign	**13**
Investment Firms	**7**
Bank	**24**
Corporates	**12**
Retail	**44**

Off-Balance Sheet Equity of IAH Share of Profit (PD-1.3.33 (e) & (q))

The Group's share of profit as a Mudarib for managing IAH and off-balance sheet IAH's share of income is based on the terms and conditions of the related mudaraba agreements. These mudaraba agreements are done at the individual subsidiary level. The rates and return are highly variable based on each of the subsidiaries' local environment as well as local rules and regulations. Detailed disclosures on off-balance sheet equity of investment accountholders' returns and local market benchmark return are analysed at the local level.

Table – 31. Historical return on off-balance sheet equity of IAH over the past five years (PD-1.3.35 (b))

	2016 US$ '000	2015 US$ '000	2014 US$ '000	2013 US$ '000	2012 US$ '000
Return on off-balance sheet equity of IAH net of expenses	**43,826**	30,426	28,201	22,512	26,554

Regulatory Capital Disclosures
At 31 December 2016

COMPOSITION OF CAPITAL DISCLOSURE REQUIREMENTS

	Financial Position as in published financial statements 31 December 2016 US $ '000	Consolidated PIRI data 31 December 2016 US $ '000	Reference
Assets			
Cash and balances at central banks	5,073,418	5,073,418	
Trading portfolio assets	27,842	27,842	
Murabaha	11,119,981	11,156,636	
Ijarah assets	1,830,339	1,830,339	
Ijarah installment receivables	57,086	57,090	
Mudarabah	821,729	822,070	
Musharakah	760,667	762,148	
Salam	154,649	154,653	
Istisna'a	91,732	91,753	
Held to maturity	2,250,764	2,250,764	
Available for sale financial investments	107,225	107,225	
Investment in real estate	191,565	191,565	
Prepayments, accrued income and other assets	377,503	363,824	
Current and deferred tax assets	-	13,679	H
Investments in associates and joint ventures	51,735	51,735	
Goodwill	70,166	70,166	F
Other intangible assets	21,569	21,569	G
Property, Plant and Equipment	417,295	417,295	
Total Assets	**23,425,265**	**23,463,771**	
Liabilities			
Deposits or placement from banks	918,395	918,395	
Customer accounts	4,983,772	4,983,772	
Accruals, deferred income and other liabilities	775,479	775,479	
Current and deferred tax liabilities	80,988	80,988	
Long term financing	1,381,256	1,381,256	
Total liabilities	**8,139,890**	**8,139,890**	
Equity of Investment Account Holders	**13,276,794**	**13,276,794**	
Shareholders' Equity			
Paid-in share capital	1,139,630	1,139,630	A
Share premium	18,574	18,574	C1
Retained earnings	566,231	566,231	B
Reserves	(443,477)	(484,873)	C2
Assets revaluation reserve - property, plant, and equipment	-	41,396	K2
Collective impairment provisions	-	38,506	K1
Non controlling interest	727,623	727,623	
NCI - CET1	-	589,606	D
NCI -AT1	-	24,258	I
NCI-T2	-	60,283	J
		53,476	
Total Shareholders' Equity	**2,008,581**	**2,047,087**	
Total Liabilities, URIA and shareholders' equity	**23,425,265**	**23,463,771**	

◀ Return to contents

COMPOSITION OF CAPITAL DISCLOSURE REQUIREMENTS

		31 December 2016 US $ '000	Amounts Subject to Pre-2015 Treatment	Reference
Common Equity Tier 1 capital: instruments and reserves				
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	1,139,630		A
2	Retained earnings	566,231		B
3	Accumulated other comprehensive income (and other reserves)	(466,299)		C1+C2
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	589,606	727,623	D
6	**Common Equity Tier 1 capital before regulatory adjustments**	1,829,168		
Common Equity Tier 1 capital: regulatory adjustments				
8	Goodwill (net of related tax liability)	70,166		F
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	8,628	21,569	G
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	13,679		H
28	**Total regulatory adjustments to Common equity Tier 1**	92,473		
29	**Common Equity Tier 1 capital (CET1)**	1,736,695		
Additional Tier 1 capital: instruments				
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	24,258		I
36	**Additional Tier 1 capital before regulatory adjustments**	24,258		
Additional Tier 1 capital: regulatory adjustments				
44	**Additional Tier 1 capital (AT1)**	24,258		
45	**Tier 1capital (T1 = CET1 + AT1)**	1,760,953		
Tier 2 capital: instruments and provisions				
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	60,283		J
50	Provisions & Assets revaluation reserve - property, plant, and equipment	79,902		K1+K2
51	**Tier 2 capital before regulatory adjustments**	140,185		
Tier 2 capital: regulatory adjustments				
58	**Tier 2 capital (T2)**	140,185		
59	**Total capital (TC = T1 + T2)**	1,901,138		
60	**Total risk weighted assets**	12,269,775		
Capital ratios				
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	14.15%		
62	Tier 1 (as a percentage of risk weighted assets)	14.35%		
63	Total capital (as a percentage of risk weighted assets)	15.49%		
National minima including CCB (if different from Basel 3)				
69	CBB Common Equity Tier 1 minimum ratio	9.0%		
70	CBB Tier 1 minimum ratio	10.5%		
71	CBB total capital minimum ratio	12.5%		
Amounts below the thresholds for deduction (before risk weighting)				
73	Significant investments in the common stock of financials	7,141		
Applicable caps on the inclusion of provisions in Tier 2				
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	38,506		K1
77	Cap on inclusion of provisions in Tier 2 under standardized approach	113,990		

Regulatory Capital Disclosures
At 31 December 2016

MAIN FEATURES OF REGULATORY CAPITAL INSTRUMENTS

1	Issuer	Al Baraka Banking Group	Al Baraka Bank (Pakistan) Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	BARKA - Bahrain Bourse & Nasdaq Dubai	NA
3	Governing law(s) of the instrument	All applicable laws and regulations of the Kingdom of Bahrain	All applicable laws and regulations of the Islamic Republic of Pakistan
	Regulatory treatment		
4	Transitional CBB rules	Common Equity Tier 1	Tier 2
5	Post-transitional CBB rules	Common Equity Tier 1	Tier 2
6	Eligible at solo/group/group&solo	GROUP & SOLO	GROUP
7	Instrument type (types to be specified by each jurisdiction)	Common Equity Shares	Unrestricted Mudaraba Sukuk
8	Amount recognized in regulatory capital (US$ in mil, as of most recent reporting date)	1,140	14
9	Par value of instrument	1	NA
10	Accounting classification	Shareholders' equity	Liability - amortized cost
11	Original date of issuance	Various dates	2014
12	Perpetual or dated	Perpetual	Dated
13	Original maturity date	No maturity	2021
14	Issuer call subject to prior supervisory approval	NA	No
15	Optional call date, contingent call dates and redemption amount	NA	NA
16	Subsequent call dates, if applicable	NA	NA
	Coupons / dividends		
17	Fixed or floating dividend/coupon	NA	Floating
18	Coupon rate and any related index	NA	KIBOR
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	NA	NA
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	Non cumulative	Non cumulative
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger (s)	NA	NA
25	If convertible, fully or partially	NA	NA
26	If convertible, conversion rate	NA	NA
27	If convertible, mandatory or optional conversion	NA	NA
28	If convertible, specify instrument type convertible into	NA	NA
29	If convertible, specify issuer of instrument it converts into	NA	NA
30	Write-down feature	No	No
31	If write-down, write-down trigger(s)	NA	NA
32	If write-down, full or partial	NA	NA
33	If write-down, permanent or temporary	NA	NA
34	If temporary write-down, description of write-up mechanism	NA	NA
35	Position in subordination hierarchy in liquidation	Subordinated to all depositors & creditors of the bank	Subordinate to all liabilities
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	NA	NA

◀ Return to contents

ABG Head Office Management

Mr. Adnan Ahmed Yousif
President and Chief Executive

Internal Audit

Mr. Majeed H. Alawi
Executive Vice President - Head of Internal Audit

Mr. Mohammed Alawi Alawi
First Vice President - Internal Audit

Mr. Hassan Y. Al Banna
First Vice President - Internal Audit

Mr. Ebrahim A. Aziz Al Zayani
First Vice President - IT Auditor

Mr. Mohammed Abdul Latif Al-Mahmood
First Vice President - Internal Audit - Shari'a Auditor

Strategic Planning

Mr. K. Krishnamoorthy
Executive Vice President - Head of Strategic Planning

Mr. Chandresh H. Mehta
First Vice President - Strategic Planning

Mr. Ayman Ahmed Mohammad
First Vice President - Research & Development

Operations & Administration

Mr. Abdulrahman Shehab
Executive Vice President - Head of Operations & Administration

Mr. Hood Hashem
Senior Vice President - Information Technology

Mr. Ahmed Albalooshi
First Vice President - Information Technology

Mr. Ahmed AbdulGhaffar
Vice President - Investors Relations

Mr. Hassan Hassani
Vice President - Corporate Communication & PR

Finance

Mr. Hamad Abdulla Eqab
Executive Vice President - Head of Finance

Mr. Ali Asghar Mandasorwala
First Vice President - Finance

Mr. Mohsin Dashti
First Vice President - Finance

Mr. Mahmood Taheri
First Vice President - Finance

Credit & Risk Management

Mr. Jozsef Peter Szalay
Senior Vice President - Head of Credit & Risk Management

Mr. Salah Y. Al Busaiteeni
First Vice President - Credit & Risk Management

Mr. Jaffar M. Al-Omran
First Vice President - Credit & Risk Management

Mr. Amr Ehab Tantawi
First Vice President - Credit & Risk Management

Dr. Hala Radwan
First Vice President - Credit & Risk Management

Mr. Ayhan Keser
First Vice President - Credit & Risk Management

Legal Affairs

Mr. Salah Othman Abuzaid
Senior Vice President - Head of Legal Affairs

Dr. Adel Basha
First Vice President - Legal Affairs

Dr. Ali Adnan Ibrahim
First Vice President - Legal Affairs

Commercial Banking

Mr. Mohammed El Qaq
Senior Vice President - Head of Commercial Banking

Treasury, Investments & Financial Institutions

Mr. Khalid Al Qattan
Senior Vice President - Head of Treasury, Investments & Financial Institutions

Group Compliance

Mr. Qutub Yousafali
Head of Group Compliance

Al Baraka Global Network

Al Baraka Türk Participation Bank

Saray Mahallesi
Dr. Adnan Büyükdeniz Caddesi, No. 6
34768 Ümraniye
Istanbul, Turkey

Tel: +90 216 666 01 01
Fax: +90 216 666 16 00
albaraka.com.tr

Iraq Branch:

60Mt Street - Arbil, Iraq
Tel: +964 750 370 98 90

Jordan Islamic Bank

P.O. Box 926225
Amman 11190
Jordan

Tel: +9626 567 7377
Fax: +9626 566 6326
jordanislamicbank.com

Al Baraka Bank Egypt

60, Mohie Elddin Abu Elezz Street
P.O. Box 455, Dokki
Giza, Egypt

Tel: +2023 748 1222
Fax: +2023 761 1436/7
albaraka-bank.com.eg

Banque Al Baraka D'Algerie S.P.A.

Hai Bouteldja Houidef, Villa No. 1
Rocade Sud, Ben Aknoun
Algiers, Algeria

Tel: +213 23 38 12 73
Fax: +213 23 38 12 76/77
albaraka-bank.com

Al Baraka Islamic Bank B.S.C. (c) - Bahrain

Al Baraka Headquarters - Bahrain Bay
P.O. Box 1882
Manama, Kingdom of Bahrain

Tel: +973 17 535 300
Fax: +973 17 533 993
albaraka.bh

Al Baraka Bank (Pakistan) Limited

Al Baraka House
162 Bangalore Town
Main Shahrah-e-Faisal
Karachi, Pakistan

Tel: +92 21 34307000
Fax: +92 21 34530981
albaraka.com.pk

Al Baraka Bank Tunisia

88, Avenue Hedi Chaker 1002,
Tunis, Tunisia

Tel: +216 71 186 500 / +216 71 186 600
Fax: +216 71 780 235 / +216 71 908 170
albarakabank.com.tn

Al Baraka Bank Syria S.A.

Alshahbander Street
P.O. Box 100
Damascus, Syria

Tel: +963 11 443 78 20
Fax: +963 11 443 78 10
albarakasyria.com

Al Baraka Bank Sudan

Al Baraka Tower
P.O. Box 3583
Qasr Street
Khartoum, Sudan

Tel: +249187 112 000
Fax: +249183 788 585
albaraka.com.sd

Al Baraka Bank Limited - South Africa

2 Kingsmead Boulevard
Kingsmead Office Park
Stalwart Simelane Street, P.O. Box 4395
Durban 4000
South Africa

Tel: +2731 364 9000
Fax: +2731 364 9001
albaraka.co.za

Al Baraka Bank Lebanon S.A.L.

Justinian Street
BAC Center, 12th Floor
Sanayeh, near Chamber of Com & Inds.
Beirut, Lebanon

Tel: +9611 748061 to 65
Fax: +9611 748061 to 65 Ext: 700
al-baraka.com

Itqan Capital, Saudi Arabia

The Headquarters Business Park-
West Tower - 15th Floor, Corniche Road
P.O. Box 8021, Jeddah 21482
Kingdom of Saudi Arabia

Tel: +966 12 510 6030
Fax: +966 12 510 6033
itqancapital.com

Al Baraka Banking Group Representative Office, Indonesia

Ravindo Building, 10th Floor
Jalan Kebon Sirih, No. 75
Jakarta Pusat 10340
Indonesia

Tel: +62 21 316 1345
Fax: +62 21 316 1074
albaraka.com

Al Baraka Banking Group Representative Office, Libya

Tripoli Tower, Tower 1
14th Floor, Office No. 144
P.O. Box 93271
Tripoli, Libya

Tel: +218 (21) 336 2310
+218 (21) 336 2311
Fax: +218 (21) 336 2312
albaraka.com

Contents

HEAD OFFICE:

Al Baraka Banking Group B.S.C.

Al Baraka Headquarters - Bahrain Bay
P.O. Box 1882
Manama, Kingdom of Bahrain

Tel: +973 17 541 122
Fax: +973 17 536 533

C.R.: 48915
(Licensed as an Islamic Wholesale Bank by CBB)

SHARES REGISTRAR:

Karvy Computershare W.L.L.

Office 74, 7th Floor, AlZamil Tower
P.O. Box 514, Manama. Kingdom of Bahrain

Tel: +973 17215080
Fax: +973 17212055

Email: bahrain.helpdesk@karvy.com

INVESTORS' RELATIONS:

Mr. Ahmed AbdulGhaffar

Vice President - Investors Relations
Al Baraka Banking Group
Kingdom of Bahrain

Tel: +973 17520701 / 17541122
Fax: +973 17910911

Email: aghaffar@albaraka.com

◀ Return to contents