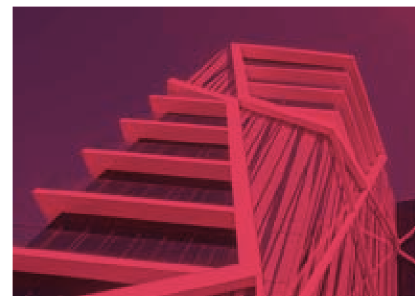
Al Baraka Islamic Bank B.S.C. (c)

alBaraka

TODAY. TOMORROW. TOGETHER.

2017 Annual Report



Your Partner Bank

Contents

Contacts

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P.O. Box 1882 Manama, Kingdom of Bahrain

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Isa Town Branch	Tel: +973 17 788 388	Fax: +973 17 687 838
Muharraq Branch	Tel: +973 17 461 999	Fax: +973 17 324 888
Riffa Branch	Tel: +973 17 768 600	Fax: +973 17 490 003
Seef Mall, Muharraq	Tel: +973 17 358 885	Fax: +973 17 676 361
Ramli Mall, A'ali	Tel: +973 17 646 677	Fax: +973 17 646 676
Galleria Mall	Tel: +973 17 166 600	Fax: +973 17 911 844

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2. Itqan Capital Company
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3. Danat Al Baraka
Mr. Mohammed Isa Al Mutaweh
Chairman
Flat 10, Building 2504, Road 2832
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Visit us online

www.albaraka.bh

His Royal Highness
Prince Khalifa bin Salman
Al Khalifa

The Prime Minister of
the Kingdom of Bahrain

His Majesty King
Hamad bin Isa
Al Khalifa

The King of the Kingdom of
Bahrain

His Royal Highness
Prince Salman bin Hamad
Al Khalifa

The Crown Prince,
Deputy Supreme Commander and
First Deputy Prime Minister

TODAY. TOMORROW. TOGETHER.

OUR SHARED BELIEFS CREATE STRONG BONDS THAT FORM THE BASIS OF LONG-TERM RELATIONSHIPS WITH OUR CUSTOMERS AND STAFF.

BEYOND BANKING

We 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 the 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 see money as a means to Capitalise on opportunities and create a better society for all of us. 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, at home and in the wider world.


alBaraka

...Your Partner Bank

Al Baraka Islamic Bank is one of leading financial institutions in the Islamic banking sector. Throughout its history of more than three decades, since its establishment in 1984, the bank has played a prominent role in building the infrastructure of the Islamic finance industry. The bank also played a significant role in promoting the Islamic finance industry and publicizing its merits. The bank enjoys a good reputation and high standing with the community in Bahrain in particular, and in the Gulf, Arab and Islamic worlds in general.

Al Baraka Islamic Bank offers innovative financial products, particularly in the areas of Islamic investment, international trade, management of short-term liquidity and consumer financing that the bank has lunched under (Taqseet product).... etc., which are all based on Islamic financing modes. Such financing modes include Murabaha, Wakala, Istisna, Musharaka, Mudaraba, Salam and Ijarah Muntahia Bittamleek.

The Bank had achieved excellent results in its banking operations, thanks to its vast wealth of knowledge in the area of the Fiqh (jurisprudence) of Islamic finance, the diverse experience of its senior management team in different fields of Islamic banking and the strength and depth that the parent company, Al Baraka Banking Group, with its strong financial position and standing provides to the bank. Since its inception, Al Baraka Islamic Bank is managing funds on behalf of many large financial institutions and high net worth clients who sought rewarding long-term financial returns by deploying Shari'acompliant financial instruments.

During the year 2010, AIB completed the merger of its branches in Pakistan, which their operations dates back to 1991, with the Emirates Global Islamic Bank Limited, to establish Al Baraka Bank Pakistan Limited. There after in financial year 2016, the Bank acquired and merged Burj Bank Limited in ABRL leading to addition of 74 new branches. ABPL have assets in excess of Rs. 120 billion a workforce of more than 2500 professionals and a network of 188 branches in more than 100 cities and towns across the country. The Head office is located in Karachi.

In July 2012, the Bank acquired 60% of the issued shares of Itqan Capital (previously Al Tawfeek Financial Group). This share increased to 83.07% in October 2015. Itqan Capital is a closed joint stock company registered in the Kingdom of Saudi Arabia and licensed by the Capital Market Authority.

The company engages in asset and portfolio management, and custody, research and advisory services. All products and services offered by the company are in strict compliance with the provisions of Islamic Sharia. The company's paid-up capital is SAR 173 million. This step represent the Bank and the parent company Al Baraka banking Group's strategy to enter key regional markets, for Saudi Arabia is the largest Arab economy with strong fundamentals and a stable financial and investment environment, which presents us with significant business and investment opportunities.

As for its strategic plans, the bank continue maintaining the pace of its growth in its business operations with particular focus on commissions and fee – based earnings. The bank also expanding its investment portfolio, continue to develop its infrastructure, particularly with regard to modern information technologies (IT) and related services, improve customer service, provide training and coaching to employees and maintain our special relationship with our customers as their "Partners in Achievement".

Al Baraka Islamic Bank is a banking institution registered with the Ministry of Industry and Commerce in Bahrain under Commercial Registration No. 14400 and has a Retail Banking license issued by the Central Bank of Bahrain. The bank has an authorized capital of US$ 600 million and issued and paid-up capital of US$122 million. Al Baraka Islamic Bank - Bahrain is one of the banking units of Al Baraka Banking Group, which is a Bahrain Joint Stock Company listed in Bahrain stock exchange and Nasdaq Dubai. The Group offers retail, corporate and investment banking and treasury services, strictly in accordance with the principles of the Islamic Shari'a.

The authorized capital of Al Baraka Banking Group is US$1.5 billion, while total equity amounts to around US$2.5 billion. The Group has a wide geographical presence in the form of subsidiary banking units and representative offices in 16 countries, which in turn provide their Shari'a-compliant banking products and services through more than 600 branches. These banking Units are Jordan Islamic Bank, Jordan; Al Baraka Islamic Bank, Bahrain; Al Baraka Bank Pakistan Limited, Pakistan; Al Baraka Bank Algeria; Al Baraka Bank Sudan; Al Baraka Bank Ltd, South Africa; Al Baraka Bank Lebanon; Al Baraka Bank Tunis; Al Baraka Bank Egypt; Al Baraka Turk Participation Bank, Turkey and its branches in Iraq; Al Baraka Bank Syria, Bank al Tamweel wa Inma (Morocco) and a representative office in Indonesia and a representative office in Libya.

Our Vision

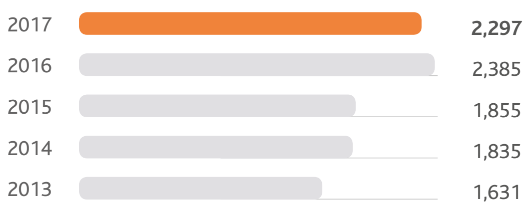
We believe society needs a fair and equitable financial system: one which rewards effort and contributes to the development of the community.

Our Mission

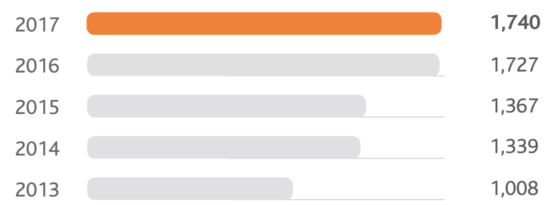
To meet the financial needs of communities across the world by conducting business ethically in accordance with our beliefs, practicing the highest professional standards and sharing the mutual benefits with the customers, staff and shareholders who participate in our business success.

FIVE YEARS HIGHLIGHTS

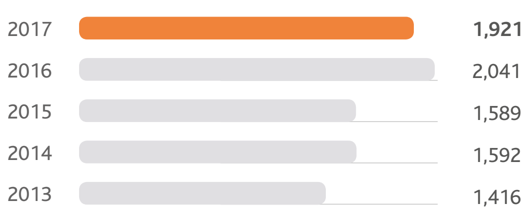
TOTAL ASSETS (USD Million)



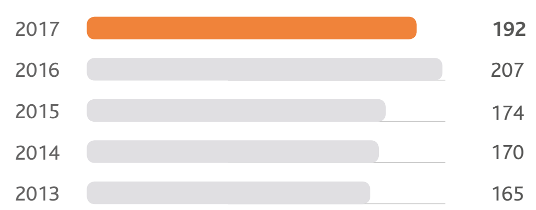
FINANCING & INVESTMENTS (USD Million)



TOTAL DEPOSITS (USD Million)



TOTAL EQUITY (USD Million)



2017 HIGHLIGHTS

- The Islamic International Rating Agency (IIRA), a well-known Bahrain based rating agency, has affirmed an International Scale investment grade credit rating of BBB-(long term)/A3 (short term) and a National Scale rating of BBB+ (long term)/ A3 (short term) to the Bank.

- During the year, the Bank successfully launched its new Sharia Compliant Credit Card to meet its customer needs and expectations.

- As a reflection of the Bank's growing reputation regionally and internationally, the Bank was awarded the 'Best Islamic Bank' award in Bahrain for the year 2017, within the framework of the annual awards awarded by Global Finance Magazine, a banking and finance specialist for international banking and finance institutions.

- During 2017, the bank has engaged in the process of developing and upgrading most of the major operating policies and procedures to satisfy good practices and the new standards related to implementation of IFRS 9.

- Al Baraka Bahrain main branch in Bahrain bay together with many other branches were equipped with necessary facilities that enabled them to services for customers with special needs.

- The Bank continued in developing policies and high ethical and professional standards relating to offering innovative and highly efficient Sharia-compliant products and services.

BOARD OF DIRECTORS

Mr. Khalid Rashid Al Zayani
Chairman of the Board

Mr. Adnan Ahmed Yousif
Vice Chairman

Mr. Abdul Latif Abdul Rahim Janahi
Board Member

Mr. Moosa Abdul Aziz Shehada
Board Member

Mr. Ashraf Ahmed El-Ghamrawy
Board Member

Please refer to page 50 for Board of Directors profiles.

Mr.Yousef Ali Fadil bin Fadil
Board Member

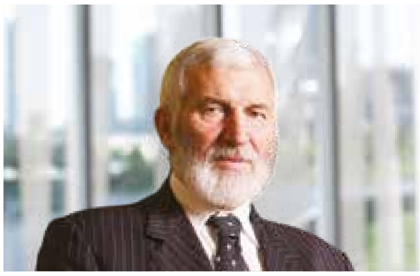
Mr. Maqbool Habib Khalfan
Board Member

Mr. Abdulrahman Abdulla Mohammed
Board Member

Dr. Khalid Abdulla Ateeq
Board Member

Mr. Mohammed Isa Al Mutaweh
Board Member and CEO

SHARI'A SUPERVISORY BOARD



Shaikh Dr. Abdul Sttar Abdul Karim Abu-Ghoudha
Chairman

Shaikh Essam Mohammed Ishaq
Member

Shaikh Nizam Mohammed Yaqoobi
Member

LIST OF COMMITTEES & SHARI'A SUPERVISORY BOARD

Executive Committee

Mr. Adnan Ahmed Yousif
Chairman

Mr. Abdulatif Abdulrahim Janahi
Member

Mr. Abdul Rahman Abdulla Mohammed
Member

Mr. Mohammed Isa Al Mutaweh
Member

Audit & Corporate Governance Committee

Mr. Maqbool Habib Khalfan
Chairman

Mr. Mousa Abdulaziz Shehadeh
Member

Mr. Yousif Ali Fadil bin Fadil
Member

Sheikh Essam Mohammed Ishaq
Shari'a Member

Remuneration & Board Affairs Committee

Mr. Yousif Ali Fadil bin Fadil
Chairman

Dr. Khalid Abdulla Ateeq
Member

Mr. Maqbool Habib Khalfan
Member

Risk Management Committee

Dr. Khalid Abdulla Ateeq
Chairman

Mr. Maqbool Habib Khalfan
Member

Mr. Ashraf Ahmed Al Ghamrawi
Member

Shari'a Supervisory Board

Shaikh Dr. Abdul Sttar Abdul Karim Abu-Ghoudha
Chairman

Shaikh Essam Mohammed Ishaq
Member

Shaikh Nizam Mohammed Yaqoobi
Member

External Auditors

Ernest & Young

WE WILL EXTEND OUR OPERATIONS TO NEW MARKET OR BUSINESS SEGMENTS, ALIGNED WITH APPROVED BUSINESS STRATEGIES, IN COMING PERIODS. SAID INITIATIVES WILL OPEN NEW AVENUES AND PROVIDES DESIRED DIVERSIFICATION.

MR. KHALID RASHID AL ZAYANI
CHAIRMAN

Overall Performance

USD75 m
Operating Income

USD1,202 m
Financing Portfolio

We have every reason to be optimistic, after demonstrating strong resilience, to challenge the adversities of prevailing operating conditions. In this regard, our strong presence in domestic/ regional market, revitalized risk management framework and robust business plans will provide us light to maintain journey towards the achievability of ultimate outcomes of excellence.

Dear Shareholders,
On behalf of the Board of Directors, I am pleased to present our annual report for the year ended 31 December 2017.

ECONOMIC REVIEW

Global economy shown some signs of recovery after very long period of recession, stagnation and subdued growth. The acceleration in world gross product growth stems predominantly from firmer growth in several developed economies. In this regard, the conditions for investment have generally improved, amid low financial volatility, reduced banking sector fragilities, recovery in some commodity sectors and a more solid global macroeconomic outlook. However, the recent economic gains remained unevenly distributed across countries and regions, and many parts of the world have yet to regain a healthy growth rate. Economic prospects for many commodity exporters remained challenging, underscoring the vulnerability to boom and bust cycles in countries that are overly reliant on few natural resources. Moreover, the longer-term potential of the global economy carries a scar from the extended period of weak investment and low productivity growth that followed the global financial crisis.

Economies of Middle East region are facing challenges in lieu of escalation in geopolitical conflicts and maintenance of commodity prices at historically lowest levels. Such factors lead to reduction in investments in the region, outflow of capital, low trades, decline in tourism, etc. Furthermore, the management of fiscal deficits (in countries predominantly run on social welfare model) became very difficult and lead to structural reforms. Therefore, the leading international agencies have downgraded the economic outlook of the region.

In Bahrain, economy continued to flourish at the rate of 3.2%, as per latest survey issued by Bahrain Economic Development Board, despite of stubborn hydrocarbon prices and political deterioration in the region. Such growth primarily fetched by diversification efforts, liberal economic policies, countercyclical adjustments and spending on mega infrastructure projects. In this regard, the real progress was noticed in all major segments of economy (except hydrocarbon sectors) such as real estate, tourism, hospitality, financial service, transportation, etc. However, the economic growth was restrained below the normal levels and fiscal challenges were duly increased for government, due to the prevailing conditions such as maintenance of oil price at lowest levels. Impacts of operating conditions is clearly eminent from budget deficits, reduction in country reserves, adverse balance of trade, etc. Therefore, the country introduced fiscal reforms like overhauling its subsidy framework and seeking new income streams, both of which are challenging prospects in an economy renowned for generous social support and light-touch taxation.

In Pakistan, a real uptick observed in economic fundamentals due to implementation of structural reforms, improvement in security situations and alleviation of power shortages. Simultaneously, the commencement of work on mega infrastructure projects under China Pakistan Economic Corridor (CPEC) program provided a real boost to the economy. In this regard, the majority of segments (like manufacturing, construction, services, agriculture, etc.) were grown at an accelerated pace. As per latest surveys issued by Asian Development Bank, the economic growth was projected to remain at 5.3% in fiscal year 2016-2017 and expected to reach the levels of 5.5% by fiscal year 2017-2018. However, the recent political turmoil resulted from removal of elected prime minister, civil military conflicts and upcoming elections restraining such growth momentum. Impacts of such political testability is evident on stock market, exchange rate parity, current account deficit, in addition to increased inflation rates.

PERFORMANCE REVIEW

The Bank demonstrated a strong resilience against the adversities of operating conditions prevailed during 2017. In this respect, the Bank was keen to consolidate the operations, strengthen the risk management function and realign the core business processes with market best practices. Simultaneously, the provision of contemporary business solutions, continuous enhancement in quality of services and enrichment of skill levels in the organization, were remained the cornerstones of our philosophy.

More specifically, the Bank remained very cautious and targeted low risk avenues to book fresh business. Simultaneously, the efforts were underway to limit exposures in markets or customer segments demonstrating weaknesses. Therefore, the financial position shrunk from USD 2,385 million as at 31 December 2016 to USD 2,297 million secured as at 31 December 2017. However, a significant improvement was noticed (with some odds) in key qualitative measures like Current and Saving accounts mix, Loan-to-Deposit Ratio, etc. Such improvement with maintaining size of financial position, were attributable to robust business plans and strong presence in domestic and regional markets.

The building of quality financing assets portfolio remained the focus of our core business strategies during the current financial year ending 31 December 2017. Therefore, these assets reached USD 1,202 million as at year-end as compared to the balances amounted to USD 1,158 million held last year. Such growth was primarily fetched through strategic partnerships with government agencies, strong business relationships with regional financial institutions, wide geographical outreach and provision of contemporary financial institutions at competitive prices.

Alongside, in investment portfolio, the Bank remained keen to improve the qualitative aspect such as risk weightings, durations, and yield. In this respect, the new investments were predominantly made in securities issued by sovereign entities with short to medium-term maturities. Instantaneously, investments not meeting very strict prudential guidelines were paid-off. Therefore, these balances were maintained at levels of USD 538 million as at 31 December 2017 as compared to the amounts of USD 569 million as at 31 December 2016.

Overall, the core banking assets (financing and investments) grown to acclaim size of USD 1,740 million at the end of 2017 from USD 1,727 million maintained at 31 December 2016. Said growth was achieved with tangible improvement in risk profile, risk/ return ratio and other related measures during the current financial year.

In lieu of consolidation initiatives, the growth in liability-base was duly rationalized with the availability of investment opportunity meeting very strict prudential criteria. At the same time, the efforts were underway to improve the efficiency and quality of deposits base. In this regard, expensive institutional deposits were paid-off and focus was remained to grow in current and saving accounts. Therefore, these balances were declined to USD 1,921 million in the year 2017 from such balances of USD 2,041 million maintained at prior year-end. It is hereby emphasized that the CASA mix was duly improved, the concentration of such balances was considerably reduced and cost of funds were rationalized with market benchmarks. In this respect, our wide branch network, strong relationship in regional markets and provision of personalized customer services, assisted in maintaining the availability of liquidity, along-with tangible improvements, in such a challenging business environment. Further, the contribution of new products and reinforcement of existing successful products cannot be overlooked in securing such improvements.

Moving forwards, the Bank was successful maintaining a considerable growth in operating revenues during 2017 as compared to last year, despite of severe challenges posed by prevailing market conditions in the form of shrinking spread, reduction in trade activities, etc. More specifically, the total operating income increased by 6% to reach amount of USD 75 million in 2017 as compared to USD 70 million earned during 2016. Such increase was attributable to growth in core banking assets and improved liquidity management.

Alongside, the operating cost also increased due to massive expansion in branch network due to merger and acquisition of a local retail bank in Pakistan during 2016. Further, the Bank was required to pay duplicate cost for information technology, key business role until the time of transformation of both merging units into merged organization. At the same time, the launch of new products, dedicated market campaigns and technology-related expenses were also remained a key contributor in said hike in operating cost. Therefore, these balances increased by 33% from USD 58 million in 2016 to USD 77 million in 2017.

Aligned with approved prudential practices, the Bank incorporated a significant amount of provision-net amounted to USD 3.5 million (2016: USD 8.6 million) against impaired assets and added USD 0.9 million (2016: USD 0.8 million) to counter un-foreseen/ unidentified risks in assets portfolio during the current financial year. Therefore, the provision coverage against infected assets increased.

Finally, the Bank incurred consolidated loss of USD 5.4 million for the year ended 31 December 2017 as compared to net profit of USD 2.3 million reported for 2016. Such loss is attributable to repayment of duplicated costs in merged organization, slowdown in growth in assets amid with prevailing market conditions, and incorporation of massive amounts of provisions against delinquent assets.

It is hereby our great pleasure to mention that the Bank duly launched the Sharia' compliant credit card product to meet the ever-growing contemporary needs of our esteemed customer base. Such product has generated a strong appeal from market and improve our competitive position in the market. At the same time, the Bank successfully completed the implementation of IFRS 9 Financial Instruments/ FAS 30 Credit Loss Impairment standards with the assistance of a leading consultancy firm. Said implementation resulted in a complete revamp of our risk management and data archiving process.

CREDIT RATING

The Islamic International Rating Agency (IIRA), a well-known Bahrain based rating agency, has affirmed an International Scale investment grade credit rating of BBB-(long term)/A3 (short term) and a National Scale rating of BBB+ (long term)/A3 (short term) to the Bank. However, the outlook on such ratings is change to "negative" from "stable" amid with economic slowdown in Kingdom of Bahrain.

At the same time Al Baraka Bank Pakistan Limited (ABPL) has sustained local currency long-term and short-term rating entity A, and A1 respectively, as assigned by the Pakistan Credit Rating Agency (PACRA) with positive outlook, while JCR¬VIS Credit Rating Company has upgraded such rating to A+/A-1.

These ratings denote a lower expectation of credit risk emanating from a strong capacity for timely payments of financial commitments and presence of strong compliance and governance environment.

CORPORATE AND SOCIAL RESPONSIBILITY

As being a premier Islamic Bank, the core objective of our operations is to generate real business activities in economies, which reward efforts based on high ethical standards. Therefore, our business strategies/ plans revolve around the provision of Sharia compliant solutions to meet the contemporary business needs of our communities, improvement in the circulation of resources (particularly towards the underprivileged segments of society) and executing the project of social welfare. The Bank is keen to affect the communities by creation of job opportunities, supporting health care/ education projects, providing assistance to needy/ poor plan, etc.

More specifically, the Bank provided financing under Tamkeen Program "an initiative of Government of Bahrain to support small and medium sized entities", along-with supporting a number of other projects, resulted in creation of numerous jobs. Further, the Bank is also involved in numerous projects with Ministry of Housing and Eskan Bank to ensure provision of affordable/ low cost housing for the Bank was successful maintaining a considerable growth in operating revenues during 2017 as compared to last year, despite of severe challenges posed by prevailing market conditions.

local community. In addition, the Bank provides financing facilities backed by real activity/ assets to meet the requirement of consumers and businesses, fiscal management of government and establishment of projects.

Alongside, the Bank provides internship/ training programs to students of local universities to nurture their skills in a highly professional environment. Further, the Bank supports number of organizations working or doing research in the field of Islamic banking and finance. Furthermore, the Bank provided donation directly to poor or needy people, hospitals, education institutions or through licensed charitable organizations.

Moving forward, the Bank is participating and sponsoring many important international finance and banking events and conferences, more particularly, the World Islamic Banking Conference arranged by the Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI), International Islamic Centre for Reconciliation & Arbitration "Annual Conference", Bahrain Chamber of Commerce for Bahrain and Egypt Exhibition, etc.

FUTURE OUTLOOK

We have every reason to be optimistic, after demonstrating strong resilience, to challenge the adversities of prevailing operating conditions. In this regard, our strong presence in domestic/ regional market, revitalized risk management framework and robust business plans will provide us light to maintain journey towards the achievability of ultimate outcomes of excellence. Further, the constant improvement in quality of services and nurturing the desired skills in our employees will provide a real momentum.

More specifically, the strengthening of capital base, launch/ reemphasize of market competitive products and repositioning of service delivery channels will provide exponential growth along-with substantial improvements in operating efficiencies. Further, the efforts will be underway to enhance of quality of assets, optimize riskiness and further enhance the management of available surplus liquid resources.

Alongside, the efforts will be made to reorganize and automate the core organization processes along-with filling out the missing functions or activities. In this respect, the Bank has planned a significant amount of investment to upgrade the information technology infrastructure and strengthen the functions through availability of requisite skills. Further, the sense of competitions will be intensified along-with rationalization of staffing with competencies required to perform role/ jobs.

Being a dynamic institution, we will extend our operations to new market or business segments, aligned with approved business strategies, in coming periods. Said initiatives will open new avenues and provides desired diversification.

ACKNOWLEDGMENT

We are gratified to almighty Allah, for providing us wisdom to effectively cope with challenges posed by prevailing operating conditions during the current financial year. Further, countless praises for the Master of Universe, for provision of abundant resources, discrete skill set and blessings on our organization.

On behalf of Board of Directors, a sincere gratitude is extended to His Majesty King Hamad bin Isa Al-Khalifa, HRH Prince Khalifa bin Salman Al-Khalifa, the Prime Minister, and HRH Prince Salman bin Hamad Al-Khalifa, the Crown Prince, Deputy Supreme Commander of the Bahrain Defence Force and First Deputy

Prime Minister for their benefaction and firm support to the Bank over the years. Further, we offer a sincere appreciation to the Ministry of Industry, Commerce and Tourism, the Central Bank of Bahrain, the State Bank of Pakistan and other government agencies for their priceless input and guidance accorded to the Bank.

We are thankful to our shareholders, valued customers and business partners for loyalty and trust placed on the Bank. We are grateful to our parent company, the Al Baraka Banking Group and Sharia Supervisory Board, for their constant support. Finally, a great appreciation for our dedicated work force who put real efforts to offer resilience in such a difficult time and transformed the bank into a dynamic and vibrant organization.

Khalid Rashid Al-Zayani
Chairman

Al Baraka Islamic Bank B.S.C. (c)
Manama, Kingdom of Bahrain
19 February 2018

TODAY.
TOMORROW.
TOGETHER.

SAVING ACCOUNTS

AL BARAKAT SAVINGS ACCOUNT

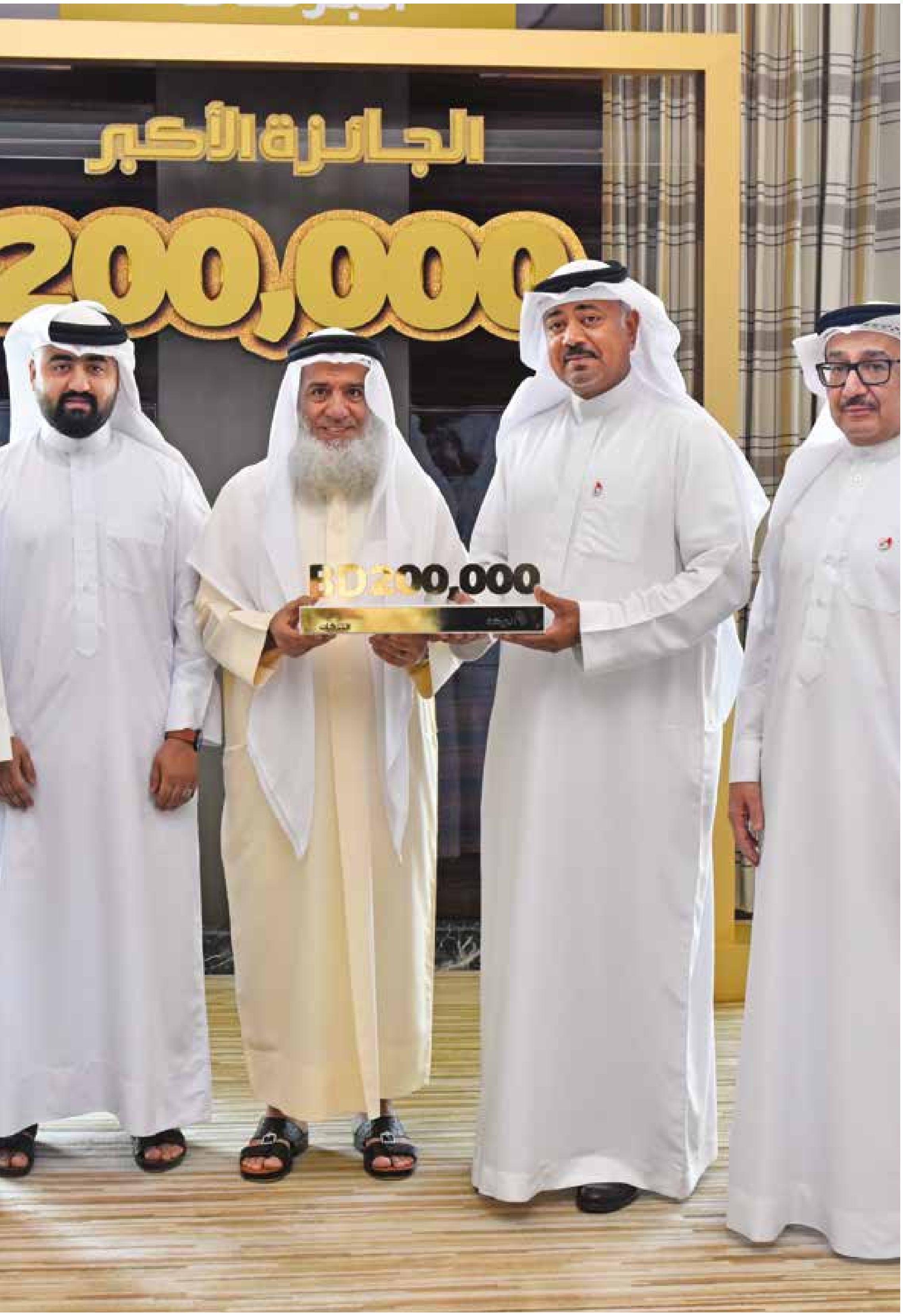
A FULLY SHARIA'A COMPLIANT SAVINGS ACCOUNT FROM AL BARAKA ISLAMIC BANK, OFFERING MORE CASH PRIZES THAN EVER BEFORE.

SHARIA'A COMPLIANT SAVINGS

alBarakat Saving Account, offered by Al Baraka Islamic Bank, is a Shari'a compliant savings account in its fourth year of offering exceptional monthly prizes! Open an alBarakat Saving Account today with a minimal investment of BD50 and be automatically enrolled to our monthly renewable draw! Every BD50 invested in your account increases your chance to win more of these amazing prizes! Save and be among 78 monthly winners of unbelievable prizes, which include three grand prizes of BD100,000 and BD200,000!

Other monthly prizes include a monthly salary of BD555 for one year along and a monthly prize of BD10,000! Individuals of all nationalities who are over the age of 18 are eligible to open "alBarakat" account. The account can be opened on behalf of minors by their parents or their legal representatives, as well by institutions and companies.


200,000


الجائزة الأكبر
200,000
BD200,000

EXECUTIVE MANAGEMENT

Mr. Mohammed Isa Al Mutaweh
Chief Executive Officer
& Board Member

Mr. Tariq Mahmood Kazim
Deputy General Manager
Support Services Group

Mr. Rashid Hassan Al Alaiwi
Deputy General Manager
Business Group

Mr. Moosa Abdul Latif Mohammed
Assistant General Manager
Head of Operations

Mr. Mohamed Abdulrahim
Assistant General Manager
Chief Financial Offcier

Ms. Maisoon Mohammed BenShams
Assistant General Manager
Head of Risk Management

Mr. Fouad Lakhdar El-Ouzani
Assistant General Manager
Head of Credit

Please refer to page 47 for Executive Management profiles.

Mr. Asrar Uddin Abdul Ghafoor
Assistant General Manager
Head of Information Technology

Mr. Isa Jasim Al Obaidly
Assistant General Manager
Head of Human Resources and Administration

Mr. Adel Al-Manea
Assistant General Manager
Head of Commercial Banking

Mr. Hussain Al Nattaie
Assistant General Manager
Head of International Banking

Mr. Mohammed Jassim Ebrahim
Manager - Sharia

Mr. Mohammed Hasan Al Mughani
Senior Manager Internal Audit

Mr. Bader Al Shetti
Head of Compliance & Anti Money laundering

"FOLLOWING THE MOVING TO OUR NEW HEADQUARTERS LOCATED AT AL BARAKA TOWERS IN THE BAHRAIN BAY END OF LAST YEAR, THE BANK IS NOW IN EXCELLENT POSITION TO PROVIDE QUALITY SERVICES TO ITS CUSTOMERS."

MR. MOHAMMED ISA AL MUTAWEH
CHIEF EXECUTIVE OFFICER & BOARD MEMBER

Overall Performance

US$ 90.30m

Total Income

US$ 2.3B

Total assets by the end of 2017

OVERVIEW

Given the difficult business and economic environment prevailed in 2017 at both regional and international levels, the Bank redirected its focus to consolidate operations, activate risk management practices, realign core processes, provide contemporary business solution to customers, enhance quality of services, and develop skill base, all of which provided an essential support in such a testing time. Therefore, the Bank remained strong against the adversities of prevailing operating environment.

The Bank remained very cautious in booking new business during 2017. In this respect, improving the composition of financial position, rationalizing the riskiness of operations, sustaining quality, and controlling cost, remained the utmost priority for the Bank. Therefore, the growth was primarily observed in secured avenues such as sovereign and government guaranteed transactions or facilities collateralized by tangible securities. Furthermore, the Bank adopted a proactive approach to identify and manage infected/ problematic/ special assets on a priority basis. In this regard, the Bank strategic partnership Tamkeen scheme and Ministry of Housing "Mazaya" Program generated a tangible business volume. Furthermore, the Bank entered into many deals with domestic and regional public and private sector entities after applying very prudential requirements.

During the year, efforts were in place to exit from inefficient and high-risk financing assets, amid with prevailing operating environment, therefore achieving tangible improvement in key risk indicators. In this respect, our strong presence in domestic and regional markets as well as prudential practices and strategic partnerships remained key factors in securing such strategic outcome and growth. Moreover, focus remained to improve risk profile of such assets by increasing diversification, targeting sovereign and public sector entities, shortening maturities, etc. Therefore, new investments were predominantly made in sukuks issued by sovereign and public sector entities and corporates carrying credit ratings above investment grade. At the same time, the Bank participated in couple of real estate funds managing properties in the US to rationalize returns of such portfolio.

Efforts also made to consolidate the financial position, after the merger and acquisition transaction in Pakistan operations, and rationalize the cost of funding according to best industry benchmark. In addition, the Bank was keen to improve other qualitative attributes of deposit-base such as reducing concentration, improving deposit mix, etc.

Both Bahrain and Pakistan shown a satisfactory growth in operations with continued efforts to enhance branch activities and distribution of other channels like ATMs, apply strict risk management policies and controls, devised in light of prevailing market conditions and capital constraints. Further, return from core business activities demonstrated remarkable improvement as compared to prior years. Meanwhile, the Bank (Both in Bahrain and in Pakistan) has linked growth strategies with the maintenance of capital adequacy ratios in accordance with applicable regulatory requirements. Therefore, the Bank targeted placement of funds with sovereign and public sector entities as well as other obligors carrying good credit ratings and lower-risk weights as per the applicable laws and regulations.

Our confidence in the Bank performance enhanced amid improvement in gross operating income from core assets and other income sources such as fees and commissions, with increasing role of liabilities side, especially from the Bank's customized saving products (such as Al-Barakat Account) which demonstrated steady growth during 2017. However, net income was affected by relatively higher operating expenses.

FINANCIAL PERFORMANCE

During current financial year, remarkable growth in operating income mainly due to increase in average core banking assets after the merger and acquisition transaction in Pakistan during 2016. Further, the Bank was able to record material amount of capital gains on trading portfolio, properties, real estate funds, and sukuks. The impact of improved liquidity management cannot be disregarded in maintaining growth trajectory in these balances.

During 2017, the Bank continued to focus on its main business markets in Bahrain, Pakistan, GCC, and MENA as these markets represent natural extension of the Bank's strategic positioning.

Total income from jointly financed assets amounted to US$ 90.30 million in 2017 compared to US$ 79.28 million in 2016, representing an increase of 19.0%. In line with this increase, return on equity of investment accountholders went up by 20.2% from US$ 44.56 million in 2016 to US$ 53.55 million in 2017. The Group's share of total income (as a Mudarib and Rab-al-Mal) amounted to US$ 36.75 million in 2017, reflecting a marked improvement of 17.3% compared to 2016. Income from self-financed assets increased by 43.1% from US$ 16.25 million in 2016 to US$ 23.25 million in 2017. Total operating income increased by 6.4% from US$ 70.21 million in 2016 to US$ 74.68 million in 2017.

On the other hand, total operating expenses increased by 32.9% from US$ 57.93 million in 2016 to US$ 76.97 million in 2017. This significant increase in operating expenses incurred during the year resulted mainly from the merger and acquisition transaction in Pakistan, which resulted in a material increase in cost of operations as compared to last year. Furthermore, payment of expenses related to the new headquarters resulted in further boost to operating expenses (including depreciation expense and capitalization of information technology infrastructure).

As a result, the Bank reported net operating losses before provisions and taxes of US$ 2.30 million in 2017 compared to net profit of US$ 12.28 million reported in 2016.

Aligned with approved strategies and complying the regulatory requirements especially with implementing IFRS 9, the Bank incorporated a significant amount of provisions, however, the Bank made large collection and remedial efforts during the year to collect non-performing debt, which resulted in the settlement of a few large non-performing cases, which in turn resulted in reducing the impact of such massive provisioning against non-performing assets in 2017.

After taking taxes into account, the Bank's reported net loss of US$ 5.40 million in 2017 compared to net profits of US$ 2.30 million reported in 2016.

As at the end of 2017, the Bank's total assets reached US$ 2.30 billion compared to US$ 2.39 billion as at the end of 2016, a decrease of 3.8% as the Bank was keen to consolidate its financial position due to prevailing market conditions and capital management challenges. Further, efforts were underway to improve qualitative aspects such as efficiency, diversification, constitution of core banking assets, riskiness, etc. Therefore, the overall financial position was squeezed from corresponding period but with significant improvements in key qualitative performance measures.

As being a core strategic initiative, the Bank kept building financing assets during the current financial period despite of challenges posed by prevailing market conditions. In this regards, the Bank focused on low risk avenues or secured modes to sustain growth in said balances.

In Bahrain operations, these assets marked a tangible increase during 2017 as compared to levels maintained in 2016. In this regard, our strategic partnerships with local sovereign agencies and strong relationships in regional market supported to maintain said growth. A mixed performance was observed across the business/customer segments during the year.

More specifically, a strong growth was observed in corporate portfolio, during the current financial year, by exploiting our relationships across the region and increasing business volumes with existing quality customers. With regard to SMEs, fresh facilities were granted under Tamweel program. Retail assets continued to mark growth, but at a slower pace as the Bank became very cautious in financing mortgages due to their long-term nature in such a non-conducive market.

In Pakistan operation, these assets shown a modest increase from corresponding period. Efforts were underway to consolidate the substantial growth achieved because of merger and acquisition transaction. Further, the Bank focused on obligors carrying lower risk weightings/ having minimal impact on capital adequacies.

During the year, the Bank successfully launched its new Sharia Compliant Credit Card to meet its customer needs and expectations. This product carries unique feature and received a very positive response from market.

During 2017, the Bank continued to focus on its main business markets in Bahrain, Pakistan, GCC, and MENA as these markets represent natural extension of the Bank's strategic positioning.

Effective liquidity management, being an integral component of core strategic plan, was utmost priority of the Bank during 2017. Such a function became very challenging due to reduction in liquidity levels from economic slowdown in Bahrain and GCC region. The Bank is actively monitoring available surplus assets under the direct supervision of its relevant management committees. In this regard, the focus was to proactively manage liquidity mismatch, diversify source of funding, and make contingency arrangements. Investments portfolio comprising of marketable securities, strong business relationships in regional market, and support of Al-Baraka Banking Group, provided an advantage in achieving the said objectives in such a difficult time. Impact of improvement in liquidity management such as increase in yield of placements and rationalization of current accounts balances were evident during 2017.

Equity of investment accountholders represent the main external source of funds of the Bank. These accounts decreased by 7.8% to reach US$ 1.47 billion in 2017 compared to US$ 1.60 billion in 2016. Aligned with approved strategies and prevailing operating conditions, the Bank made strong efforts to consolidate massive growth achieved in liability base over the years. More specifically, the focus was remained to rationalize and sustain cost of funding at an acceptable level along-with improving composition of liability base. Therefore, the overall liability base squeezed from corresponding period. While the focus remained to secure growth in current and saving accounts, Al-Barakat account continued to be a key driver in managing such growth, achieving a marked increase in 2017.

In addition, the Bank has sought to diversify sources of finance through innovative structuring by entering into agreements to obtain funds through Sukuk repurchase agreements, which are in its portfolio, with international banks and institutions.

The capital adequacy ratio remained at satisfactory levels of 13.79% in 2017 compared to 15.06% in 2016. Capital management become the center of all business strategies in banking industry upon promulgation of very strict deadlines by regulators to comply with Basel III in addition to implementation of IFRS 9.

In January 2017, The International Islamic Rating Agency (IIRA) has granted Al Baraka Islamic Bank an International Scale investment grade credit rating of BBB- (long-term)/A3 (short-term) and a National Scale rating of BBB+ (long-term)/A3 (short-term) with a Stable outlook.

During 2017, the Bank continued with developing policies and high ethical and professional standards relating to offering innovative and highly efficient Sharia-compliant products and services. To achieve this, number of programs and plans, which are currently being implemented to embody the motto of the Group identity in being “Your Partner Bank” to our customers, investors, and all other stakeholders. These steps included the implementation of a number of programs at all levels at the Bank to promote the understanding and assimilation of the new corporate identity and the values and principles that it represents and, which in turn, require high skills and outstanding performance from all employees.

As a result of this, there is now a strong customer oriented approach in all marketing activities. This approach is derived from the strategy outlined in the unified corporate identity and it has now been fully integrated into the policies, procedures and business methodologies.

As a reflection of the Bank’s growing reputation regionally and internationally, the Bank was awarded reputable international prizes in 2017. The Bank has been awarded, among four of ABG’s units, the ‘Best Islamic Bank' award in Bahrain for the year 2017, within the framework of the annual awards awarded by Global Finance Magazine, a banking and finance specialist for international banking and finance institutions.

Following the moving to our new headquarters located at Al Baraka Towers in the Bahrain Bay end of last year, the Bank is now in excellent position to provide quality services to its customers. Consequently, the new headquarters supports a new start to the Bank locally and regionally and in line with future goals and aspirations. As for our local branch network, Al Baraka Pakistan successfully integrated the new merged entity's activities, Some 35 branches operating close to each other were closed, reducing the network to 209 branches.

CREDIT CARDS

AL BARAKA CREDIT CARD

Al Baraka Islamic bank strives to provide you with the ultimate banking experience, starting from premium products and services to special offers and Rewards. Get your Credit Card and enjoy its exclusive benefits.

AL BARAKA CREDIT CARD

Al Baraka Islamic Bank introduce the all new MasterCard Credit Card, in three categories, Gold, Titanium, and Platinum that is Sharia-compliant, designed to meet your needs and exceed your expectations. Al Baraka Islamic bank strives to provide you with the ultimate banking experience, starting from premium products and services to special offers and Rewards.

- Platinum Credit Card
- Titanium Credit Card
- Gold Credit Card

All Al Baraka Islamic Bank credit card holders will be offered the most competitive rates in the Kingdom of Bahrain and will automatically become enrolled in the Al Baraka Rewards program to enjoy exclusive benefits and exciting rewards. The Al Baraka Rewards program is a universal loyalty program that allows members to earn and redeem Al Baraka Points instantly, anytime and anywhere within the rewards network and on the online catalog.


alBaraka
MasterCard

The Bank introduced new services, which were in accordance with the directions of the Central Bank of Bahrain, include the installation of an ATM offering a voice-guidance for cash withdrawals and balance enquiries.

Actions were taken to streamline product range and activities were progressively moved on to a single core banking system. In Bahrain, the focus was on repositioning our branches in areas or places, where they can serve better larger classes of citizen, businesses and customers.

Moreover, we equipped our main branch in Bahrain bay together with many other branches with necessary facilities that enabled them to services for customers with special needs. The new services, which were introduced in accordance with the directions of the Central Bank of Bahrain, include the installation of an ATM offering a voice-guidance for cash withdrawals and balance enquiries, furthermore, the Bank allocated a special desk to serve needy customers to enable them completing their banking services easily and in flexible manners. These services come in line with the Bank's strategies to enhance its products and services provided to all customers and in line with its social responsibilities toward the society. As for the ATM network, the Bank added two new ATMs in 2017, which bring the total of these ATMs to 34 ATMs.

Al Baraka Islamic Bank continued, during 2017, to create a conducive work environment and enhance the values and principles of the Bank to promote the concept of working as one team that possesses the academic qualifications, expertise and capabilities needed for the Bank's operations and satisfying the needs and expectations of our customers. The Bank also continued its efforts to fill-in senior positions and improve performance and productivity of its staff to serve customers better.

In 2017, the Bank promoted 23 staff members to enable them assume more senior positions. The management of the Bank, in partnership with Al Baraka Banking Group, has provide training program for large number of university trainees during 2017 reached 85 trainees.

The Bank's management also focused on providing in-house training courses, sending staff members to attend short training courses and professional qualifications to help them to improve their performance and increase awareness of key business, mandatory CBB requirements and other essential skills. The Training participation for our staff members and trainees reached 837 participations.

The Bank has also honored employees who have served the Bank for periods 5, 10, 15 and 30 years by giving them certificates and prizes during the Group strategy meeting, which was held during last quarter in 2017. The number of employees who were honored are 23 employees.

In addition, the Bank hired a consultancy company to improve the efficiency of staff. 20 staff were selected in phase 1, where the company evaluated their capabilities against their job descriptions in order to identify the strengths and weaknesses points, and based on this evaluation, the company will develop training courses for them suitable to their needs.

The Bank also formed special internal committee to improve the operational efficiency and rationalize the costs of all projects and contracts the Bank intends to implement. The committee will study all these projects and contracts in order to evaluate the viability, alternatives available and the best one to choose to implement them.

During 2017, the bank has engaged in the process of developing and upgrading most of the major operating policies and procedures to satisfy good practices and the new standards related to implementation of IFRS 9.

In view of the rapid advances in information technology at the global level and the changing developments in this area that this entails worldwide, Al Baraka Islamic Bank is very keen on modernizing the infrastructure of its computer network, increasing its capacity and introducing modern technologies with high-speed data transfer capabilities, which will lead to significant time-saving and reduction of effort on the part of the employees of the Bank.

We in Al Baraka Islamic Bank as an Islamic financial institution, and as a part of our commitment to the community, we have to contribute to the development of local economies and communities in which we work, where we believe that this role is one of the key features of the business model that we are committed to. The fact that Al Baraka Islamic Bank is considered a pioneer in Islamic banking, we seek to maintain our position as the leading organization committed to the social responsibility.

The Bank continued during the year 2017 performing its social responsibilities by directing its products and services for the development of communities in which it operates to enhance them socially and economically, and to improve the quality of these products and services, as well as through the support of financing of small and medium enterprises and taking care of youth skills and training them. As well as through its social contributions and generous financial donations to serve community and charitable organizations through sponsorships and donations program to charities and local clubs and scientific and religious centers, in addition to supporting needy families in Bahrain. The Bank has a special program to provide assistance to charities and humanitarian organizations during the holy month of Ramadan.

The Bank continues its sponsorship of many important international finance and banking events and conferences that are held in Bahrain such as the World Conference of Islamic Banking and AAOIFI, where we are one of the main sponsors of these conferences.

The Bank employs a number of students who are in the final stages of their undergraduate studies during the summer vacation, as well as fresh graduates with the aim of rehabilitation and refine their knowledge which is considered as an important part of the Bank's contributions toward the community.

CONCLUSION

At the end of our presentation of the performance of Al Baraka Islamic Bank in 2017, and in light of the positive results that we have made, particularly in terms of enhancing the assets quality, diversifying income sources, launching new products and services, enlarging income from core businesses and strengthening the organization governance structure, we can emphasize our confidence in the future, where the Bank has great potential to take advantage of the regional and global economies.

Moving forwards, the Bank formulated its three years' strategic plan for 2017-2019. Said plan is based on four strategic pillars and was prepared after detailed review of internal factors, external business environment, historical performance and capacity/ resources available with the Bank. Effective implementation of such plan is expected to bring real turnaround and will strengthen our position in the market. Therefore, we will continue implementing a number of initiatives, in front of which, the strong takeoff in Pakistan following the completion of the merger deal, in addition to continue diversifying services and products provided, expanding our branches network and enhancing the capital base of the Bank. According to this strategy, we will make more efforts to maximize the satisfaction of clients and stakeholders, in addition to build high quality income-generating assets portfolio through enhancing controls, regulations and practices of risk management, governance, anti-money laundering, and internal audit including Sharia control as well as tapping into new markets in Africa and Asia.

We believe that 2018 will see the continuation of challenges and surrounded by unstable environment, but we believe that the economic fundamentals of the Kingdom of Bahrain and other GCC countries will remain strong, and are supported by ambitious development programs. Also, both the oil prices and world economy are recovering, which creates suitable external environment for growth. At the same time, at the internal front, the integration and expansion in services and products innovation and in branches, our move to our new offices and the high efficiency of the human element, together with the generous support provided by our parent company, Al Baraka Banking Group, will enhance the Bank's operations and revenues and strengthen its local and regional standing.

Mohammed Isa Al-Mutaweh

Board Member and Chief Executive

INTERNET BANKING

MOBILE BANKING SERVICES

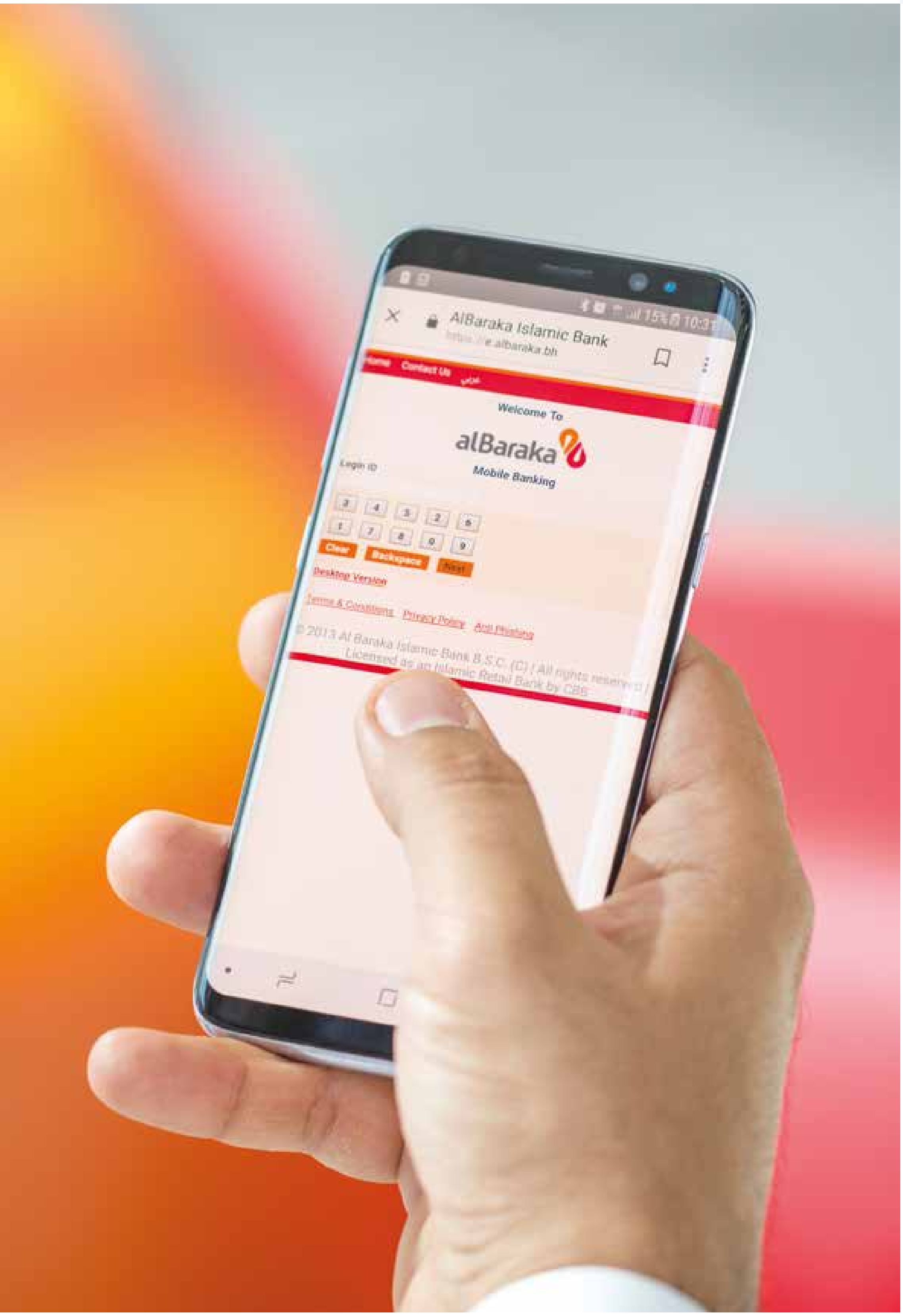
We have been consistently promoting safe, secure and convenient banking through our digital products and services. The new Internet and Mobile Banking Services that will improve customer satisfaction through saving time and effort using the latest modern technologies.

MOBILE BANKING SERVICES

Within its continuous effort to enhance banking services to customers, Al Baraka Islamic Bank B.S.C (C) launched the new Internet and Mobile Banking Services that will improve customer satisfaction through saving time and effort using the latest modern technologies.

The services that will be provided through Internet and Mobile Banking will include different account inquiries, account statements, fund transfer (between "al Baraka customers accounts", local "within Bahrain", and Internationally), utility bill payment (electricity & telephone bills), Taqseet Card inquiry & payment, investment account's details and finance account's details.

This new service, launched for our customers, reflects our constant keenness to develop the efficiency and quality of services in addition to the SMS banking which was launched recently as a part of the e-Banking services provided to customers in order to obtain their satisfaction and in line with our commitments with the values of our new corporate identity."


AlBaraka Islamic Bank
Welcome To
alBaraka
Mobile Banking
Login ID
Clear
Backspace
Next
Desktop Version
Terms & Conditions
Privacy Policy
Anti Phishing

CORPORATE GOVERNANCE

Philosophy, Strategy and objectives

AlBaraka Islamic Bank "AIB/the bank" adhere to the principles and best practices of corporate governance. It is a fundamental part of how we discharge our duties and responsibilities towards protecting and enhancing our shareholders' value as well as ensuring that we achieve long-term sustainable financial performance. Our governance framework extends beyond legislative and regulatory compliance, and aimed at creating a culture of good governance across the business to protect the interests of stakeholders. The Bank aspires to the highest standards of ethical conduct by delivering our promise to clients, reporting our financial results accurately and transparently and maintaining full compliance with all laws, rules and regulations governing the Bank's business.

The Bank's governance and compliance strategies, objectives and structures have been designed to ensure that the Bank complies with legislation and the myriad of codes, while at the same time moving beyond accountability and assurance issues to value creation and resource utilization issues. Internally the function has expanded in five complementary directions, namely:

- enterprise-wide corporate governance;
- business governance;
- corporate accountability and ethics;
- sustainability management and reporting; and
- Compliance.

The Compliance Unit at AIB works closely with Legal, Company Secretary, Risk, and Internal Audit in promoting a culture of good governance and compliance within the Bank. The Bank has taken the necessary steps to continuously enhance its corporate governance to ensure conformity and seeking best practices.

The Board of Directors adopted written Corporate Governance Policy covering bank-wide corporate governance framework, matters related to the Board, and the principles and rules of Central Bank of Bahrain (CBB) on Corporate Governance for Islamic Retail Licensed Institutions – "Module HC". Moreover, AIB conducts annual detailed self-assessments to ensure compliance with the requirements of Module HC, and sets specific milestone for implementation of any shortfalls whenever exist, including continuous review and upgrades for strong corporate governance practices included AIB's subsidiaries. AIB complies with the principles as set out in Module-HC. CBB, AIB's shareholders, the Board of Directors and Executive and Senior management have been fully apprised of the amendments to the requirements and the milestones set. Starting from 2011, Corporate Governance was an item on the agenda of the annual shareholder meeting for information and any questions from shareholders regarding the Islamic Bank's governance.

These disclosures should be read in conjunction with AIB's consolidated financial statements for the year ended 31 December 2017. To avoid any duplication, information required under CBB Rulebook PD module but already disclosed in other sections of the annual report has not been reproduced in these disclosures.

Governance Framework

Ownership Structure

Al Baraka Islamic Bank B.S.C. is a Bahrain-based licensed Islamic Retail Bank and operates as a subsidiary of Al Baraka Banking Group. Al Baraka Banking Group (ABG) is the dominating shareholder. The shareholding structure is transparent and the existing share structure consists entirely of Ordinary Shares and there are no different classes of Ordinary Shares. AIB can also confirm that the minority shareholders of the Bank are well represented on the Board of Directors, either directly or through the independent directors.

There has been no trading of Banks Shares during the year by the Directors or senior management. As at 31st December 2017, distribution schedule of shares, setting out the number and percentage of holders were in the following categories:

No	Name	Relationship	Position	Domicile	# of Shares	Share %
1	ABG	Parent Co.	-	Bahraini	1,115,755	91.1134%
2	Abdullatif A.Raheem Janahi	Non-executive and Independent Director	BoD Member	Bahraini	1,250	0.1021%

Other than the above, none of the other directors at the end of the financial year had any interest in the shares of AIB or its related corporations during the financial year. Other shareholders are as under:

3	Hussain Mohsin Alharthe	Shareholder	-	Saudi	50,000	4.0830%
4	Bahrain Islamic Bank	Shareholder	-	Bahraini	10,000	0.8166%

No	Name	Relationship	Position	Domicile	# of Shares	Share %
5	Ibdar Bank	Shareholder	-	Bahraini	10,000	0.8166%
6	Suliman Abdulaziz Alrajhi	Shareholder	-	Saudi	5,000	0.4083%
7	Saleh Abdulaziz Alrajhi	Shareholder	-	Saudi	5,000	0.4083%
8	Abdullah Abdulaziz Alrajhi	Shareholder	-	Saudi	5,000	0.4083%
9	Mohammed Abdulaziz Alrajhi	Shareholder	-	Saudi	5,000	0.4083%
10	Heirs of Dr. Hassan Abdullah Kamel	Shareholder	-	Saudi	5,000	0.4083%
11	Dubai Islamic Bank	Shareholder	-	UAE	5,000	0.4083%
12	Saeed Ahmed Lotah & Sons Group	Shareholder	-	UAE	5,000	0.4083%
13	Jordan Islamic Bank	Shareholder	-	Jordan	2,500	0.2042%
14	Sheikh Saleh Abdullah Kamel	Shareholder	-	Saudi	73	0.0060%
	Total				**1,224,578**	**100%**

Distribution of ownership of shares by nationality;

Country	No of Shares	Ownership %
Bahrain	1,137,005	92.85%
Jordan	2,500	0.20%
Saudi Arabia	75,073	6.13%
UAE	10,000	0.82%
Total	**1,224,578**	**100%**

Distribution of ownership of shares by size of shareholder;

Categories	No of Shareholders	% of Total Outstanding
Less than 1%	58,823	4.8%
1% up to less than 5%	50,000	4.1%
50% and above	1,115,755	91.1%
Total	**1,224,578**	**100%**

The Board of Directors (The Board)

The adoption and implementation of corporate governance is the direct responsibility of the Board of Directors, and shall continue its endeavour to enhance shareholder value, protect their interest and defend their rights by practicing pursuit of excellence in corporate life.

The risk management strategy is based upon risk principles approved by the Board and is underpinned by a system of delegations, passing from the Board through Board committees, the Chief Executive Officer (CEO), management committees to the various risk, support and business units of the Bank.

The Board is accountable to the shareholder; the management is accountable to the Board. Directors apply skill and care in exercising their duties to the Bank and are subject to fiduciary duties, and ensure that the management acts in the best interests of the Bank and its shareholder, by working to enhance the Bank's performance. The Board authorizes the Management to execute strategies that have been approved. The Board oversees the conduct of the Bank's businesses by ensuring that the business is properly managed by a management team of the highest caliber.

The principal functions of the Board are as follows:

- reviews and approves the Management's proposals on long-term strategic plans of the Bank as well as the strategic business plans and activities of the various business units and monitors the Management's performance in the implementation process;
- approves the annual budget for the Bank and conducts regular business review of achievements against the annual budget, as well as reviews the Management's business strategies and action plans;
- sets corporate values and clear lines of responsibility and accountability that are communicated throughout the Bank;

The Board of Directors (The Board) *(Continued)*

- ensures there is a managed and effective process to select and appoint key Senior Management officers that are qualified, professional and competent to administer the affairs of the Bank as well as approves a succession planning policy and effectively monitors Senior Management's performance on an ongoing basis;
- ensures the implementation of effective internal controls and processes to measure and manage business risks, including but not limited to reviewing the adequacy and integrity of internal control systems and operations; establishing relevant policies on the management of business risks covering inter alia operational, credit, market and liquidity risks and other key areas of the Bank's operations;
- institutes comprehensive policies, processes and infrastructure to ensure Shari'a compliance in all aspects of the Bank's operations, products and activities;
- sets up an effective audit department, staffed with qualified internal audit personnel to perform internal audit functions, covering the financial, management and Shari'a audit;
- establishes procedures to avoid self-serving practices and conflicts of interests;
- assures equitable treatment of shareholders including minority shareholders,
- ensures protection of the interests of the depositors, particularly investment account holders;
- establishes and ensures the effective functioning of various Board Committees;
- ensures that the operations of the Bank are conducted within the framework of relevant regulations, laws and policies;
- ensures that the Bank has a beneficial influence on the economic well-being of its community;
- Approve material transactions outside the normal course of business or in excess of the limits of approval authority delegated to Executive Management.

The Board has approved certain policies and procedures, which authorizes the senior management to approve certain transactions. The Board has delegated specific authority to the CEO and to management committees to manage the activities of the Bank within the limits set up by it. All credit and investment applications exceeding the pre-defined and approved limits in the form of amount, tenor require approval of the Board. Accordingly, the following types of material transactions require Board approval as defined by the approved policies:

1. Credit facilities above US$ 15m and/or tenor more than 10 years
2. Investments in quoted equities and investment in funds above US$5m and/or tenor more than 7 years.
3. Write-offs or discharge of the Bank's debts.
4. If the investment losses is more than 10%.
5. Any excess above 20% of the original approved limits, and/or amount above US$ 1m, and/or tenor above 3months.
6. Exceptional waivers in relation to security value or cash margin, if the original authority is the board.

Board meetings are held on a scheduled basis in ensuring relevant policy, strategy and business performance issues are discussed and accordingly tracked and monitored. The Board and its committees are supplied with full and timely information to enable them to discharge their responsibilities. Special Board meetings are also convened when the need arose.

Re-election of Directors

The Annual Shareholders' Meeting held on 11 May 2017 approved to renew the Board of Directors' term for a period of three years ending 10 May 2020.

Re-election of Directors process begins when an announcement is made requesting nominations for the position of membership of the 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. As part of the nomination process, each nomination must comply with local rules and regulations and must be submitted to the CBB in order to ensure compliance with the "Fit and Proper" requirements. The names of all nominated individuals so approved by the CBB are then submitted to the shareholders at the next AGM for election. Election of Directors takes place in accordance with the rules and procedures as set out in the Commercial Companies Law and AIB's Articles of Association.

Termination of Board Membership:

The termination is provided for in Article 32 of the Articles of Association as follows:

1. If the member was appointed in violation to the provisions of the law.
2. If the member loses any of the conditions provided for in the Articles e.g. lack of legal capacity, convicted in bankruptcy, crimes of honour or breach of trust.

CORPORATE GOVERNANCE *(CONTINUED)*

3. If he uses his membership to conduct a competitive business or causes real damages to the Bank.
4. If he is absent from the Board meeting for four consecutive meetings without legitimate reason.
5. If he resigns or discharged from office.
6. If he occupies another salaried position other than an executive position which the Board decided to pay salary to him.

If the office of a director becomes vacant the Board may appoint a temporary director to fill the vacancy. Such an appointment shall be presented to the ordinary general meeting in its first meeting for the purpose of ratifying the appointment.

The Board Composition

The Directors have broad experience across a number of industries and business sectors, and provide valuable input and an external perspective to matters of business strategy. The Board currently has 10 members, comprising 6 independent non-executive directors (including the Chairman) and 4 executive directors.

The Board meets quarterly to review and evaluate corporate strategy, major operational and financial plans, risk policy, financial performance objectives and monitors implementation and corporate performance within the parameters of all relevant laws, regulations and codes of best business practice.

The role of the Chairman of the Board is fundamentally distinct from that of the CEO. The separation of powers between the Chairman of the Board and the CEO ensures a balance of power and authority which provides a safeguard against the exercise of unfettered powers in decision-making. The Chairman is responsible for ensuring Board's effectiveness, as well as representing the Board to the shareholder. The CEO act in accordance with the authority delegated to him by the Board.

Board composition, Independence of Directors, and Membership in the Board Committees are set out below:

		Board Membership		Committee Membership			
Director Name	Nationality	Designation	Position	Audit & Governance	Remuneration & Board Affairs	Executive	Risk Management
Mr. Khalid Rashid Al-Zayani	Bahraini	Independent Director	Chairman				
Mr. Adnan Ahmed Abdulmalek	Bahraini	Executive Director	Vice Chairman			Chairman	
Mr. Abdullatif A.Raheem Janahi	Bahraini	Independent Director	Member			Member	
Mr. Abdulrahman Abdulla Mohammed	Bahraini	Independent Director	Member			Member	
Mr. Musa A. Shihadah	Jordanian	Executive Director	Member	Member			
Dr. Khalid Abdulla Ateeq	Bahraini	Independent Director	Member		Member		Chairman
Mr. Ashraf A. El Ghamrawi	Egyptian	Executive Director	Member				Member
Mr. Yousef Ali Fadel Ben Fadel	UAE	Independent Director	Member	Member	Chairman		
Mr. Maqbool Habib Khalfan	Qatar	Independent Director	Member	Chairman			Member
Mr. Mohamed Essa Al Mutaweh	Bahraini	Executive Director	Member			Member	

All Directors receive accurate, timely and clear information on all relevant matters, and have access to the advice and services of the Head of Legal & Corporate Secretary who, together with the Head of Compliance, is responsible for ensuring that Board procedures are followed and applicable rules and regulations are complied with.

A formal induction process exists for each new Director on joining the Board, including briefing on the Bank's Corporate Governance Policy with copy for their reference, and meetings with other Directors and the Board Secretary. The Bank provides the necessary programs of continuing education to ensure that Directors are kept up to date with developments in the industry both locally and globally which assist them in carrying out their duties as Directors.

Board meetings and attendances

In line with the nature and demands of the Bank's business, the Board meets at least every quarter unless further meetings are required. In 2017, the Board held 5 meetings, and the number of meetings attended by each member was as follows:

No	Name	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	Mr. Khalid Rashid Al-Zayani (Chairman)	4	5	9 January 2017 19 February 2017 11 May 2017 8 August 2017 12 November 2017	5/5
2	Mr. Adnan Ahmed Abdulmalek				5/5
3	Mr. Abdullatif A.Raheem Janahi				5/5
4	Mr. Abdulrahman Abdulla Mohamed				5/5
5	Mr. Musa A. Shihadah				5/5
6	Dr. Khalid Abdulla Ateeq				5/5
7	Mr. Ashraf A. El Ghamrawi				5/5
8	Mr. Yousef Ali Fadel Ben Fadel				5/5
9	Mr. Maqbool Habib Khalfan				5/5
10	Mr. Mohamed Essa Al Mutaweh				5/5

The Board consists of individuals of caliber and diverse experience with the necessary skills and qualification. The Board comprises Directors who, as a group, provides a mixture of core competencies for the effective functioning and discharging of the responsibilities of the Board.

Performance Evaluation

In line with the Bank's Corporate Governance Policy, the Bank adopts formal procedure in order that the Board could undertake a formal evaluation of its own performance and that of its committees and individual Directors. The Board will distribute Evaluation Forms to all its members to evaluate their performance in the board and its committees and to evaluate the board itself. The Forms will be sent to the Chairman who will direct the Remuneration and Board Affairs Committee to write a report. The results of the Report is presented to the shareholders in the Annual general Meeting.

Remuneration

During the year 2014, the Central Bank of Bahrain issued regulations concerning Sound Remuneration Practices which the Bank adopted by proposing revisions to its variable remuneration policy and framework. Such revisions were duly reviewed and approved by the Remuneration and Board Affair Committee and Board of Directors on 12 November 2014. Further, the revised policy and incentive components were duly approved by the shareholders in the Annual General Meeting on 29 March 2015.

The Bank's compensation strategy, which includes the variable remuneration policy, sets out the Bank's policy on remuneration for Directors and Senior Management and the key factors that are taken into account in setting the policy.

Remuneration Strategy

The quality and long-term commitment of all of our employees is fundamental to our success. There is a robust and effective governance framework in place to ensure that the Bank operates within clear parameters of its compensation strategy and policy for remunerating the Board members, executives and senior management and its Shari'a Board members in accordance to the remuneration policies and procedures approved by the Board. All compensation matters and overall compliance with regulatory requirements are overseen by the Remuneration and Board Affairs Committee.

The Bank's basic compensation philosophy is to provide a competitive level of total compensation to attract and retain qualified and competent employees who are committed to maintaining a career with the Bank, and who will perform their role in the long-term interests of the Bank and its shareholders.

The Bank's reward package comprises of fixed pay, benefits, performance bonus and a long-term performance incentive plan. The Bank's variable remuneration policy will be driven primarily by a performance based culture that aligns employee interests with those of the shareholders of the Bank. These elements support the achievement of our objectives through balancing rewards for both short-term results and long-term sustainable performance. Our strategy is designed to share our success, and to align employees' incentives with our risk framework and risk outcomes.

CORPORATE GOVERNANCE *(CONTINUED)*

In order to ensure alignment between how we compensate our people and our business strategy, we assess individual performance against annual and long-term financial and non-financial objectives summarized in our performance management system. This assessment also takes into account adherence to the Bank's values, risks and compliance measures and above all ethics and integrity. Altogether, performance is judged, not only on what is achieved over the short and long-term but also importantly on how it is achieved, as the Remuneration & Board Affairs Committee believes the latter contributes to the long-term sustainability of the business. More particularly, we use capital and solvency ratios, key profitability measures, quality of earning parameters and strategic growth indicators as performance metrics for key business line managers and individuals.

The Bank'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 Bank and an employee is considered a Material Risk taker if they are the Head of a significant business line or any individuals within their control who has a material impact on the Bank's risk profile.

The Bank provides fixed annual fees to the Shari'a Board and does not provide any performance linked incentives.

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

In addition to the responsibilities of the Remuneration & Board Affairs Committee mentioned elsewhere in this report, the Remuneration & Board Affairs Committee is entrusted with specific and detailed responsibilities with regard to the Bank's variable remuneration policy and oversight of its implementation. These include but are not limited to ensuring that the system operates as intended, especially for Material Risk Takers, ensuring that variable remuneration forms a substantial part of their total remuneration and is adjusted for all types of risks by reviewing the stress testing and back testing results. The Remuneration & Board Affairs Committee is also responsible for ensuring that for Approved Persons in risk management, internal audit, operations, Sharia' review, financial control and compliance functions, the mix of fixed and variable remuneration is weighted in favor of fixed remuneration. In addition, the Remuneration & Board Affairs Committee recommends that Board members' remuneration be based on their attendance and performance in compliance with Article 188 of the Bahrain Commercial Companies Law.

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

The Board is satisfied that all non-executive Directors are independent, including the Remuneration & Board Affairs Committee members.

The aggregate remuneration paid to Remuneration & Board Affairs Committee members during the year in the form of sitting fees amounted to USD 18 thousand [2016: USD 17 thousand].

Board Remuneration

Remuneration for the Bank's Board of Directors is determined in line with the provisions of Article 188 of the Bahrain Commercial Companies Law, 2001. Board remuneration is subject to the 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.

In the case of Non-Executive Directors, their level of remuneration reflects the experience and level of responsibilities undertaken by these Directors in the Bank. As for the CEO, the remuneration is structured so as to link the remuneration and other rewards/benefits to contributions and achievements, in tandem with the Bank and the Parent (ABG) corporate objectives, culture and strategy.

No director has received or become entitled to receive a benefit by reason of a contract made by the Bank or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest, other than the contracts mentioned in related section of the Bank's financial statements.

Directors' interests in the Bank's shares

Board Members	Shareholding at 1 January 2017	Shareholding at 31 December 2017	Changes in shareholding
Abdullatif A.Raheem Janahi	1,250	1,250	-

CEO, Directors and Shari'a Committee Members' Remunerations:

	2017 USD'000	2016 USD'000
Directors:		
Remuneration*	199	180
Sitting Fees	312	290
Allowances and others**	36	50
Total	**547**	**520**
Staff inclusive of Chief Executive Officer: **Fixed Remuneration**		
Approved persons and material risk takers-business line	2,485	1,914
Approved persons-others	2,003	1,094
Other staff in Bahrain	11,013	10,142
Staff of overseas subsidiary	19,115	13,198
Total fixed remuneration	**34,616**	**26,348**
Variable Remuneration		
Approved persons and material risk takers-business line	215	750
Approved persons-others	212	402
Other staff in Bahrain	443	1,450
Staff of overseas subsidiary	456	802
Total variable remuneration	**1,326**	**3,404**
Total remuneration to staff	**35,942**	**29,752**
Shari'a Committee Members	**73**	**72**

* The amounts represent remuneration paid to the Board of Directors during the year based on the prior year performance.

** Others include the reimbursement of tickets and per diem for attending Board of Directors and Board Committees meetings.

Total fixed remuneration for covered persons affected by the policy, having salaries & benefits exceeding BD 100,000, amounts to USD 2,072 thousand (2016: USD 2,100 thousand) and the number of persons affected: 6 (2016:5). The total variable remuneration for 2017 paid to these persons was USD 334 thousand (2016: USD 1,046 thousand). Said variable remuneration comprises of upfront cash amounted to USD 133 thousand (2016: USD 418 thousand) and deferred shares amounted to USD 200 thousand (2016: USD 628 thousand). Further, the total amount of deferred remuneration outstanding as at 31 December 2017 are USD 200 thousand (2016: USD 628 thousand).

Variable Remuneration for Staff

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

The Bank 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 Remuneration & Board Affairs Committee aims to balance the distribution of the Bank's profits between shareholders and employees.

Key performance metrics at the bank 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 Bank 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 Bank uses a formalized and transparent process to adjust the bonus pool for quality of earnings. It is the Bank's objective to pay out bonuses out of realized and sustainable profits. If the quality of earnings is not strong, the profit base could be adjusted based on the discretion of the Remuneration and Board Affairs Committee.

For the overall Bank to have any funding for distribution of a bonus pool; threshold financial targets have to be achieved. The performance measures ensure that total variable remuneration is generally, considerably contracted where subdued or negative financial performance of the Bank 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 allows the Bank to employ qualified and experienced personnel in these functions. The Bank ensures that the mix of fixed and variable remuneration for control and support function personnel should be weighted in favor of fixed remuneration. The variable remuneration of control functions is to be based on function-specific objectives and is not is determined by the financial performance of the business areas they monitor.

The Bank'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.

Alignment with Risk

The policy aims to align variable remuneration to the risk profile of the Bank. In its endeavor to do so, the Bank 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 Bank's Remuneration & Board Affairs Committee considers whether the variable remuneration policy is in line with the Bank's risk profile and ensures that through the Bank'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 for all types of risk, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Bank undertakes risk assessments to review financial and operational performance against business strategy and risk performance prior to distribution of the annual bonus. The Bank 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 bank's current capital position and it's ICAAP.

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

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

- the cost and quantity of capital required to support the risks taken;
- 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 Remuneration and Board Affairs Committee keeps itself abreast of the Bank's performance against the risk management framework. The Remuneration and Board Affairs Committee will use this information when considering remuneration to ensure returns, risks and remuneration are aligned.

The Bank has an ex-post risk assessment framework, which is a qualitative assessment to back-test actual performance against prior risk assumptions.

In years where the Bank suffers material losses in its financial performance, the risk adjustment framework will work as follows:

- There will be considerable contraction of the Bank's total variable remuneration;
- At an individual level, poor performance by the Bank 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; and
- 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.

Alignment with Risk (Continued)

The Remuneration and Board Affairs Committee, with the Board's approval, can rationalize and make the following discretionary decisions:

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

The Bank's malus and clawback provisions in the policy allow the Bank's Remuneration and Board Affairs Committee 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 Bank 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 Bank to reduce or cancel the awards of employees whose individual behavior has had a materially detrimental impact on the Bank during the concerned performance year.

Any decision to take back an individual's award can only be made by the Bank's Remuneration and Board Affairs Committee.

The Bank's malus and clawback provisions allow the Bank's Remuneration and Board Affairs Committee 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 willful misbehavior, material error, negligence or incompetence of the employee causing the Bank/the employee's business unit to suffer material loss in its financial performance, material misstatement of the Bank's financial statements, material risk management failure or reputational loss or risk due to such employee's actions, negligence, misbehavior or incompetence during the concerned performance year; and
- The employee deliberately misleads the market and/or shareholders in relation to the financial performance of the Bank during the concerned performance year.

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

Incentive plans

The employees of the bank are eligible for a variety of incentive plans to achieve a direct linkage amongst the remuneration and current/ future performance of the bank. In this respect, the separate short term incentive plans (STIP) and Long Term Incentive Plans (LTIP), are duly devised in the light of prevailing laws and regulations.

Main components of said remuneration are as follows:

Upfront 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.
Upfront share awards	The portion of variable compensation that is awarded and issued in the form of phantom 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 phantom shares on a pro-rata basis over a period of 3 years.

All deferred awards are subject to malus provisions. All phantom shares awards are released to the benefit of the employee after a six-month retention period from the date of vesting.

More particularly, the employees in business lines can avail remuneration, under short-term incentive plan (STIP), as follows:

Element of variable remuneration	Constitutions	Vesting period	Retention	Malus	Clawback
Upfront cash	40%	Immediate	-	-	Yes
Upfront shares	-	Immediate	6 Months	Yes	Yes
Deferred cash	10%	3 Years	-	Yes	Yes
Deferred share awards	50%	3 Years	6 Months	Yes	Yes

CORPORATE GOVERNANCE *(CONTINUED)*

While, the employees in other functions shall be subject to variable remuneration under such STIP as follow:

Element of variable remuneration	Constitutions	Vesting period	Retention	Malus	Clawback
Upfront cash	50%	Immediate	-	-	Yes
Upfront shares	10%	Immediate	6 Months	Yes	Yes
Deferred cash	-	3 Years	-	Yes	Yes
Deferred share awards	40%	3 Years	6 Months	Yes	Yes

The Remuneration and Board Affairs Committee, based on its assessment of role profile and risk taken by an employee could increase the coverage of employees that will be subject to deferral arrangements. There are no signing or guaranteed bonuses awarded during the current and prior year.

In addition to non-cash short term incentives, in order to motivate and align employee with the long term business plan of the bank, the bank may decide to selectively award Long Term Incentive plans to employees contingent on the delivery of future performance targets for the bank. The Board Affairs & Remuneration Committee will confirm the employees eligible for the bank's LTIP scheme on an annual basis. The performance horizon and quantum of award will also be determined on an annual basis, based on the performance requirements. All LTIP awards will be delivered as non-cash instruments and are delivered on assessment of results achieved at the end of the performance period. LTIPs vest immediately at the end of the performance period (a minimum of 3 years) and are subject to a six month retention period post vesting.

Currently, the Bank has decided to remunerate the covered staff, having salary exceeding BD 100, 000, by using the LTIP. In this respect, the scheme of remuneration is duly elaborated as follows:

Element of variable remuneration	Constitutions	Deferral period	Retention	Malus	Clawback
Upfront cash	40%	Immediate	-	-	Yes
Deferred share awards	60%	3 Years	6 Months	Yes	Yes

External Consultants

The Bank appointed consultants to advise the Bank on amendments to its variable remuneration policy to bring it in line with the CBB's Sound Remuneration Practices and industry norms. This included assistance in designing an appropriate Share-based Incentive Scheme for the Bank.

Board Committees

In accordance with the Board Charter, the Board principally through Board Committees is responsible for overseeing the establishment of systems of risk management by approving accounting policies, financial statements and reports, credit policies and standards, risk management policies and procedures and operational risk policies and systems of internal controls, taking into account the Bank Risk Appetite, the overall business strategy, management expertise and the external environment. The Board has defined general parameters to manage the Bank-wide risk profile to comply with the approved Bank Risk Appetite and tolerances which consider both downside risk and opportunities.

The Board has approved policies that support the implementation of a risk oversight and management framework for the Bank. These policies are overseen by the Board Committees with each Committee operating under a Board approved charter that is reviewed annually.

Each Committee has established a reporting structure that describes the relevant responsibilities in respect to oversight and monitoring of Board-approved risk management policies.

The Committees evaluate developments in respect to the Bank's structure and operations, as well as economic, industry and market developments that may impact the Bank's management of risk.

The Board Committees meet regularly and consist of executive and non-executive directors. The Board Committees in operation during the year under review are:

1. Audit and Governance Committee

The Audit & Governance Committee appointed by the Board of Directors and consists of three members. The Head of Internal Audit reports directly to the Chairman of the Audit and Governance Committee. The Committee regularly informed about significant projects aimed at further improving processes and receives regular updates on major litigation matters as well as significant regulatory and compliance matters.

The primary function of the Audit Committee is to assist the Board in fulfilling its oversight role by:

- Monitoring and assessing the integrity of the consolidated financial statements as well as disclosures of the financial condition, results of operations and cash flows;
- Monitoring processes designed to ensure an appropriate internal control system, including compliance with legal and regulatory requirements;
- Monitoring the activities and performance of the internal audit function and external auditors; and
- Coordinating the implementation of the Corporate Governance Policy framework.

The Audit & Governance Committee reviews and, as appropriate, approves and/or recommends for the approval of the Board of Directors, the interim and annual consolidated financial results; status updates on implementation on various regulatory reports; internal and external audit reports and status of their implementation (as appropriate); new accounting and regulatory pronouncements and their implications. The committee also assists the Board in fulfilling its governance responsibility by monitoring the implementation of a robust compliance framework by working together with the Management and the Sharia Supervisory Board.

Independent Non-executive board member chairs the Audit & Governance Committee. The members, number of meeting held, and attendance of members were as follows:

No	Name	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	Maqbool Habib Khalfan (Chairman)	4	4	19 Feb 2017 11 May 2017 8 Aug 2017 12 Nov 2017	4/4
2	Musa A. Shihadah				4/4
3	Yousef Ali Fadel Ben Fadel				4/4

Sheikh Esam Ishaq is a Sharia Supervisory Board member also a member of the Audit and Corporate Governance committee with a voting right in respect of Sharia Governance issues. He attends at least one meeting and whenever necessary to provide guidance and advice on Shari'a related matters, and to coordinate and link complementary roles and functions of the corporate governance committee and the Sharia Supervisory Board.

2. Remuneration & Board Affairs Committee

The Committee is responsible for assisting the Board in reviewing and overseeing the following responsibilities:

- Board of Directors' and individual directors' performance;
- Effectiveness of, and compliance with, the Bank's corporate governance policies and practices;
- Succession planning for the Board and senior management;
- Staff remuneration policy and fees for non-executive directors and for the Shari'a Supervisory Board;
- Approve, monitor and review the remuneration system to ensure the system operates as intended;
- Approve 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;
- Ensure remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees that earn same short-run profit but take different amount of risk on behalf of the bank;
- Ensure that for Material Risk Takers, variable remuneration forms a substantial part of their total remuneration;
- Review 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 evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The Remuneration and Board Affairs Committee will question payouts for income that cannot be realized or whose likelihood of realization remains uncertain at the time of payment;
- Ensure that for approved persons in risk management, internal audit, operations, financial control and compliance functions the mix of fixed and variable remuneration is weighted in favor of fixed remuneration;
- Recommend Board member remuneration based on their attendance and performance and in compliance with Article 188 of the Bahrain Commercial Companies Law; and
- Ensure appropriate compliance mechanisms are in place to ensure 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.

CORPORATE GOVERNANCE *(CONTINUED)*

The Board is ultimately responsible for the approval of the remuneration package. The Committee is guided by the need to 'attract and retain' and at the same time link the rewards to clearly articulate corporate and individual performance parameters. The members, number of meeting held, and attendance of members are as follows:

No	Name	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	Mr. Yousef Ali Fadel Ben Fadel (Chairman)	2	2	9 January 2017 27 November 2017	2/2
2	Dr. Khalid Ateeq				2/2
3	Mr. Maqbool Habib Khalfan*				2/2

3. Executive Committee

The primary purpose of the Committee is to consider specific matters delegated to it by the full Board and then make recommendations thereon to the Board or take decisions based on authorities specifically delegated by the Board. The Board Executive Committee also has the power and authority to approve certain credit and investment proposals. The members, number of meeting held, and attendance of members are as follows:

No	Name	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	Mr. Adnan Ahmed Abdulmalek (Chairman)	4	6	6 February 2017 15 April 2017 12 June 2017 12 September 2017 27 November 2017 31 December 2017	6/6
2	Mr. Abdullatif A.Raheem Janahi				6/6
2	Mr. Abdulrahman Abdulla Mohamed				6/6
4	Mr. Mohamed Essa AlMutaweh				6/6

4. Board Risk Management Committee

The Board Risk Management Committee is mandated to ensure that the integrated risk management functions within the Bank are effectively discharged. The Committee has the following overall responsibilities:

- Ensure that sound risk management policies and practices are in place for a bank-wide risk management framework addressing the Bank's material risks, and report the results of the Committee's activities to the Board of Directors.
- Ensures day-to-day operations are executed within the boundaries set by the business and risk strategy and appetite. Breaches of the risk appetite will result in immediate action at the appropriate management level.
- Ensure that management understands and accepts its responsibility for identifying, assessing and managing risk.
- Periodically review and monitor risk mitigation process and periodically review and report to the Board of Directors:

  (a) the magnitude of all material business risks;

  (b) the processes, procedures and controls in place to manage material risks; and

  (c) the overall effectiveness of the risk management process;

The Risk Committee consists of three members. The Risk Committee has its own Board approved charter. The Chairman of the Risk Committee invites members of management or others to attend the committee meetings, as appropriate. The members, number of meeting held, and attendance of members are as follows:

SR No	Name	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	Dr. Khalid Abdulla Ateeq (Chairman)	4	4	19 February 2017 10 May 2017 17 September 2017 5 December 2017	4/4
2	Mr. Maqbool Habib Khalfan				4/4
3	Mr. Ashraf A. El Ghamrawi				4/4

Conflict of Interest

Directors avoid any action, position or interest that conflicts with an interest of the Bank, or gives the appearance of a conflict. The Bank annually solicits information from Directors in order to monitor potential conflict of interest, and Directors are expected to be mindful of their fiduciary obligations to the Bank. In the event of a situation involving a potential conflict of interest, Directors are encouraged to seek advice from the Bank's Compliance Officer.

Management Committees

In addition to the Board Committees, the Bank has in place mainly the following Management Committees with the Chief Executive Officer functioning as the Chairman of each committee. The members of committees comprise the Heads of Departments who are drawn from relevant and related functions:

- **Management Committee**

  The 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.

- **Asset and Liability Committee (ALCO)**

  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 the Bank and the Group and sets balance sheet growth targets, besides monitoring the distribution of profits to investors.

- **Commercial / Corporate/ Retail Credit Committee**

  The Credit Committee is the authority that approves credits and considers issues of Group credit policy and Group credit exposures, problem credits and provisioning levels.

- **Information Technology Steering Committee**

  The 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 standardization in information and operation management.

- **Cash Management Committee**

  Cash management committee is responsible for overseeing the management of available liquidity on a continuous basis.

- **IFRS-9 (FAS 30) Committee**

  Overseeing the implementation of upcoming financial reporting standard IFRS-9 requiring material changes in organization processes, classification of financial assets, impairments and other key fundamentals.

- **Strategy Steering Committee**

  Oversee the preparation and implementation of business/ plans and strategies of the Bank.

There is a clear division of responsibility between the Board and the management. The CEO is supported by his team of senior management who are responsible for the implementation of Board resolutions, overall responsibilities of the day-to-day operations of the Bank's business and operational efficiency. The directors are kept abreast of the Bank's performance via the various monthly reports tabled at the Board meetings and Board Committee meetings.

INTERNAL CONTROL

The Board is responsible for the adequacy and effectiveness of system of internal controls of the bank which is supported by segregation of duties, enhanced system of internal controls across all aspects of the business as well as strong support functions covering legal, regulatory, governance, reputation, finance, information technology, human resources and strategy. However, such a system is designed to manage the Bank's key areas of risk within an acceptable risk profile, rather than eliminate the risk of failure to achieve the policies and business objectives of the Bank.

The Bank's system of internal control includes:

- An organization structure with clearly defined authority limits and reporting mechanisms to senior levels of management and to the Board.
- A Risk Management function with responsibility for ensuring that risks are identified assessed and managed throughout the Bank.
- A set of policies and guidelines relating to credit risk management, asset and liability management, compliance, operational risk management and business continuity planning.
- An annual budgeting and monthly financial reporting system for all business units, which enables progress against plans to be monitored, trends to be evaluated and variances to be acted upon.
- An Internal Audit function to evaluate the adequacy and effectiveness of governance, risk and control systems, and to review management's compliance with policies and procedures.

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- Various appointed Committees are established by the Board to assist the Board in ensuring the effectiveness of Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The Internal Audit Department of the Bank checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlights significant findings in respect of any non-compliance. Audits are carried out on all departments and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Audit Committee. Findings of the internal audit are submitted to the Audit Committee for review at their periodic meetings.

CORPORATE GOVERNANCE *(CONTINUED)*

- The Audit Committee of the Bank reviews internal control issues identified by the respective Internal Audit Department, regulatory authorities, management, and external auditors and evaluate the adequacy and effectiveness of the risk management and internal control systems. The Audit Committee also reviews the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. The minutes of the Audit Committee meetings are tabled to the Board of the Bank on a periodic basis.

The governance arrangements, systems and controls employed by the Bank also to ensure Shari 'a compliance and on how these meet applicable AAOIFI standards, and if there is less than full compliance, an explanation of the reasons for non-compliance.

The Bank is committed to avoid recognizing any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity fund where the Bank uses these funds for social welfare activities and charities. The Statement of sources and uses of charity fund disclosed in the Annual Report provides further information, if there was any non-Shari'a-compliant earnings and expenditure occur and the manner in which they were disposed of and the annual zakah contributions of the Bank.

RISK MANAGEMENT

AIB continued to be committed in complying with the best practices informed by Basel and IFSB guidelines and adhering to CBB requirements. Our Risk Management Framework aims at proactive management of risks in the full life cycle of a financial transaction, including its operating circumstances from origination to final disposal from the books of the Bank.

During 2017 the bank has progressed with the implementation of IFRS 9 towards the effectiveness date of 1 January 2018. During 2017, it was decided to overhaul the credit modelling landscape in light of the strategical framework objectives, increased use of data analytics, new regulation and new modelling techniques. In the coming years, new models will be built supported by a new core banking system planned for implementation by Q2-2018.

The Bank maintains a prudent and disciplined approach to risk taking by upholding a comprehensive set of risk management policies, processes and limits, employing professionally qualified people with the appropriate skills, investing in technology and training, and actively promoting a culture of sound risk management at all levels.

Risk Management governance originates at Board level, and cascades through to the CEO and businesses, via policies and delegated authorities which ensures Board-level oversight and a clear segregation of duties between those who originate and those who approve risk exposures.

The Board has overall responsibility for validating and approving the policies and procedures, defining the risk tolerance, and establishing the risk strategy for effective risk management framework. The responsibility of risk governance lies with the different Board's and management's committees who in turn define and monitor the relevant risks to the organization (both financial and non-financial risks, including market, credit, liquidity, operational, compliance, strategic, reputational and legal).

The Bank follows a policy of enterprise-wide risk management (ERM), which aligns strategy, policies, charters, people, processes, technology and knowledge in order to evaluate and manage the opportunities, threats and uncertainties the Bank may face in its going efforts to create shareholder value. The ERM places emphasis on accountability, responsibility, independence, reporting, communications and transparency. The risk management framework of the Bank is structured upon:

- Core Risk Principles - overriding principles governing all activities and risk monitoring procedures; and
- Specific Risk Policies - appropriate policies, framework documents, procedures and processes implemented to manage specific risks to which the Bank is exposed.

The Bank's risk ERM is based on three lines of defense: (i) business management, (ii) independent control functions and (iii) Internal Audit:

- **Business Management**. Each of the Bank's business units, including material-risk taker personals, own and manage the risks, including compliance risks, inherent in or arising from the business, and are responsible for having controls in place to mitigate key risks, performing manager assessments of internal controls, and promoting a culture of compliance and control.

- **Independent Control Functions**. The Bank's independent control functions, including Compliance, Finance, Legal and Risk, set standards according to which the Bank and its businesses are expected to manage and oversee risks, including compliance with applicable laws, regulatory requirements, policies and standards of ethical conduct. The Bank's Head of Credit and Head of Risk Management Departments both are responsible for formulating and monitoring the Bank's policies relating to all aspects of risk, developing the framework for risk measurement and coordinating with the relevant departments for all necessary steps for adhering to the Basel requirements under the CBB rules, and the guidelines of the Parent Bank (ABG). They are also responsible for introducing and implementing risk measurement software, monitoring the Bank's compliance with risk measurement standards and providing the management with reports on the various risks. Risk management also provides subject matter expertise on their respective risk areas and report directly to the CEO and Board Risk Committee. In addition, among other things, the independent control functions provide advice and training to the Bank's businesses and establish tools, methodologies, processes and oversight of controls used by the businesses to foster a culture of compliance and control and to satisfy those standards.

- **Internal Audit**. The Bank's Internal Audit function independently reviews activities of the first two lines of defense discussed above based on a risk-based audit plan and methodology approved by the Bank's Board of Directors.

Risk appetite statement reflects the level and type of risk that the Bank is willing to assume, in order to achieve its strategic and business objectives keeping in perspective the obligations to its stakeholders.

RISK MANAGEMENT *(Continued)*

The Bank has a well-defined Risk Appetite Framework, which consists of the Risk Appetite Statement, with both qualitative and quantitative measures, along with:

- well defined performance metrics in the form of KPIs,
- risk limits, exposure criteria, restrictions and controls, lending and investment standards as laid out in the internal risk policies and procedures manual,
- capital and liquidity benchmarks which are monitored in the Asset Liability Management Committee meetings,
- key business and risk management objectives, goals and strategy which are defined in business, investment and risk management strategies, and
- Management and oversight structures in the Bank through Management and Board committees. Our risk appetite defines the desired performance levels which, in turn, are embedded into management of the various risks within the Bank as well as the Capital of the Bank. Our risk appetite is integrated into the strategic, capital, and risk management planning process across business verticals

Independent Risk Management Department monitors and controls major risk exposures and concentrations across the Bank. This requires the aggregation of risks, within and across businesses, as well as subjecting those risks to various stress scenarios in order to assess the potential economic impact they may have on the bank. Stress tests are in place across the Bank's entire portfolio. These bank-wide stress reports measure the potential impact to the Bank and its component businesses of changes in various types of key risk factors (e.g., interest rates, credit spreads, etc.), as developed internally by independent risk management. These bank-wide stress tests are produced on a monthly basis, and results are reviewed by the Bank senior management and Board of Directors.

Further, the Board annually or periodically, reviews the risk management policies, procedures, limits, and risk strategies to cope with the changing economic environment and AIB's risk appetite.

We believe that accurate, reliable and timely information is vital to support decisions regarding risk management at all levels. On an ongoing basis, the bank will also continue to strengthen its risk management processes and invest in relevant risk management infrastructures in order to be more robust and responsive to the increasingly complex business environment. The requirements span a diverse range of risk functionality including market and credit risk analysis systems, budgeting, strategic planning, asset and liability management, performance measurement, operational risk and regulatory reporting, as well as trading and trade processing systems and those systems supporting our staff.

Data reconciliation is established to provide for the integrity of the information used and appropriate security controls around all systems. Back-up and recovery procedures are defined and business continuity plans approved and communicated to promote resilience and minimize the impact of an incident.

The Bank is committed to meeting the highest levels of ethical standards in all areas of its operations. The Compliance Department continued in 2016 to carry out its activities inherent to its area ensuring the bank's operations are in line with all applicable laws and regulations, sending periodic regulatory information to the supervisory bodies, advises and keeps senior management informed on the implication of compliance laws and regulations that have a bearing on the Bank's operations, etc.

Management of Credit Risk

The Bank's risk management philosophy is implemented by a well-defined policy, trained and experienced staff, and effective systems. Credit Risk Management Policy of the Bank dictates the Credit Risk Strategy. The Policy spell out the target markets, risk acceptance / avoidance levels, risk tolerance limits, preferred levels of diversification and concentration, credit risk measurement, monitoring and controlling mechanisms. AIB has tailored credit approval processes to suit the customer, product, sector and exposure types.

The credit risk policy articulates the credit risk management framework, including:

– key credit risk management principles;
– delegation of authority;
– the credit risk management program;
– counterparty credit risk management for financing, trading and investment activities;
– aggregate limits, beyond which credit applications must be escalated to the Board for approval; and
– single name/aggregation exposures, beyond which exposures must be reported to the Board.

The Credit Risk Management Policy is reviewed frequently to ensure up to date guidelines for new credit approvals, renewals or changes in the existing terms and conditions of the previously approved credit policies. The Bank has a dedicated team of experienced credit review professionals who identify risk at an early stage and take proactive measures to minimize the impact.

During 2017, the bank has engaged in the process of developing and upgrading most of the major operating policies and procedures to satisfy good practices and the new credit standards related to IFRS 9. Sustainability guidelines have been established for use in the credit process. Moody's rating system is introduced to support the internal credit models to estimate PD, LGD and EAD parameters.

Our Credit department tracks arrears to ensure operational efficiency and compliance with the granting and follow-up policy by identifying changes in trends and variances from tolerance levels. Arrears percentages are reported daily and are evaluated on product, branch, industry, regional, operational (provincial) manager and national levels. Branch performance and targets include arrears targets, appropriately balanced with sales and profit targets.

Proactive credit risk management practices in the form of studies of rating-wise distribution, Portfolio Analysis of retail lending assets, periodic industry review, Review of Country, Currency, Counter-party and Single-Obligor exposures are only some of the prudent measures, the Bank is engaged in mitigating risk exposures.

The current focus is on augmenting the Bank's abilities to quantify risk in a consistent, reliable and valid fashion, which will ensure advanced level of sophistication in the Credit Risk Measurement and Management in the years ahead.

CORPORATE GOVERNANCE *(CONTINUED)*

Management of Liquidity and Market Risk

The Bank manages liquidity and market risk via its Asset and Liability Committee (ALCO) process. ALCO is primarily entrusted with the task of liquidity and market risk management. The Committee decides on product pricing, mix of assets and liabilities, stipulates liquidity and profit rate risk limits, monitors them, articulates Bank's profit rate view and determines the business strategy of the Bank.

Bank has well-established framework for Liquidity and Market Risk management with the Asset Liability Management Policy and the Treasury Policy forming the fulcrum for procedures, processes and structure. It has a major objective of protecting the Bank's net profit income in the short run and market value of the equity in the long run for enhancing shareholders wealth.

In accordance with the Basel recommendations on liquidity management, the Bank measures liquidity according to two criteria: "normal business", reflecting day-to-day expectations regarding the funding of the Bank; and "crisis scenario", reflecting simulated extreme business circumstances in which the Bank's survival may be threatened. The important aspect of the Market Risk includes profit rate risk management and the pricing of assets and liabilities. Further, Bank views the Asset Liability Management exercise as the total balance sheet management with regard to its size, quality and risk.

ALCO has determined the most appropriate liquidity horizon for the Bank as 3 months for the normal business scenario and 6 months for the crisis business scenario. This means that holding sufficient liquid funds for 3 months is acceptable for normal business purposes but 6 months would be more prudent in the event of a liquidity crisis.

The Bank's liquidity policy is to hold sufficient liquid assets to cover its committed statement of financial position requirements, plus its budgeted expenses for the liquidity horizon, plus its forecast investment commitments over the liquidity horizon. The Bank continues to strengthen its liquidity management activities in order to ensure that the Bank maintains a stable funding base and strong liquidity during the prevailing period of global market crisis. In tune with this, Bank ensures adequate liquidity at all times through systematic funds planning, maintenance of liquid investments and focusing on more stable funding sources, regular stress testing was implemented and liquidity strategy updates were regularly advised to the Board.

Management of Operational Risk

The objective of Operational Risk Management (ORM) is to identify measure, mitigate and monitor operational risk, and promote risk awareness and a healthy risk culture within the bank. Risk quantification and awareness helps management set priorities in their actions and allocate people and resources.

The Bank manages operational risk through internal controls and standard operating procedures that are updated regularly to reflect the current business environment. The Bank systematically reviews its business areas to minimize the risk of financial losses due to sanctions, claims and reputational damage resulting from non-compliance with legislation, rules and standards.

ORM within the bank is aimed at having a healthy balance between the exposure to these risks and tools to manage these risks. The bank has established a consistent framework for monitoring, assessing and communicating operational risks and the overall operating effectiveness of the internal control environment across the bank. The Operational Risk Management Framework (Op. Risk Framework), approved by the Board, has been developed with the objective to ensure that operational risks within the bank are identified, monitored, managed and reported in a structured, systematic and consistent manner.

The management of Operational Risk has two key objectives:

- To minimize the impact of losses suffered in the normal course of business (expected losses) and to avoid or reduce the likelihood of suffering an extreme (or unexpected) loss; and
- To improve the effective management of the bank and strengthen its brand and external reputation.

A key component of the Op. Risk Framework is a set of a core operational risk standards which provides guidance on the baseline control to ensure a controlled and sound operating environment. The bank has implemented SunGard system to support the operational risk management processes. The process for operational risk management includes the following steps:

- Identify and assess key operational risks;
- design controls to mitigate identified risks;
- establish key risk and control indicators;
- implement a process for early problem recognition and timely escalation;
- produce a comprehensive operational risk report; and
- Ensure that sufficient resources are available to actively improve the operational risk environment and mitigate emerging risks.

The Bank has comprehensive system of internal controls, systems and procedures to monitor and mitigate risk. The bank also institutionalized the approval process of new product, services, and outsourcing to identify the risk inherent in such activities.

Information Technology (IT) risk is managed in accordance to an IT Risk Management Framework (which covers risk governance, communication, monitoring, assessment, mitigation and acceptance), supported by a set of IT policies and standards, control processes and risk mitigation programs. Centralized functional control is exercised over all computer system developments and operations.

A complex IT landscape, growing demands on continuity and increasing cyber threats are continuing challenges. The ongoing digitalization of our services improves efficiency and adds value for our customers. Services need to keep running smoothly while at the same time systems need to be improved to keep up with requirements, trends and innovations. We use an integrated approach and manage dependencies for our core banking transformation, front-to-back processes and systems.

Management of Operational Risk *(Continued)*

We closely monitor cyber threats and data privacy and as mitigating actions:

- We continue to strengthen and significantly invest in our ability to prevent, detect and respond to the ever-increasing and sophisticated threat of cyber attacks. Specifically, we continue to enhance our capabilities to protect against increasingly sophisticated malware, denial of service attacks and data leakage prevention, as well as enhancing our security event detection and incident response processes.
- Cyber risk is a priority area for the Board and is regularly reported at Board level to ensure appropriate visibility, governance and executive support for our ongoing cybersecurity programme.
- We participate in intelligence sharing with both law enforcement and industry schemes to help improve our understanding of, and ability to respond to, the evolving threats faced by us and our peers within our industry.

Compliance in the Bank is centrally controlled under the Bank Compliance Officer who is approved by the CBB to ensure divisional compliance in all of the Bank's operations and activities. The Internal audit function of the Bank through the Risk Based Internal Audit, compliments the Bank's ability to control and mitigate risk.

The Bank is continually enhancing the Business Continuity Planning (BCP) programme for an ongoing and actively management of the Bank's major critical business operations and activities at the Head Office, data center, and branches locations.

AIB continually refines and strengthens existing policies, procedures and internal controls measures; conduct internal reviews, compliance monitoring, and comprehensive audits to prevent or minimize unexpected losses, and when necessary to cope with the growth in AIB's size and complexity.

Capital Management

Capital Management is an ongoing process of ensuring adequate capital is available to meet regulatory capital requirements and ensure optimum capital usage. The Bank has implemented a dedicated capital management system which calculates the capital adequacy ratio in compliance with CBB and Basel II guidelines. Using this system, exposures are measured at the most granular level so that account level data is correctly used for calculation of risk weights, credit conversions and allocation of credit risk mitigants. AIB has also adopted the Basel II Standardized Approach to measure regulatory capital requirement on credit risk and market risk. For operational risk, the regulatory capital requirement is calculated based on Basic Indicator Approach. AIB has adopted "Pillar I Plus" approach for ICAAP where the bank can assess the additional capital requirements on the Pillar 2 risks like credit concentration risk, profit rate risk and other risks relevant to AIB. This also includes the capital charge estimations resulting from stress testing.

Compliance

Compliance risk is the potential that the procedures implemented by the entity to ensure compliance with relevant statutory, regulatory and supervisory requirements are not adhered to and/or is inefficient and ineffective. The Bank manages compliance risk through the following key activities:

- Creating awareness through the training of employees and other affected stakeholders on the impact and responsibilities related to legislative requirements.
- Monitoring and reporting on the level of compliance with legislative requirements.
- Providing assurance that the risks relating to regulatory requirements are identified, understood and effectively managed.

The Bank is committed to, and requires all its employees to display, the highest standards of integrity, professionalism and ethical behavior, and to comply with all relevant laws, rules and standards when conducting the business of the Bank. The Bank's compliance function is an independent function that identifies, evaluates, advises on, monitors and reports on the Bank's compliance risk. The Risk management Department, together with the Internal Audit and Compliance Departments, provides independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board of Directors.

CODE OF BUSINESS CODUCT AND ETHICS FOR MEMEBRS OF THE BOARD OF DIRECTORS

AIB's maintain a board approved policy on the employment of relatives which establishes minimum standards regarding the employment of immediate family members or other relatives of AIB's employees throughout every phase of the employment relationship, such as recruiting, hiring and internal transfers. The policy restrict recruitment of first and second degree relatives to work in the bank or any of its existing/future branches. Recruitments of the third and fourth degree may be allowed, however, should not work in positions where there is an actual, potential or perceived conflict of interest or opportunity for collusion; including, but not limited to where one individual may be able to assign, process, review, approve, audit financial transactions, or otherwise affect the work of the other through direct oversight on each other. The Human Resources department and Internal Audit department are both responsible to examine applications before recruitments to ensure there is no actual or potential conflict of interest exists according to the Bank's policies, particularly the Code of Conduct and Conflict of Interest policies. Accordingly, any hiring decision relating to a Relative must be done in consultation with the Internal Audit. The principles of this Policy also apply to transferring employees from one section to another, promoted, or upgraded.

The Bank's Code of Business Conduct and Ethics applies to members of the Board, as well as Executive Management, officers, employees, agents, consultants and others, when they are representing or acting for the Bank. The Board of Directors, as well as officers and employees,

CORPORATE GOVERNANCE *(CONTINUED)*

act ethically at all times and acknowledge their adherence to the Bank's policies. Any waiver of the Code of Business Conduct and Ethics for a director or executive officer may be granted only by the Board or the appropriate Board committee, and must be promptly disclosed to the stockholders.

The Code is intended to focus the Board and each director on areas of ethical risk, provide guidance to directors to help them recognize and deal with ethical issues, provide mechanisms to report unethical conduct, and help foster a culture of honesty and accountability. Each director must comply with the letter and spirit of this Code. Directors should communicate any suspected violations of this Code promptly to the Chairman of the Audit Committee and the Chairman of the Corporate Governance Committee. Violations will be investigated by the Board or by a person or persons designated by the Board and appropriate action will be taken in the event of any violations of the Code.

The Code is intended to serve as a source of guiding principles for directors. Directors are encouraged to bring questions about particular circumstances that may implicate one or more of the provisions of this Code to the attention of the Chairman of the Audit Committee, who may consult with inside or outside legal counsel as appropriate.

The code envisages and expect from the board:

- adherence to the highest standards of honest and ethical conduct, including proper and ethical procedures in dealing with actual or apparent conflicts of interest between personal and professional relationships.
- Full, fair, accurate, sensible, timely and meaningful disclosures in the periodic reports required to be filed by the Bank with Government and regulatory agencies.
- Compliance with applicable laws, rules and regulations.
- To redress misuse or misapplication of the Bank's assets and resources.
- The highest level of confidentiality and fair dealing within and outside the Bank.

Conflict of interest:

A "conflict of interest "occurs when personal interest of any member of the Board of Directors interferes or appears to interfere in any way with the interests of the Bank. Every member of the Board of Directors has a responsibility to the Bank, its stakeholders and to each other. Although this duty does not prevent them from engaging in personal transactions and investments, it does demand that they avoid situations where a conflict of interest might occur or appear to occur. They are expected to perform their duties in a way that they do not conflict with the Bank's interest, some of the more common conflicts from which directors must refrain, however, are set out below:

- *Business Interests – If any member of the Board of Directors considers investing in securities issued by the Bank's customer, supplier or competitor, they should ensure that these investments do not compromise their responsibilities to the Bank. Many factors including the size and nature of the investment; their ability to influence the Bank's decisions; their access to confidential information of the Bank, or of the other entity, and the nature of the relationship between the Bank and the customer, supplier or competitor should be considered in determining whether a conflict exists. Additionally, they should disclose to the Bank any interest that they have which may conflict with the business of the Bank.*
- *Related Parties - As a general rule, the Directors should avoid conducting Bank's business with a relative or any counterparty in which the relative or other person is associated in any significant role. If such a related party transaction is unavoidable, they must fully disclose the nature of the related party transaction to the appropriate authority as per the Corporate Governance Guidelines which are approved by the Board. Any dealings with a related party must be conducted in such a way that no preferential treatment is given to that party.*
- *Use of Bank's Assets and Resources - Each member of the Board of Directors has a duty to the Bank to advance its legitimate interests while dealing with the Bank's assets and resources. Members of The Board of Directors are prohibited from:*
  - *Using the Bank property, information or position for personal gain;*
  - *Acting on behalf of the Bank in any transaction in which they or any of their relative(s) have a significant direct or indirect interest.*
- ***Gifts** - Soliciting, demanding, accepting or agreeing to accept anything where any such gift is more than modest in value, or where acceptance of the gifts could create the appearance of a conflict of interest;*

In the case of any other transaction or situation giving rise to conflicts of interest, the appropriate authority should after due deliberations decide on its impact.

Confidentiality:

Directors should maintain the confidentiality of information entrusted to them by the Company and any other confidential information about the Company that comes to them, from whatever source, in their capacity as a director, except when disclosure is authorized or legally mandated. For purposes of this Code, "confidential information" includes all non-public information relating to the Company.

COMMUNICATION POLICY

The Bank uses all available avenues to communicate with its stakeholders, in line with the principle of transparency and disclosure that is integral to good corporate governance. This includes wide use of corporate publications, website, direct mailers, electronic mail and local & regional media (through press releases), for the purposes of advertising and providing information on the Bank's progress.

Our commitment to providing timely, accurate and balanced disclosure of all material information to a broad audience is guided by the Disclosure Policy of the Parent Group (ABG). Furthermore the Bank maintains a website at *www.albarak.bh*, which includes information of interest to various stakeholders including the regulatory authorities. Information available on the website includes the Annual Report, reviewed quarterly financials of the Bank, and carries updates of any significant events and regulatory requirements. The Bank's quarterly results are published in both Arabic and English newspapers, are posted on the Bank's website, and the provision of at least the last three years of financial data on the Bank's website

The Board attaches a high degree of importance to continuous communication with shareholders, especially direct dialogue with them at the Bank's annual general meetings. Shareholders are therefore encouraged to actively participate at such meetings.

The Board oversees communications with shareholders and other stakeholders. This includes reviewing and/or approving key disclosure documents such as the financial statements, etc.

The Bank communicates with shareholders through the Annual Report and by providing information at the Annual General Meeting. Individual shareholders can raise matters relating to their shareholdings and the business of the Bank at any time throughout the year. The Bank provide for detailed information about its Corporate Governance structure and other related information. Shareholders are given the opportunity to ask questions at the Annual General Meeting.

According to our policy, ABG's President, and the Bank CEO are the primary spokespersons responsible for communicating Company information to the investment community and the media. For purpose of these guidelines, the investment community refers to existing and potential investors of the Bank, analysts and market professionals. Where appropriate, the Bank may authorize other officers of the Bank to communicate with the investment community or the media as part of the Bank's investor relations or public communications program.

Investors and customers queries are dealt with one-on-one by senior management in the Bank, and the Bank's relationship managers. Additional information for the investor community is provided through:

- one-on-one meetings and conference calls with executive management;
- road shows, investor conferences and conference calls; and
- Financial and subject-specific presentations.

Customer-Centric Initiatives

As always, efficient customer service and customer satisfaction are the primary objectives of the Bank in its day to day operations. The Bank is highly responsive to the needs and satisfaction of its customers, and is committed to the belief that all technology, processes, products and skills of its people must be leveraged for delivering superior Banking experience to its customers without fail.

The Bank is focused towards providing excellent customer service through all delivery channels and has been making continuous efforts for enhancing the level of customers' satisfaction by leveraging technology to provide e-Banking in 2013 and alternative delivery channels best suited to the diverse needs of different customers. The varied interests and expectations of customers are taken care of by improving upon the various processes and procedures.

All our stakeholders, including investors, may use the Bank's website for logging a query or a complaint, through the "Customer Care" page available on the website. The query is automatically channeled to the appropriate department responsible to handle their issues.

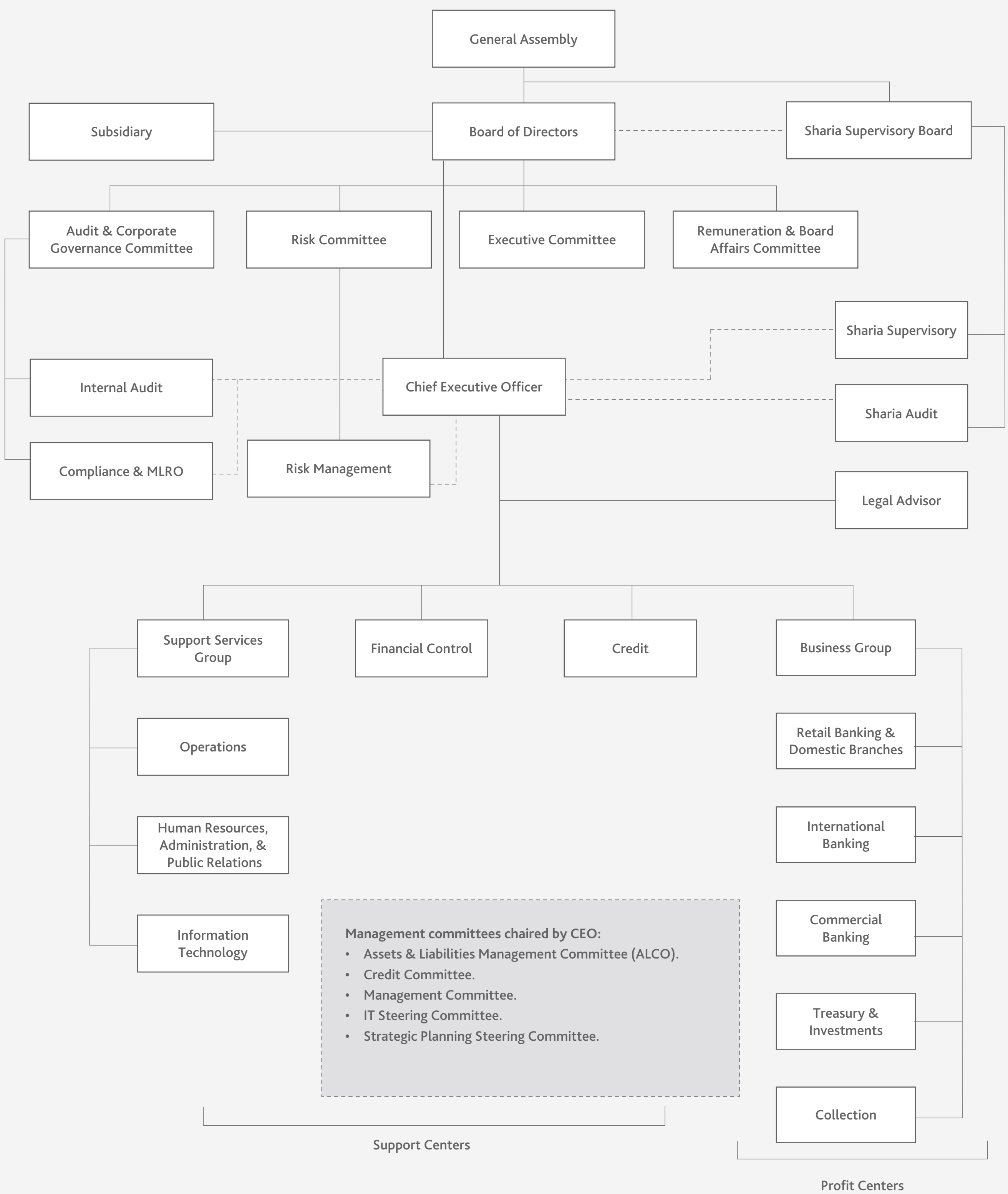
The Bank maintains comprehensive policy on handling of Whistleblowing and Customer Complaints, approved by the Board. All employees of the Bank are aware of and abide by this. The Bank has a designated Whistleblowing and Customer Complaints Team for handling of all internal and external complaints and its contact details are displayed on the Bank's website and at the Branches. Complaints are normally investigated by persons not directly related to the subject matter of the complaint. The Bank endeavors to address all complaints within five working days. Wherever this is not possible, the customer is contacted directly and a time frame for rectification of his complaint advised. A periodical report on status of complaints is also submitted to CBB and to AIB's Board of Directors.

LEGAL AND REGULATORY RISK AND ANTI-MONEY LAUNDERING

Strict compliance with all relevant regulations is one of the Bank core value. Legal risks are mitigated through legal counsel review of transactions and documentation, as appropriate. Where possible, the Bank uses standard formats for transaction documentation. To prevent potential association with any money laundering activities, the Bank has designed and implemented a comprehensive set of policies and procedures. Adherence to the Bank's policies and procedures is reinforced through periodic staff trainings and internal reviews, as well as internal and external reviews by auditors.

The Anti-money Laundering (AML) and Counter-Terrorist Financing policy is the foundation on which the Bank's implementation of KYC norms, AML standards, CFT measures and obligation of the Bank according to regulation and directives issued by CBB. The roles of the Bank's MLRO and Deputy MLRO is to oversee the proper implementation of the requirements of the Anti- Money Laundering Law, as amended, on covered and suspicious transactions as well as the freezing of accounts, and to ensure complying with the requirements and obligations set out in relevant legislation, rules and industry guidance for the financial services sector. The Bank continuously reviews the policies and the adopted measures to ensure the ongoing application of, and adherence to, best practice. Regular training sessions are conducted on KYC-AML-CFT guidelines for all the staff.

ORGINISATION CHART



Management committees chaired by CEO:

- Assets & Liabilities Management Committee (ALCO).
- Credit Committee.
- Management Committee.
- IT Steering Committee.
- Strategic Planning Steering Committee.

BOARD OF DIRECTORS PROFILES

1. Khalid Rashid Al Zayani

Chairman
Experience 49

Mr. Khalid Rashid Al Zayani Chairman Experience: 49 Years Mr. Khalid Rashid Al Zayani is the Honorary OBE in the 2014 Queen's Honours List and also involved in other business & Government Activities viz; Chairman of Al Baraka Islamic Bank, Midal Cables Ltd, First Motors, Aluwheel, Metal Form Co., Intersteel, Gulf Closures, Imerys Al Zayani Fused Minerals, Bahrain British Business Forum and Rashid Al Zayani Charitable Foundation. Mr. Al Zayani is the Honorary Chairman of the Board of Directors of Al Zayani Investments Group, Zayani Motors, Euro Motors, Zayani Properties, Zayani Leasing, Zayani Industries, Orient Motors, Bahrain Voluntary Work Society; Board Member of Investcorp Bank, BCCI and American Bahraini Friendship Society; Founding Member & Co-Chairman of Bahrain British Business Council & U.S. Bahrain Business Council; President of CISI-Bahrain Advisory Council and Honorary Board Member of Bahrain India Society. His contributions to social and charitable activities include being a Founder and Former President of AmCham; Board Member of EDB; Founding Member & Vice Chairman of BISB; Founding member & Board Member of BKIC & NMC and Board Member of Takaful Intl. & Bahrain Credit.

2. Adnan Ahmed Yousif

Vice Chairman
Experience: 45 Years

Mr. Adnan Ahmed Yousif is a highly regarded Senior banker with over three decades of international banking experience. 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.

As President & Chief Executive, Mr. Yousif has lead Al Baraka Banking Group (ABG) since inception, developing the Group into one of the largest and most diversified Islamic banking groups in the world operating a network of over 700 branches in 16 countries, with its Head Office in the Kingdom of Bahrain. He is also the Chairman of Al Baraka Turk Participation Bank, Banque Al Baraka D'Algerie, Al Baraka Bank Ltd. 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 Ltd., Bank al Tamweel wa Inma (Morocco), Vice Chairman of Al Baraka Islamic Bank, Bahrain and a Board member of Al Baraka Bank Tunisia and Itqan Capital in Saudi AArabia.Mr. Adnan Yousif was the Chairman of the Union of Arab Banks, Lebanon for two terms (2007-2013). Besides having received many international awards he is the recipient of the Medal of Efficiency, a unique honor conferred by His Royal Highness - King Hamad Bin Isa Al Khalifa, the King of the Kingdom of Bahrain during the year 2011. Mr. Yousif received the title of the CSR International Ambassador (Kingdom of Bahrain) from the CSR Regional Network. including twice the Islamic Banker of the Year award (2004 and 2009).

In addition, he was awarded by LARIBA American Finance House the 2012 "LARIBA Award for Excellence in Achievement", in recognition of his leadership role in consolidating and operating the largest diversified Islamic Banking Group in the world.

In recognition of Mr. Yousif's outstanding contribution in the field of contemporary Islamic Finance in terms of modernizing its fundamentals in practice and theorization, the Al Jinan University of Lebanon granted him an Honorary Doctorate of Philosophy in Business Administration. Furthermore, in recognition of his efforts in evolving a unique business model that is integrated with the noble goals of Islamic Banking, Mr. Yousif has been awarded the Accolade of the Sudanese Presidency for Excellency in Social Responsibility in December 2015.

In Dec. 2016 Mr. Adnan 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 in recognition of his major role in the service and social responsibility programs both nationally and internationally, as well as recognition for the leading role of Al Baraka Group in the field of CSR activities at Oman International Conference on Social Responsibility 2016. Mr. Yousif has been elected during 2017 as the Chairman of Bahrain Association of Banks. He has also been declared as the Islamic Finance Personality of the Year 2017 in the Global Islamic Finance Awards (GIFA) Ceremony held at Astana, Kazakhstan.

3. Abdul Latif Abdul Rahim Janahi

Board member
Experience: 46 Years

Mr. Abdul Latif Abdul Rahim Janahi is one of the early pioneers in Islamic economy, Islamic banking and Islamic insurance. He authored a number of books on these topics and prepared more than 60 studies and work papers presented at numerous events, conferences, seminars and, universities. He worked hard to promote the idea of Islamic banking, insurance and re-insurance in Bahrain and was behind the establishment of a number of banks, financial institutions and insurance and reinsurance companies in Bahrain and outside Bahrain. He has practical experience of more than 60 years in the areas of banking, insurance and reinsurance. He holds a diploma in insurance and is a recognized expert in conventional insurance, Takaful (Islamic insurance), Islamic banking and Islamic economics. Mr. Janahi is the founder and Chief Executive Officer of the Safwa International, Bahrain (consultancy), and board member of many Islamic banking and investment institutions such as the Islamic Bank of Bangladesh - Dhaka, Khaleej Finance and Investment (being the Chairman of the Board of Directors) and the Islamic Arab Bank and Islamic Insurance and Reinsurance Company.

4. Moosa Abdul Aziz Shihadeh

Board member
Experience: 57 Years

Mr. Moosa Abdul Aziz Shihadeh holds a Master degree in Business Administration (MBA) from USA. Worked in conventional banks from 5 /1961 until 5 /1980. He then joined Jordan Islamic Bank on June 1, 1980 till now. He is currently the CEO & General Manager of Jordan Islamic Bank. In addition to being a board member of many Islamic banks.

Mr. Shihadeh is currently a member of the Board of Directors of the General Council for Islamic Banks, a Board Member of the Jordanian Businessmen Association and Chairman and Board Member of several public and private companies in various sectors (industrial, educational, investment and insurance sector). He was also a Board Member of the Association of Banks in Jordan since 1983 and has been the association's Vice-President for the period 1997 to 2005 and Chairman of the Board Directors of Association of Banks in Jordan since 11.10.2015.

A member of several investment, social, humanitarian and international organizations and committees. Mr. Shihadeh Participates and lectures in several seminars related to the banking sector and the Islamic financial institutions regionally and internationally. Former member of the Accounting and Auditing Standards Board for Islamic Financial Institutions and the Chairman of the Accounting Committee (1990 to 2002). A member of the Board of Trustees of the Arab Thought Forum and Advisory Board Member of the International union of Arab Bankers. Honor- permanent member of the society of friends of Jordan Eye Bank and the prevention of blindness.

5. Ashraf Ahmed El-Ghmarwai

Board member
Experience: 41 years

Mr. Ashraf Al-Ghmarwai Vice Chairman and Chief Executive Officer Al Baraka Bank Egypt started his career since 1977 as a legal accountant specializing in the field of financial institutions and banks. He then moved to work in the banking sector during 1979 and was incorporated in various banking jobs until 2003. He was the CEO and Managing Director of Al Baraka Egypt Bank. The number of branches at the time was 10 branches with a total budget of LE3.3 billion. He has managed since his presidency of the Executive Management of the Bank as a leading Islamic institution that has strongly placed itself on the Egyptian banking market. As one of the branches of Al Baraka Banking Group, the pioneer of Islamic banking in the region, the number of branches reached 32 branches besides 3 branches in Giza, alghardaga and Sharm El Sheikh and the total budget of the bank in 2016 (42.5 billion pounds).

He had received The Gold Medal of Merit in the field of wise leadership in the Arab region was awarded the Academy of Excellence Awards in the Arab region in December 2014,

Also awarded by the Association Otherways Management & Consulting Paris - France in July 2017: The Global Award for Perfection Quality & Ideal Performance

He also holds the following positions:

1. Member of the Board of Directors and member of Risk Committee, Al Baraka Islamic Bank, Kingdom of Bahrain.
2. Member of the Board of Directors of the Egyptian Company for the establishment and management of commercial centers.
3. Member of the Board of Trustees and Treasurer of the Egyptian Foundation for Zakat,
4. Member of the Board of Directors and Chairman of the Credit Committee Al-Tawfiq Leasing Company.
5. Member of the Board of Directors and Chairman of the Audit Committee of the Egyptian Company for Takaful Insurance.
6. Chairman of the Board of Directors of the Private Insurance Fund for employees of Al Baraka Egypt Bank.

- His sovereignty has a current and previous membership in some other legal bodies including:

1. Member of the International Union of Arab Bankers.
2. Member of the American Chamber of Commerce in Cairo.

6. Yousif Ali Fadil Bin Fadil

Board member
Experience: 34 Years

Mr. Yousif Bin Fadil is a Board Member, Al Baraka Islamic Bank, Bahrain, Ajman Bank. 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. Bin Fadil has also served as Member of the Boards of Directors of several financial institutions including, Union Insurance Company, U.A.E., Bahrain Islamic Bank, Bosnia International Bank and Dubai Islamic Insurance Company. He has more than 34 years of experience in the banking field. Mr. Bin Fadil, a UAE national, holds Bachelor's Degree in Mathematics & Computer Science from Gonzaga University, Spokane, Washington State, USA.

7. Maqbool Habib Khalfan

Board member
Experience: 50 Years

Businessman and former Banker. Born in 1955 in state of Qatar. 50 Years of experience in banking field. Graduated in Commerce (B Com.) from Cairo University in 1997. Started banking career in 1968 with Eastern Bank (standard Chartered Bank at present) in 1970 joined United Bank Ltd., in Qatar, at the time of opening the branch in the country. Joined Doha Bank, February 1987. Played major role in establishing and promoting the developments of Doha Bank. Promoted as General Manager of Doha Bank in December 1987. Held many high posts in Doha Bank before promoted to the General Manager. Left Doha Bank in July 1997. Joined Qatar industrial Development Bank as a General Manager in February 1997, and played significant roles in establishing such a non-commercial bank in State of Qatar. Left Qatar Industrial Development Bank at the end of May 2001 for concentration on his own Business. He is the Managing Partner of Arabian Exchange Company & Gulf Colors, and holds 50% Stakes in both Establishments.

BOARD OF DIRECTORS PROFILES *(Continued)*

8. Abdulrahman Abdulla Mohamed

Board member
Experience: 57 Years

Master of Business Administration Degree (MBA) from University of Hull, United Kingdom, around 42 years of experience in Banking Industry. Present Position, Vice Chairman of Takaful International and member of the Excom (June 2015 – till present) at Takaful International. His past position was General Manager in National Bank of Bahrain, Board & executive Committee Member – Bahrain commercial facilities company and Chairman of the Board – National Motors Company.

9. Dr. Khalid Abdulla Ateeq

Board member
Experience: 36 Years

Dr. Khalid is currently the Chief Executive Officer and Board Member of Family Bank. Dr. Khalid has over 36 years of experience in banking, finance, auditing and accounting. Prior to join Family Bank, he was the Deputy CEO of Venture Capital Bank for seven years. Before that, he was Executive Director of Banking Supervision at the Central Bank of Bahrain before (BMA) for thirteen years, where he was responsible for the licensing, inspection and supervision of financial institutions, insuring that all banks and financial institutions, either operating or incorporated in Bahrain, complied with promulgated laws and regulations. Before joining the CBB, he was Assistant Professor at Bahrain University. In addition, through his diversified experience, Dr. Khalid served in senior posts with a number of reputable banks and firms. He holds a Ph.D. in Philosophy of Accounting from UK. Dr. Khalid is a Board Member at Med Gulf Company, Itqaan Co. and ABG.

10. Mohammed Isa Al Mutaweh

Board member
Over 31 years

Mr. Mohamed Isa Al Mutaweh is the Chief Executive Officer and a member of the Board of Directors of Al Baraka Islamic Bank - Bahrain, Chairman of the Credit Committee and member of the Executive Committee.

He has long experience in banking extending to more than 31 years during which he held leading positions in banks. He was General Manager and Board Member of Al Amin Bank, Bahrain. He also served as Executive Director of ABC Islamic Bank which is affiliated to Arab Banking Corporation. Prior to that he served in a senior position with National Bank of Bahrain in the Corporate Banking Division.

Mr. Al Mutaweh is a member of the World Union of Arab Bankers and a member of the participation committee of the Awqaf properties investment fund of Islamic Development Bank (IDB), Jeddah and member of the board of Directors of International Trade Finance Corporation (ITFC) (one of the IDB's group companies), and Chairman of Danaat Al Baraka Real State Company and ex-member of the board of directors of Bahrain association of banks, and a member of Bahrain-Egypt Joint Business Council and, a member of Bahrain-Turkey Joint Business Council, and a member of the Investment and Marketing Committee of the Bahrain Football Federation and, a member of Bahrain advisory council of the chartered institute of securities and investment (CISI), UK. Mr. Al Mutaweh has an MBA degree in Business administration from university of Hull, UK.

EXECUTIVE MANAGEMENT PROFILES

1. Mohamed Isa Al Muatweh

CEO & Board Member
Experience more than 31 years

Mohamed Isa Al Mutaweh is the Chief Executive Officer and a member of the Board of Directors of Al Baraka Islamic Bank - Bahrain, Chairman of the Credit Committee and member of the Executive Committee.

He has long experience in banking extending to more than 31 years during which he held leading positions in banks. He was General Manager and Board Member of Al Amin Bank, Bahrain. He also served as Executive Director of ABC Islamic Bank which is affiliated to Arab Banking Corporation. Prior to that he served in a senior position with National Bank of Bahrain in the Corporate Banking Division.

Mr. Al Mutaweh is a member of the World Union of Arab Bankers and a member of the participation committee of the Awqaf properties investment fund of Islamic Development Bank (IDB), Jeddah and member of the board of Directors of International Trade Finance Corporation (ITFC) (one of the IDB's group companies), and Chairman of Danaat Al Baraka Real State Company and ex-member of the board of directors of Bahrain association of banks, and a member of Bahrain-Egypt Joint Business Council and, a member of Bahrain-Turkey Joint Business Council, and a member of the Investment and Marketing Committee of the Bahrain Football Federation and, a member of Bahrain advisory council of the chartered institute of securities and investment (CISI), UK. Mr. Al Mutaweh has an MBA degree in Business administration from university of Hull, UK.

2. Tariq Mahmood Kazim

Deputy General Manager-Support Services Group
Experience: 34 Years

Bachelor Degree in Systems Engineering and Analysis (University of Petroleum and Minerals Dhahran/Saudi Arabia) 34 years of experience in Banking, Support Service, implementing Banking, Telecommunication and e-Commerce Solutions. Past careers include two years with Arabian Networks as General Manager and 16 years with NCR and AT&T as a Business Unit Leader. Joined Al Baraka Islamic Bank in April 2002.

He is also a Vice Chairman of the Board in Al Baraka Bank (Pakistan) Limited, Chairman of Board Executive Committee and Social Responsibility in ABPL, and Member of ABPL Board HR & Remuneration Committee.

3. Rashid Hassan Al Alaiwi

Deputy General Manager – Business Group
Experience: 36 Years

Mr. Rashid Al Alaiwi has extensive experience for more than 36 years in various banking services. He has participated in developing and implementing a number of strategic plans and in launching a number of innovated banking products and services. Mr. Rashid has joined al Baraka Islamic Bank in February 2009, and prior to that he held various senior positions in Bahrain Islamic Bank, Ithmaar Bank (formerly was known as Shamil Bank), and Bank of Bahrain & Kuwait.

Mr. Rashid has Master of Business Administration from University of Glamorgan in Wales, United Kingdom and he has an Executive Management Diploma from University of Bahrain.

4. Moosa Abdul Latif Mohammed

Assistant General Manager- Head of Operations
Experience: 38 Years

Banking Studies (Diploma) with 5 years banking experience with National Bank of Bahrain, and 33 years banking experience with Al Baraka Islamic Bank, Bahrain. Various managerial and banking courses inside and outside Bahrain.

5. Mohamed Abdulrahim

Assistant General Manger & Chief Financial Officer
Experience:16 years

Mr. Mohamed Abdulrahim joined Al-Baraka Islamic Bank in December 2016. He has over 16 years of experience in Islamic banking and finance, with concentration on: financial and management accounting and reporting, regulatory reporting, financial and strategic planning and budgeting, internal controls, corporate and retail banking, investment banking, cost optimization and control. Prior joining Al-Baraka Islamic Bank, Mr. Abdulrahim worked for 9 years with Khaleeji Commercial Bank and 6 years with Kuwait Finance House. Mr. Abdulrahim holds a Bachelor of Science in Accounting from University of Bahrain, he is a Certified Public Accountant licensed from Colorado State Board of Accountancy and is a regular member of the American Institute of Certified Public Accountants, he is a Certified Islamic Professional Accountant licensed from Accounting and Auditing Organization For Islamic Financial Institutions, he attended Leadership Grooming Program organized by Ivey Business School (University of Western Ontario, Canada) and sponsored by Waqf Fund of Central Bank of Bahrain.

EXECUTIVE MANAGEMENT PROFILES *(Continued)*

6. Maisoon Mohammed BenShams

Assistant General Manager - Head of Risk Management Department
Experience: 37 Years

Mrs. Maisoon heads Risk Management Department of Al Baraka Islamic Bank and is responsible of monitoring, and evaluating all the bank's risks (credit risk, market risk, liquidity risk, and operational risks).

She commenced her banking career in 1981 with Central Bank of Bahrain (CBB) where she worked in various capacities and held several positions. In 2007, she joined Liquidity Management Centre as the Head of Risks & Compliance Department. She joined AIB In 2009 as Head of Risk and Compliance, in addition, served as acting compliance officer for Al Baraka Banking Group(ABG) for 3years (2010-2013).

She holds Masters of Business Administration from the University of Strathclyde - UK, BSc in Accounting from University of Bahrain, Certified in Strategic leadership and Executive Management Program from Beyster Institute, California – USA, Certificate in Islamic Studies from Imam Malik Institute, and other professional Certificates in her filed. Mrs. Maisoon is a member of Women in Banking Committee - Bahrain Association of Bankers.

7. Fouad El Ouzani

Assistant General Manager - Head of Credit Department
Experience: 16 Years

Mr. El Ouzani main responsibilities includes the development and updating of policies and monitoring the credit risk and administration processes like limit establishments, transaction booking, customer rating and to supervise all credit departments sub-units business processing.

Mr. El Ouzani held several managerial positions prior to joining Al Baraka Islamic Bank in Gulf International Bank, The Arab Investment Co. and Arab Banking Corporation (ABC Islamic) Bahrain. Mr. El Ouzani holds a BSc Degree Chemical Engineering from University of Bahrain and a Master in Finance from DePaul University - USA.

8. Asrar Uddin Abdul Ghafoor

Assistant General Manager - Head of Information Technology Department
Experience: 25 Years

Mr. Asrar Uddin has over 24 years of effective role in the IT departments of Islamic Banks within GCC region. In Feb 2003, he joined IT Dept. of Al Baraka Islamic Bank, Bahrain. He possess a broad knowledge of Core Banking implementations and rollout of IT Projects

Mr. Asrar has done many automation to streamline day to day business requirements using internal IT resources. Some of his major achievements are implementation of Misys Equation Core Banking System, HRMS, EFTS, Islamic Financing System, Risk Analyst System, successful completion of EMV Project, increasing branch and ATM network, implementation of IT policy and procedures, supporting other Al Baraka Banks in Pakistan, South Africa, Egypt, and Lebanon.

Currently he manages and supervise the divisions of IT dept. i.e. Core Banking, Research and Development, Information Security and Quality Assurance, Delivery Channels, Infrastructure & IT Operations

9. Isa Jasim Al Obaidly

Assistant General Manager - Head of Human Resources and Administration
Experience: Over 30 Years

Mr. Al Obaidly has experience in several HR & Admin fields including recruitment, setting of procedures, payroll, PR & payment processing. Earlier he occupied the post Management Analyst at the Civil Service Bureau and Chief for the Government payroll & Leaves, Director of Fund Collection at Bahrain Centre for Study and Research and HR & Finance Consultant and Acting Director of admin and finance at the Ministry of Information.

Mr. Al Obaidly attended several professional courses including Civil Service Bureau conducted by Management Institute Services, UK-1992, a course on Leadership for Democratic Society at the Federal Executive Institution West- Virginia U.S.A-1997.

Mr. Al Obaidly holds the Professional Auditor for ISO 2009 Certificate. He is a holder of a B.S.C degree in Business Administration from Grand View College, USA. & Master degree in Management Technology from Arabic Gulf University Jan 1999.

10. Adel Al-Manea

Assistant General Manager - Head of Commercial Banking Department

Experience: 28 Years

Mr. Adel Al-Manea is Assistant General Manager – Head of Commercial Banking Department. Mr. Al-Manea is a holder of Associated Accounting Technician from the Board of AAT - United Kingdom and Banking Studies (Diploma) from University of Bahrain.

He has over 28 years of banking experience in commercial and Offshore Banks with Local, International and Islamic Banks. 2 years banking experience with Bank of Bahrain and Kuwait, and 18 years banking experience with Ithmaar Bank. Various managerial and banking courses inside and outside Bahrain.

Joined Al Baraka Islamic Bank in August 2008.

11. Mr. Hussain Al Nattaie

Assistant General Manager
Head of International Banking Department
Experience: 14 Years

Hussain Al Nattaie is an Assistant General Manager and the Head of International Banking Department, which is composed of three main divisions, the Corporate and Syndications division, The Trade Finance and Financial Institutions division and the Investments and Structured Finance division.

Mr. Hussain held several senior positions prior joining Al Baraka Islamic Bank, Hussain spent 14 years in the corporate finance and frontline business/development units for different prominent financial institutions like National Bank of Bahrain, The Arab Investment Company and Standard Chartered Bank.

Hussain obtained his Bachelor's degree in Accounting and Finance from the University of Bahrain.

12. Mohammed Jassim Ebrahim

Head of Sharia Department
Experience: 9 Years

Mr. Mohammed Jassim is The Head of Shari'a Department in Al Baraka Islamic Bank - Bahrain. He has Bachelor in Islamic Law (Fiqh and principles of Fiqh), from the Shari'a College of the Islamic University in Al Madinah Al Monawarah - KSA. Mr. Mohammed Jassim is a Certified Shari'a Adviser and Auditor (CSAA), from AAOIFI- Bahrain. Mr. Mohamed Jassim has more than 9 years of experience in Islamic Banking.

13. Mohammed Hasan Al Mughani

Head of Internal Audit Department
Experience: 13 Years

Mr. Mohamed Al Mughani had joined Al Baraka Islamic Bank on Aug 2008 Internal Audit Department. He has 13 years of experience in internal and external audit, risk assessment and corporate governance. He previously worked as an Assistant Manager – Audit Department at BDO Jawad Habib, Bahrain. Mr. Al Mughani is ACCA qualified and Certified Information System Auditor (CISA). He hold a BSc in Accounting from University of Bahrain

14. Bader Al Shetti

Senior Manager – Head Of AntiMoney laundering & Compliance
Experience 14 years

Mr. Al Shetti has joined Al Baraka Islamic Bank management team in 2016. Prior to his appointment as Head of Compliance and AML with Al Baraka Islamic Bank, Mr. Al Shetti was the Country Head of Financial Crime Compliance and MLRO at HSBC Bahrain, Group Head of Compliance and AML with Al Salam Bank Bahrain and was a key personnel with the Risk Management advisory practice of Ernst & Young Bahrain. As an expert practice member, Mr. Al Shetti helped in raising the Compliance and AML culture within the bank and has heavily contributed in the development and growth in the areas of Regulatory Compliance, Anti Bribery and Corruptions, Sanctions and Financial Crime Compliance. He was also involved in launching the Central Bank of Bahrain rulebook volume II for Islamic Banks which was developed in concurrent with the Islamic Financial Services Board (IFSB) regulations where he was responsible enhancing some key rulebook modules to embrace the lasts Basel and IFSB regulations. Mr. Al Shetti is a Certified Anti-Money Laundering Specialist (CAMS), a Certified Compliance Officer (CCO) by the American Academy of Financial Management and, a Certified Specialist on Combating Financing of Terrorism by the Arab University of Beirut and holds a BA in Finance from the Arab League University in Egypt.

TODAY.
TOMORROW.
TOGETHER.

COMMITTED TO SOCIAL RESPONSIBILITY.

The Bank continued its generous contributions and financial donations in the service of society through sponsorships and donations to charities, local clubs, and centers of scientific and religious as well as supporting needy families in the Kingdom of Bahrain.

We in Al Baraka Islamic Bank contribute to the development of communities and local economies in which we operate as part of our being an Islamic financial institution, where we are believers that this role represents a key feature of the business model which we are committed. Because Al Baraka Islamic Bank is considered a pioneer in Islamic banking, we strive to maintain our leading position as an institution committed to social responsibility.

During 2017, the Bank continued to carry out its social responsibility by directing its products and services for the construction of the communities in which it operates, and by improving the quality of these products and services, as well as through the support of financing small and medium-sized enterprises and developing youth skills. The Bank also continued its generous contributions and financial donations in the service of society through sponsorships and donations to charities, local clubs, and centers of scientific and religious as well as supporting needy families in Bahrain. The Bank also has a special program to provide assistance to charities and humanity centers during the holy month of Ramadan.

The Bank continues its sponsorship of many banking and financial events and conferences in Bahrain such as the World Conference of Islamic banks and the Conference of the Accounting and Auditing Organization for Islamic Financial Institutions as the Bank is one of the main sponsors for them.

The Bank also recruited numbers of students who are in the final stages of their university studies or recent graduates in order to refine their knowledge and rehabilitate them as a part of the Bank's role in the society.

SHARI'A SUPERVISORY BOARD'S REPORT

Date: 19 Jumada Al-Ola 1439 A.H.

Corresponding to: 05 February 2018

In the Name of Allah, the Most Gracious, the Most Merciful

Report of the Fatwa and Shari'a Supervisory Board From 01.01.2017 to 31.12.2017

To the Shareholders of alBraka Islamic Bank

Praise be to Allah, the Almighty, and Peace and

Blessings be upon our Prophet Muhammad, his Family, and Companions.

We have supervised the principles and contracts used in transactions and applications by Al Baraka Islamic Bank throughout the year up to the end of December 2017. We have performed our supervision as may be necessary to enable us express an opinion on whether the Bank has complied with the provisions and principles of Islamic Shari'a, as well as with the fatwas, resolutions and specific guidelines that were issued by us.

Ensuring that the Bank for actually operated in accordance with the provisions and principles of Islamic Shari'a, is the responsibility of the management team of the Bank. Our responsibility is limited to expressing an independent opinion based on our monitoring of the Bank's operations, and preparing a report for you.

We have performed our supervision, which included the examination of documentations and procedures of the Bank on the basis of the examination of each type of operation, either directly by us or through the Bank's Shari'a Supervision Department during 2017, through convening 4 Sharia board meetings, reviewing 44 master agreements, and supervising the audit process for 826 samples of the total transactions.

We planned and performed the supervision to obtain all the information and explanations we considered necessary to provide us with evidence sufficient to give reasonable assurance that the Bank did not violate the provisions and principles of Islamic Shari'a. In our opinion:

1. The contracts, transactions and dealings entered into by the Bank during the financial year ended 31st December 2017 which we reviewed were made in compliance with the provisions and principles of Islamic Shari'a.
2. The management has committed itself to segregate all the unintended gains obtained from sources or means prohibited by the provisions and principles of Islamic Shari'a and disburse of it towards charitable causes under the supervision of the Shari'a Supervisory Board.
3. The allocation of profits and charging of losses related to investment accounts conform to the basis that has been approved by us in accordance with Shari'a provisions and principles.
4. The management is not authorized to pay the Zakat on behalf of the shareholders, and as such the responsibility for payment of the Zakat lies with the shareholders in accordance with the Zakat calculation approved by the Shari'a Supervisory Board, which is USD 0.438 per share.

We pray to Allah Almighty to guide us to the righteous path.

Sheikh Dr. Abdulsattar Abughuddah
Head of Shari'a Supervisory Board

Sheikh Esam Mohamed Ishaq
Member of Shari'a Supervisory Board

Sheikh Dr. Nedham Yaqoobi
Member of Shari'a Supervisory Board

Mohamed Jassim Mohamed
Head of Shari'a Department

Financial Statements

For the year ended 31 December 2017

Contents

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

AL BARAKA ISLAMIC BANK B.S.C. (c)

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated statement of financial position of Al Baraka Islamic Bank B.S.C (c) ("the Bank") and its subsidiary ("the Group") as of 31 December 2017 and the related consolidated statements of income, changes in owners' equity, cash flows 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 2017, 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 the 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, or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2017 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 Group 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
19 February 2018
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	2017 US$ '000	2016 US$ '000
ASSETS			
Cash and balances with banks and financial institutions	5	218,949	280,611
Receivables	6	728,586	742,584
Mudaraba financing	7	-	776
Ijara Muntahia Bittamleek	8	265,610	279,768
Musharakas	9	339,641	316,728
Investments	10	517,738	548,899
Investments in real estate	11	5,974	5,974
Ijara income receivables	12	43,285	30,605
Investment in a joint venture	13	14,636	14,576
Premises and equipment	14	35,733	30,029
Goodwill	15	20,338	28,181
Other assets	16	106,446	106,519
TOTAL ASSETS		2,296,936	2,385,250
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED DEBTS AND OWNERS' EQUITY			
Liabilities			
Current accounts		294,637	293,308
Due to banks and financial institutions		52,087	58,474
Medium term financing		99,816	90,582
Other liabilities	17	127,478	91,479
Total liabilities		574,018	533,843
Equity of investment accountholders	18	1,474,200	1,598,245
Subordinated debts	19	57,033	46,478
Owners' Equity			
Share capital	20	122,458	122,458
Reserves		19,513	25,156
Retained earnings		11,936	15,483
Equity attributable to parent's shareholders		153,907	163,097
Non-controlling interest		37,778	43,587
Total owners' equity		191,685	206,684
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED DEBTS AND OWNERS' EQUITY		2,296,936	2,385,250
OFF-BALANCE SHEET ITEMS:			
EQUITY OF INVESTMENT ACCOUNTHOLDERS		85,603	75,990
CONTINGENCIES AND COMMITMENTS	21	306,232	279,375

Khalid Rashid Al-Zayani
Chairman

Adnan Ahmed Yousif
Deputy Chairman

Mohammed Isa Al Mutaweh
Chief Executive Officer & Board Member

The attached explanatory notes 1 to 35 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2017

	Notes	2017 US$ '000	2016 US$ '000
INCOME			
Income from jointly financed sales		**40,284**	33,630
Income from jointly financed, other financing and investments	22	**50,019**	42,260
Income from jointly financed assets		**90,303**	75,890
Return on equity of investment accountholders before Group's share as a Mudarib		**(71,861)**	(61,137)
Group's share as a Mudarib		**18,308**	16,579
Return on equity of investment accountholders		**(53,553)**	(44,558)
Group's share as a Mudarib and Rabalmal		**36,750**	31,332
Group's income from self financed sales		**1,463**	1,610
Group's income from self financed, other financing and investments	22	**21,783**	14,635
Revenue from banking services	23	**10,937**	12,834
Other income	24	**3,639**	2,680
Fair value gain on acquisition and merger	4	**-**	6,999
Group's Mudarib / agency fee from off-balance sheet equity of investment account holders		**105**	118
TOTAL OPERATING INCOME		**74,677**	70,208
OPERATING EXPENSES			
Staff expenses		**(35,772)**	(29,219)
Depreciation	14	**(5,264)**	(3,063)
Other operating expenses	25	**(35,936)**	(25,646)
TOTAL OPERATING EXPENSES		**(76,972)**	(57,928)
NET OPERATING (LOSS) / INCOME		**(2,295)**	12,280
Provision for impairment - net	26	**(4,400)**	(9,442)
(LOSS) / INCOME BEFORE TAXATION		**(6,695)**	2,838
Taxation	27	**1,293**	(535)
(LOSS) / INCOME FOR THE YEAR		**(5,402)**	2,303
Attributable to:			
Equity shareholders of the parent		**(4,289)**	2,213
Non-controlling interest		**(1,113)**	90
		(5,402)	2,303

Khalid Rashid Al-Zayani
Chairman

Adnan Ahmed Yousif
Deputy Chairman

Mohammed Isa Al Mutaweh
Chief Executive Officer & Board Member

The attached explanatory notes 1 to 35 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2017

	Equity attributable to shareholders of the parent										
		Reserves									
	Share capital US$ '000	Statutory US$ '000	General US$ '000	Employee defined benefit plan US$ '000	Cumulative changes in fair value of investments US$ '000	Revaluation of Premises and Equipment US$ '000	Foreign exchange US$ '000	Retained earnings US$ '000	Total US$ '000	Non-controlling interest US$ '000	Total owners' equity US$ '000
Balance at 1 January 2017	**122,458**	**22,699**	**8,687**	**(114)**	**2,007**	**1,193**	**(9,316)**	**15,483**	**163,097**	**43,587**	**206,684**
Cumulative changes in fair value	**-**	**-**	**-**	**-**	**(1,081)**	**-**	**-**	**-**	**(1,081)**	**(784)**	**(1,865)**
Foreign currency translation reserve	**-**	**-**	**-**	**-**	**-**	**-**	**(4,039)**	**-**	**(4,039)**	**(2,155)**	**(6,194)**
Net loss for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(4,289)**	**(4,289)**	**(1,113)**	**(5,402)**
Effects of changes in controlling interest	**-**	**-**	**-**	**(3)**	**39**	**-**	**(559)**	**742**	**219**	**(1,757)**	**(1,538)**
Balance at 31 December 2017	**122,458**	**22,699**	**8,687**	**(117)**	**965**	**1,193**	**(13,914)**	**11,936**	**153,907**	**37,778**	**191,685**
Balance at 1 January 2016	122,458	22,478	8,687	(173)	(121)	1,193	(11,789)	12,926	155,659	18,330	173,989
Cumulative changes in fair value	-	-	-	-	2,339	-	-	-	2,339	1,350	3,689
Foreign currency translation reserve	-	-	-	-	-	-	143	-	143	86	229
Acquisition and amalgamation (note 4)	-	-	-	-	-	-	-	-	-	26,405	26,405
Effects of changes in controlling interest in lieu of merger and acquisition (note 4)	-	-	-	18	(211)	-	2,330	565	2,702	(2,702)	-
Net income for the year	-	-	-	-	-	-	-	2,213	2,213	90	2,303
Remeasurement gains on defined benefit plan	-	-	-	41	-	-	-	-	41	28	69
Transfer to statutory reserve	-	221	-	-	-	-	-	(221)	-	-	-
Balance at 31 December 2016	122,458	22,699	8,687	(114)	2,007	1,193	(9,316)	15,483	163,097	43,587	206,684

The attached explanatory notes 1 to 35 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 US$ '000	2016 US$ '000
OPERATING ACTIVITIES		
Net (loss) / income before taxation	**(6,695)**	2,838
Adjustments for:		
Depreciation	**5,264**	3,063
Provision for impairment - net	**4,400**	9,442
Gain on sale of premises and equipment	**(536)**	(45)
Share of (gain) / loss from investment in joint venture	**(60)**	13
Gain on sale of investments	**(2,055)**	(2,942)
Operating profit before changes in operating assets and liabilities	**318**	12,369
Net changes in operating assets and liabilities:		
Balances with central banks in mandatory reserves	**102,176**	(70,066)
Receivables	**(25,648)**	(42,168)
Mudaraba financing	**776**	(220)
Ijara Muntahia Bittamleek	**14,158**	(11,356)
Musharaka	**(23,403)**	(46,803)
Ijara income receivable	**(13,347)**	(6,940)
Other assets	**1,720**	(12,778)
Other liabilities	**35,999**	6,527
Due to banks and other financial institutions	**(6,387)**	(2,127)
Current accounts	**1,329**	19,946
Equity of investment accountholders	**(124,045)**	200,269
Taxation paid	**(388)**	(635)
Net cash (used in) / from operating activities	**(36,742)**	46,018
INVESTING ACTIVITIES		
Purchase of investments	**(235,775)**	(156,425)
Investments sold / matured	**265,675**	98,198
Net investment in merger/ acquistion	**(1,538)**	23,481
Investment in a joint venture	**-**	(14,589)
Purchase of premises and equipment	**(6,612)**	(3,024)
Sale of premises and equipment	**1,445**	70
Net cash from / (used in) investing activities	**23,195**	(52,289)
FINANCING ACTIVITIES		
Subordinated debts	**10,555**	23,756
Medium term financing	**9,234**	25,175
Net cash from financing activities	**19,789**	48,931
Foreign currency translation adjustments	**(3,616)**	159
INCREASE IN CASH AND CASH EQUIVALENTS	**2,626**	42,819
Cash and cash equivalents at 1 January	**317,153**	274,334
CASH AND CASH EQUIVALENTS AT 31 DECEMBER (note 28)	**319,779**	317,153

The attached explanatory notes 1 to 35 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OFF-BALANCE SHEET EQUITY OF INVESTMENT ACCOUNTHOLDERS

For the year ended 31 December 2017

	Balance at 1 January 2017 US$ '000	Net deposits US$ '000	Gross income US$ '000	Mudarib's / agency fee US$ '000	Balance at 31 December 2017 US$ '000
Receivables	**66,585**	**8,038**	**1,491**	**(105)**	**76,009**
Investments	**9,405**	**189**	**-**	**-**	**9,594**
	75,990	**8,227**	**1,491**	**(105)**	**85,603**

	Balance at 1 January 2016 US$ '000	Net withdrawals US$ '000	Gross income US$ '000	Mudarib's / agency fee US$ '000	Balance at 31 December 2016 US$ '000
Receivables	94,677	(29,784)	1,810	(118)	66,585
Investments	9,462	(57)	-	-	9,405
	104,139	(29,841)	1,810	(118)	75,990

The attached explanatory notes 1 to 35 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

1. INCORPORATION AND PRINCIPAL ACTIVITY

Al Baraka Islamic Bank B.S.C. (c) (the "Bank") is a closed shareholding company incorporated in the Kingdom of Bahrain on 21 February 1984. The Bank operates under a Retail Bank's license number RB/025 issued by the Central Bank of Bahrain (CBB). The Bank has eight commercial branches in the Kingdom of Bahrain. The Bank is 91% owned by Al Baraka Banking Group ("Ultimate Parent").

The principal activities of the Bank and its subsidiary (the "Group") are taking demand, saving and investment accounts, providing Murabaha, Ijara and other Shari'a compliant forms of financing as well as managing investors' money on the basis of Mudaraba or agency for a fee, providing commercial banking services and other investment activities. The Bank's registered office is at Bahrain Bay, P.O. Box 1882, Manama, Kingdom of Bahrain.

The consolidated financial statements were approved by the Board of Directors on19 February 2018.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements are prepared on historical cost basis, except for investment in real estate, equity-type instruments measured at fair value through income and equity and land owned by the Bank (classified as premises and equipment) that have been measured at fair value.

The consolidated financial statements are presented in United States Dollars, being the reporting currency of the Group. All values are rounded of to the nearest US Dollar (US$) thousand unless otherwise indicated. However, the functional currency of the Bank is Bahraini Dinars and the subsidiary is Pakistani Rupees. Items included in the consolidated financial statements of each entity are measured using respective functional currency.

Statement of compliance

The consolidated financial statements are prepared in accordance with the 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 and in conformity with the Bahrain Commercial Companies Law, the CBB and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives. In accordance with the requirements of AAOIFI, for matters which are not covered by the AAOIFI standards, the Group uses the relevant International Financial Reporting Standards ('the IFRS') issued by International Accounting Standards Board.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary as at and for the year ended 31 December each year. The financial statements of the subsidiary is 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 are eliminated in full on consolidation.

Subsidiary is fully consolidated from the date control is transferred to the Bank and continue to be consolidated until the date that control ceases. Control is achieved where the Bank 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 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.

Transactions with non-controlling interests are handled in the same way as transactions with external parties. Sale of participations to non-controlling interests result in a gain or loss that is recognised in the consolidated statement of income. Changes in the ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transaction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

2. ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

Basis of consolidation (Continued)

The principal subsidiary of the Bank, which is consolidated in these consolidated financial statements is follows:

	Ownership for 2017 / 2016	Year of incorporation	Country of incorporation	No. of branches/ offices at 31 December 2017 / 2016
Bank				
Held directly by the Bank				
Al Baraka Bank (Pakistan) Limited* (note 4)	59.13% / 57.40%	2004	Pakistan	188 / 224

*Al Baraka Bank (Pakistan) Limited (ABPL) became a subsidiary on 21 December 2010. During 2016, ABPL acquired and amalgamated Burj Bank Limited " a local Islamic Retail Bank operating in Islamic Republic of Pakistan" under a scheme of amalgamation which was approved by the shareholders of the Group and the relevant authorities (note 4).

Investment in Itqan Capital

The Bank has ownership interest of 83.07% in Itqan Capital (the "Company").The Bank via a management agreement dated 1 July 2012 assigned the control to govern the financial and operating policies of the Company to the Ultimate Parent. The Bank has authorised the Ultimate Parent to represent it in the shareholders' meetings and to exercise control on the Company to do any or all acts and deeds and exercise all powers of the Bank pursuant to the Charter Document referred in the management agreement and / or under any applicable laws.

The financial statements of the Company are not consolidated as it is controlled by the Ultimate Parent pursuant to the terms of the management agreement. The Ultimate Parent consolidates the financial statements of the Company in its consolidated financial statements which are prepared in accordance with AAOIFI standards and the same was approved by the CBB.

The investment acquired is initially recognised at cost, being the fair value of consideration given including acquisition charges associated with the investment. Subsequently, the investment is carried at cost less impairment losses, if any.

2.2 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements, for the year ended 31 December 2016, except for the adoption of new standards and interpretations effective as of 1 January 2017.

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.

2.3 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 in hand, balances and placements with central banks in non-restricted accounts, balances with other banks and financial institutions and sales receivable with an original maturity of three months or less.

2. ACCOUNTING POLICIES (CONTINUED)

b. Receivables

Murabaha receivable

Murabaha receivable are stated net of deferred profits, amounts written-off and provision for doubtful debts, if any.

Murabaha receivable are sales on deferred payment terms. The Group arranges a Murabaha transaction by buying a commodity (which represents the object of the Murabaha) and then sells this commodity to Murabeh (beneficiary) after computing a margin of profit over cost. The sale price (cost plus the profit margin) is repaid in installments by the Murabeh over the agreed period. (Promise made in the Murabaha to the purchase orderer is not obligatory upon the customer or the Bank considers promise made in the Murabaha to the purchase orderer as obligatory).

Wakala receivable

Wakala receivable are stated at cost less provision for doubtful amount.

Salam receivable

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

Istisna'a receivable

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

c. Mudaraba financing and Musharaka

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

d. Ijara Muntahia Bittamleek and Ijara income receivable

Ijara Muntahia Bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the Ijarah (lease) term, provided that all Ijarah instalments are settled.

Assets acquired for leasing (Ijara) are stated at cost, less accumulated depreciation. Depreciation is provided on the straight-line method over the period of the lease or useful life, whichever is lower.

Ijara income receivable represent outstanding rentals at the end of the year less any provision for doubtful amount.

e. Investments

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

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.

Equity-type instruments at fair value through equity

This includes all equity-type instruments that are designated as fair value through equity upon initial recognition. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of significant accounting policies (Continued)

e. Investments (Continued)

Equity-type instruments at fair value through statement of income

These include equity-type investments held for trading purposes and those investments that are designated under this category on initial recognition. Subsequent to acquisition, investments designated at fair value through consolidated statement of income are re-measured at fair value with unrealised gains or losses 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.

Investment in a joint venture

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Under the equity method, investment in a joint venture is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the joint venture. The consolidated statement of income reflects the Group's share of the results of operations of the joint venture. Where there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in owners' equity. Unrealised gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

The reporting date joint venture and the Group are identical and the joint venture's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on the Group's investment in joint venture. The Group determines at each reporting date whether there is any objective evidence that investment in joint venture is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the recoverable amount of joint venture and its carrying value and recognises the impairment in the consolidated statement of income.

f. Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation and accumulated impairment in value except for land which is carried at fair value subsequent to initial recognition. 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 calculated using the straight-line method at rates intended to write-off the cost of the assets over their estimated useful lives. Any subsequent change in fair value of land is recognised in the consolidated statement of changes in owner's equity.

g. Fair values

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.

Fair value is determined for each financial asset individually in accordance with the valuation policies set out below:

(i) For investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the consolidated statement of financial position date.

(ii) For unquoted investments, fair value is determined by reference to recent significant buy or sell transactions with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.

(iii) For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for investments with similar terms and risk characteristics.

(iv) Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less provision for impairment.

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of significant accounting policies (Continued)

h. Business combination and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets and liabilities (including contingent liabilities) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the consolidated statement of income in the year of acquisition.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. 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. Impairment losses relating to goodwill cannot be reversed in future periods.

i. Equity of investment accountholders

All equity of investment accountholders are measured by the amount received during the time of contracting. At the end of the financial period equity of investment accountholders is measured at the amount received plus accrued profit and related reserves less amounts settled. Investment risk reserves and profit equalisation reserves are made at the Parent level.

j. 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.

k. 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.

l. 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 the investment accountholders. These assets are managed in a fiduciary capacity and the Group has no entitlement to these assets. Clients bear all of the risks and earn all of the rewards on these investments. 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 investments except within the conditions of the contract between the Group and off-balance sheet equity of investment accountholders.

m. Revenue recognition

Receivables

Profit from sales transactions (Murabaha) is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised on a 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.

Mudaraba financing

Income on Mudaraba financing is recognised when the right to receive payment is established or on distribution by the Mudarib, whereas losses are charged to income on declaration by the Mudarib.

Wakala financing

Income on Wakala financing is accrued on a time apportioned basis over the period of the contract based on the principal amounts outstanding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of significant accounting policies (Continued)

m. Revenue recognition (Continued)

Ijara Muntahia Bittamleek

Ijara income is recognised on a time apportioned basis over the Ijara term and is stated net of depreciation. Income related to non-performing Ijara Muntahia Bittamleek accounts that are above 90 days is excluded from the consolidated statement of income.

Musharaka

Income on Musharaka is recognised when the right to receive payment is established or on distribution.

Group's share of income from equity of investment accountholders (as a Mudarib and Rabalmal)

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

Fees and commission income

Fees and commission income including structuring fees is recognised when earned.

Dividends

Dividends are recognised when the right to receive payment is established.

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.

Income from investments

Income from investments is recognised when earned.

Rental income

Rental income is accounted for on a straight-line basis over the Ijara terms.

n. Return on equity of investment accountholders

Investors' share of income is calculated based on the income generated from joint investment accounts after deducting the expenses related to investment pool "Mudarib expenses". Mudarib expenses include all expenses incurred by the Group, including specific provisions, but excluding staff costs and depreciation. The Group's "Mudarib profit" is deducted from the investors' share of income before distributing such income. In some cases, equity of investment accountholders withdrawn before maturity and without completing three months are normally not entitled to any income. Equity of investment accountholders held for more than three months and withdrawn before their maturity are entitled to income only after deducting a penalty charge.

The basis applied by the Group in arriving at the investment accountholders share of income is [total investment income less investment pool expenses] divided by [average funds generating income (shareholders and investment accountholders) times average funds of equity of investment accountholders].

o. Investment pool expenses

Investment pool expenses include business, administrative, general and other expenses.

p. Taxation

There is no tax on corporate income in the Kingdom of Bahrain. The subsidiary in Pakistan pays tax as per Pakistan tax regulations.

Current

Provision for current taxation is based on taxable income in accordance with the tax laws as applicable in Pakistan.

Deferred

The Group accounts for deferred taxation on material temporary differences using the liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences. Deferred tax debits are recognised only if there is a reasonable expectation of realisation in the foreseeable future. Deferred tax is reduced to the extent that it is no longer probable that related tax benefits will be realised.

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of significant accounting policies (Continued)

q. Contingencies and Commitments

Contingencies are possible obligations or assets that arises from past events and whose existence will be confirmed only by occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Further, the obligation arisen from past events where the liability cannot be determined with reasonable certainty or probability of outflow of resourced cannot be determined are also contingencies.

A commitment is a binding contract for the exchange of a specified quantity of resourced at a specific price on a specified future dates or date.

r. 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 retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or

(iii) the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) 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 specified in the contract is discharged, cancelled or expires.

s. Earnings prohibited by Shari'a

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

t. Foreign currencies

Transactions in foreign currencies are initially recorded in the functional currency at the spot rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange at the date of the consolidated statement of financial position. All differences are taken to the consolidated statement of income with the exception of all monetary items that provide an effective protection for a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates at the date of recognition. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item.

As at the reporting date, the assets and liabilities in foreign currencies are translated into the presentation currency of the Group (United States Dollar) at the rate of exchange ruling at the consolidated statement of financial position date and their income and expenses 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 operation, the deferred cumulative amount recognised in owners' equity relating to that particular foreign operation is recognised in the consolidated statement of income.

u. Impairment of financial assets

An assessment is made at each consolidated statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss 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 the case of equity-type instruments at fair value through equity, impairment is reflected directly as a write down of the financial asset. Impairment losses on equity-type instruments at fair value through equity are not reversed through the consolidated statement of income while any subsequent increases in their fair value are recognised directly in owners' equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of significant accounting policies (Continued)

v. Judgements and estimates

In the process of applying the Group's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgements and estimates are as follows:

Impairment and uncollectibility of financial assets

An assessment is made at each consolidated statement of 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 value to it of anticipated future cash flows, is recognised in the consolidated statement of income. Specific provisions are created to reduce all impaired financial contracts to their realisable cash equivalent value.

Fair valuation of investments

The determination of fair values of unquoted investments requires management to make estimates and assumptions that may affect the reported amount of assets at the date of consolidated financial statements.

Nonetheless, the actual amount that is realised in a future transaction may differ from the current estimate of fair value and may still be outside management estimates, given the inherent uncertainty surrounding valuation of unquoted investments.

Going concern

The Group's management has made an assessment of its 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 consolidated financial statements continue to be prepared on the going concern basis.

Classification of investments

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

w. Employees' end of service benefits

Defined contribution plan

Provision is made for leaving indemnity payable under the Bahraini Labour Law applicable to non-Bahraini employees' accumulated periods of service at the consolidated statement of financial position date. Moreover provision for indemnity payable is also made for Bahraini employees.

Bahraini employees of the Group are covered by contributions made to the Social Insurance Organisation (SIO) as a percentage of the employees' salaries. the Group's obligations are limited to these contributions, which are expensed when due.

The subsidiary in Pakistan also operates a recognised contributory provident fund for all permanent employees. Equal monthly contributions are made, both by the subsidiary and the employees, to the fund at a rate of 10 percent of basic salary.

Defined benefit plan

The subsidiary in Pakistan operates an approved funded gratuity scheme for all its permanent employees. Annual contributions are made to the scheme in accordance with the actuarial recommendation. The actuarial valuation is carried out using the projected unit credit method.

x. Zakah

The responsibility of payment of zakah is on individual shareholders and investment accountholders. In Pakistan, zakah is deducted at source from accountholders as required by local laws. Zakah per share is presented in the Shari'a Supervisory Board Report.

y. 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".

z. Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legal or religious enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

2. ACCOUNTING POLICIES (CONTINUED)

aa. Shari'a supervisory board

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

ab. Trade date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

3. PROSPECTIVE CHANGES IN ACCOUNTING POLICIES

New standards and interpretations issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing is of the relevant standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards (where applicable) when they become effective:

Implementation and Impact Analysis of FAS 30

Implementation strategy

In November 2017, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) issued Financial Accounting Standard (FAS) 30 - Impairment, credit losses and onerous commitments, the standard supersedes the earlier FAS 11 "Provisions and Reserves" effective from the financial periods beginning on or after 1 January 2020, with early adoption permitted. The Group consider it as a significant project and therefore has set up a multidisciplinary implementation team with members from its Credit risk, Finance, IT, Operations, and respective businesses to achieve a successful and robust implementation. The FAS30/ IFRS 9 Implementation committee comprises of Chief Financial Office, Head of Risk Management, Head of Credit, Head of Information Technology and Head of Business, managed the project.

Credit losses approach

The Group will recognize credit losses allowances based on a forward-looking Expected Credit Loss (ECL) approach on all established receivables and off-balance sheet exposures including guarantees, letters of credit, promise-based foreign exchange and other similar positions.

The Group will categorizes its assets subject to credit losses into the following three stages in accordance with the FAS 30 methodology:

- **Stage 1 –** Performing assets: asset(s) that has not significantly deteriorated in credit quality since origination. The impairment allowance will be recorded based on 12 months ECL.
- **Stage 2 –** Underperforming assets: asset(s) that has significantly deteriorated in credit quality since origination. The credit losses will be recorded based on life time ECL.
- **Stage 3 –** Impaired assets: For asset(s) that are impaired, the Group will recognize the impairment allowance based on life time ECL.

The Group will also consider the forward-looking information in its assessment of significant deterioration in credit risk since origination as well as the measurement of ECLs.

The forward-looking information will include the elements such as macroeconomic factors (e.g., fiscal deficit, GDP growth, inflation, government spending, profit rates and oil prices) and economic forecasts obtained through internal and external sources.

To evaluate a range of possible outcomes, the Group intends to formulate various scenarios. For each scenario, the Group will derive an ECL and apply a probability weighted approach to determine the impairment allowance in accordance with the accounting standards requirements.

The Group will early adopt FAS 30 during 2018 and currently in the final phase of implementation, where by parallel run exercise is currently under process together with various level of validation.

Impairment approach

The Group will recognize impairment losses on all other financing and investment assets and exposures subject to risks other than credit risk (other than inventories), other than investments carried at fair value through income statement.

The impairment losses will be measured by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount will be the higher of its fair value less costs of disposal and its value in use.

Net realizable value approach

The Group will recognize impairment on inventories recognized as a result of financial transactions which are based on a trade based structure e.g. deferred payment sales including Murabaha, Salam or Istisna'a.

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3. PROSPECTIVE CHANGES IN ACCOUNTING POLICIES (CONTINUED)

The Group subsequent to the initial recognition, will measure all inventories will be measured at the lower of cost and net realizable value. The net realisable value, is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale, considering the factors specific to the Group.

Provision for onerous contract or commitment to acquire an asset

The Group will recognize provision when the Group is obligated to acquire an asset under a future commitment or contracts permissible to be entered in the future, and it is expected that the obligation under the contract or commitment is higher than the economic benefits expected to flow through acquisition of such asset. In such situation, the Group will create a provision on this account reflecting the expected losses arising on such transaction.

Expected impact

The Group has reviewed its assets and is expecting the following impact from the early adoption of the FAS 30 on January 1, 2018:

- According to transitional provisions for initial application of FAS 30, the Group is allowed to recognised any difference between previous carrying amount under FAS 11 and the carrying amount of losses that is attributable to the shareholders at the beginning of the annual reporting period that includes the date of initial application in opening retained earnings, and the cumulative charge attributable to participatory stakeholders, including unrestricted investment account holders related to previous periods, shall be adjusted with an allocation from the respective Investment Risk Reserve with due Shari'ah approvals. And in case of a shortfall, an allocation may be made from the respective Profit Equalization Reserve with due Shari'ah approvals. In case of still a shortfall, a temporary transfer with Shari'ah approval may be made from shareholders' equity.

Accordingly, the effect is approximated to be in the range of 82% to 134% on the date of initial application in opening retained earnings.

- The Group's Tier 1 ratio will be impacted by FAS 30 from any potential increase in impairment provisions. Based on the balances as at December 31, 2017, the expected Tier 1 impact without transitional arrangements would be an estimated reduction of approximately 0.9% to 1.5%.
- The new standard also introduces disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Governance and controls

The Group has a centrally managed FAS 30 programme sponsored by the Group's FAS30/ IFRS 9 Implementation committee and includes subject matter experts on methodology, data sourcing and modelling, IT processing and reporting. The Group's work to date has covered performing and developing an impairment methodology to support the calculation of the Expected Credit Loss (ECL) allowance. Specifically, during 2017 the Group developed its approach for assessing significant increase in credit risk ("SICR"), incorporating forward looking information, including macro-economic factors and preparing the required IT systems and process architecture. The Group has performed a full end to end parallel run based on [31 December 2017] data to assess procedural readiness. Overall governance of the program's implementation is through the FAS 30 Steering Committee and includes representation from Finance, Risk and IT. The Group is in the process of enhancing its governance framework to implement appropriate validations and controls over new key processes and significant areas of judgment such as SICR determining and applying forward looking information in multiple economic scenarios and computation of ECL.

Caveat:

The estimated decrease in shareholders' equity includes the impact of both balance sheet changes and the increase to credit impairment provisions compared to those applied at 31 December 2017 under FAS 11. The assessment above is a point in time estimate and is not a forecast. The actual effect of the implementation of FAS 30 on the Group could vary significantly from this estimate. The Group continues to refine models, methodologies and controls, and monitor developments in regulatory rule making in advance of FAS 30 early adoption on 1 January 2018. Although parallel runs were carried out in the latter half of 2017, the new systems and associated controls in place have not been operational for a more extended time. As a result, the Group has not finalized the testing and assessment of controls over its new IT systems and changes to its governance framework. All estimates are based on the Group's current interpretation of the requirements of FAS 30, reflecting industry guidance and discussions to date.

4. BUSINESS COMBINATION AND ACQUISITING OF NON-CONTROLLING INTEREST

During 2016, the Group directly purchased 43.95% shares in Burj Bank Limited ('BBL') "a local Islamic Retail Bank operating in Islamic Republic of Pakistan". Thereafter, Al Baraka Bank Pakistan Limited (the Subsidiary or ABPL) acquired 100% shares of the BBL, inclusive of shares directly purchased by group, by share swap of 1 ABPL share against 1.7 shares in Burj Bank Limited by issuance of new shares in ABPL. The Group merged Al Baraka Bank Pakistan with Burj Bank Limited under a scheme of amalgamation duly approved by Board of Directors, shareholders and State Bank of Pakistan.

As a result of such transaction, the effective shareholding of the Group in subsidiary was reduced to 57.40% from 64.64% effectively from 1 November 2016.

4. BUSINESS COMBINATION AND ACQUISITING OF NON-CONTROLLING INTEREST (CONTINUED)

The following table sets out the details of the transaction:

	2016 US$ '000
Consideration paid on purchase of significant stake in Burj Bank Limited (43.95%)	(13,702)
Fair valuing stake on acquisition of controlling stake in Burj Bank Limited	20,701
Gain arising on fair valuation for the purpose of acquisition accounting	6,999

Assets acquired and liabilities assumed

The amalgamation of BBL with and into ABPL was accounted for by applying acquisition method of accounting as prescribed by International Financial Reporting Standard (IFRS) 3 - Business Combinations. The said accounting method requires to recognise all identified assets acquired (separately from goodwill) and liabilities assumed in the business combination at fair values at the date of amalgamation.

The provisional fair value of the identifiable assets and liabilities of BBL as at the acquisition date and the carrying values immediately before the acquisition date were:

	Fair value recognised on acquisition US$ '000	**Previous carrying value US$ '000**
Assets		
Cash and balances with banks and financial institutions	**37,183**	**37,183**
Sales receivables	**31,225**	**31,225**
Ijara Muntahia Bittamleek	**2,014**	**2,014**
Mudaraba	**556**	**556**
Musharaka	**114,264**	**114,264**
Investments	**40,790**	**40,790**
Premises and equipment	**4,988**	**4,988**
Other assets	**30,118**	**30,118**
	261,138	**261,138**
Liabilities		
Current accounts	**40,776**	**40,776**
Due to financial institutions	**13,873**	**13,873**
Other liabilities	**16,475**	**16,475**
Unrestricted investment accounts	**153,382**	**153,382**
	224,506	**224,506**
Total identifiable net assets at fair value	**36,632**	**36,632**
Goodwill arising on acquisition (as reported in the consolidated statement of financial position)	**10,474**	
Purchase consideration	**47,106**	
Total consideration comprises of :		
Fair value of the investment in associate	**20,701**	
Fair value of shares issued to non-controlling shareholders	**26,405**	
	47,106	

During the current year, the exercise for the identification and valuation of assets acquired (including intangible assets) has been completed by management with the association of an independent consultant. Acoordingly, the goodwil amount has been allocated to the identified assets which is mainly relating to Core Deposits and classified as intangibles (notes 14 and 15).

During the year, the Group purchased 23.796 million shares with net asset value of USD 1.758 million from minority shareholders of Al Baraka Bank Pakistan Limited for a purchase consideration of USD 1.539 million. The acquisition has resulted to a bargain purchase gain of USD 219 thousand and the shareholding has increased from 57.40% to 59.13% effectively from 30 June 2017.

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5. CASH AND BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS

	2017 US$ '000	2016 US$ '000
Cash in hand	39,310	32,808
Balances with State Bank of Pakistan		
Current account	6,616	5,553
Mandatory reserves	45,975	147,323
Placement	46,147	4,645
	98,738	157,521
Balances with CBB		
Current account	9,809	8,403
Mandatory reserves	28,249	29,077
	38,058	37,480
Balances with other banks and financial institutions	42,843	52,802
	218,949	280,611

The mandatory reserves with central banks are not available for use in the day-to-day operations.

6. RECEIVABLES

	2017			2016		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Commodities	2,288	173,003	175,291	-	213,118	213,118
Salam financing	-	86,889	86,889	-	59,085	59,085
Istisna'a financing	-	88,749	88,749	-	76,063	76,063
Murabaha and others	2,533	396,982	399,515	3,167	391,214	394,381
Wakala	-	52,515	52,515	-	73,666	73,666
Gross receivables	4,821	798,138	802,959	3,167	813,146	816,313
Deferred profits	(55)	(23,255)	(23,310)	(165)	(23,363)	(23,528)
	4,766	774,883	779,649	3,002	789,783	792,785
Provision for impairment (note 26)	-	(51,063)	(51,063)	-	(50,201)	(50,201)
Net receivables	4,766	723,820	728,586	3,002	739,582	742,584

Receivables which are non-performing as of 31 December 2017 amounted to US $ 96.7 million (2016: US $ 74.4 million).

7. MUDARABA FINANCING

	2017			2016		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Banks and financial institutions	-	-	-	-	776	776

8. IJARA MUNTAHIA BITTAMLEEK

	2017			2016		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Building						
Cost	-	271,413	271,413	-	254,943	254,943
Accumulated depreciation	-	(60,765)	(60,765)	-	(49,388)	(49,388)
Net book value	-	210,648	210,648	-	205,555	205,555
Equipment						
Cost	30,829	34,026	64,855	20,000	52,614	72,614
Accumulated depreciation	(4,538)	(24,812)	(29,350)	(1,698)	(31,182)	(32,880)
Net book value	26,291	9,214	35,505	18,302	21,432	39,734
Others						
Cost	-	32,594	32,594	-	56,321	56,321
Accumulated depreciation	-	(13,137)	(13,137)	-	(21,842)	(21,842)
Net book value	-	19,457	19,457	-	34,479	34,479
TOTAL						
Cost	30,829	338,033	368,862	20,000	363,878	383,878
Accumulated depreciation	(4,538)	(98,714)	(103,252)	(1,698)	(102,412)	(104,110)
Net book value	26,291	239,319	265,610	18,302	261,466	279,768

9. MUSHARAKAS

	2017			2016		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Musharakas	64,128	280,744	344,872	-	321,733	321,733
Provision for impairment (note 26)	-	(5,231)	(5,231)	-	(5,005)	(5,005)
	64,128	275,513	339,641	-	316,728	316,728

Musharaka which are impaired as of 31 December 2017 amounted to US $ 10.7 million (2016: US $ 12.4 million).

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10. INVESTMENTS

	2017			2016		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
i) Debt-type instruments at amortised cost						
Quoted						
Sukuk	100,144	100,388	200,532	72,769	103,844	176,613
Unquoted						
Sukuk	206,205	32,996	239,201	204,780	82,880	287,660
	306,349	133,384	439,733	277,549	186,724	464,273
ii) Equity-type instruments at fair value through statement of income						
Quoted						
Listed equity shares	-	245	245	-	-	-
iii) Equity-type instruments at fair value through equity						
Quoted						
Listed equity shares	9,613	466	10,079	8,472	423	8,895
Unquoted						
Equity investments	60,350	473	60,823	60,350	499	60,849
Managed funds	1,000	-	1,000	1,000	5,000	6,000
Real estate related	4,636	5,726	10,362	4,636	7,323	11,959
	75,599	6,665	82,264	74,458	13,245	87,703
Less: Provision for impairment (note 26)	(3,925)	(579)	(4,504)	(2,622)	(455)	(3,077)
Total investments	378,023	139,715	517,738	349,385	199,514	548,899

Included in quoted equity type instruments, US $ 9 million (2016: US $ 8.7 million) of investments are fair valued using quoted prices in active markets.

Within unquoted investments which are held at fair value through equity are investments amounting to US $ 70.9 million (2016: US $ 77.5 million) which are held at cost less provision for impairment. These are mainly investments in unlisted companies whose shares are not traded on active markets. The investments are primarily in closely-held companies located in the Gulf Co-operation Council ("GCC"). The investments are held at cost less provision for impairment due to the unpredictable nature of their future cash flows and the lack of other suitable methods for determining a reliable fair value.

The Group's investments in sukuk held at amortised cost amounting to US $ 437.8 million (2016: US $ 462.8 million) has a fair value amounting to US $ 435.8 million (2016: US $ 461.9 million).

Investments stated at a carrying amount of US $ 179.1 million (2016: US $ 166.5 million) are placed in custody of a financial institution to secure a financing line. Further, investments having a carrying amount of US $ 45.1 million (2016:US $ 45.1 million) are also pledged to secure additional financing line.

11. INVESTMENTS IN REAL ESTATE

	2017 US$ '000	2016 US$ '000
Commercial and residential properties	5,974	5,974

12. IJARA INCOME RECEIVABLES

	2017			2016		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Ijara income receivable	3,212	44,460	47,672	1,713	32,781	34,494
Provision for impairment (note 26)	-	(4,387)	(4,387)	-	(3,889)	(3,889)
	3,212	40,073	43,285	1,713	28,892	30,605

Total Ijara Muntahia Bittamleek and Ijara income receivable, which are non-performing as of 31 December 2017 amounted to US $ 23.3 million (2016: US $ 22.7 million).

13. INVESTMENT IN A JOINT VENTURE

	2017 US$ '000	2016 US$ '000
Opening balance	14,576	14,589
Share of profit / (loss) for the year	60	(13)
	14,636	14,576

Name	Nature of Business	Ownership	
Danat Al Barakat	Real estate development	51.00%	51.00%

Sumarised Statement of financial position (unaudited)

	2017 US$ '000	2016 US$ '000
Non-current assets	17,835	17,005
Current assets	10,962	11,580
Current liabilities	(99)	(5)
Net assets	28,698	28,580
Group's ownership in equity	14,636	14,576
Net carrying amount	14,636	14,576
Summarised statement of profit and loss (unaudited)		
Total income	223	2
Total expenses	(105)	(27)
Total profit / (loss)	118	(25)
Group's net share of profit / (loss)	60	(13)

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14. PREMISES AND EQUIPMENT

	Land and buildings US$ '000	Intangibles US$ '000	Office furniture and equipment US$ '000	Vehicles US$ '000	Total US$ '000
Cost:					
At 1 January 2017	31,395	14,035	27,935	1,002	74,367
Allocation of goodwill to intangibles (note 15)	-	6,358	-	-	6,358
Additions	489	789	5,172	162	6,612
Disposals	(2,371)	-	(308)	(83)	(2,762)
Exchange difference on opening balance	(1,066)	(364)	(972)	(40)	(2,442)
At 31 December 2017	28,447	20,818	31,827	1,041	82,133
Depreciation:					
At 1 January 2017	10,241	12,118	21,293	686	44,338
Provided during the year	1,376	1,658	2,101	129	5,264
Disposals	(1,523)	-	(269)	(61)	(1,853)
Exchange difference on opening balance	(326)	(309)	(690)	(24)	(1,349)
At 31 December 2017	9,768	13,467	22,435	730	46,400
Net book values:					
At 31 December 2017	18,679	7,351	9,392	311	35,733
At 31 December 2016	21,154	1,917	6,642	316	30,029
Estimated useful lives for calculation of depreciation	20-30 years	4-10 years	1-10 years	4-5 years	

15. GOODWILL

	2017 US$ '000	2016 US$ '000
At 1 January	28,181	17,659
Additions	-	10,473
Allocation to intangible	(6,358)	-
Foreign exchange translations	(1,485)	49
	20,338	28,181

Goodwill acquired through business combination has been entirely allocated to a single cash generating unit (CGU), Al Baraka Bank (Pakistan) Limited by the Group's management.

The recoverable amount of the CGU was 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 CGU's past performance and its expectation of market development.

The key assumptions used in estimating recoverable amounts of cash generating units were sensitised to test the resilience of value in use calculations. On this basis, management believes that reasonable changes in key assumptions used to determine the recoverable amount of the Group's cash generating units will not result in an impairment.

16. OTHER ASSETS

	2017 US$ '000	2016 US$ '000
Deferred tax (note 16.1)	**29,272**	27,657
Advance against financing transactions	**29,223**	21,722
Collaterals pending sale	**21,387**	22,700
Advance against capital expenditures	**6,864**	7,791
Advance tax (note 27)	**3,186**	3,766
Accounts receivable	**4,794**	3,595
Income receivable	**1,548**	649
Others	**13,794**	22,426
Total	**110,068**	110,306
Provision for impairment (note 26)	**(3,622)**	(3,787)
	106,446	106,519

16.1 The above net deferred tax asset has been recognised in accordance with the Group's accounting policy. The management based on financial projections prepared during the year, estimates that sufficient taxable profits would be available in future against which the deferred tax asset could be realised.

17. OTHER LIABILITIES

	2017 US$ '000	2016 US$ '000
Margins received	**56,372**	23,298
Accounts payable	**17,535**	16,971
Security deposit against Ijara Muntahia Bittamleek	**10,994**	16,073
Bills payable	**15,316**	13,254
Provision for employees benefits	**8,166**	7,950
Charity fund	**849**	549
Others	**18,246**	13,384
	127,478	91,479

18. EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH)

The Group manages and deploys Equity of IAH according to its Article of Association – Chapter 3 on Rules of Business. In this respect, the Bank invests its own funds separately or jointly with amount received from Equity of IAH. 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 fiduciary responsibilities. The Group is authorised by Equity of IAH to invest the funds on the basis of Mudaraba, Murabaha, Salam, Ijara 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.

	2017 US$ '000	2016 US$ '000
IAH - Non-banks	**1,230,387**	1,324,689
IAH - Banks	**241,540**	270,666
Profit equalisation reserve (note 18.1)	**572**	551
Investment risk reserve (note 18.2)	**1,701**	2,339
	1,474,200	1,598,245

18.1 Movement in profit equalisation reserve

	2017 US$ '000	2016 US$ '000
Balance at 1 January	**551**	558
Foreign exchange gain / (loss)	**21**	(7)
Balance at 31 December	**572**	551

The Group appropriates a certain amount in excess of the profit to be distributed to equity of investment accountholders before taking into consideration the Mudarib share of income. This is used to maintain a certain level of return on investment for equity of IAH.

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18. EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH) (CONTINUED)

18.2 Movement in investment risk reserve

	2017 US$ '000	2016 US$ '000
Balance at 1 January	2,339	2,339
Amount apportioned to provision (note 26)	(639)	-
Exchange difference	1	-
Balance at 31 December	1,701	2,339

The Group deducts investment risk reserve as per approved policy from the profit distributable to equity of IAH of its Bahrain operations, after allocating the Mudarib share in order to cater against future losses for equity of IAH.

The profit equalisation reserve and investment risk reserve will revert to IAH as per terms and conditions of the Mudaraba contract.

As IAH funds are commingled with the Group's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits.

The Group's share, as Mudarib, in the profits of equity of IAH is upto a maximum of 70% (2016: upto 70%) as per the terms of IAH agreements.

The Group has charged a total administrative expense of US $ 7.1 million (2016: US $ 5.8 million) to equity of IAH.

18.3 Equity of Investment Accountholders rate of return

	Average 2017 Rate of return %			Average 2016 Rate of return %		
	Bahrain		Pakistan	Bahrain		Pakistan
	BD	USD		BD	USD	
Saving Accounts	0.11%	0.08%	3.46%- 3.66%	0.11%	0.08%	2.13% - 3.04%
One Month	0.56%	-	3.46% - 4.31%	0.56%	-	2.36% - 3.31%
Three Months	0.66%	0.66%	1.71% - 4.82%	0.66%	0.89%	3.12% - 3.91%
Six Months	0.77%	0.76%	3.01% - 4.71%	0.77%	0.96%	3.77% - 3.49%
Nine Months	0.84%	-	-	0.81%	-	-
1 Year	0.89%	0.93%	3.13% - 5.35%	0.89%	1.03%	2.39% -4.55%
2 Years	1.00%	1.14%	4.78%	1.00%	1.15%	1.52% - 4.83%
3 Years	1.52%	-	5.19%	1.52%	-	3.70% - 5.22%
4 Years	-	-	4.80%	-	-	4.95%
5 Years	-	-	5.67%	-	-	3.78% - 5.51%

18.4 Equity of Investment Accountholders by type

	2017 US$ '000	2016 US$ '000
Saving Accounts	676,082	682,772
One Month	125,836	102,085
Three Months	31,883	202,872
Six Months	186,455	175,048
Nine Months	5,486	4,194
1 Year	267,372	325,316
2 Years	109,819	46,897
3 Years	37,920	47,591
4 Years	4,834	5,178
5 Years	28,513	6,292
	1,474,200	1,598,245

18.5 Equity of Investment Accountholders by maturity

	2017 US$ '000	2016 US$ '000
Accounts on demand	676,082	682,772
Accounts on a contractual basis *	798,118	915,473
	1,474,200	1,598,245

* These can be withdrawn subject to deduction of profit upon management discretion.

19. SUBORDINATED DEBT

	2017 US$ '000	2016 US$ '000
Subordinated Mudaraba and Murabaha by Ultimate Parent	**32,555**	32,555
Subordinated Mudaraba Sukuk (note 19.1)	**24,478**	13,923
	57,033	46,478

19.1 This includes second unsecured, sub-ordinated and privately placed suck amounting to US $ 13.58 million (Rs. 1,500 million) issued by ABPL during the year. The tenor of the sukuk is seven years with capital repayble in full at the end of the tenor in 2024. Profit is payable on sukuk semi-annually at 6 months KIBOR + 0.75%.

20. OWNERS' EQUITY

	2017 US$ '000	2016 US$ '000
(i) Share capital		
Authorised 6,000,000 ordinary shares (2016: 6,000,000) of US$ 100 each	**600,000**	600,000
Issued and fully paid 1,224,578 ordinary shares		
(2016: 1,224,578) of US $ 100 each	**122,458**	122,458

Additional information on shareholding pattern

Names and nationalities of the major shareholder and the number of shares where they have an interest of 5% or more of outstanding shares:

Name	Domicile	No. of shares	% holding
Al Baraka Banking Group B.S.C.	Bahrain	1,115,755	91.11%

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

Distribution schedule of shares, setting out the number and percentage of holders in the following categories;

	2017			2016		
	Number of shares	Number of shareholders	% of total outstanding shares	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	**58,823**	**12**	**4.81%**	58,823	12	4.81%
1% up to less than 5%	**50,000**	**1**	**4.08%**	50,000	1	4.08%
	108,823	**13**	**8.89%**	108,823	13	8.89%

(ii) Statutory reserve

In accordance with the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net income attributable to the shareholders of the parent 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 and following the approval of the CBB. No transfer was made to statutory reserve for the year ended 31 December 2017 (31 December 2016: US $ 0.221 million) as the Group incurred losses.

(iii) General reserve

In accordance with the Bank's articles of association, the Bank may transfer any amount, as approved by the General Assembly, out of net income attributable to the shareholders of the parent for the year to the general reserve after appropriating statutory reserve. The general reserve is distributable, subject to the approval of the CBB.

(iv) Employee defined benefit plan reserve

This represents the reserve created in lieu of actuarial gains or losses on defined benefit liabilities and planned assets of the foreign subsidiary.

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20. OWNERS' EQUITY (CONTINUED)

(v) Cumulative changes in fair value
This represents the net unrealised fair value changes relating to the equity of the parent on equity-type instruments at fair value through equity and investment in real estate.

(vi) Revaluation reserve on premises and equipment
This represents the net surplus on revaluation relating to the equity of the parent on premises and equipment carried at fair value in books of accounts.

(vii) Foreign exchange reserve
This represents the translation reserve arising as a result of consolidation of the foreign subsidiary.

21. CONTINGENCIES AND COMMITMENTS

	2017 US$ '000	2016 US$ '000
Letters of credit	110,942	76,126
Guarantees	82,870	99,255
Foreign exchange contracts		
- Purchase	48,317	40,517
- Sale	31,161	24,059
Acceptances	30,854	24,979
Taxation	2,088	13,894
Others	-	545
	306,232	279,375

22. INCOME FROM JOINTLY AND SELF FINANCED, OTHER FINANCING AND INVESTMENTS

	2017 US$ '000	2016 US$ '000
Musharaka	27,505	15,777
Income from investments	22,364	18,476
Ijara Muntahia Bittamleek (note 22.1) - net	19,202	19,278
Gain on sale of investments	2,055	2,942
Dividends	452	193
Rental income	224	229
Total	71,802	56,895

	2017 US$ '000	2016 US$ '000
Income from jointly financed, other financings and investments	50,019	42,260
Income from self financed, other financings and investments	21,783	14,635
	71,802	56,895

22.1 Ijara Muntahia Bittamleek

	2017 US$ '000	2016 US$ '000
Income from Ijara Muntahia Bittamleek	76,623	75,887
Depreciation on Ijara Muntahia Bittamleek	(57,421)	(56,609)
	19,202	19,278

23. REVENUE FROM BANKING SERVICES

	2017 US$ '000	2016 US$ '000
Fees and commissions	**6,199**	6,673
Letters of credit and acceptances	**3,782**	5,191
Guarantees	**956**	970
	10,937	12,834

24. OTHER INCOME

	2017 US$ '000	2016 US$ '000
	US$ '000	US$ '000
Foreign exchange gain - net	**2,244**	1,640
Others	**1,395**	1,040
	3,639	2,680

25. OTHER OPERATING EXPENSES

	2017 US$ '000	2016 US$ '000
Premises costs	**16,594**	10,444
Business expenses	**9,276**	7,066
Administrative expenses	**7,481**	6,235
General expenses	**2,585**	1,901
	35,936	25,646

26. MOVEMENT IN PROVISIONS FOR IMPAIRMENT

2017	**Receivables US$ '000**	**Musharaka US$ '000**	**Investments US$ '000**	**Ijara income receivable US$ '000**	**Other assets US$ '000**	**Total US$ '000**
Notes	**6**	**9**	**10**	**12**	**16**	
Provision at beginning of the year	**50,201**	**5,005**	**3,077**	**3,889**	**3,787**	**65,959**
Charged during the year	**7,422**	**797**	**1,473**	**730**	**76**	**10,498**
Written back during the year	**(5,664)**	**(307)**	**(22)**	**(63)**	**(42)**	**(6,098)**
	1,758	**490**	**1,451**	**667**	**34**	**4,400**
	51,959	**5,495**	**4,528**	**4,556**	**3,821**	**70,359**
Transferred from investment risk reserve (note 18.2)	**611**	**-**	**-**	**28**	**-**	**639**
Exchange difference on opening balance	**(1,507)**	**(264)**	**(24)**	**(197)**	**(199)**	**(2,191)**
Provision at end of the year	**51,063**	**5,231**	**4,504**	**4,387**	**3,622**	**68,807**
2016						
Notes	6	9	10	12	16	
Provision at beginning of the year	31,498	2,713	2,980	1,853	2,892	41,936
Charged during the year	13,957	575	1,019	201	835	16,587
Written back during the year	(4,311)	(1,976)	(458)	(400)	-	(7,145)
	9,646	(1,401)	561	(199)	835	9,442
	41,144	1,312	3,541	1,654	3,727	51,378
Written off during the year	(1)	-	(465)	-	(719)	(1,185)
Transfer in on amalgamation	9,079	3,689	-	2,233	774	15,775
Exchange difference on opening balance	(21)	4	1	2	5	(9)
Provision at end of the year	50,201	5,005	3,077	3,889	3,787	65,959

The total general provision maintained against financing facilities as of 31 December 2017 amounted to US $ 4.1 million (2016: US $ 3.3 million).

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27. TAXATION

Taxation relates to subsidiary in Pakistan and comprise:

	2017 US$ '000	2016 US$ '000
Consolidated statement of financial position:		
Advance tax - net	3,186	3,766
Consolidated statement of income:		
Current tax	(871)	(577)
Deferred tax	2,164	42
	1,293	(535)

28. CASH AND CASH EQUIVALENTS

For the purpose of cash flows, cash and cash equivalents represent:

	2017 US$ '000	2016 US$ '000
Cash in hand	39,310	32,808
Balances with central banks in current accounts	16,425	13,956
Balances with other banks and financial institutions	42,843	52,802
Placements	46,147	4,645
Receivables - commodities (with an original maturity of 90 days or less)	175,054	212,942
	319,779	317,153

29. 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, Shari'a supervisory board and external auditors.

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

	Shareholders		Other Related Parties		Total	
	2017 US$ '000	2016 US$ '000	2017 US$ '000	2016 US$ '000	2017 US$ '000	2016 US$ '000
Assets						
Cash and balances with banks and financial institutions	63	815	161	99	224	914
Receivables	-	-	10,643	48,548	10,643	48,548
Ijara Muntahia Bittamleek	-	-	382	583	382	583
Musharaka	820	-	2,005	2,156	2,825	2,156
Ijara income receivable	-	-	72	81	72	81
Investments	-	-	87,036	86,946	87,036	86,946
Other assets	579	2,627	119	61	698	2,688
	1,462	3,442	100,418	138,474	101,880	141,916
Liabilities						
Due to banks and financial institutions	3,407	3,416	3,840	654	7,247	4,070
Current account	178	126	4,406	2,575	4,584	2,701
Other liabilities	59	6	524	946	583	952
	3,644	3,548	8,770	4,175	12,414	7,723
Equity of investment accountholders	5,996	6,160	56,841	84,433	62,837	90,593
Subordinated debt	32,555	32,555	-	-	32,555	32,555
Off-balance sheet equity of investment accountholders	-	-	68,250	74,715	68,250	74,715
Contingencies and commitments	-	-	5,396	4,432	5,396	4,432

29. RELATED PARTY TRANSACTIONS (CONTINUED)

The transactions with the related parties included in the statement of income are as follows:

	Shareholders		Other Related Parties		Total	
	2017 US$ '000	2016 US$ '000	2017 US$ '000	2016 US$ '000	2017 US$ '000	2016 US$ '000
Income						
Income from jointly financed sales	-	-	1,094	1,127	1,094	1,127
Income from jointly financed, other financing and investments	-	-	1,277	1,035	1,277	1,035
Group's income from self financed, other financings	-	-	-	-	-	-
Other income	318	318	-	-	318	318
Group's Mudarib/agency fee from off-balance sheet equity of investment account holders	60	73	45	45	105	118
	378	391	2,416	2,207	2,794	2,598
Expenses						
Return on equity of investment accountholders before Group's share as a Mudarib	1,898	1,316	1,579	1,405	3,477	2,721
Other expenses	2,333	439	2,717	2,691	5,050	3,130
	4,231	1,755	4,296	4,096	8,527	5,851

Compensation of key management personnel is as follows:

Key management personnel includes the staff in grade of senior manager and above.

	2017 US$ '000	2016 US$ '000
Salaries	4,651	4,040
Other benefits	2,568	2,318
	7,219	6,358

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30. RISK MANAGEMENT

Risk management is an integral part of the Group's decision-making process. The risk management committee and executive committees, guide and assist with overall management of the Group's consolidated statement of financial position risks. The Group manages exposures by setting limits approved by the Board of Directors.

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 a regular basis.

The table below summarises the maturity profile of the Group's assets and liabilities as of 31 December 2017 based on contractual periods to cash conversion from the consolidated statement of financial position date. However, expected periods to cash conversion where there are no contractual terms:

	Up 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	Over 20 years US$ '000	No fixed maturity US$ '000	Total US$ '000
ASSETS										
Cash and balances with banks	98,578	46,147	-	-	-	-	-	-	74,224	218,949
Receivables	400,146	137,608	59,946	64,289	14,184	3,436	-	-	48,977	728,586
Ijara Muntahia Bittamleek	9,039	8,752	14,060	58,399	41,863	50,170	66,132	15,121	2,074	265,610
Musharaka	22,869	1,172	9,300	80,354	158,691	41,778	20,017	-	5,460	339,641
Investments	14,824	500	49,739	188,130	60,397	138,575	1,000	-	64,573	517,738
Investments in real estate	-	-	-	5,974	-	-	-	-	-	5,974
Ijara income receivable	936	1,075	1,456	6,164	4,694	4,673	4,377	1,001	18,909	43,285
Investment in a joint venture	-	-	-	-	-	14,636	-	-	-	14,636
Premises and equipment	-	-	-	-	-	-	-	-	35,733	35,733
Goodwill	-	-	-	-	-	-	-	-	20,338	20,338
Other assets	42,436	7,022	12,597	3,855	40,536	-	-	-	-	106,446
Total assets	588,828	202,276	147,098	407,165	320,365	253,268	91,526	16,122	270,288	2,296,936
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED DEBTS AND OWNERS' EQUITY										
Due to banks and financial institutions	52,087	-	-	-	-	-	-	-	-	52,087
Current accounts	294,637	-	-	-	-	-	-	-	-	294,637
Medium term financing	48,601	29,215	-	22,000	-	-	-	-	-	99,816
Other liabilities	115,109	369	3,385	4,987	3,628	-	-	-	-	127,478
Total liabilities	510,434	29,584	3,385	26,987	3,628	-	-	-	-	574,018
Equity of investment accountholders	678,361	201,721	215,846	189,447	90,802	73,518	24,505	-	-	1,474,200
Subordinated debts	1,759	-	745	5,802	8,588	40,139	-	-	-	57,033
Total owners' equity	-	-	-	-	-	-	-	-	191,685	191,685
Total liabilities, Equity of investment accountholders, subordinate debt and owner's equity	1,190,554	231,305	219,976	222,236	103,018	113,657	24,505	-	191,685	2,296,936
Net gap	(601,726)	(29,029)	(72,878)	184,929	217,347	139,611	67,021	16,122	78,603	-
Cumulative net gap	(601,726)	(630,755)	(703,633)	(518,704)	(301,357)	(161,746)	(94,725)	(78,603)	-	-
Off-balance sheet equity of investment accountholders	27,151	48,859	9,593	-	-	-	-	-	-	85,603

30. RISK MANAGEMENT (CONTINUED)

a) Liquidity risk (Continued)

The table below summarises the maturity profile of the Group's assets and liabilities as of 31 December 2016 based on contractual periods to cash conversion from the consolidated statement of financial position date. However, expected periods to cash conversion where there are no contractual terms.

	Up 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	Over 20 years US$ '000	No fixed maturity US$ '000	Total US$ '000
ASSETS										
Cash and balances with banks	104,211	-	-	-	-	-	-	-	176,400	280,611
Receivables	391,810	170,117	97,407	41,301	11,815	3,388	-	-	26,746	742,584
Mudaraba financing	776	-	-	-	-	-	-	-	-	776
Ijara Muntahia Bittamleek	12,862	8,004	14,654	63,567	54,770	49,368	59,346	15,510	1,687	279,768
Musharaka	19,848	737	9,804	65,700	143,524	41,577	28,193	-	7,345	316,728
Investments	8,604	138,578	8,609	132,393	88,542	91,996	1,000	-	79,177	548,899
Investments in real estate	-	-	-	5,974	-	-	-	-	-	5,974
Ijara income receivable	735	378	723	2,741	2,220	2,398	2,185	571	18,654	30,605
Investment in a joint venture	-	-	-	-	-	14,576	-	-	-	14,576
Premises and equipment	-	-	-	-	-	-	-	-	30,029	30,029
Goodwill	-	-	-	-	-	-	-	-	28,181	28,181
Other assets	38,636	4,774	21,527	4,069	32,127	-	-	-	5,386	106,519
Total assets	577,482	322,588	152,724	315,745	332,998	203,303	90,724	16,081	373,605	2,385,250
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED DEBTS AND OWNERS' EQUITY										
Due to banks and financial institutions	40,386	15,436	2,652	-	-	-	-	-	-	58,474
Current accounts	293,308	-	-	-	-	-	-	-	-	293,308
Medium term financing	30,582	-	-	60,000	-	-	-	-	-	90,582
Other liabilities	72,265	2,360	3,974	7,506	5,371	3	-	-	-	91,479
Total liabilities	436,541	17,796	6,626	67,506	5,371	3	-	-	-	533,843
Equity of investment accountholders	696,872	233,404	250,970	223,456	89,501	78,031	26,011	-	-	1,598,245
Subordinated debts	1,631	-	1,366	5,463	5,463	32,555	-	-	-	46,478
Total owners' equity	-	-	-	-	-	-	-	-	206,684	206,684
Total liabilities, Equity of investment accountholders, subordinated debt and owner's equity	1,135,044	251,200	258,962	296,425	100,335	110,589	26,011	-	206,684	2,385,250
Net gap	(557,562)	71,388	(106,238)	19,320	232,663	92,714	64,713	16,081	166,921	-
Cumulative net gap	(557,562)	(486,174)	(592,412)	(573,092)	(340,429)	(247,715)	(183,002)	(166,921)	-	-
Off-balance sheet equity of investment accountholders	4,500	62,085	9,405	-	-	-	-	-	-	75,990

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30. RISK MANAGEMENT (CONTINUED)

b) Market risk

Market risk arises from fluctuations in profit rates, equity prices and foreign exchange rates.

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.

The Group is exposed to displaced commercial risk in the event of having equity of IAH profit rates that are lower than market rates. The Group has 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 segment level (Pakistan and Bahrain).

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.

Foreign currency risk sensitivity analysis

In order to measure its exposures to currency risk, the Group stress tests its exposures following the standard shocks approach, which calculates the effect on assets and income of the Group as a result of 20% appreciation and depreciation in foreign currencies in relation to the reporting currency of the Group. This is calculated using various percentages based upon the judgment of the management of the Group.

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. The impact of a similar increase / (decrease) in exchange rates will be approximately opposite to the impact disclosed below:

Currency	Particular	Change	Exposures in US$ '000	Effect on profit and loss/Equity US$ '000
2017				
Pakistani Rupees	**Net long Position**	**20%**	**84,200**	**16,840**
Euro	**Net short Position**	**20%**	**(13,402)**	**(2,680)**
Kuwaiti Dinars	**Net Long Position**	**20%**	**2,306**	**461**
Pound Sterling	**Net short Position**	**20%**	**(4,172)**	**(834)**
2016				
Pakistani Rupees	Net long Position	20%	82,662	16,532
Euro	Net short Position	20%	(10,503)	(2,101)
Kuwaiti Dinars	Net long Position	20%	6,514	1,303
Pound Sterling	Net short Position	20%	(3,315)	(663)

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.

30. RISK MANAGEMENT (CONTINUED)

b) Market risk (Continued)

In order to measure the risk of equity on its financial position, the Group adopts a sensitivity analysis on its equity portfolio for 10% increase and decrease of the portfolio's value:

Market indices	Change in equity price 2017 %	Effect on equity 2017 US$ '000	Change in equity price 2016 %	Effect on equity 2016 US$ '000
Karachi Stock Exchange	10%	1,008	10%	890

As at the consolidated statement of financial position date, the Group had unquoted investments held at cost less provision for impairment of US $ 70.9 million (31 December 2016: US $ 77.5 million). The impact of changes in the value of these unquoted investments and the related impact on equity will only be reflected when the investment is sold or deemed to be impaired.

Concentration of investment portfolio

Concentration of an investment portfolio arises when a number of investments are made in entities engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would be affected by changes in economic, political or other conditions. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration. The industry and geographical concentration of the Group's investment portfolio is as follows:

31 December 2017	*GCC US$ '000	Rest of the world US$ '000	Total US$ '000
Banking	34,339	36,916	71,255
Government	157,030	154,115	311,145
Investment companies	82,924	-	82,924
Manufacturing	-	13,438	13,438
Real estate	5,528	8,726	14,254
Others	2,958	21,764	24,722
	282,779	234,959	517,738

* GCC countries comprise members of the Gulf Co-operation Council being Kingdom of Bahrain, State of Kuwait, Sultanate of Oman, State of Qatar, Kingdom of Saudi Arabia and the United Arab Emirates.

31 December 2016	*GCC US$ '000	Rest of the world US$ '000	Total US$ '000
Banking	49,923	36,791	86,714
Government	112,957	223,212	336,169
Investment companies	82,950	-	82,950
Manufacturing	-	8,818	8,818
Real estate	7,540	8,731	16,271
Others	2,958	15,019	17,977
	256,328	292,571	548,899

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30. RISK MANAGEMENT (CONTINUED)

c) 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 continuously assessing the creditworthiness of counterparties. Financing contracts are mostly secured by the personal guarantees of the counterparty, by collateral in form of mortgage of the objects financed or other tangible security.

Type of credit risk

Financing contracts mainly comprise Receivables, Istisna'a receivable, Musharaka, Ijara financing, and Ijara Muntahia Bittamleek.

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 installments 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 the facilities given to the client.

Istisna'a receivable

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.

Musharaka

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.

Ijara Muntahia Bittamleek

This is a lease whereby the legal title of the leased asset passes to the lessee at the end of the Ijara (lease) term, provided that all Ijara installments are settled.

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:

1) 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.

2) Financing should be extended where there is clear sources of repayments.

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

4) 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.

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

6) Financing should be structured appropriately considering the purpose of the credit and the source of repayment.

7) 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.

8) Compliance with all applicable local statutory and regulatory directives guidelines should be ensured in all cases.

9) Proprietary and ethical standards should be taken into account in all financing decisions.

30. RISK MANAGEMENT (CONTINUED)

c) Credit risk (Continued)

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk by type of Islamic financing contracts before the effect of mitigation through the use of collateral or other credit enhancements.

	Gross Maximum Exposure to Credit Risk	
	2017 US$ '000	2016 US$ '000
Receivables	**728,586**	742,584
Mudaraba financing	**-**	776
Musharaka	**339,641**	316,728
Ijara Muntahia Bittamleek and Ijara income receivable	**308,895**	310,373
Contingencies and commitments	**304,144**	264,936

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 (CRS). The balances presented are gross of impairment provision.

	31 December 2017			
	Neither past due nor non performing US$ '000	**Past due but performing US$ '000**	**Non performing Islamic financing contracts US$ '000**	**Total US$ '000**
Type of Islamic Financing Contract				
Receivables	**657,894**	**25,060**	**96,695**	**779,649**
Musharaka	**330,758**	**3,430**	**10,684**	**344,872**
Ijara Muntahia Bittamleek and Ijara income receivable	**288,547**	**1,430**	**23,305**	**313,282**
	1,277,199	**29,920**	**130,684**	**1,437,803**

	31 December 2016			
	Neither past due nor non performing US$ '000	Past due but performing US$ '000	Non performing Islamic financing contracts US$ '000	Total US$ '000
Type of Islamic Financing Contract				
Receivables	692,941	25,432	74,412	792,785
Mudaraba financing	776	-	-	776
Musharaka	307,022	2,361	12,350	321,733
Ijara Muntahia Bittamleek and Ijara income receivable	290,673	918	22,671	314,262
	1,291,412	28,711	109,433	1,429,556

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

30. RISK MANAGEMENT (CONTINUED)

c) Credit risk (Continued)

Aging analysis of past due but performing Islamic financing contracts

	31 December 2017			
	Less than 30 days US$ '000	31 to 60 days US$ '000	61 to 90 days US$ '000	Total US$ '000
Type of Islamic Financing Contracts				
Receivables	16,272	3,863	4,925	25,060
Musharaka	1,262	737	1,431	3,430
Ijara Muntahia Bittamleek & Ijara income receivable	1,130	243	57	1,430
	18,664	4,843	6,413	29,920

	31 December 2016			
	Less than 30 days US$ '000	31 to 60 days US$ '000	61 to 90 days US$ '000	Total US$ '000
Type of Islamic Financing Contracts				
Receivables	14,387	8,097	2,948	25,432
Musharaka	1,710	273	378	2,361
Ijara Muntahia Bittamleek and Ijara income receivable	363	200	355	918
	16,460	8,570	3,681	28,711

Aging of Non-Performing Facilities

	31 December 2017				
	3-6 Months US$ '000	6-12 Months US$ '000	1-3 Years US$ '000	3 Years & above US$ '000	Total US$ '000
Receivables	28,026	7,360	36,753	24,556	96,695
Musharaka	4,024	2,132	1,145	3,383	10,684
Ijara Muntahia Bittamleek and Ijara income receivable	13,127	248	6,970	2,960	23,305
	45,177	9,740	44,868	30,899	130,684

	31 December 2016				
	3-6 Months US$ '000	6-12 Months US$ '000	1-3 Years US$ '000	3 Years & Above US$ '000	Total US$ '000
Receivables	4,915	9,387	11,038	49,072	74,412
Musharaka	5,581	2,712	2,325	1,732	12,350
Ijara Muntahia Bittamleek and Ijara income receivable	12,589	4,693	2,599	2,790	22,671
	23,085	16,792	15,962	53,594	109,433

As at 31 December 2017 the fair value of the collateral that the Group holds relating to non performing facilities amounts to US $ 65.3 million (2016: US $ 32.2 million). The utilisation of the collaterals will be on customer by customer basis and will be limited to the customer's total exposure.

30. RISK MANAGEMENT (CONTINUED)

c) Credit risk (Continued)

Credit Risk Mitigation

For exposures secured by real estate or other collateral, the Group carries out regular and periodic collateral verification and evaluation. This collateral verification is conducted by an independent qualified assessor or Collateral Analyst at the Group. The frequency of such collateral verification is determined as a part of the credit or investment policy and approval process. The Group allows cars, premises and equipment, plant and machinery etc, as collateral for a credit and investment product but does not accept perishable assets. The Group does not accept any assets as collateral if the assets are susceptible for obsolescence. The Group also ensure that these assets are insured in order to be accepted as collateral.

Collaterals listed hereunder attract capital relief from capital adequacy requirements:

1) Hamish Jiddiyyah (HJ) (Security deposit): The Group takes this type of collateral in the transactions for which non-binding promises to perform is given by the customer. If a customer does not honour his promise to perform, the Group has recourse to the HJ. HJ is taken by the Group at the inception of the transaction but before signing the contracts. HJ constitutes partial guarantee to the Group for the performance of the contract by the customer. The Group will still have recourse to the customers for the unsecured position in case of default.

2) Third party guarantee: The Group 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, should provide the Group with signed audited financial statements.

3) Underlying assets of the lease contract: The underlying asset must be of monetary value and the Group 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 kind of encumbrance. In the same lease contract a customer can pledge other assets that customers own other than the underlying assets in the contract. In order for the Group to consider these assets as pledged assets, it must meet all the conditions for the underlying assets under the lease contract. It must be legally enforceable, accessible, saleable and free of any kind of encumbrance. The value of the pledged asset must be used only to offset the amount against the customers.

   Any excess amount resulting from the closure of the pledge by the Group should be returned to the customer (pledger). The Group is conducting at least annual evaluation of the pledged assets and keeping adequate documentation of this evaluation.

4) 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.

5) Rated and unrated senior Sukuk issued by financial institutions or sovereigns.

Credit Quality

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. Corporates will be rated on their senior unsecured medium term local currency obligations, unless the credit granted is across border or in foreign currency. In the latter case, the obligor's country's rating will be the ceiling on corporates' rating. Where all credit to a government is in local currency, the rating for that government is the best i.e. 1 on the rating scale, however, if the exposure to the government includes foreign currency, the rating for that government will be the same as the country's rating.

A rating is a forward looking indication of creditworthiness. It is based on an evaluation of past performance, present conditions and outlook for the future. For the purpose of rating, the Group is using only those External Credit Assessment Institutions (ECAIs) which are allowed/ approved by the CBB and are mainly used in Banking exposures.

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 and governments. 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, structure, etc. 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 subsidiary internally to also rate facilities).

During the year 2017, US $ 46.6 million (2016: US $ 63.9 million) of financing facilities were renegotiated. Exposures amounting to US $ 7.6 million of the restructured facilities are non-performing as of 31 December 2017 (2016: US $ 17 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

30. RISK MANAGEMENT (CONTINUED)

d) Operational risk

The Group categorises 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 might be disrupted and severe operational risks could occur.

In order to protect the Group from the infrastructure risk as outlined above, the Group is taking necessary measures as indicated in the Business Continuity Plan and/or Disaster Recovery Plan 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 might arise from staff risks are risks due to larceny, fraud, corruption, crime, etc. In order to prevent these risks from occurring, the Group has established a corporate culture which entails constructive ways of dealing with mistakes. The Group has also established an approval control steps in business processes as well as creating separate control processes. Further, the Group has already established measures of organisational structure in terms of segregation of duties as well as diverse training measures to reduce human error.

31. CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS

	Assets		Liabilities and Subordinated debt		Equity of investment accountholders	
	2017 US$ '000	2016 US$ '000	**2017 US$ '000**	2016 US$ '000	**2017 US$ '000**	2016 US$ '000
Geographical region						
Middle East	**1,026,622**	1,028,605	**240,320**	216,063	**633,553**	657,364
Europe	**57,280**	80,374	**2,223**	2,059	**20**	20
Asia	**1,090,577**	1,226,052	**331,654**	335,109	**667,638**	772,004
Others	**122,457**	50,219	**56,854**	27,090	**172,989**	168,857
	2,296,936	2,385,250	**631,051**	580,321	**1,474,200**	1,598,245

	Assets		Liabilities and Subordinated debt		Equity of investment accountholders	
	2017 US$ '000	2016 US$ '000	**2017 US$ '000**	2016 US$ '000	**2017 US$ '000**	2016 US$ '000
Industry sector						
Trading and manufacturing	**451,181**	484,142	**70,253**	77,728	**120,390**	124,856
Banks and financial institutions	**884,549**	739,813	**255,619**	196,257	**319,851**	382,616
Construction	**48,692**	65,033	**12,028**	10,918	**20,866**	20,919
Others	**912,514**	1,096,262	**293,151**	295,418	**1,013,093**	1,069,854
	2,296,936	2,385,250	**631,051**	580,321	**1,474,200**	1,598,245

32. 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.

Investments as described in note 10, includes certain equity-type instruments at fair value through equity which are carried at cost, due to the unpredictable nature of their future cash flows and the lack of other suitable methods for arriving at a reliable fair value for these investments.

33. SEGMENTAL INFORMATION

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 management and the Board of Directors.

For financial reporting purposes, the Group is divided into two geographical segments, Middle East and Other Asian Countries. Other Asian Countries predominantly includes operations in Pakistan.

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.

The segmental results of the Group were as follows:

	Middle East		Other Asian Countries	
	2017 US$ '000	2016 US$ '000	**2017 US$ '000**	2016 US$ '000
Assets	**1,188,862**	1,151,355	**1,108,074**	1,233,895
Liabilities, equity of investment accountholders, and Subordinated debts	**1,109,954**	1,075,172	**995,297**	1,103,394
Total income	**31,021**	39,036	**43,656**	31,172
Total operating expenses	**(30,277)**	(25,878)	**(46,695)**	(32,050)
Net operating income / (loss)	**744**	13,158	**(3,039)**	(878)
Reversal / (Provision) for impairment - net	**(3,388)**	(10,268)	**(1,012)**	826
Taxation	**-**	-	**1,293**	(535)
Loss / (Income) for the year	**(2,644)**	2,890	**(2,758)**	(587)

34. SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through donations to charitable causes and organisations based of Sharia Board approvals.

35. COMPARATIVE FIGURES

In the Group's audited consolidated financial statements for the year ended 31 December 2017 certain comparative amounts have been reclassified to conform with the presentation in the current period. The following reclassification did not result in any changes to the previously reported profit or equity:

	Previously reported US$ '000	**Reclassification US$ '000**	**As reported herein US$ '000**
Cash and balances with banks and financial institutions			
Balances with State Bank of Pakistan	152,876	4,645	157,521
Balances with other banks and financial institutions	57,447	(4,645)	52,802
	210,323	-	210,323

Basel III, Pillar III Disclosures

For the year ended 31 December 2017

CONTENTS

1. INTRODUCTION

Al Baraka Islamic Bank B.S.C. (c) (the "Bank") is a closed shareholding company incorporated in the Kingdom of Bahrain on 21 February 1984. The Commercial Registration of the Bank was renewed on 7 January 2008 to change the status from exempt closed joint stock company to closed joint stock company. The Bank operates under a Retail Bank's licence number RB/025 issued by the Central Bank of Bahrain (CBB). The Bank has eight commercial branches in the Kingdom of Bahrain.

The principal activities of the Bank and its subsidiary (the "Group") are taking demand, saving and investment accounts, providing Murabaha finance, Ijara financing and other Shari'a compliant forms of financing as well as managing investors' money on the basis of Mudaraba or agency for a fee, providing commercial banking services and other investment activities. The Bank's registered office is at Bahrain Bay, P.O. Box 1882, Manama, Kingdom of Bahrain.

For details on the Group's subsidiary as of 31 December 2017, refer note 2 of the consolidated financial statements of the Group.

The public disclosures under this section have been prepared in accordance with the Central Bank of Bahrain ("CBB") requirements outlined in its Public Disclosure Module ("PD"), Section PD-3: Public Disclosure requirements, CBB Rule Book, Volume II for Islamic Banks.

2. CAPITAL ADEQUACY

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. The CBB capital adequacy requirement is minimum accepted level for capital adequacy. The credit committee of the Group identify and approve assets suitable for funding by equity of Investment Accountholders ("IAH").

For the purpose of computing the Capital Adequacy Ratio ("CAR") and preparation of the PIRI form, the Group's financial subsidiary (Al Baraka Bank (Pakistan) Limited) and significant investment Itqan Capital Company are consolidated, as per the requirement of the CA Module, effectively from 01 January 2015 based on the approval obtained from the CBB. As a result of consolidation of Itqan Capital for regulatory purposes, the amounts in certain tables within the quantitative disclosures might not match the amounts reported in the audited consolidated financial statements of the Group. Therefore, they might not be comparable with the audited financial statements in certain cases with respect to Bank's investment in Itqan Capital and might not be comparable with the disclosures of the current period ended 31 December 2017.

In order to ensure compliance with instructions of Central Bank of Bahrain, the Bank has prepared a detailed capitalization plan to increase the equity to BD 100 million (USD: 265 million). In this respect, the parent and majority shareholder will provide Additional Tier-1 Capital in the form of perpetual subordinated debt amounted to USD 110 million. Simultaneously, the existing subordinated debts amounted to USD 31 million will be repaid to holding company upon approval by the CBB. Said capitalization process will be duly completed in first quarter of year 2018 after completing requisite legal formalities and securing approvals from competent authorities.

Table – 1. Capital structure

The following table summarises the eligible capital after deductions for Capital Adequacy Ratio (CAR) calculation in accordance with Basel III requirements as of:

	31 December 2017			31 December 2016		
	CET 1 US$'000	AT1 US$'000	Tier 2 US$'000	CET 1 US$'000	AT1 US$'000	Tier 2 US$'000
Common Equity Tier 1 (CET1)						
Issued and fully paid ordinary shares	**122,458**			122,458		
General reserves	**8,687**			8,687		
Statutory reserves	**22,699**			22,699		
Retained earnings	**(2,841)**			3,809		
Unrealized gains and losses on available for sale financial instruments	**525**			1,700		
Gains and losses resulting from converting foreign currency subsidiaries to the parent currency	**(13,914)**			(9,316)		
Other reserves	**(117)**			(114)		
Total CET1 capital before minority interest	**137,497**			149,923		
Minority interest in banking subsidiaries	**27,257**			36,146		
Total CET1 capital prior to regulatory adjustments	**164,754**			186,069		
Less:						
Goodwill	**37,421**			45,264		
Intangible other than mortgage servicing rights	**4,411**			819		
Deferred tax assets	**19,731**			18,813		
Total CET 1 capital after the regulatory adjustments above (CET 1a)	**103,191**			121,173		

BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2017

2. CAPITAL ADEQUACY (CONTINUED)

Table – 1. Capital structure (Continued)

	31 December 2017			31 December 2016		
	CET 1 US$'000	AT1 US$'000	Tier 2 US$'000	CET 1 US$'000	AT1 US$'000	Tier 2 US$'000
Instruments issued by parent company		25,000	6,000		25,000	6,000
Instruments issued by banking subsidiaries to third parties		1,725	16,773		1,150	11,666
Assets revaluation reserve - property, plant, and equipment		-	1,193		-	1,193
General financing loss provisions		-	4,134		-	3,284
Total Available AT1 & T2 Capital		26,725	28,100		26,150	22,143
Total CET 1 Capital	103,191			121,173		
Total T1 Capital		129,916			147,323	
Total Capital			158,016			169,466

Table – 2. Capital requirement by type of islamic financing contracts

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

	31 December 2017 Capital requirements US$'000	31 December 2016 Capital requirements US$'000
Type of islamic financing contracts		
Receivables	22,875	22,807
Ijara Muntahia Bittamleek & Ijara income receivable	11,747	12,035
Musharaka	17,393	11,081
	52,015	45,923

Table – 3. Capital requirement for market risk

The following table summarises the amount of exposures subject to standardised approach of market risk and related capital requirements as of:

	31 December 2017		31 December 2016	
	Self Financed US$'000	Financed by IAH US$'000	Self Financed US$'000	Financed by IAH US$'000
Market risk - standardised approach				
Foreign exchange risk	6,930	-	7,154	-
Total of market risk - standardised approach	6,930	-	7,154	-
Multiplier	12.50	12.50	12.50	12.50
	86,625	-	89,425	-
Eligible Portion for the purpose of the calculation	100%	30%	100%	30%
Risk Weighted Exposures ("RWE") for CAR Calculation	86,625	-	89,425	-
Total market RWE		86,625		89,425
		12.50%		12.50%
Minimum capital requirement		10,828		11,178

BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2017

2. CAPITAL ADEQUACY (CONTINUED)

Table – 4. Capital Requirements for operational risk

The following table summarises the amount of exposures subject to basic indicator approach of operational risk and related capital requirements as of:

	31 December 2017 US$'000	31 December 2016 US$'000
Indicators of operational risk		
Average gross income	118,387	102,586
Multiplier	12.5	12.5
	1,479,838	1,282,325
Eligible Portion for the purpose of the calculation	15%	15%
Total operational RWE	221,976	192,349
	12.50%	12.50%
Minimum capital requirement	27,747	24,044

Table – 5. Capital adequacy ratios

The following are capital adequacy ratios for total capital and tier 1 capital as of:

	31 December 2017			31 December 2016		
	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio
Group's Capital adequacy ratio	15.06%	12.38%	9.84%	16.58%	14.42%	11.86%
Minimum regulatory requirements*	12.50%	10.50%	9.00%	12.50%	10.50%	9.00%
Al Baraka Bank Pakistan Limited **	21.85%	16.18%	16.18%	20.41%	16.93%	16.93%
Itqan Capital Company	33.43%	33.43%	33.43%	33.97%	33.97%	33.97%

* Minimum required by CBB regulations under Basel III

**The subsidiary's Capital adequacy ratio computed in accordance with the CBB requirements.

Legal restrictions on capital and income mobility

Distributing profits by subsidiary to the parent is subject to compliance with applicable laws and regulations in Pakistan. Such distribution should go through the legal and regulatory channels applicable in relevant jurisdiction (i.e. Pakistan). Mobilisation of capital, reserves and equivalent funds out of the subsidiary 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 and approval has to be obtained from the CBB for increasing investment in subsidiary.

Table - 6. The Group's financial subsidiary capital adequacy ratios

The following is the Group's financial subsidiary capital adequacy ratio prepared on the basis of SBP requirements, which may differ from the CBB requirements, as of:

	31 December 2017			31 December 2016		
	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio
Capital adequacy ratio	10.36%	7.69%	8.66%	10.35%	8.66%	8.66%
Minimum regulatory requirements*	10.00%	7.50%	6.00%	10.00%	7.50%	6.00%

*There are no capital conversion buffer required as per SBP requirements.

3. RISK MANAGEMENT

Risk management is an integral part of the Group's decision-making process. The risk management committee and executive committees, guide and assist with overall management of the Group's consolidated statement of financial position risks. The Group manages exposures by setting limits approved by the Board of Directors. The Group risk management strategies have been effectively implemented during the year in line with the objective defined.

a. 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 the counterparty, by collateral in form of mortgage of the objects financed or other tangible security.

BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2017

3. RISK MANAGEMENT (CONTINUED)

a. Credit risk (Continued)

Table – 7. Credit risk exposure

The following table summarises the amount of gross funded and unfunded credit exposures and average gross funded and unfunded exposures as of:

	31 December 2017				31 December 2016			
	Self financed		Financed by IAH		Self financed		Financed by IAH	
	Total gross credit exposure US$'000	*Average gross exposure over the period US$'000	Total gross credit exposure US$'000	*Average gross credit risk exposure over the period US$'000	Total gross credit exposure US$'000	*Average gross credit exposure over the period US$'000	Total gross credit exposure US$'000	*Average gross credit exposure over the period US$'000
Funded exposure								
Cash and balances with banks and financial institutions	171,060	155,083	48,393	50,410	230,758	177,413	50,243	47,548
Receivables	4,766	10,780	723,820	767,951	3,002	3,097	739,582	631,293
Mudaraba financing	-	-	-	-	-	-	776	194
Ijara Muntahia Bittamleek	26,291	23,598	239,319	248,288	18,302	18,906	261,466	258,061
Musharaka	64,128	54,629	275,513	268,991	-	-	316,728	222,068
Investments	385,234	403,366	114,126	115,582	360,278	328,119	174,517	141,111
Investment in real estate	6,782	6,788	-	-	7,493	7,600	-	-
Ijara income receivables	3,212	2,934	40,073	35,903	1,713	1,259	28,892	26,986
Premises and equipment	38,530	36,196	-	-	32,203	28,072	-	-
Other assets	76,060	79,898	32,956	32,646	83,028	60,842	26,041	21,800
Unfunded exposure								
Contingencies and commitments	224,666	223,601	-	-	200,360	202,137	-	-
	1,000,729	996,873	1,474,200	1,519,771	937,137	827,445	1,598,245	1,349,061

*Average balances are computed based on quarter end balances.

Table – 8. Credit risk – geographic breakdown

The following table summarises the geographic distribution of exposures, broken down into significant areas by major types of credit exposure as of:

	31 December 2017				31 December 2016			
	Self financed *geographic area		Financed by IAH *geographic area		Self financed *geographic area		Financed by IAH *geographic area	
	Middle East US$'000	Other Asian countries US$'000	Middle East US$'000	Other Asian countries US$'000	Middle East US$'000	Other Asian countries US$'000	Middle East US$'000	Other Asian countries US$'000
Cash and balances with banks	36,797	134,263	29,210	19,183	40,587	190,171	26,242	24,001
Receivables	4,766	-	459,761	264,059	3,002	-	472,141	267,441
Mudaraba financing	-	-	-	-	-	-	-	776
Ijara Muntahia Bittamleek	26,291	-	216,886	22,433	18,302	-	220,257	41,209
Musharaka	-	64,128	49	275,464	-	-	76	316,652
Investments	257,922	127,312	63,587	50,539	218,227	142,051	81,020	93,497
Investment in real estate	6,782	-	-	-	7,493	-	-	-
Ijara income receivables	3,212	-	35,543	4,530	1,713	-	25,758	3,134
Premises and equipment	15,319	23,211	-	-	11,537	20,666	-	-
Other assets	6,644	69,416	3,346	29,610	10,916	72,112	2,536	23,505
	357,733	418,330	808,382	665,818	311,777	425,000	828,030	770,215

* 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 management and the Board of Directors. For financial reporting purposes, the Group is divided into two geographical segments, Middle East and Other Asian Countries. Other Asian Countries predominantly includes operations in Pakistan.

3. RISK MANAGEMENT (CONTINUED)

a. Credit risk (Continued)

Table – 9. Credit risk – counterparty type breakdown

The following table summarises the distribution of funded and unfunded exposure by counterparty type as of:

	31 December 2017				31 December 2016			
	Self financed		Financed by IAH		Self financed		Financed by IAH	
	Funded US$'000	Unfunded US$'000	Funded US$'000	Unfunded US$'000	Funded US$'000	Unfunded US$'000	Funded US$'000	Unfunded US$'000
Cash items	31,146	-	8,164	-	24,579	-	8,229	-
Claims on Sovereigns	310,330	-	70,926	-	415,598	-	92,322	-
Claims on Public Sector Entities	160,981	27	38,484	-	60,344	7,069	145,601	-
Claims on banks	97,719	51,657	301,390	-	51,322	21,906	294,704	-
Claims on corporate	18,833	172,970	622,569	-	20,986	171,101	663,507	-
Mortgage	-	-	221,323	-	-	-	203,607	-
Past dues receivables	2,479	-	71,704	-	-	-	53,626	-
Regulatory Retail Portfolio	-	12	99,451	-	-	284	96,061	-
Equity investment	11,429	-	604	-	11,556	-	471	-
Investment in Funds	5,899	-	-	-	7,865	-	5,000	-
Holding of Real Estate	48,110	-	10,763	-	58,254	-	12,361	-
Other assets	89,137	-	28,822	-	86,273	-	22,756	-
	776,063	224,666	1,474,200	-	736,777	200,360	1,598,245	-

For the purpose of rating, the Group is using External Credit Assessment Institutions (ECAIs) Standard & Poors, Moodys, Capital Intelligence, Fitch and other approved credit rating agencies for assigning risk weight to assets.

Table – 10. Credit risk – related party transactions

All transactions with related parties have been made on arms length basis. The following table summarises the balances with related parties as of:

	31 December 2017		31 December 2016	
	Self financed	Financed by IAH	Self financed	Financed\by IAH
	Funded US$'000	Funded US$'000	Funded US$'000	Funded US$'000
Cash and balances with bank	-	224	-	914
Receivable	-	10,643	-	48,548
Musharaka	-	2,825	-	2,156
Ijara Muntahia Bittamleek	-	382	-	583
Investments	14,636	18,058	14,576	18,028
Ijara Income Receivable	-	72	-	81
Other Assets	698	-	2,688	-
Contingencies and commitments	5,396	-	4,432	-
	20,730	32,204	21,696	70,310

BASEL III, PILLAR III DISCLOSURES

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3. RISK MANAGEMENT (CONTINUED)

a. Credit risk (Continued)

Table – 10. Credit risk – related party transactions (Continued)

The Group's intra-group transactions are as follows:

	31 December 2017 Self financed US$'000	31 December 2016 Self financed US$'000
Assets		
Investment in a subsidiary	84,201	82,662
Equity investment in Itqan Capital	54,342	54,342
	138,543	137,004
Contingencies and commitments		
Letters of credit	91	4,054
Guarantees	-	285
Acceptances	324	3,098
	415	7,437

Table – 11. Credit risk – concentration of risk

The Group follows the Central Bank of Bahrain's guidelines with respect to the definition and measurement of large exposures at the consolidated level as stipulated in the Central Bank of Bahrain Rulebook for Islamic Banks.

The following are the balances representing the concentration of risk to individual counterparties as of 31 December 2017:

* Counterparties	Funded US$'000
Counterparty # 1	137,987
Counterparty # 2	101,245
Counterparty # 3	92,709
Counterparty # 4	75,396
Counterparty # 5	49,438
Counterparty # 6	43,060
Counterparty # 7	37,952
Counterparty # 8	32,916
Counterparty # 9	28,174

* These exposures are in excess of individual obligor limits. Further, these exposures are either exempt or undertaken after obtaining due approval from Central Bank of Bahrain.

The following are the balances representing the concentration of risk to individual counterparties as of 31 December 2016:

* Counterparties	Funded US$'000
Counterparty # 1	158,695
Counterparty # 2	157,520
Counterparty # 3	100,944
Counterparty # 4	64,712
Counterparty # 5	55,689
Counterparty # 6	55,624
Counterparty # 7	43,405
Counterparty # 8	39,912
Counterparty # 9	37,480
Counterparty # 10	33,171
Counterparty # 11	28,200

* These exposures are in excess of individual obligor limits. Further, these exposures are either exempt or undertaken after obtaining due approval from Central Bank of Bahrain.

3. RISK MANAGEMENT (CONTINUED)

a. Credit risk (Continued)

Past due and non-performing facilities

Past due represents installments that are not received on the contractual repayments date. The Group defines non-performing facilities as the facilities that are overdue for period of 90 days or more. These exposures are placed on a non-accrual status with income being recognised to the extent that it is actually received/distributed. It is the Group's policy, except for the subsidiary which is following their local regulations, that when an exposure is overdue for a period of 90 days or more, the whole financing facility extended is considered as past due.

Highly leveraged counter parties

Highly leveraged counter parties are determined by the Credit Department on case by case basis according to industry types and credit policies and procedures of the Group. Each industry has clear established leverage ratios set in place internally which are considered threshold for measuring how leveraged is our counterpart (Low, Medium/Acceptable or High). Any excess over such determined ratios, the customer is classified as highly leveraged with high risk. This ratio will have a big impact on Internal Rating / Grading of the customer. In this respect, the high risk exposure classified by the bank is as follows:

2017	US$'000
Counterparty # 1	8,156
Counterparty # 2	1,833
Counterparty # 3	1,227
Counterparty # 4	774
Counterparty # 5	49

2016	US$'000
Counterparty # 1	43,405
Counterparty # 2	8,047
Counterparty # 3	5,051
Counterparty # 4	4,497
Counterparty # 5	2,187
Counterparty # 6	152
Counterparty # 7	124
Counterparty # 8	9

Table – 12. Credit risk – credit quality of Islamic financing contracts by counterparty type

The following table summarises the aging of non performing facilities disclosed by counterparty type as of:

	31 December 2017					31 December 2016				
			Aging of non performing facilities					Aging of non performing facilities		
	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$'000	Past due but performing US$'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
Corporates	20,737	82,838	43,949	16,977	21,912	16,785	67,139	28,327	12,056	26,756
Investment Firms	238	15,493	-	15,493	-	433	18,645	-	-	18,645
Individuals	878	9,358	2,849	5,563	946	1,205	12,453	10,671	826	956
Others	8,067	22,995	8,119	6,835	8,041	10,288	11,196	879	3,080	7,237
	29,920	130,684	54,917	44,868	30,899	28,711	109,433	39,877	15,962	53,594

BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2017

3. RISK MANAGEMENT (CONTINUED)

a. Credit risk (Continued)

Table – 13. Credit Risk – provision against financing facilities by counterparty type

The following table summarises the total provisions against financing facilities disclosed by counterparty type as of 31 December 2017:

	Specific allowances							
	Opening Balance US$'000	Charges during the year US$'000	Amalgamation during the year US$'000	Write-Back during the year US$'000	Write-offs during the year US$'000	Transferred to investment risk reserve US$'000	Exchange difference on opening balance US$'000	Balance at the end of the year US$'000
Corporates	37,220	5,283	-	(5,690)	-	478	(1,866)	35,425
Investment Firms	13,187	-	-	-	-	-	195	13,382
Individuals	1,958	611	-	(222)	-	161	(77)	2,431
Others	3,446	2,167	-	(123)	-	-	(182)	5,308
	55,811	8,061	-	(6,035)	-	639	(1,930)	56,546

A collective provision of US$ 0.8 million was charged during the year and accumulated balance has been increased to US$ 4.1 million as at 31 December 2017.

The following table summarises the total provisions against non performing financing facilities disclosed by counterparty type as of 31 December 2016:

	Specific allowances							
	Opening Balance US$'000	Charges during the year US$'000	Amalgamation during the year US$'000	Write-Back during the year US$'000	Write-offs during the year US$'000	Transferred to investment risk reserve US$'000	Exchange difference on opening balance US$'000	Balance at the end of the year US$'000
Corporates	23,936	5,676	13,388	(5,813)	-	-	33	37,220
Investment Firms	6,110	7,129	-	-	-	-	(52)	13,187
Individual	766	357	1,065	(230)	(1)	-	1	1,958
Others	3,122	799	166	(644)	-	-	3	3,446
	33,934	13,961	14,619	(6,687)	(1)	-	(15)	55,811

A collective provision of US$ 0.7 million was charged during the year and accumulated balance has been increased to US$ 3.3 million as at 31 December 2016.

Table – 14. Credit risk – non performing facilities and provisions

The following table summarises the total non performing facilities and provisions disclosed by geographical area as of:

	31 December 2017			31 December 2016		
	-Non performing Islamic financing contracts US$'000	Specific provision US$'000	Collective provision* US$'000	-Non performing Islamic financing contracts US$'000	Specific provision US$'000	Collective provision US$'000
Middle East	61,390	18,489	3,345	41,115	15,495	2,535
Other Asian countries	69,294	38,057	789	68,318	40,316	749
	130,684	56,546	4,134	109,433	55,811	3,284

* Collective provision is calculated based on estimates by the management keeping in view general economic and market conditions, effecting investment and financing portfolio of the Group.

3. RISK MANAGEMENT (CONTINUED)

a. Credit risk (Continued)

Table – 15. Credit risk – restructured Islamic financing contracts

The following table summarises the total outstanding Islamic financing contracts that were restructured during the year as of:

	31 December 2017 Total US$'000	31 December 2016 Total US$'000
Restructured Islamic financing contracts	46,603	63,875

The amount represents total facilities restructured during the year. Further, there is no significant impact of the renegotiated Islamic financing contracts on the provisions as well as present and future earnings.

Table – 16. Counterparty credit risk exposure

The following table summarises the counterparty credit risk exposure covered by collateral as of:

	31 December 2017		31 December 2016	
	Gross positive FV of contracts US$'000	* Collateral held US$'000	Gross positive FV of contracts US$'000	* Collateral held US$'000
Cash and balances with banks and financial institutions	219,453	-	281,001	-
Receivables	728,586	421,509	742,584	428,640
Mudaraba financing	-	-	776	776
Ijara Muntahia Bittamleek	265,610	76,892	279,768	106,823
Musharaka	339,641	339,593	316,728	316,652
Investments	499,360	-	534,795	-
Investments in real estate	6,782	-	7,493	-
Ijara income receivables	43,285	-	30,605	-
Premises and equipment	38,530	-	32,203	-
Other assets	109,016	-	109,069	-
	2,250,263	837,994	2,335,022	852,891

* Collaterals values have been restricted to outstanding exposure of financing facilities.

Table – 17. Counterparty credit risk exposure

The following table summarises exposure by type of Islamic financing contract that is covered by eligible collateral after the application of haircuts as of:

	31 December 2017		31 December 2016	
	Gross positive FV of contracts US$'000	Collateral held US$'000	Gross positive FV of contracts US$'000	Collateral held US$'000
Ijara Muntahia Bittamleek & Ijara income receivable	308,895	52,924	310,373	69,534

BASEL III, PILLAR III DISCLOSURES

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3. RISK MANAGEMENT (CONTINUED)

b. Market risk

Market risk arises from fluctuations in profit rates, equity prices and foreign exchange rates.

Table – 18. Market risk capital requirements

The following table summarises the capital requirement for each category of market risk as of:

	31 December 2017	31 December 2016
	Foreign exchange risk US$'000	Foreign exchange risk US$'000
RWE	86,625	89,429
Capital requirements (12.5%)	10,828	11,179
Maximum value of RWE	89,152	89,429
Minimum value of RWE	86,619	75,218

Table – 19. Equity position risk in Banking Book

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 2017:

	Total gross exposure US$'000	Average gross exposure over the period US$'000	Publicly held US$'000	Privately held US$'000	Capital requirement US$'000
Managed funds	1,000	4,750	-	1,000	25
Private equity	36,048	35,439	13,304	22,743	3,661
Real estate related	23,853	30,319	-	23,853	12,293
	60,901	70,508	13,304	47,596	15,979

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$'000	Average gross exposure over the period US$'000	Publicly held US$'000	Privately held US$'000	Capital requirement US$'000
Managed funds	6,000	6,000	-	6,000	306
Private equity	22,716	18,467	15,516	7,200	3,731
Real estate related	43,283	34,902	-	43,283	12,702
	71,999	59,369	15,516	56,483	16,739

3. RISK MANAGEMENT (CONTINUED)

b. Market risk (Continued)

Table – 20. Equity gains or losses in Banking Book

The following table summarises the cumulative realised and unrealised gains during the year ended:

	31 December 2017	31 December 2016
	US$'000	US$'000
Cummulative realised gains arising from sale or liquidation	2,055	2,942
Total unrealised gains recognised in the balance sheet but not through P&L	525	1,700
Unrealised gross gains included in Tier One Capital	525	1,700
Assets revaluation reserve - property, plant, and equipment	1,193	1,193

Profit rate risk

The Bank generates funds mainly through profit sharing arrangements or agency modes. The Bank continuously monitor the profit rates prevailing in the domestic/ regional markets (issued by competitors). Further, the following factors also affects the determination of profit rates:

- Availability of profitable opportunities in the market
- Key economic fundamentals and liquidity levels
- Policy interest rates promulgated by domestic and leading global monetary agencies.

Table – 21. Profit rate mismatch

The following are the profit rate mismatch between the rate of return on assets and the expected funding due to the sources of finance as of:

	31 December 2017				
	Up to 3 months US$'000	3 to 6 months US$'000	6 months to 1 year US$'000	1 to 3 years US$'000	Over 3 years US$'000
Receivables	446,530	137,608	59,946	66,883	17,619
Ijara Muntahia Bittamleek and Ijara Income Receivables	30,964	9,827	15,516	64,396	188,193
Musharaka	28,327	1,172	9,300	80,519	220,323
Investments-Sukuk	7,470	5,212	46,780	185,400	192,976
Profit rate sensitive assets	513,291	153,819	131,542	397,198	619,111
Medium term financing	48,601	29,214	-	22,000	-
Equity of investment accountholders	678,361	201,721	215,846	189,447	188,826
Subordinated debt	1,837	-	1,294	5,175	48,727
Profit rate sensitive liabilities	728,799	230,935	217,140	216,622	237,553
Profit rate gap	(215,508)	(77,116)	(85,598)	180,576	381,558
Profit rate sensitivity (200**bps)**	(4,310)	(1,542)	(1,712)	3,612	7,631

BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2017

3. RISK MANAGEMENT (CONTINUED)

b. Market risk (Continued)

Table – 21. Profit rate mismatch (Continued)

	31 December 2016				
	Up to 3 months US$'000	3 to 6 months US$'000	6 months to 1 year US$'000	1 to 3 years US$'000	Over 3 years US$'000
Receivables	391,810	170,117	97,407	41,301	41,949
Mudaraba financing	776	-	-	-	-
Ijara Muntahia Bittamleek and Ijara Income Receivables	13,597	8,382	15,377	66,308	206,709
Musharaka	19,848	737	9,804	65,700	220,639
Investments-Sukuk	2,954	143,412	609	123,705	192,117
Profit rate sensitive assets	428,985	322,648	123,197	297,014	661,414
Medium term financing	30,582	-	-	60,000	-
Equity of investment accountholders	696,872	233,404	250,970	223,456	193,543
Subordinated debt	1,631	-	1,366	5,463	38,018
Profit rate sensitive liabilities	729,085	233,404	252,336	288,919	231,561
Profit rate gap	(300,100)	89,244	(129,139)	8,095	429,853
Profit rate sensitivity (200bps)	(6,002)	1,785	(2,583)	162	8,597

This table contains the mismatch amongst profit bearing assets and liabilities to ensure compliance with financial reporting framework public disclosure requirements. However, in lieu of inherent nature of Islamic Banking, such mismatches does not exists amongst assets and liabilities carried by the Bank as the bank has profit and loss sharing mudarba agreement with Investment accountholders whereby in case of any decrease in profit rates the corresponding impact has to be shared with the customers as per the mudaraba arrangement. It's hereby elaborated that the assets base represents receivable against various modes of sales/ deployment of funds under wakala and mudaraba arrangements, assets and receivables against Ijara and participations in ventures under Musharaka arrangements. While these assets are finance through capital, current accounts, funds received under mudaraba contract, payables against purchase and predominantly through funds received under profit sharing or Mudarba contracts. Therefore, the table given is just indicative of profit mismatches amongst assets and liabilities under various contracts.

c. Equity of Investment Accountholders

The Group manages and deploys Equity of IAH according to its Article of Association – Chapter 3 on Rules of Business. In this respect, the Bank 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 Bank to exercise its fiduciary responsibilities. The Group is authorised by Equity of Investment Accountholders to invest the funds on the basis of Mudaraba, Murabaha, Salam, Ijara 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.

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) Investment in Shari' a compliant opportunities;
b) Targeted returns;
c) Compliance with credit and Investment policy and overall business plan; and
d) 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 funds generated from various sources (Self-Financed). In this regards, the Bank at inception designate each asset separately as "Self" and "Jointly" financed, except liquid assets which are managed collectively. Further, the jointly financed assets are segregated proportionately based on amounts of funds contributed by each category of investors.

3. RISK MANAGEMENT (CONTINUED)

c. Equity of Investment Accountholders (Continued)

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, salam, istisna, wakala, musharaka, mudaraba and ijara. The Group is offering these accounts for saving and term accounts ranging from 1 months to 5 years. There are no separate designations for portfolio managers, investment advisors and trustee. IAH accounts are managed at Head Office and 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 expenses". 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 and without completing three months are not entitled to any income. Equity of IAH held for more than three months and withdrawn before their maturity are entitled to income only after deducting a penalty charge equivalent to three months income.

The basis applied by the Group in arriving at the investment accountholders share of income is [total investment income less investment pool expenses] divided by [average funds generating income (shareholders and equity of investment accountholders) times average funds of equity of IAH].

Investment risk reserve

The Group deducts investment risk reserve as per approved policy from time to time from the profit distributable to equity of investment accountholders of its Bahrain operations, after allocating the Mudarib share in order to cater against future losses for equity of IAH.

Profit equalisation reserve

The Group appropriates a certain amount in excess of the profit to be distributed to equity of investment accountholders before taking into consideration the mudarib share of income. This is used to maintain a certain level of return on investment for equity of IAH.

Displaced commercial risk

The Group is exposed to displaced commercial risk in the event of having equity of IAH profit rates that are lower than market rates. The Group has 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 segment level (Pakistan and Bahrain).

Complaint procedure / awareness programs

A complaint management system is established; procedures on handling complaints have been developed, new Complaints form has been introduced, a number of complaints channels are available where customers can communicate through branches, call centre, email, dedicated staff number and web-site. Monitoring procedures have been developed as well.

The Group uses it's website, print and electronic media for consumer awareness program and to inform about new products.

Penalty charges

A financial penalty of US$ 2 thousand (2016: US$ 7 thousand) was charged by the CBB during the year ended 31 December 2017 for anomalies related to electronic fund transfers.

A financial penalty of US$ 230 thousand (2016: US$ 5 thousand) was charged by SBP to the Group's subsidiary in Pakistan during the year ended 31 December 2017 for various non-compliances.

Non-Shari'a complaint income

The Group has received US$ 999 thousand (2016: US$ 382 thousand) from customers as penalty for default and other non sharia compliant sources, which was disposed through charity contribution.

Table – 22. Equity of Investment Accountholders

The following table summarises the breakdown of equity of IAH and the analysis of profit equalisation reserve, investment risk reserve and return on equity of IAH as of:

	31 December 2017 US$'000	31 December 2016 US$'000
IAH - Non-banks	1,230,387	1,324,689
IAH - Banks	241,540	270,666
Profit equalisation reserve	572	551
Investment risk reserve	1,701	2,339
	1,474,200	1,598,245

BASEL III, PILLAR III DISCLOSURES

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3. RISK MANAGEMENT (CONTINUED)

c. Equity of Investment Accountholders (Continued)

Table – 23. Ratio of reserves to total IAH

The following table summarises the ratio of reserves to the total amount of equity of IAH as of:

	31 December 2017	31 December 2016
PER to IAH (%)	0.04%	0.03%
IRR to IAH (%)	0.12%	0.15%

Table – 24. Equity of Investment Accountholders by Islamic financing product type

The following table summarises the percentage of IAH financing for each type of Shari's-compliant contract to total equity of IAH financing as of:

	31 December 2017	31 December 2016
Receivable	56.60%	54.89%
Mudaraba	-	0.06%
Musharaka	21.55%	23.51%
Ijara Muntahia Bittamleek & Ijara income receivable	21.85%	21.55%

Table – 25. Equity of Investment Accountholders by Counterparty Type

The following table summarises the percentage of equity of investment accountholders for each category of counterparty to total equity as of:

Counterparty type

	31 December 2017	31 December 2016
Banks	16.56%	17.06%
Investment Firms	3.79%	5.38%
Corporates	19.65%	15.88%
Residentials	47.33%	49.83%
Others	12.67%	11.86%

Table – 26. Investment Accountholders share of profit

The following table summarises the share of profits earned by and paid out to equity of IAH and the Group as Mudarib for the year ended:

	31 December 2017	31 December 2016
Administrative expenses charged to equity of investment accountholders	7,079	5,755
Share of profits earned by IAH, before transfers to/from reserves	71,861	61,137
Percentage share of profit earned by IAH before transfer to/from reserves	4.73%	4.53%
Share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	53,553	44,558
Percentage share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	3.52%	3.30%
Share of profit paid out to Bank as mudarib	18,308	16,579
Mudarib Fee to total Investment Profits	25.48%	27.12%

Table – 27. Movement in profit equalisation reserve

The following table summarises the movement in profit equalisation reserve during the year ended:

	31 December 2017 US$'000	31 December 2016 US$'000
Balance at 1 January	551	558
Foreign exchange loss	21	(7)
	572	551
Percentage of the profit earned on equity of investment accountholders appropriated to profit equalisation reserve	Nil	Nil

3. RISK MANAGEMENT (CONTINUED)

c. Equity of Investment Accountholders (Continued)

Table – 28. Movement in investment risk reserve

The following table summarises the movement in investment risk reserve during the year ended:

	31 December 2017 US$'000	31 December 2016 US$'000
Balance at 1 January	2,339	2,339
Amount apportioned from income allocable to equity of investment accountholders	(639)	-
Exchange difference	1	-
	1,701	2,339
Percentage of the profit earned on equity of investment accountholders appropriated to investment risk reserve	Nil	Nil

The profit equalisation reserve and investment risk reserve will revert to IAH as per terms and conditions of the Mudaraba contract.

As IAH funds are commingled with the Group's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits.

The Group's share, as Mudarib, in the profits of IAH is up to a maximum of 70% (31 December 2016: up to 70%) as per the terms of IAH agreements.

Table – 29. Equity of Investment Accountholders by type of assets

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the year ended 31 December 2017:

	Opening Actual Allocation US$'000	Movement US$'000	Closing Actual Allocation US$'000
Cash and balances with banks	50,243	(1,850)	48,393
Receivable	739,582	(15,762)	723,820
Mudaraba financing	776	(776)	-
Ijara Muntahia Bittamleek	261,466	(22,147)	239,319
Musharaka	316,728	(41,215)	275,513
Investments	174,517	(60,391)	114,126
Ijara income receivables	28,892	11,181	40,073
Other assets	26,041	6,915	32,956
	1,598,245	(124,045)	1,474,200

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets for the year ended 31 December 2016:

	Opening actual allocation US$'000	Movement US$'000	Closing actual allocation US$'000
Cash and balances with banks	66,048	(15,805)	50,243
Receivable	606,230	133,352	739,582
Mudaraba financing	-	776	776
Ijara Muntahia Bittamleek	246,923	14,543	261,466
Musharaka	154,260	162,468	316,728
Investments	132,464	42,053	174,517
Ijara income receivables	22,365	6,527	28,892
Other assets	16,304	9,737	26,041
	1,244,594	353,651	1,598,245

BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2017

3. RISK MANAGEMENT (CONTINUED)

c. Equity of Investment Accountholders (Continued)

Table – 30. Equity of Investment Accountholders profit earned and paid

The following table summarises the amount and percentage of profits earned and paid out to profit sharing investment accounts over the past five years:

	Profit earned		Profit paid to IAH	
	US$'000	%age	US$'000	%age
2017	**71,861**	**4.73%**	**53,553**	**3.52%**
2016	61,137	4.53%	44,558	3.30%
2015	69,244	5.40%	51,696	4.03%
2014	72,635	6.05%	58,786	4.90%
2013	68,754	6.37%	55,662	5.15%

Table - 31. Treatment of assets financed by Equity of Investment Accountholders

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 2017:

	RWA US$ '000	RWA for capital adequacy purposes US$ '000	Capital charges US$ '000
Type of Claims			
Claims on Sovereign	**27,383**	**8,215**	**1,027**
Claims on PSEs	**6,099**	**1,830**	**229**
Claims on Banks	**167,905**	**50,372**	**6,297**
Claims on Corporates	**590,506**	**177,152**	**22,144**
Mortgage	**228,989**	**68,697**	**8,587**
Regulatory Retail Portfolio	**68,174**	**20,452**	**2,557**
Past due facilities	**94,841**	**28,452**	**3,557**
Investment in securities	**1,046**	**314**	**39**
Holding of Real Estates	**43,054**	**12,916**	**1,615**
Other Assets	**28,822**	**8,647**	**1,081**
	1,256,819	**377,047**	**47,133**

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	56,981	17,094	2,137
Claims on PSEs	8,028	2,408	301
Claims on Banks	176,616	52,985	6,623
Claims on Corporates	636,092	190,828	23,854
Mortgage	71,906	21,572	2,697
Regulatory Retail Portfolio	207,228	62,168	7,771
Past due facilities	78,567	23,570	2,946
Investment in securities	8,399	2,520	315
Holding of Real Estates	49,444	14,833	1,854
Other Assets	22,756	6,827	853
	1,316,017	394,805	49,351

3. RISK MANAGEMENT (CONTINUED)

d. Off-balance sheet equity of Investment Accountholders

Off-balance sheet equity of Investment accountholders is invested and managed in accordance with Shari'a requirements.

The Group is not engaged in investment management activities or in managing funds. Therefore, the investments policies or risk parameters related to funds management are not relevant amid with specific nature of such business. The exposures given above are raised predominantly under agency arrangements/ syndications with specified institutional customers . In this respect, the respective nature, associated risks and returns measures are duly disclosed.

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.

Table – 32. Off-balance sheet equity of Investment Accountholders by Islamic product type

The following table summarises the breakdown of Off-balance sheet equity of IAH by type of islamic financing contracts as of:

Islamic products

	31 December 2017	31 December 2016
Sales receivables	88.79%	87.62%
Investments	11.21%	12.38%

Table – 33. Off-balance sheet equity of Investment Accountholders by counterparty type

The following table summarises the percentage of financing for each category of counterparty to total financing as of:

Counterparty type

	31 December 2017	31 December 2016
Banks	89.44%	87.62%
Corporate	10.56%	12.38%

Table – 34. Off-balance sheet equity of Investment Accountholders by type of assets

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the year ended 31 December 2017:

	Opening actual allocation US$ '000	Movement US$ '000	Closing actual allocation US$ '000
Receivables	66,585	9,424	76,009
Investments	9,405	189	9,594
	75,990	9,613	85,603

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the year ended 31 December 2016:

	Opening actual allocation US$ '000	Movement US$ '000	Closing actual allocation US$ '000
Receivables	94,677	(28,092)	66,585
Investments	9,462	(57)	9,405
	104,139	(28,149)	75,990

BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2017

3. RISK MANAGEMENT (CONTINUED)

d. Off-balance sheet equity of Investment Accountholders (Continued)

Table – 35. Off-balance sheet equity of Investment Accountholders historical returns

The following table summarises the historical returns over the past five year:

	December 2017 US$ '000	December 2016 US$ '000	December 2015 US$ '000	December 2014 US$ '000	December 2013 US$ '000
Gross Income	**1,491**	1,810	1,782	1,772	105
Mudarib Fee	**105**	118	77	99	47

The Group's share of profit as a Mudarib for managing Off-balance sheet equity of Investment accountholders and their share of income is based on the terms and conditions of the related mudarib agreements. These mudarib agreements are done at the individual Counter party level.

Table – 36. Off-balance sheet equity of Investment Accountholders foreign currency translation risk

	31 December 2017		
Currency	**Exposure US$ '000**	**Sensitivity**	**Amount US$ '000**
Euro	**6,195**	**20%**	**1,239**

	31 December 2016		
Currency	Exposure US$ '000	Sensitivity	Amount US$ '000
Euro	1,275	20%	255

e. 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. 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 segments are 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 depositors, types of deposit instruments, market sources of deposit, geographical sources, term to maturity, and deposit currencies. Where concentrations occur, the segments 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 segments conduct an impact analysis on its dependency on any such concentrations.
f. Provide for 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. Provide for the 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 segments 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.

3. RISK MANAGEMENT (CONTINUED)

e. Liquidity risk (Continued)

Table – 37. Liquidity ratios

The following table summarises the liquidity ratios as of:

	31 December 2017	31 December 2016
Liquid assets to total assets	17.15%	20.69%
Short term assets to short term liabilities	57.14%	74.41%

Table – 38. Quantitative indicators of financial performance and position

	December 2017*	December 2016	December 2015	December 2014	December 2013
Return on average equity	-2.7%	1.2%	3.5%	1.2%	0.6%
Return on average assets	-0.2%	0.1%	0.3%	0.1%	0.1%
Cost to Income Ratio	103.1%	82.5%	88.5%	92.7%	91.1%

* Return based on total income and equity (including non-controlling interest)

4. OTHERS

The responsibility for payment of Zakat is on individual shareholders and investment accountholders. However, in Pakistan, Zakah is deducted at source from the Equity of Investment accountholders as required by local laws.

The Group has dedicated staff and hires services of professional firms to ensure compliance with applicable laws and regulations. Further, the legal cases are actively followed in collaboration of legal councils and directly monitored by the strategic management.

CBB - COMPOSITION OF CAPITAL DISCLOSURE REQUIREMENTS STATEMENT OF FINANCIAL POSITION

Appendix PD-2

Step-1

	As per published financial statements 31 December 2017 US $ '000	As per Consolidated PIRI Return 31 December 2017 US $ '000
Assets		
Cash and balances with banks and financial institutions	218,949	219,454
Receivables	728,586	732,720
Ijara Muntahia Bittamleek	265,610	265,610
Musharaka	339,641	339,641
Investments	517,738	484,644
Investments in real estate	5,974	6,782
Ijara income receivables	43,285	43,285
Investment in joint venture & associates	14,636	14,716
Premises and equipment	35,733	38,530
Goodwill	20,338	37,420
Other assets	106,446	109,017
Total Assets	2,296,936	2,291,819
Liabilities		
Due to banks and financial institutions	52,087	52,087
Current accounts	294,637	294,637
Medium Term Financing	99,816	99,816
Other liabilities	127,478	131,046
Total liabilities	574,018	577,586
Equity of Investment Account Holders	1,474,200	1,474,200
Subordinated debt	57,033	54,935
Shareholders' Equity		
CET 1		
Share capital	122,458	122,458
Retained earnings	19,513	(2,841)
Reserves	11,936	23,209
Total Shareholders' Equity	153,907	142,826
Non controlling interest	37,778	42,272
Total Liabilities, URIA and shareholders' equity	2,296,936	2,291,819

CBB - COMPOSITION OF CAPITAL DISCLOSURE REQUIREMENTS STATEMENT OF FINANCIAL POSITION

Appendix PD-2

Step-2

	As per published financial statements 31 December 2017 US$'000	As per Consolidated PIRI Return 31 December 2017 US$'000	
Assets			
Cash and balances with banks and financial institutions	218,949	219,454	
Receivables	728,586	732,720	
Ijara Muntahia Bittamleek	265,610	265,610	
Musharaka	339,641	339,641	
Investments carried at fair value through profit & loss	245	20,628	
Investments carried at amortized cost	437,839	438,458	
Investments carried at fair value through equity	79,654	25,558	
Investments in real estate	5,974	6,782	
Ijara income receivable	43,285	43,285	
Investment in joint venture & associates	14,636	14,716	
Premises and equipment	35,733	38,530	
of which intangibles	7,352	7,352	A
Goodwill	20,338	37,420	B
Other assets	106,446	109,017	
of which deferred tax	29,272	29,272	C
Total Assets	2,296,936	2,291,819	
Liabilities			
Due to banks and financial institutions	52,087	52,087	
Current accounts	294,637	294,637	
Medium Term Financing	99,816	99,816	
Other liabilities	127,478	131,047	
Total liabilities	574,018	577,587	
Equity of Investment Account Holders	1,474,200	1,474,200	
Subordinated debt	57,033	54,935	
of which subordinated debt additional Tier1	6,014	25,000	D
of which subordinated debt-Tier -2 issued by parent	26,541	6,000	E
of which subordinated debt-Tier -2 issued by subsidiary	24,478	23,935	F
Shareholders' Equity			
CET 1			
Share capital	122,458	122,458	G
Retained earnings	11,936	(2,841)	H
Statutory reserve	22,699	22,699	I
General reserves	8,687	8,687	J
Foreign Exchange Reserve	(13,914)	(13,914)	K
Revaluation reserve on investments	965	525	L
Other reserves	(117)	(116)	M
Non controlling interest	37,778	42,272	N
Tier 2			
Revaluation reserve on premises and equipment	1,193	1,193	O
Collective Impairment Provision	-	4,134	P
Total Shareholders' Equity	191,685	185,097	
Total Liabilities, URIA and shareholders' equity	2,296,936	2,291,819	

Legal entities included within the regulatory scope of consolidation but excluded from the accounting scope of consolidation:

Name	Activities	Total Assets	Total Equity
Itqan Capital Company	Fund management and investment advisory	28,007	26,539

DISCLOSURE TEMPLATE FOR MAIN FEATURES OF REGULATORY CAPITAL INSTRUMENTS

Appendix PD-3

1	Issuer	Al Baraka Islamic Bank	Al Baraka Islamic Bank	Al Baraka Islamic Bank	Al Baraka Bank (Pakistan) Limited	Al Baraka Bank (Pakistan) Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA	NA	NA	NA
3	Governing law(s) of the instrument	Kingdom of Bahrain	Kingdom of Bahrain	Kingdom of Bahrain	All applicable laws and regulations of the Islamic Republic of Pakistan	All applicable laws and regulations of the Islamic Republic of Pakistan
	Regulatory treatment					
4	Transitional CBB rules	CET 1	AT1	Tier 2	Tier 2	Tier 2
5	Post-transitional CBB rules	CET 1	AT1	Tier 2	Tier 2	Tier 2
6	Eligible at solo/group/group&solo	Both solo and Group	Both solo and Group	Both solo and Group	GROUP	GROUP
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Subordinated debt	Subordinated debt	Unrestricted Mudaraba Sukuk	Unrestricted Mudaraba Sukuk
8	Amount recognised in regulatory capital (Currency in USD K, as of most recent reporting date)	122,458	25,000	6,000	10,350	13,585
9	Par value of instrument	100	Not Applicable	Not Applicable	NA	NA
10	Accounting classification	Equity	Liability - amortized cost	Liability - amortized cost	Liability - amortized cost	Bullet Payment after 7 Years
11	Original date of issuance	Various	2016	2015	2014	2017
12	Perpetual or dated	Perpetual	Perpetual	Dated	Dated	Dated
13	Original maturity date	Not Applicable	Perpetual	2022	2021	2024
14	Issuer call subject to prior supervisory approval	Not Applicable	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
16	Subsequent call dates, if applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
	Coupons / dividends					
17	Fixed or floating dividend/coupon	As decided by shareholder	Fixed	Fixed	Floating	Floating
18	Coupon rate and any related index	Not Applicable	7%	3%	KIBOR	6 Month Kibor + 0.75%
19	Existence of a dividend stopper	Not Applicable	No	No	No	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Partially discretionary	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	Not Applicable	No	Not Applicable	Not Applicable	Not Applicable
22	Noncumulative or cumulative	Not Applicable	Non-cummulative	Non-cummulative	Non-cummulative	Non-cummulative
23	Convertible or non-convertible	Not Applicable	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
25	If convertible, fully or partially	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
26	If convertible, conversion rate	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
27	If convertible, mandatory or optional conversion	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
28	If convertible, specify instrument type convertible into	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
29	If convertible, specify issuer of instrument it converts into	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
30	Write-down feature	Not Applicable	No	No	No	No
31	If write-down, write-down trigger(s)	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
32	If write-down, full or partial	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
33	If write-down, permanent or temporary	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
34	If temporary write-down, description of write-up mechanism	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to all liabilities	Subordinate to all liabilities	Subordinate to all liabilities	Subordinate to all liabilities	Subordinate to all liabilities
36	Non-compliant transitioned features	Not Applicable	No	No	No	No
37	If yes, specify non-compliant features	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable

CBB - COMPOSITION OF CAPITAL DISCLOSURE REQUIREMENTS

Appendix PD-4

	Common disclosure template to be used during the transition of regulatory adjustments (i.e. from 31stDecember 2016 to 31 December 2018)		AMOUNTS SUBJECT TO PRE-2015 TREATMENT	
	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	122,458		G
2	Retained earnings	(2,841)		H
3	Accumulated other comprehensive income (and other reserves)	17,881		I-M
4	*Not Applicable*			
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	27,257	15,015	N
6	**Common Equity Tier** 1 **capital before regulatory adjustments**	164,755		
	Common Equity Tier 1 capital: regulatory adjustments			
7	Prudential valuation adjustments	-		
8	Goodwill (net of related tax liability)	37,421	-	B
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	4,411	2,941	A
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	19,731	-	C
11	Cash-flow hedge reserve	-		
12	Shortfall of provisions to expected losses	-		
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	-		
14	Not applicable.			
15	Defined-benefit pension fund net assets	-		
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-		
17	Reciprocal cross-holdings in common equity	-		
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-		
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-		
20	Mortgage servicing rights (amount above 10% threshold)	-		
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-		
22	Amount exceeding the 15% threshold	-		
23	of which: significant investments in the common stock of financials			
24	of which: mortgage servicing rights			
25	of which: deferred tax assets arising from temporary differences			
26	National specific regulatory adjustments	-		
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT			
	OF WHICH: [INSERT NAME OF ADJUSTMENT]			
	OF WHICH: …			
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-		
28	**Total regulatory adjustments to Common equity Tier** 1	61,563		
29	**Common Equity Tier** 1 **capital (CET**1**)**	103,192		

CBB - COMPOSITION OF CAPITAL DISCLOSURE REQUIREMENTS

Appendix PD-4

	Common disclosure template to be used during the transition of regulatory adjustments (i.e. from 31stDecember 2016 to 31 December 2018)		AMOUNTS SUBJECT TO PRE-2015 TREATMENT	
	Additional Tier 1 capital: instruments			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	25,000		D
31	of which: classified as equity under applicable accounting standards	-		
32	of which: classified as liabilities under applicable accounting standards	25,000		
33	*Directly issued capital instruments subject to phase out from Additional Tier 1*			
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)	1,725		
35	*of which: instruments issued by subsidiaries subject to phase out*			
36	**Additional Tier 1 capital before regulatory adjustments**	26,725		
	Additional Tier 1 capital: regulatory adjustments			
37	Investments in own Additional Tier 1 instruments	-		
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-		
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-		
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-		
41	National specific regulatory adjustments	-		
	REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT			
	OF WHICH: [INSERT NAME OF ADJUSTMENT]			
	OF WHICH: ...			
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-		
43	**Total regulatory adjustments to Additional Tier 1 capital**	-		
44	**Additional Tier 1 capital (AT1)**	26,725		
45	**Tier 1capital (T1 = CET1 + AT1)**	129,917		
	Tier 2 capital: instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	6,000		E
47	*Directly issued capital instruments subject to phase out from Tier 2*			
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)	16,773		F
49	*of which: instruments issued by subsidiaries subject to phase out*			
50	Provisions & Assets revaluation reserve - property, plant, and equipment	5,327		O-P
51	**Tier 2 capital before regulatory adjustments**	28,100		
	Tier 2 capital: regulatory adjustments			
52	Investments in own Tier 2 instruments			
53	Reciprocal cross-holdings in Tier 2 instruments			
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)			
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)			
56	National specific regulatory adjustments			
	REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT			
	OF WHICH: [INSERT NAME OF ADJUSTMENT]			
	OF WHICH: ...			

CBB - COMPOSITION OF CAPITAL DISCLOSURE REQUIREMENTS

Appendix PD-4

	Common disclosure template to be used during the transition of regulatory adjustments (i.e. from 31stDecember 2016 to 31 December 2018)		AMOUNTS SUBJECT TO PRE-2015 TREATMENT
57	**Total regulatory adjustments to Tier 2 capital**	-	
58	**Tier 2 capital (T2)**	28,100	
59	**Total capital (TC = T1 + T2)**	158,017	
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT		
	OF WHICH: [INSERT NAME OF ADJUSTMENT]		
	OF WHICH: ...		
60	**Total risk weighted assets**	1,048,076	
	Capital ratios		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	9.85%	
62	Tier 1 (as a percentage of risk weighted assets)	12.40%	
63	Total capital (as a percentage of risk weighted assets)	15.08%	
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement expressed as a percentage of risk weighted assets)		
65	*of which: capital conservation buffer requirement*		
66	*of which: bank specific countercyclical buffer requirement (N/A)*		
67	*of which: D-SIB buffer requirement (N/A)*		
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)		
	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)		
72	Non-significant investments in the capital of other financials	-	
73	Significant investments in the common stock of financials	-	
74	Mortgage servicing rights (net of related tax liability)	-	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-	
	Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	4,134	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	9,244	
78	N/A		
79	N/A		
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2020 and 1 Jan 2024)		
80	*Current cap on CET1 instruments subject to phase out arrangements*		
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*		
82	*Current cap on AT1 instruments subject to phase out arrangements*		
83	*Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)*		
84	*Current cap on T2 instruments subject to phase out arrangements*		
85	*Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)*		