Al Baraka Banking Group B.S.C.

UNIFIED SHARI'A SUPERVISORY BOARD REPORT, REPORT OF THE BOARD OF DIRECTORS, INDEPENDENT AUDITORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

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

Unified Shari'a Supervisory Board Report
AlBaraka Banking Group B.S.C.
For the year ended 31 December 2017

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

To: Al Baraka Banking Group Shareholders

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

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

First:

We have conducted six meetings during 2017 in which we studied Shari'a audit reports prepared by the Group's Shari'a Audit for the year ended 31 December 2017 and gave few Shari'a related comments on those reports. These reports were rectified through coordination between Shari'a Audit and the relative local subsidiaries' Shari'a Boards. In addition, the Unified Shari'a Supervisory Board replied to requests for fatwa from the Group and subsidiaries and studies the contracts entered into by the Group during the year 2017.

Second:

We have reviewed the principles applied by the Group and reviewed the 2017 Shari'a reports issued by the Group Units' Shari'a Supervisory Boards. We have also reviewed

their financial statements when needed. In addition, we examined the Group's financial position as of 31 December 2016 and Statement of Income and their notes for the year then ended. We have queried from some of the Technical's on the points that need explanation and statement. We have also reviewed the process of calculating Zakah in accordance with the Shari'a Standard number (35) and the Financial Accounting Standard number (9) issued by the Accounting and Auditing Organization for Islamic financial Institutions and according to what was approved by Al BarakaSymposium1/31and by the Unified Shari'a Supervisory Board.

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مجموعة البركة المصرفية ش.م.ب.
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مملكة البحرين

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Third:

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

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

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

In our opinion:

1. The Contracts, transactions and dealings entered into by the Group and its Units during the year ended 31 December 2017 are made in compliance with Shari'a Rules and Principles.

2. The allocation of profit and charging of losses relating to investment accounts conform to the basis that have been approved by the Units' Shari'a Supervisory Boards in accordance with Shari'a Rules and Principles.

3. All earnings realized from sources or by means prohibited by Islamic Shari'a Rules and Principles have been committed by the Management to dispose it off to Charitable Causes.

4. The attached Zakah calculation was prepared in accordance with the provisions and principles of Islamic Shari'a according to the Net Invested Fund Method in accordance to the Shari'a Standard number (35) and the Financial Accounting Standard number (9) issued by the Accounting and Auditing Organization for Islamic financial Institutions and according to what was approved by the Unified Shari'a Supervisory Board.

As the General Assembly in its annual meeting conducted on 20 March 2017 empowered the Executive Management of Al Baraka Banking Group to pay an amount of US$ 4,021 thousand as Zakah on behalf of the shareholders deducted from the Retained Earnings for the financial year of 2016. The Group has paid and distributed an amount of US$ 3,688 thousand to those who's entitled to receive Zakah as per Shari'a boundaries and as approved by Unified Shari'a Board. The remaining amount of

US$ 333 thousand has been allocated to be paid maximum by end of first quarter of 2018.

For the year 2017, the Group is not required to pay Zakah on behalf of the shareholders, unless there is a direct empowerment from the general assembly to the Group to pay Zakah on the behalf of the shareholders. Therefore if the shareholders have not empower the Group to pay Zakah, the shareholders have to pay the Zakah related to their shares, which equal to US Cent 38.29 for each 100 shares . In case of unavailability of such empowerment, then the shareholders should pay their share of Zakah as per the enclosed calculation. In case of unavailability of liquidity, it is allowed to postponed the Zakah and become debt until the liquidity become available.

Praise be to Allah

Issued on 15 Jumada Al-ULA 1439 H, corresponding to 10 February 2018 AD.

Chairman and Members

Shaik Dr. Abdul Sattar Abu Ghuddah

Shaikh Dr. Abdulla Al Mannea

Shaikh Dr. Abdullatif Al Mahmood

Shaikh Dr. Abdulaziz Al Fawzan

Dr. Ahmed Mohiyeldin

Zakah Calculation for the year ended 31 December 2017

	US$ '000
Equity Attributable to Shareholders	1,739,822
Less: Investment of the parent on the shareholding of Al Baraka Bank Egypt, Al Baraka Bank Sudan and Itqan Capital	(577,063)
Net Zakatable Equity Attributable to Shareholders	**1,162,759**
Less:	
Musharaka underlined by unzakatable assets	(170,730)
Investment in Islamic Sukuk underlined by unzakatable assets	(103,939)
Ijarah Muntahia Bittamleek	(359,922)
long-term investment in real estate	(20,751)
Properties and equipment	(259,689)
Intangible assets	(75,408)
Investment in Associates	(35,071)
Prepayments	(16,727)
Deferred tax asset	(1,255)
Add:	
Shareholders share on Zakatable Assets by Associates	16,928
Sale of long-term investment in real estate during the year	5,533
Deferred tax liability	777
Employees' end of services benefit	35,319
Zakatable amount	**177,824**
Zakah Percentage	2.5775%
Total Zakah due	**4,583**
Number of Shares (thousands)	1,197,129
Zakah per share (US$ cents)	**0.38**

alBaraka

Directors' report

(All figures in US Dollars unless Stated otherwise)

2017 REVIEW

We are pleased to report that 2017 was a year when Al Baraka Banking Group (ABG) achieved robust financial results. Most of the subsidiaries reported growth in assets, although currency devaluations in four of the countries where our Group operates had some impact. Achieved against a background of testing economic and political conditions in many markets, these results show the strength of Al Baraka's growth strategy.

The Group's total assets grew by 9% to US$25.5 billion (US$23.4 billion as at 31 December 2016). Operating assets (financing and investments) amounted to US$19.1 billion (US$17.5 billion as at 31 December 2016), up 9%. Customer accounts also increased, by 8%, to US$20.7 billion (US$19.2 billion as at 31 December 2016), reflecting a growing customer base and strong customer loyalty. The bank takes a cautious approach to credit, which is reflected in the year's results. With the currency devaluations not factored in, in terms of local currencies the total asset growth was 11% when compared to 2016.

Total operating income declined by 7% to US$1.0 billion (US$1.1 billion in 2016), partially impacted by substantial falls in four local currencies. Net operating income before provisions, impairment and taxation decreased by 15% to US$430 million (US$507 million in 2016). After an increase in prudential provisions, net income fell by 23% to US$207 million (US$268 million in 2016). The net income attributable to equity holders of the ABG fell by 15% to US$129 million (US$152 million in 2016).

The Group issued its maiden Sukuk, which was significantly over-subscribed by five times, confirming the market's confidence in our strategy. The US$400 million Sukuk Additional Tier I Perpetual Sukuk complies with Basel III under Central Bank of Bahrain rules. Taking into account the Sukuk proceeds, total equity reached US$2.5 billion at the end of 2017, up 25% on the previous year end. The total-equity-to-total-assets ratio reached 10%.

Confirming the Group's capital strength, Dagong Global Credit Rating Company Limited (Dagong) and Islamic International Rating Agency (IIRA) together reaffirmed the international investment grade credit rating of ABG at BBB+/A3 and raised the outlook to stable from negative. Additionally, IIRA has reaffirmed ABG's national scale rating at A+(bh)/A2(bh).

Notably, ABG formed a partnership with BMCE Bank of Africa during the year to launch Bank Al-Tamweel Wa Al-Inma (BTI Bank), a new Moroccan participation bank. We believe now is a promising time to offer Islamic banking products in Morocco and aim to establish a model of cooperation that will create a unique network of branches in the country, thus extending our presence to much of the North Africa.

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In light of the Group's 2017 performance, the Board of Directors has recommended a cash dividend distribution to shareholders of 2.0% of the paid-up capital, amounting to US$24.13 million, after a transfer of US$12.90 million to the legal reserve, with the US$91.99 million balance of the net income allocated to retained earnings. The Board has also recommended a bonus dividend of 3 shares for every 100 shares issued, to be allocated from retained earnings and amounting to US$36.20 million. The Board has further recommended a remuneration distribution of US$1.50 million, to be paid to the directors following approval of shareholders at the annual general meeting.

As at 31 December 2017, ownership of shares in ABG by Board Members and Executive Management (except the Chairman) is immaterial and no major trading of such shares took place in 2017. Details of shares held by Directors and Executive Management are provided in the notes to the consolidated financial statements.

During the year, we welcomed Dr. Khalid Ateeq to our Board. Dr. Ateeq brings invaluable experience in regulatory issues, having served as Executive Director of Banking Supervision at the Central Bank of Bahrain. Mr. Fahad Al Rajhi left the membership of the Board earlier this year and we would like to express our gratitude for his contribution all these years.

Turning to compliance, the past four years have seen the Group continue to enhance the compliance-related policies, procedures and framework. Staff skills have been upgraded by providing targeted training. Systems and automated tools are being introduced, as required, to improve compliance standards throughout.

Sustainability and social responsibility is a priority for the Group, which aims to serve the needs of society, while adhering always to the principles of Shari'a. Five years ago, we established the "Al Baraka Sustainability and Social Responsibility Programme", the first such programme to be introduced by any Islamic bank. In 2017, ABG carried out its first full impact assessment of progress, comparing 2016's activities against the 2016-2020 goals. We are pleased to report that ABG has exceeded all its 2016 targets, defined in the Al Baraka Goals, in jobs, education and healthcare.

2018 AND BEYOND

Looking to the future, we will continue our proven strategy of growth through our branch opening programme, launching new products and increasing market share. Notably, we will expand in the important Moroccan market in 2018. Additionally, many of our subsidiaries have plans to leverage digital technology, focusing on gaining competitive advantage in retail markets.

The economic and foreign exchange outlook is difficult to predict but there were signs of improving conditions in late 2017. We will continue to apply our cautious policies as well as our financial and technical resources to strengthen the subsidiaries, and to maximise returns for shareholders.

We would like to congratulate our subsidiaries for their commitment to the Group's values and for their performance in the face of 2017's headwinds in regional banking markets. We would also like to extend our gratitude to our Executive Management team, who have continued to work hard to successfully execute the Group's strategic plan.

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

For and on behalf of the Board of Directors

Saleh Abdullah Kamel

Chairman

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL BARAKA BANKING GROUP B.S.C.

Report on the consolidated financial statements

We have audited the accompanying consolidated statement of financial position of Al Baraka Banking Group B.S.C. ("the Bank") and its subsidiaries ("the Group") as of 31 December 2017, and the related consolidated statements of income, cash flows, changes in owners' equity and changes in off-balance sheet equity of investment accountholders for the year then ended. These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 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 Financial Accounting Standards issued by AAOIFI.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
AL BARAKA BANKING GROUP B.S.C. (continued)

Report on other regulatory requirements

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

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

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

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association having occurred during the year ended 31 December 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 Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group.

Ernst + Young

Partner's registration no. 45
20 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	3	**5,430,085**	5,073,418
Receivables	4	**12,001,050**	11,423,448
Mudaraba and Musharaka financing	5	**2,377,654**	1,582,396
Investments	6	**2,888,334**	2,629,131
Ijarah Muntahia Bittamleek	7	**1,856,018**	1,830,339
Property and equipment	8	**430,192**	417,295
Other assets	9	**469,878**	469,238
TOTAL ASSETS		**25,453,211**	23,425,265
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
LIABILITIES			
Customer current and other accounts		**5,465,433**	4,983,772
Due to banks		**1,322,470**	918,395
Long term financing	10	**1,236,555**	1,381,256
Other liabilities	11	**1,035,983**	856,467
Total liabilities		**9,060,441**	8,139,890
EQUITY OF INVESTMENT ACCOUNTHOLDERS	12	**13,882,109**	13,276,794
OWNERS' EQUITY			
Share capital	13	**1,206,679**	1,149,218
Treasury shares	13	**(9,550)**	(9,588)
Share premium		**18,644**	18,574
Perpetual tier 1 capital	14	**400,000**	-
Reserves		**199,282**	181,971
Cumulative changes in fair values		**40,443**	41,271
Foreign currency translations	13	**(706,242)**	(666,719)
Retained earnings		**530,615**	497,374
Proposed appropriations		**60,334**	68,857
Equity attributable to parent's shareholders and Sukuk holders		**1,740,205**	1,280,958
Non-controlling interest		**770,456**	727,623
Total owners' equity		**2,510,661**	2,008,581
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		**25,453,211**	23,425,265

Saleh Abdullah Kamel
Chairman

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

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

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2017

	Notes	2017 US$ '000	2016 US$ '000
INCOME			
Net income from jointly financed contracts and investments	15	**1,258,663**	1,336,569
Return on equity of investment accountholders before Group's share as a Mudarib		**(1,084,420)**	(1,114,019)
Group's share as a Mudarib	16	**377,735**	396,762
Return on equity of investment accountholders		**(706,685)**	(717,257)
Group's share of income from equity of investment accountholders (as a Mudarib and Rabalmal)		**551,978**	619,312
Mudarib share for managing off-balance sheet equity of investment accountholders		**8,157**	5,022
Net income from self financed contracts and investments	15	**330,278**	285,499
Other fees and commission income	17	**157,894**	176,837
Other operating income	18	**35,383**	78,859
		1,083,690	1,165,529
Profit paid on long term financing	19	**(85,000)**	(91,370)
TOTAL OPERATING INCOME		**998,690**	1,074,159
OPERATING EXPENSES			
Staff expenses		**315,047**	325,501
Depreciation and amortisation	20	**47,398**	44,579
Other operating expenses	21	**205,872**	197,136
TOTAL OPERATING EXPENSES		**568,317**	567,216
NET INCOME FOR THE YEAR BEFORE PROVISIONS AND IMPAIRMENT AND TAXATION		**430,373**	506,943
Provisions and impairment	22	**(131,807)**	(122,154)
NET INCOME BEFORE TAXATION		**298,566**	384,789
Taxation		**(91,647)**	(117,153)
NET INCOME FOR THE YEAR		**206,919**	267,636
Attributable to:			
Equity holders of the parent		**129,029**	151,545
Non-controlling interest		**77,890**	116,091
		206,919	267,636
Basic and diluted earnings per share - US cents	23	**9.47**	12.66

Saleh Abdullah Kamel
Chairman

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	**2017** US$ '000	2016 US$ '000
OPERATING ACTIVITIES			
Net income before taxation		**298,566**	384,789
Adjustments for:			
Depreciation and amortisation	20	**47,398**	44,579
Depreciation on Ijarah Muntahia Bittamleek	15.4	**266,108**	238,315
Unrealised loss (gain) on equity and debt-type instruments at fair value through statement of income	15.3	**1,163**	(152)
Gain on sale of property and equipment	18	**(11,192)**	(14,804)
Gain on sale of investment in real estate	15.3	**(104)**	(5,502)
Loss (gain) on sale of equity type instruments at fair value through equity	15.3	**21**	(3,585)
Gain on sale of equity and debt-type instruments at fair value through statement of income	15.3	**(820)**	(667)
Income from associates	15.3	**(1,537)**	(2,059)
Provisions and impairment	22	**131,807**	122,154
Operating profit before changes in operating assets and liabilities		**731,410**	763,068
Net changes in operating assets and liabilities:			
Reserves with central banks		**(347,443)**	859,261
Receivables		**(703,668)**	443,093
Mudaraba and Musharaka financing		**(798,128)**	(40,793)
Ijarah Muntahia Bittamleek		**(291,788)**	(334,197)
Other assets		**(16,194)**	(24,167)
Customer current and other accounts		**481,670**	142,675
Due to banks		**404,075**	110,126
Other liabilities		**192,248**	10,143
Equity of investment accountholders		**609,334**	(1,238,504)
Taxation paid		**(96,516)**	(147,598)
Net cash from operating activities		**165,000**	543,107
INVESTING ACTIVITIES			
Net purchase of investments		**(267,314)**	495,992
Net purchase of property and equipment		**(39,195)**	2,890
Dividends received from associates		**659**	2,329
Disposal (purchase) of investment in associate		**858**	(14,587)
Net cash (used in) from investing activities		**(304,992)**	486,624
FINANCING ACTIVITIES			
Long term financing		**(144,702)**	(115,952)
Dividends paid to equity holders of the parent		**(11,396)**	(22,143)
Net movement in treasury shares		**108**	(212)
Issuance of Tire 1 capial		**400,000**	-
Profit distributed on perpetual tier 1 capital		**(15,750)**	-
Payment of expenses related to tier 1 capital		**(2,780)**	-
Net changes in non-controlling interest		**(20,012)**	(9,018)
Net cash from (used in) financing activities		**205,468**	(147,325)
Foreign currency translation adjustments		**(56,252)**	(323,137)
NET CHANGES IN CASH AND CASH EQUIVALENTS		**9,224**	559,269
Cash and cash equivalents at 1 January		**2,851,958**	2,292,689
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	24	**2,861,182**	2,851,958

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

Al Baraka Banking Group B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2017

	Attributable to equity holders of the parent and Sukuk holders													
					Reserves		Cumulative changes in fair values							
	Share capital US$ '000	Treasury shares US$ '000	Share premium US$ '000	Perpetual tier 1 capital US$ '000	Statutory reserve US$ '000	Other reserves US$ '000	Investments US$ '000	Property and equipment US$ '000	Foreign currency translations reserve US$ '000	Retained earnings US$ '000	Proposed appropriati -ons US$ '000	Total US$ '000	Non-controlling interest US$ '000	Total owners' equity US$ '000
Balance at 1 January 2017	1,149,218	(9,588)	18,574	-	139,740	42,231	4,971	36,300	(666,719)	497,374	68,857	1,280,958	727,623	2,008,581
Dividends paid	-	-	-	-	-	-	-	-	-		(11,396)	(11,396)	-	(11,396)
Bonus shares issued (note 13)	57,461	-	-	-	-	-	-	-	-	-	(57,461)	-	-	-
Movement in treasury shares	-	38	70		-	-	-	-	-	-	-	108	-	108
Net movement in cumulative change in fair value for investments	-	-	-	-	-	-	(828)	-	-	-	-	(828)	(851)	(1,679)
Net movement in other reserves	-	-	-	-	-	4,408	-	-	-	-	-	4,408	2,533	6,941
Foreign currency translation	-	-	-	-	-	-	-	-	(39,523)	-	-	(39,523)	(16,728)	(56,251)
Net income for the year	-	-	-	-	-	-	-	-	-	129,029	-	129,029	77,890	206,919
Transfer to statutory reserve (note 13)	-	-	-	-	12,903	-	-	-	-	(12,903)	-	-	-	-
Proposed dividends	-	-	-	-	-	-	-	-	-	(24,134)	24,134	-	-	-
Proposed bonus shares	-	-	-	-	-	-	-	-	-	(36,200)	36,200	-	-	-
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(31,941)	(31,941)
Zakah paid on behalf of shareholders (note 13)	-	-	-	-	-	-	-	-	-	(4,021)	-	(4,021)	-	(4,021)
Perpetual tier 1 capital (note 14)	-	-	-	400,000	-	-	-	-	-	-	-	400,000	-	400,000
Expenses related to perpetual tier 1 capital	-	-	-	-	-	-	-	-	-	(2,780)	-	(2,780)	-	(2,780)
Profit distributed on perpetual tier 1 capital	-	-	-	-	-	-	-	-	-	(15,750)	-	(15,750)	-	(15,750)
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	11,930	11,930
Balance at 31 December 2017	**1,206,679**	**(9,550)**	**18,644**	**400,000**	**152,643**	**46,639**	**4,143**	**36,300**	**(706,242)**	**530,615**	**60,334**	**1,740,205**	**770,456**	**2,510,661**

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

Al Baraka Banking Group B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2017

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

The attached notes 1 to 30 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

	Cash	*Sales receivables*	*Mudaraba financing*	*Investment in real estate*	*Ijarah Muntahia Bittamleek*	*Investments*	*Others*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Balance at 1 January 2017	73,558	223,323	286,201	38,150	82,962	157,672	10,177	872,043
Deposits	209,723	235,941	193,416	10,624	48,757	78,964	63,233	840,658
Withdrawals	(250,085)	(299,601)	(193,622)	(450)	(22,081)	(39,760)	(26,495)	(832,094)
Income net of expenses	-	30,793	6,662	366	3,321	1,558	(233)	42,467
Mudarib's share	-	(6,790)	-	(279)	(614)	(370)	(104)	(8,157)
Foreign exchange translations	-	(5,873)	-	-	-	(7,276)	1,612	(11,537)
Balance at 31 December 2017	**33,196**	**177,793**	**292,657**	**48,411**	**112,345**	**190,788**	**48,190**	**903,380**
Balance at 1 January 2016	11,579	170,139	257,719	38,277	81,173	200,535	18,537	777,959
Deposits	203,295	218,488	493,715	889	22,485	34,223	29,845	1,002,940
Withdrawals	(141,316)	(165,701)	(474,455)	(1,474)	(27,893)	(78,255)	(31,333)	(920,427)
Income net of expenses	-	22,922	9,664	495	7,782	3,653	(690)	43,826
Mudarib's share	-	(3,452)	(442)	(37)	(585)	(365)	(141)	(5,022)
Foreign exchange translations	-	(19,073)	-	-	-	(2,119)	(6,041)	(27,233)
Balance at 31 December 2016	73,558	223,323	286,201	38,150	82,962	157,672	10,177	872,043

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

1 CORPORATE INFORMATION AND ACTIVITIES

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

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

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

The consolidated financial statements were approved by the Board of Directors on 20 February 2018.

2 ACCOUNTING POLICIES

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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

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

	Ownership for 2017	*Ownership for 2016*	*Year of incorporation*	*Country of incorporation*	***No. of branches/ offices at 31 December 2017***
Held directly by the Bank					
Banque Al Baraka D'Algerie (BAA)	**55.90%**	55.90%	1991	Algeria	**29**
Al Baraka Islamic Bank - Bahrain (AIB)	**91.12%**	91.12%	1984	Bahrain	**196**
Al Baraka Bank Tunis (ABT)	**78.40%**	78.40%	1983	Tunisia	**37**
Al Baraka Bank Egypt (ABE)	**73.68%**	73.68%	1980	Egypt	**32**
Al Baraka Bank Lebanon (ABBL)	**98.94%**	98.94%	1991	Lebanon	**7**
Jordan Islamic Bank (JIB)	**66.01%**	66.01%	1978	Jordan	**100**
Al Baraka Turk Participation Bank (ATPB)	**56.64%**	56.64%	1985	Turkey	**220**
Al Baraka Bank Limited (ABL)	**64.51%**	64.51%	1989	South Africa	**12**
Al Baraka Bank Sudan (ABS)	**75.73%**	75.73%	1984	Sudan	**27**
Al Baraka Bank Syria (ABBS) *	**23.00%**	23.00%	2009	Syria	**13**
BTI Bank *	**49.00%**	-	2017	Morocco	**1**

* During December 2017, BTI Bank was established in Morocco. The Group consolidate BTI Bank (49% ownership), Al Baraka Bank Syria (23% ownership) and Al Baraka Sukuk Limited SPV (0% ownership) due to the Group's control through the power to govern their financial and operating policies.

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

	Subsidiary held through	***Effective Ownership for 2017***	*Effective Ownership for 2016*	*Year of incorporation*	*Country of incorporation*
Held indirectly by the Bank					
Al Baraka Bank (Pakistan) Limited	AIB	**53.88%**	52.30%	2010	Pakistan
Itqan Capital	AIB	**75.69%**	75.69%	2007	Saudi Arabia
Al-Omariya School Company	JIB	**65.61%**	65.61%	1987	Jordan
Al-Samaha Real Estate Company	JIB	**66.01%**	66.01%	1998	Jordan
Future Applied Computer Technology Company	JIB	**66.01%**	66.01%	1998	Jordan
Sanable Alkhair for Financial Investment	JIB	**66.01%**	66.01%	2006	Jordan
Al Baraka Properties (Pty) Ltd.	ABL	**64.51%**	64.51%	1991	South Africa

2 ACCOUNTING POLICIES (continued)

Significant accounting policies

The significant accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year, except for the adoption of new standards and interpretations effective as of 1 January 2017:

New standards, interpretations and amendments adopted by the Group

FAS 30 Impairment, credit losses and onerous commitments

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 provisions part of 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 considers it as a significant project and therefore has set up a multidisciplinary implementation team with members from its Finance,Credit and Risk Management, IT and respective businesses to achieve a successful and robust implementation. The project is managed by a dedicated commitee, chaired by the Head of Finance and vice chaired by the Head of Credit and Risk Management.

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 categorize 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 are 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 Bank 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 in 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.

2 ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments adopted by the Group (continued)

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, installment sales, Salam or Istisna'a.

The Group subsequent to the initial recognition, 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 a decrease of US$ 50 million on the date of initial application in opening retained earnings.

- 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 centrally managed FAS 30 comittee chaired by the Group's Head of Finance and vice chaired by Head of Credit and Risk Management 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.

2 ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments adopted by the Group (continued)

Governance and controls (continued)
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 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 second 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 is in the process of finalizing the testing and assessment of controls over the related IT systems and changes to its governance framework. All estimates are based on the Group's current interpretation of the requirements of FAS 30, regulators including Central Bank of Bahrain, reflecting industry guidance and discussions to date.

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

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

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

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

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

Summary of significant accounting policies (continued)

d. Investments (continued)

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

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

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

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

Summary of significant accounting policies (continued)

f. Property and equipment

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

The calculation of depreciation is on the following basis:

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

g. Fair values

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

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

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

h. Goodwill

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

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

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

i. Intangible assets

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

j. Collateral pending sale

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

2 ACCOUNTING POLICIES (continued)

Summary of significant accounting policies (continued)

k. Employees' end of service benefits

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

l. Provision

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

m. Dividends

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

n. Equity of investment accountholders

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

o. Investment risk reserve

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

p. Profit equalisation reserve

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

q. Sukuk

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

r. Off-balance sheet equity of investment accountholders

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

s. Treasury shares

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

t. Revenue recognition

Sales (Murabaha) receivables

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

2 ACCOUNTING POLICIES (continued)

Summary of significant accounting policies (continued)

t. Revenue recognition (continued)

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

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

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

Fee and commission income
Fee and commission income is recognised when earned.

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

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

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

Summary of significant accounting policies (continued)

z. Earnings prohibited by Shari'a

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

aa. Impairment of financial assets

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

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

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

bb. Offsetting

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

cc. Foreign currencies

Foreign currency transactions at the subsidiary level

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

Foreign currency translations

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

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

dd. Judgments

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

Classification of investments

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

2 ACCOUNTING POLICIES (continued)

Summary of significant accounting policies (continued)

dd. Judgments (continued)

Going concern

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

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

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

ff. Derecognition

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

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

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

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

3 CASH AND BALANCES WITH BANKS

	2017	*2016*
	US$ '000	*US$ '000*
Balances with central banks*	**4,102,938**	3,883,925
Balances with other banks	**602,517**	585,491
Cash and cash in transit	**724,630**	604,002
	5,430,085	5,073,418

* Balances with central banks include mandatory reserves amounting to US$ 2,568,903 thousand (2016: US$ 2,221,460 thousand). These amounts are not available for use in the Group's day-to-day operations.

4 RECEIVABLES

	2017	*2016*
	US$ '000	*US$ '000*
Sales (Murabaha) receivables (note 4.1)	**11,627,669**	11,119,981
Ijarah receivables (note 4.2)	**68,620**	57,086
Salam receivables (note 4.3)	**188,035**	154,649
Istisna'a receivables (note 4.4)	**116,726**	91,732
	12,001,050	11,423,448

4 RECEIVABLES (continued)

4.1 Sales (Murabaha) 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*
International commodity murabaha	**85,430**	**395,079**	**480,509**	22,247	299,812	322,059
Other murabaha	**2,385,059**	**10,853,317**	**13,238,376**	2,273,439	10,430,331	12,703,770
Gross sales (murabaha) receivables	**2,470,489**	**11,248,396**	**13,718,885**	2,295,686	10,730,143	13,025,829
Deferred profits	**(392,657)**	**(1,329,298)**	**(1,721,955)**	(340,823)	(1,210,482)	(1,551,305)
	2,077,832	**9,919,098**	**11,996,930**	1,954,863	9,519,661	11,474,524
Provisions (note 22)	**(100,883)**	**(268,378)**	**(369,261)**	(79,487)	(275,056)	(354,543)
Net sales (murabaha) receivables	**1,976,949**	**9,650,720**	**11,627,669**	1,875,376	9,244,605	11,119,981

	2017 US$ '000	*2016 US$ '000*
Non-performing	**587,323**	564,550

4.2 Ijarah 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*
Gross ijarah receivables	**-**	**81,970**	**81,970**	-	69,557	69,557
Provisions (note 22)	**-**	**(13,350)**	**(13,350)**	-	(12,471)	(12,471)
Net ijarah receivables	**-**	**68,620**	**68,620**	-	57,086	57,086

	2017 US$ '000	*2016 US$ '000*
Non-performing	**56,190**	59,539

4.3 Salam 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*
Gross salam receivables	**-**	**193,910**	**193,910**	-	160,603	160,603
Provisions (note 22)	**-**	**(5,875)**	**(5,875)**	-	(5,954)	(5,954)
Net salam receivables	**-**	**188,035**	**188,035**	-	154,649	154,649

	2017 US$ '000	*2016 US$ '000*
Non-performing	**17,564**	13,763

4 RECEIVABLES (continued)

4.4 Istisna'a 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
Gross istisna'a receivables	**-**	**118,116**	**118,116**	-	94,007	94,007
Provisions (note 22)	**-**	**(1,390)**	**(1,390)**	-	(2,275)	(2,275)
Net istisna'a receivables	**-**	**116,726**	**116,726**	-	91,732	91,732

	2017 US$ '000	2016 US$ '000
Non-performing	**6,917**	6,868

5 MUDARABA AND MUSHARAKA FINANCING

	2017 US$ '000	2016 US$ '000
Mudaraba financing (note 5.1)	**1,400,598**	821,729
Musharaka financing (note 5.2)	**977,056**	760,667
	2,377,654	1,582,396

5.1 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
Gross mudaraba financing	**549,551**	**863,985**	**1,413,536**	277,816	555,861	833,677
Provisions (note 22)	**-**	**(12,938)**	**(12,938)**	-	(11,948)	(11,948)
Net mudaraba financing	**549,551**	**851,047**	**1,400,598**	277,816	543,913	821,729

	2017 US$ '000	2016 US$ '000
Non-performing	**10,285**	12,351

5.2 Musharaka 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
Gross musharaka financing	**280,969**	**705,216**	**986,185**	146,365	620,903	767,268
Provisions (note 22)	**(235)**	**(8,894)**	**(9,129)**	-	(6,601)	(6,601)
Net musharaka financing	**280,734**	**696,322**	**977,056**	146,365	614,302	760,667

	2017 US$ '000	2016 US$ '000
Non-performing	**22,152**	20,154

6 INVESTMENTS

	2017 US$ '000	2016 US$ '000
Equity and debt-type instruments at fair value through statement of income (note 6.1)	**271,096**	27,842
Equity-type instruments at fair value through equity (note 6.2)	**103,818**	107,225
Debt-type instruments at amortised cost (note 6.3)	**2,250,552**	2,250,764
	2,625,466	2,385,831
Investment in real estate (note 6.4)	**211,157**	191,565
Investment in associates (note 6.5)	**51,711**	51,735
	2,888,334	2,629,131

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

	2017			2016		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Quoted investments						
Debt Instruments	**6,797**	**515**	**7,312**	6,865	1,504	8,369
Equity Securities	**262,880**	**775**	**263,655**	286	642	928
	269,677	**1,290**	**270,967**	7,151	2,146	9,297
Unquoted investments						
Debt Instruments	**7**	**-**	**7**	-	-	-
Equity Securities	**122**	**-**	**122**	18,545	-	18,545
	129	**-**	**129**	18,545	-	18,545
	269,806	**1,290**	**271,096**	25,696	2,146	27,842

6.2 Equity-type instruments at fair value through equity

	2017			2016		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Quoted investment						
Equity Securities	**13,129**	**32,932**	**46,061**	12,009	34,467	46,476
Managed funds	**7,274**	**4,636**	**11,910**	11,842	6,636	18,478
	20,403	**37,568**	**57,971**	23,851	41,103	64,954
Unquoted investments						
Equity Securities	**28,743**	**8,389**	**37,132**	26,987	7,779	34,766
Managed funds	**932**	**12,492**	**13,424**	668	9,735	10,403
	29,675	**20,881**	**50,556**	27,655	17,514	45,169
Provisions (note 22)	**(2,461)**	**(2,248)**	**(4,709)**	(774)	(2,124)	(2,898)
	47,617	**56,201**	**103,818**	50,732	56,493	107,225

6 INVESTMENTS (continued)

6.3 Debt-type instruments at amortised cost

	2017			2016		
	Self financed US$ '000	*Jointly financed US$ '000*	*Total US$ '000*	*Self financed US$ '000*	*Jointly financed US$ '000*	*Total US$ '000*
Quoted investment						
Sukuk and similar items	**581,817**	**711,564**	**1,293,381**	607,418	604,812	1,212,230
Unquoted investments						
Sukuk and similar items	**120,838**	**843,320**	**964,158**	136,078	906,718	1,042,796
Provisions (note 22)	**(2,500)**	**(4,487)**	**(6,987)**	(2,500)	(1,762)	(4,262)
	700,155	**1,550,397**	**2,250,552**	740,996	1,509,768	2,250,764

6.4 Investment in real estate

	2017			2016		
	Self financed US$ '000	*Jointly financed US$ '000*	*Total US$ '000*	*Self financed US$ '000*	*Jointly financed US$ '000*	*Total US$ '000*
Land	**1,311**	**128,936**	**130,247**	756	106,559	107,315
Buildings	**7,376**	**73,534**	**80,910**	7,994	76,256	84,250
	8,687	**202,470**	**211,157**	8,750	182,815	191,565

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

	2017 US$ '000	*2016 US$ '000*
Beginning balance of the year	**191,565**	187,412
Acquisitions	**24,698**	14,479
Net gain from fair value adjustments	**5,503**	1,253
Disposals	**(4,016)**	(8,660)
Foreign exchange translation / others - net	**(6,593)**	(2,919)
	19,592	4,153
Ending balance of the year	**211,157**	191,565

6 INVESTMENTS (continued)

6.5 Investment in associates

Investment in associates comprise the following:

	2017 Self financed US$ '000	**2017** Jointly financed US$ '000	**2017** Total US$ '000	**2017** Market value US$ '000
Quoted associates	**-**	**11,824**	**11,824**	**11,410**
Unquoted associates	**39,887**	**-**	**39,887**	
	39,887	**11,824**	**51,711**	

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

7 IJARAH MUNTAHIA BITTAMLEEK

	2017 Self financed US$ '000	**2017** Jointly financed US$ '000	**2017** Total US$ '000	2016 Self financed US$ '000	2016 Jointly financed US$ '000	2016 Total US$ '000
Land and building						
Cost	**142,061**	**1,786,674**	**1,928,735**	179,444	1,730,599	1,910,043
Accumulated depreciation	**(26,822)**	**(365,554)**	**(392,376)**	(27,795)	(472,851)	(500,646)
Net book value	**115,239**	**1,421,120**	**1,536,359**	151,649	1,257,748	1,409,397
Equipment						
Cost	**134,129**	**296,447**	**430,576**	130,730	368,355	499,085
Accumulated depreciation	**(38,696)**	**(93,756)**	**(132,452)**	(22,326)	(90,333)	(112,659)
Net book value	**95,433**	**202,691**	**298,124**	108,404	278,022	386,426
Others						
Cost	**-**	**34,677**	**34,677**	-	56,469	56,469
Accumulated depreciation	**-**	**(13,142)**	**(13,142)**	-	(21,953)	(21,953)
Net book value	**-**	**21,535**	**21,535**	-	34,516	34,516
TOTAL						
Cost	**276,190**	**2,117,798**	**2,393,988**	310,174	2,155,423	2,465,597
Accumulated depreciation	**(65,518)**	**(472,452)**	**(537,970)**	(50,121)	(585,137)	(635,258)
Net book value	**210,672**	**1,645,346**	**1,856,018**	260,053	1,570,286	1,830,339

8 PROPERTY AND EQUIPMENT

	Buildings	*Lands*	*Office furniture and equipment*	*Vehicles*	*Others*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Cost:						
At 1 January 2016	176,895	162,936	209,975	11,634	100,891	662,331
Additions	46,288	20,618	19,450	1,282	23,135	110,773
Disposals	(2,319)	(654)	(1,507)	(872)	(52,979)	(58,331)
Foreign exchange translations	(20,948)	(19,834)	(20,708)	(1,248)	(12,559)	(75,297)
At 31 December 2016	199,916	163,066	207,210	10,796	58,488	639,476
Additions	19,120	26,471	28,846	1,414	30,154	106,005
Disposals	(14,047)	(1,193)	(2,151)	(744)	(23,778)	(41,913)
Foreign exchange translations	(2,461)	(8,617)	(5,138)	(670)	(2,794)	(19,680)
At 31 December 2017	**202,528**	**179,727**	**228,767**	**10,796**	**62,070**	**683,888**
Depreciation:						
At 1 January 2016	61,744	-	132,019	5,453	18,507	217,723
Charged during the year (note 20)	9,750	-	22,217	1,265	5,996	39,228
Relating to disposals	(677)	-	(835)	(573)	(565)	(2,650)
Foreign exchange translations	(18,766)	-	(8,956)	(668)	(3,730)	(32,120)
At 31 December 2016	52,051	-	144,445	5,477	20,208	222,181
Charged during the year (note 20)	13,693	-	19,540	869	3,387	37,489
Relating to disposals	(1,021)	-	(1,959)	(242)	(278)	(3,500)
Foreign exchange translations	(1,733)	-	778	(358)	(1,161)	(2,474)
At 31 December 2017	**62,990**	-	**162,804**	**5,746**	**22,156**	**253,696**
Net book values:						
At 31 December 2017	**139,538**	**179,727**	**65,963**	**5,050**	**39,914**	**430,192**
At 31 December 2016	147,865	163,066	62,765	5,319	38,280	417,295

9 OTHER ASSETS

	2017	*2016*
	US$ '000	*US$ '000*
Bills receivables	**149,661**	144,327
Goodwill and intangible assets (note 9 (a))	**86,837**	91,735
Collateral pending sale	**73,222**	62,151
Good faith qard	**20,254**	19,136
Deferred taxation	**35,808**	34,693
Prepayments	**41,039**	40,540
Others	**78,252**	91,485
	485,073	484,067
Provisions (note 22)	**(15,195)**	(14,829)
	469,878	469,238

9 OTHER ASSETS (continued)

9 (a) Goodwill and intangible assets

	2017			2016		
	Goodwill US$ '000	**Intangible assets US$ '000**	**Total US$ '000**	Goodwill US$ '000	Intangible assets US$ '000	Total US$ '000
At 1 January	**70,166**	**21,569**	**91,735**	72,781	29,503	102,284
Additions		**14,860**	**14,860**	10,498	9,134	19,632
Amortisation charge for the year (note 20)	-	**(9,909)**	**(9,909)**	-	(5,351)	(5,351)
Impairment loss for the year	-	-	-	(9,082)	-	(9,082)
Foreign exchange translations	**(8,827)**	**(1,022)**	**(9,849)**	(4,031)	(11,717)	(15,748)
At 31 December	**61,339**	**25,498**	**86,837**	70,166	21,569	91,735

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

	2017 US$ '000	2016 US$ '000
Al Baraka Turk Participation Bank	**13,531**	14,572
Al Barak Bank Egypt	**824**	767
Jordan Islamic Bank	**26,646**	26,646
Al Baraka Bank (Pakistan) Limited	**20,338**	28,181
	61,339	70,166

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

10 LONG TERM FINANCING

	2017 US$ '000	2016 US$ '000
Murabaha financing	**622,006**	762,752
Subordinated financing obtained by a subsidiary	**453,416**	456,600
Wakala	**161,133**	161,904
	1,236,555	1,381,256

10 LONG TERM FINANCING (continued)

Murabaha financing and wakala

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

Subordinated financing obtained by a subsidiary

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

11 OTHER LIABILITIES

	2017	*2016*
	US$ '000	*US$ '000*
Payables	**301,293**	299,433
Cash margins	**393,240**	222,008
Managers' cheques	**92,046**	103,969
Other provisions (note 22) *	**8,731**	11,091
Current taxation **	**73,978**	68,055
Deferred taxation **	**3,256**	12,933
Accrued expenses	**89,212**	71,303
Charity fund	**18,805**	10,658
Others	**55,422**	57,017
	1,035,983	856,467

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

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

12 EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH)

	2017	*2016*
	US$ '000	*US$ '000*
Equity of investment accountholders *	**13,680,020**	13,081,209
Profit equalisation reserve (note 12.1)	**6,006**	6,091
Investment risk reserve (note 12.2)	**187,149**	176,583
Cumulative changes in fair value attributable to equity of investment accountholders - net (note 12.3)	**8,934**	12,911
	13,882,109	13,276,794

** Medium term Sukuk*

This includes unsecured, sub-ordinated and privately placed unrestricted mudaraba sukuk amounting to US$ 24,478 thousand (2016: US$ 13,923 thousand) issued by Al Baraka Bank (Pakistan) Limited (ABPL) during 2014. The issuance of sukuk is intended to comply with regulatory requirements related to capital adequacy ratio of ABPL. The tenure of the sukuk is seven years maturing in 2021. The principal repayment, started after six months of the drawdown date and is being made semi-annually on a straight line basis.

12 EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH) (continued)

12.1 Profit equalisation reserve

The following shows the movement in profit equalisation reserve:

	2017 *US$ '000*	*2016* *US$ '000*
Balance at 1 January	**6,091**	10,037
Amount apportioned from income allocable to equity of investment accountholders	**910**	297
Amount used during the year	**(976)**	(3,580)
Foreign exchange translations	**(19)**	(663)
Balance at 31 December	**6,006**	6,091

12.2 Investment risk reserve

The following shows the movement in investment risk reserve:

	2017 *US$ '000*	*2016* *US$ '000*
Balance at 1 January	**176,583**	179,238
Amount appropriated to provision (note 22)	**(8,069)**	7,324
Amount apportioned from income allocable to equity of investment accountholders	**21,895**	1,057
Foreign exchange translations	**(3,260)**	(11,036)
Balance at 31 December	**187,149**	176,583

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

	2017 *US$ '000*	*2016* *US$ '000*
Balance at 1 January	**12,911**	12,240
Change in fair values during the year	**(3,480)**	3,840
Realised gain transferred to consolidated statement of income	**(48)**	(3,210)
Deferred taxation effect	**1,235**	(221)
Transfer to shareholders equity	**(1,684)**	262
	8,934	12,911
Attributable to investment in real estate	**8,695**	11,256
Attributable to equity-type instruments at fair value through equity	**239**	1,655
	8,934	12,911

13 OWNERS' EQUITY

	2017	*2016*
	US$ '000	*US$ '000*
Share capital		
Authorised: 1,500,000,000 (2016: 1,500,000,000) ordinary shares of US$ 1 each	**1,500,000**	1,500,000

	2017	*2016*
	US$ '000	*US$ '000*
Issued and fully paid up:		
At beginning of the year 1,149,218,451 (2016: 1,115,746,069) shares of US$1 each	**1,149,218**	1,115,746
Issued during the year 57,460,923 bonus shares (2016: 33,472,382) of US$1 each	**57,461**	33,472
At end of the year 1,206,679,374 (2016: 1,149,218,451) shares of US$1 each	**1,206,679**	1,149,218

Proposed appropriations
At the Annual General Meeting held on 20 March 2017 (2016: 20 March 2016), the shareholders of the Group resolved to distribute US$ 11,396 thousand (2016: US$ 22,315 thousand) as cash dividends and US$ 57,461 thousand (2016: US$ 33,472 thousand) as bonus shares.

Treasury shares

	Number of shares ('000)	*2017 US$ '000*	*2016 US$ '000*
At 1 January	**9,588**	**9,588**	8,464
Purchase of treasury shares	**1,346**	**1,346**	1,714
Sale of treasury shares	**(1,384)**	**(1,384)**	(590)
At 31 December	**9,550**	**9,550**	9,588

The market value of the treasury shares is US$ 3,581 thousand (2016: US$ 4,698 thousand) and it represents 0.8% (2016: 0.8%) of the outstanding shares.

Additional information on shareholding pattern

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

At 31 December 2017

Names	*Nationality/ Incorporation*	*Number of shares*	*% holding*
Saleh Abdullah Kamel	Saudi	**363,336,867**	**30.11%**
Dallah AlBaraka Holding Company E.C.	Bahrain	**297,276,402**	**24.64%**
Altawfeek Company For Investment Funds	Cayman Island	**233,177,723**	**19.32%**
Abdulla AbdulAziz AlRajihi	Saudi	**84,770,095**	**7.03%**

13 OWNERS' EQUITY (continued)

Additional information on shareholding pattern (continued)

At 31 December 2016

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

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

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

At 31 December 2017

Categories:	***Number of shares***	***Number of shareholders***	***% of total outstanding shares***
Less than 1%	**120,600,222**	**1,088**	**9.99%**
1% up to less than 5%	**107,518,065**	**4**	**8.91%**
5% up to less than 10%	**84,770,095**	**1**	**7.03%**
10% up to less than 20%	**233,177,723**	**1**	**19.32%**
20% up to less than 50%	**660,613,269**	**2**	**54.75%**
	1,206,679,374	**1,096**	**100.00%**

At 31 December 2016

Categories:	*Number of shares*	*Number of shareholders*	*% of total outstanding shares*
Less than 1%	86,408,191	1,092	7.52%
1% up to less than 5%	130,847,319	6	11.38%
5% up to less than 10%	80,733,424	1	7.03%
10% up to less than 20%	222,074,022	1	19.32%
20% up to less than 50%	629,155,495	2	54.75%
	1,149,218,451	1,102	100.00%

a. Share premium/Equity transaction cost

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

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

b. Statutory reserve

In accordance with the BCCL and the Bank's articles of association, 10% of the parent's share of the net income for the year is transferred to the statutory reserve until such time as the reserve reaches 50% of the Bank's paid-up share capital. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law. During the year US$ 12,903 thousand (2016: US$ 15,155 thousand) was transferred to statutory reserve.

13 OWNERS' EQUITY (continued)

c. Cumulative changes in fair values

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

d. Foreign currency translations

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

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

Subsidiary	***Currency***	***2017 US$ '000***	*2016 US$ '000*
Banque Al Baraka D'Algerie (BAA)	Algerian Dinar	**54,401**	50,617
Al Baraka Bank (Pakistan) Limited	Pakistani Rupees	**12,078**	7,890
Al Baraka Bank Egypt (ABE)	Egyptian Pound	**138,837**	144,651
Al Baraka Turk Participation Bank (ATPB)	Turkish Lira	**378,186**	350,455
Al Baraka Bank Limited (ABL)	South African Rand	**13,857**	17,279
Al Baraka Bank Sudan (ABS)	Sudanese Pound	**49,719**	36,901
Al Baraka Bank Tunis (ABT)	Tunisian Dinar	**25,859**	23,166
Al Baraka Bank Syria (ABBS)	Syrian Pound	**33,454**	35,760
BTI Bank	Moroccan Dirham	**(149)**	-
		706,242	666,719

e. Other reserves

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

f. Zakah paid on behalf of shareholders

The General Assembly in its annual meeting conducted on 20 March 2017 empowered the Executive Management of Al Baraka Banking Group to pay an amount of US$ 4,021 thousand as Zakah on behalf of the shareholders deducted from the Retained Earnings for the financial year of 2016. The Group has paid and distributed an amount of US$ 3,688 thousand to those who's entitled to receive Zakah as per Shari'a boundaries and as approved by the Unified Shari'a Board. The remaining amount of US$ 333 thousands has been allocated to be paid maximum by end of first quarter of 2018.

	2017 US$ '000	*2016 US$ '000*
Zakah to be paid on behalf of shareholders for the year	**4,021**	3,962
Uses of Zakah:		
Zakah for the poor and needy	**2,604**	1,650
Zakah for welfare	**-**	143
Zakah for new converts to islam	**80**	177
Scholarships	**1,004**	1,100
Others	**-**	8
Total uses	**3,688**	3,078
Remaining Zakah to be paid	**333**	884

13 OWNERS' EQUITY (continued)

g. Proposed Appropriations

	2017 ***US$ '000***	*2016* *US$ '000*
Cash dividend 2% (2016: 1%)	**24,134**	11,396
Bonus shares	**36,200**	57,461
	60,334	68,857

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

The Bank proposed issuance of bonus shares from the retained earnings at 30 bonus shares for each 100 shares held (2016: 1 bonus share for each 20 shares held). This will be submitted for formal approval at the Annual General Meeting subject to regulatory approval.

The proposed appropriations for the year 2016 was approved at the Annual General Meeting on 20 March 2017 and was effected in 2017 following the approval.

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

14 PERPETUAL TIER 1 CAPITAL

On 31 May 2017, the Bank completed an issuance of US$ 400 million Additional Tier 1 Mudaraba Sukuk in compliance with CBB regulations; listed on Irish Stock Exchange. Profit shall be payable subject to and in accordance with terms and conditions on the outstanding nominal amount of the Sukuk at an expected profit of 7.875% per annum, payable on semi-annual basis. These Sukuks are recognised under equity in the consolidated statement of financial position and the corresponding Profit payable on those Sukuk are accounted as appropriation of profits. Expenses relating to the issuance have been included in the retained earnings. As per the terms and conditions, the Sukuk holders will not have a right to claim the profit and such event of non-payment of profit will not be considered as event of default.

15 NET INCOME FROM JOINTLY AND SELF FINANCED CONTRACTS AND INVESTMENTS

	2017 ***US$ '000***	*2016* *US$ '000*
Receivables (note 15.1)	**1,035,429**	1,099,779
Mudaraba and Musharaka financing (note 15.2)	**210,776**	126,248
Investments (note 15.3)	**234,610**	293,096
Ijarah Muntahia Bittamleek (note 15.4)	**138,989**	135,999
Others	**652**	3,532
	1,620,456	1,658,654
Net income from jointly financed contracts and investments	**1,258,663**	1,336,569
Gross income from self financed contracts and investments	**361,793**	322,085
	1,620,456	1,658,654
Gross income from self financed contracts and investments	**361,793**	322,085
Profit paid on wakala financing	**(31,515)**	(36,586)
Net income from self financed contracts and investments	**330,278**	285,499

15 NET INCOME FROM JOINTLY AND SELF FINANCED CONTRACTS AND INVESTMENTS (continued)

15.1 Receivables

	2017 *US$ '000*	*2016* *US$ '000*
Sales (Murabaha) receivables	**1,025,789**	1,085,461
Salam receivables	**6,598**	9,980
Istisna'a receivables	**3,042**	4,338
	1,035,429	1,099,779

15.2 Mudaraba and Musharaka financing

	2017 *US$ '000*	*2016* *US$ '000*
Mudaraba financing	**87,773**	64,789
Musharaka financing	**123,003**	61,459
	210,776	126,248

15.3 Investments

	2017 *US$ '000*	*2016* *US$ '000*
Equity-type instruments at fair value through equity	**7,061**	4,357
Debt-type instruments at amortised cost	**224,776**	275,095
Unrealised (loss) gain on equity and debt-type instruments at fair value through statement of income	**(1,163)**	152
(Loss) gain on sale of equity-type instruments at fair value through equit	**(21)**	3,585
Gain on sale of equity and debt-type instruments at fair value through statement of income	**820**	667
Rental income	**1,496**	1,679
Income from associates	**1,537**	2,059
Gain on sale of investment in real estate	**104**	5,502
	234,610	293,096

15.4 Ijarah Muntahia Bittamleek

	2017 *US$ '000*	*2016* *US$ '000*
Income from Ijarah Muntahia Bittamleek	**405,097**	374,314
Depreciation on Ijarah Muntahia Bittamleek	**(266,108)**	(238,315)
	138,989	135,999

16 GROUP'S SHARE AS A MUDARIB

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

17 OTHER FEES AND COMMISSION INCOME

	2017 *US$ '000*	*2016* *US$ '000*
Banking fees and commissions	**90,459**	95,393
Letters of credit	**25,189**	30,623
Guarantees	**34,209**	41,597
Acceptances	**8,037**	9,224
	157,894	176,837

18 OTHER OPERATING INCOME

	2017 US$ '000	2016 US$ '000
Foreign exchange gain	**24,191**	64,055
Gain on sale of property and equipment	**11,192**	14,804
	35,383	78,859

19 PROFIT PAID ON LONG TERM FINANCING

	2017 US$ '000	2016 US$ '000
Murabaha financing	**15,637**	16,280
Subordinated financing obtained by a subsidiary	**47,888**	45,469
Wakala	**21,475**	29,621
	85,000	91,370

20 DEPRECIATION AND AMORTISATION

	2017 US$ '000	2016 US$ '000
Property and equipment depreciation (note 8)	**37,489**	39,228
Intangible assets amortisation (note 9 (a))	**9,909**	5,351
	47,398	44,579

21 OTHER OPERATING EXPENSES

	2017 US$ '000	2016 US$ '000
General and administration expenses	**103,251**	102,807
Professional and business expenses	**34,179**	29,777
Premises related expenses	**68,442**	64,552
	205,872	197,136

22 PROVISIONS AND IMPAIRMENT

2017	Sales (Murabaha) receivables US$ '000 (note 4.1)	Ijarah receivables US$ '000 (note 4.2)	Salam receivables US$ '000 (note 4.3)	Istisna'a receivables US$ '000 (note 4.4)	Mudaraba financing US$ '000 (note 5.1)	Musharaka financing US$ '000 (note 5.2)	Investments US$ '000 (note 6.2 & 6.3)	Other assets US$ '000 (note 9)	Other liabilities US$ '000 (note 11)	Total US$ '000
Provisions at 1 January	354,543	12,471	5,954	2,275	11,948	6,601	7,160	14,829	11,091	426,872
Charged during the year	150,521	3,798	1,355	200	103	3,460	2,317	1,677	1,666	165,097
Written back during the year	(24,391)	(3,442)	(1,048)	(929)	-	(694)	(305)	(666)	(1,974)	(33,449)
	126,130	356	307	(729)	103	2,766	2,012	1,011	(308)	131,648
	480,673	12,827	6,261	1,546	12,051	9,367	9,172	15,840	10,783	558,520
Written off during the year	(119,333)	-	-	-	-	-	-	-	(550)	(119,883)
Amount appropriated from investment risk reserve (note 12.2)	5,169	283	-	-	-	52	2,565	-	-	8,069
Foreign exchange translations/others - net	2,752	240	(386)	(156)	887	(290)	(41)	(645)	(1,502)	859
Provisions at 31 December	369,261	13,350	5,875	1,390	12,938	9,129	11,696	15,195	8,731	447,565

During the year, an impairment loss of US$ 159 thousand (2016: US$ 9,134 thousand) was charged against investments and goodwill.

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

22 PROVISIONS AND IMPAIRMENT (continued)

The provisions relate to the following geographical areas:

2017	***Sales (Murabaha) receivables US$ '000 (note 4.1)***	***Ijarah receivables US$ '000 (note 4.2)***	***Salam receivables US$ '000 (note 4.3)***	***Istisna'a receivables US$ '000 (note 4.4)***	***Mudaraba financing US$ '000 (note 5.1)***	***Musharaka financing US$ '000 (note 5.2)***	***Investments US$ '000 (note 6.2 & 6.3)***	***Other assets US$ '000 (note 9)***	***Other liabilities US$ '000 (note 11)***	***Total US$ '000***
Middle East	**157,954**	**2,996**	**-**	**-**	**12,938**	**535**	**8,940**	**6,362**	**7,520**	**197,245**
North Africa	**18,576**	**6,359**	**1,868**	**52**	**-**	**12**	**1,292**	**1,327**	**1,211**	**30,697**
Europe	**162,720**	**-**	**-**	**-**	**-**	**-**	**-**	**2,271**	**-**	**164,991**
Others	**30,011**	**3,995**	**4,007**	**1,338**	**-**	**8,582**	**1,464**	**5,235**	**-**	**54,632**
Total	**369,261**	**13,350**	**5,875**	**1,390**	**12,938**	**9,129**	**11,696**	**15,195**	**8,731**	**447,565**
2016										
Middle East	153,603	2,438	-	-	11,948	248	6,215	6,342	10,798	191,592
North Africa	17,434	6,265	1,493	79	-	6	490	972	293	27,032
Europe	148,934	-	-	-	-	-	-	2,104	-	151,038
Others	34,572	3,768	4,461	2,196	-	6,347	455	5,411	-	57,210
Total	354,543	12,471	5,954	2,275	11,948	6,601	7,160	14,829	11,091	426,872

The fair value of collateral the Group holds relating to non-performing facilities as at 31 December 2017 amounts to US$ 639.2 million (2016: US$ 554.1 million). The collateral consists of cash margin, securities and properties. The utilisation of the collaterals will be on customer by customer basis and will be limited to the customer's total exposure.

23 BASIC AND DILUTED EARNINGS PER SHARE

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

	2017	*2016*
Net income attributable to the equity shareholders of the parent for the year - *US$ '000*	**129,029**	151,545
Less: Profit distributed on perpetual tier 1 capital	**(15,750)**	-
Net income attributable to the shareholders equity	**113,279**	151,545
Number of shares outstanding at the beginning of the year (in thousands)	**1,206,679**	1,140,818
Treasury shares effect (in thousands)	**(10,194)**	(610)
Bonus shares effect during the year (in thousands)*	**-**	57,041
Weighted average number of shares outstanding at the end of the year (in thousands)	**1,196,485**	1,197,249
Earnings per share - US cents	**9.47**	12.66

*The weighted average number of shares of the previous year has been adjusted on account of the bonus shares issued in 2017 (note 13).

24 CASH AND CASH EQUIVALENTS

	2017 US$ '000	*2016 US$ '000*
Balances with central banks excluding mandatory reserve	**1,534,035**	1,662,465
Balances with other banks	**602,517**	585,491
Cash and cash in transit	**724,630**	604,002
	2,861,182	2,851,958

25 RELATED PARTY TRANSACTIONS

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

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

	Associated companies US$ '000	*Major shareholders US$ '000*	*Directors and key management personnel US$ '000*	*Other related parties US$ '000*	*2017 US$ '000*	*2016 US$ '000*
Net income from jointly financed contracts and investments	**1,940**	-	**61**	-	**2,001**	2,091
Net income from self financed contracts and investments	-	**2**	-	-	**2**	764
Return on equity of investment accountholders	**176**	**50**	**11**	**2**	**239**	268
Other fees and commission income	**487**	-	-	-	**487**	418

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

	2017 US$ '000	*2016 US$ '000*
Short term benefits	**8,814**	8,164
Long term benefits	**1,473**	1,398

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

Director's remuneration accrued for the year ended 31 December 2017 amounted to US$ 1.5 million (2016: US$ 1.5 million).

25 RELATED PARTY TRANSACTIONS (continued)

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

	Associated companies US$ '000	*Major shareholders US$ '000*	*Directors and key management personnel US$ '000*	*Other related parties US$ '000*	***2017 US$ '000***	*2016 US$ '000*
Assets:						
Receivables	**2,006**	-	**609**	-	**2,615**	2,768
Investments	**37,848**	-	-	-	**37,848**	63,555
Ijarah Muntahia Bittamleek	-	-	**382**	-	**382**	559
Other assets	-	**1**	**586**	-	**587**	1,881
Liabilities:						
Customer current and other accounts	**4,260**	**4,833**	**1,186**	**73**	**10,352**	9,076
Other liabilities	-	-	-	-	-	2
Equity of investment accountholders	**17,677**	**2,058**	**734**	**68**	**20,537**	25,071
Off-balance sheet equity of investment accountholders	**17,267**	**9,100**	**7,059**	-	**33,426**	29,114

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

25 RELATED PARTY TRANSACTIONS (continued)

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

Name of directors	*Position*	*Nationality*	*2016* *Number of shares*	*Transaction* *Number of shares*	***2017**** ***Number of shares***
Saleh Abdulla Kamel	Chairman	Saudi	629,155,495	-	**660,613,269**
Abdulla Ammar Saudi	Vice Chairman	Bahraini	616,136	-	**646,942**
Abdulla Saleh Kamel	Vice Chairman	Saudi	313,082	-	**328,736**
Mohydin Saleh Kamel	Board Member	Saudi	654,625	-	**687,356**
AbdulElah Sabbahi	Board Member	Saudi	208,877	-	**219,320**
Adnan Ahmed Yousif	Board Member (President & Chief Executive)	Bahraini	336	-	**352**
Abdulrahman Shehab	Executive Vice President, Head of Operations and Administration	Bahraini	125,976	100,000	**232,274**

* Includes the effect of the Bank's issuance of bonus shares at one bonus share for each 20 shares held as per the approval of the shareholders at the Annual General Meeting on 20 March 2017.

26 COMMITMENTS AND CONTINGENCIES

	2017 *US$ '000*	*2016* *US$ '000*
Letters of credit	**853,547**	704,307
Guarantees	**2,343,883**	2,680,992
Acceptances	**76,755**	53,791
Undrawn commitments	**1,150,183**	834,915
Sharia'a compliant promise contracts	**300,365**	323,915
Others	**277**	321
	4,725,010	4,598,241

27 SEGMENTAL ANALYSIS

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

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

Middle East
North Africa
Europe
Others

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

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

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

	2017			*2016*		
	Assets *US$ '000*	**Liabilities** *US$ '000*	**IAH** *US$ '000*	*Assets* *US$ '000*	*Liabilities* *US$ '000*	*IAH* *US$ '000*
Segment						
Middle East	**11,154,872**	**2,976,028**	**6,827,712**	9,710,447	2,782,561	6,057,888
North Africa	**2,691,890**	**1,355,042**	**1,042,965**	2,419,901	1,171,716	974,704
Europe	**9,538,495**	**4,034,513**	**4,847,691**	9,304,781	3,546,164	5,103,850
Others	**2,067,954**	**694,858**	**1,163,741**	1,990,136	639,449	1,140,352
	25,453,211	**9,060,441**	**13,882,109**	23,425,265	8,139,890	13,276,794

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

	2017			*2016*		
	Total operating income *US$ '000*	**Net operating income** *US$ '000*	**Net income** *US$ '000*	*Total operating income* *US$ '000*	*Net operating income* *US$ '000*	*Net income* *US$ '000*
Segment						
Middle East	**370,546**	**175,270**	**101,964**	446,026	223,014	119,332
North Africa	**103,291**	**41,437**	**22,265**	103,411	48,527	34,413
Europe	**407,474**	**185,536**	**60,534**	425,986	203,709	90,022
Others	**117,379**	**28,130**	**22,156**	98,736	31,693	23,869
	998,690	**430,373**	**206,919**	1,074,159	506,943	267,636

28 RISK MANAGEMENT

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

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

a) Liquidity risk

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

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

28 RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

The maturity profile at 31 December 2017 was as follows:

	Up to 1 month US$ '000	*1 to 3 months US$ '000*	*3 to 6 months US$ '000*	*6 months to 1 year US$ '000*	*1 to 3 years US$ '000*	*3 to 5 years US$ '000*	*5 to 10 years US$ '000*	*10 to 20 years US$ '000*	*20 years and above US$ '000*	*Undated US$ '000*	*Total US$ '000*
Assets											
Cash and balances with banks	4,526,154	11,283	26,786	1,500	260,469	9,199	-	-	-	594,694	5,430,085
Receivables	1,760,393	1,028,586	1,094,874	1,832,313	3,408,176	1,959,133	644,964	271,318	1,293	-	12,001,050
Mudaraba and Musharaka financing	1,293,318	17,945	9,318	44,780	369,236	399,121	211,589	32,347	-	-	2,377,654
Investments	780,464	258,370	84,935	301,480	337,693	363,669	304,625	143,385	-	313,713	2,888,334
Ijarah Muntahia Bittamleek	24,629	30,722	63,549	113,525	471,467	359,037	399,815	307,508	85,766	-	1,856,018
Property and equipment	-	-	-	-	-	-	-	-	-	430,192	430,192
Other assets	220,021	43,457	28,289	37,710	23,965	61,127	4,339	1,877	-	49,093	469,878
Total assets	8,604,979	1,390,363	1,307,751	2,331,308	4,871,006	3,151,286	1,565,332	756,435	87,059	1,387,692	25,453,211
Liabilities											
Customer current and other accounts	5,465,433	-	-	-	-	-	-	-	-	-	5,465,433
Due to banks	544,658	422,803	183,128	127,097	22,000	-	-	22,784	-	-	1,322,470
Long term financing	-	4,564	98	390,926	46,956	381,200	412,811	-	-	-	1,236,555
Other liabilities	771,932	106,551	82,139	36,533	15,321	11,941	206	11,360	-	-	1,035,983
Total liabilities	6,782,023	533,918	265,365	554,556	84,277	393,141	413,017	34,144	-	-	9,060,441
Equity of investment accountholders	6,071,194	1,342,695	1,019,310	1,475,506	1,351,345	2,383,841	95,329	142,889	-	-	13,882,109
Total liabilities and equity of investment accountholders	12,853,217	1,876,613	1,284,675	2,030,062	1,435,622	2,776,982	508,346	177,033	-	-	22,942,550
Net liquidity gap	(4,248,238)	(486,250)	23,076	301,246	3,435,384	374,304	1,056,986	579,402	87,059	1,387,692	2,510,661
Cumulative net liquidity gap	(4,248,238)	(4,734,488)	(4,711,412)	(4,410,166)	(974,782)	(600,478)	456,508	1,035,910	1,122,969	2,510,661	
Off-balance sheet equity of investment accountholders	172,138	113,533	85,724	372,931	74,077	58,345	26,154	478	-	-	903,380

28 RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

The maturity profile at 31 December 2016 was as follows:

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

28 RISK MANAGEMENT (continued)

b) Credit risk

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

Type of credit risk

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

Sales (Murabaha) receivables

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

Salam receivables

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

Istisna'a receivables

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

Mudaraba financing

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

Musharaka financing

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

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

	Maximum exposure	
	2017	*2016*
	US$ '000	*US$ '000*
Balances with central banks	**4,102,938**	3,883,925
Balances with other banks	**602,517**	585,491
Receivables	**12,001,050**	11,423,448
Mudaraba and Musharaka financing	**2,377,654**	1,582,396
Investments	**2,888,334**	2,629,131
Other assets	**232,972**	240,119
Total	**22,205,465**	20,344,510
Commitments and contingencies	**4,725,010**	4,598,241
	26,930,475	24,942,751

28 RISK MANAGEMENT (continued)

b) Credit Risk (continued)

Credit quality by type of islamic financing contracts

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

Type of Islamic Financing Contracts	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
Receivables	11,100,608	622,324	667,994	12,390,926
Mudaraba and Musharaka financing	2,324,682	42,602	32,437	2,399,721
Other assets	235,009	3,070	10,088	248,167
	13,660,299	667,996	710,519	15,038,814

Type of Islamic Financing Contracts	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
Receivables	10,563,395	590,576	644,720	11,798,691
Mudaraba and Musharaka financing	1,542,585	25,855	32,505	1,600,945
Other assets	244,934	311	9,703	254,948
	12,350,914	616,742	686,928	13,654,584

Aging analysis of past due but performing Islamic financing contracts

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

Type of 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
Receivables	327,326	172,809	122,189	622,324
Mudaraba and Musharaka financing	33,334	6,886	2,382	42,602
Other assets	3,029	5	36	3,070
	363,689	179,700	124,607	667,996

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

28 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Credit Risk Mitigation

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

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

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

1) Hamish Jiddiyyah (Good faith deposit): Subsidiaries take this type of collateral in the transactions for which non-binding promises to perform is given by the customer. If a customer does not honor his promise to perform, the subsidiary has recourse to the deposit.

2) Third party guarantee: The subsidiary should have recourse to the guarantor in case of customer's default. In order to qualify as eligible collateral, the guarantee should be unconditional and irrevocable. The guarantor must be solvent and, if applicable of investment grade rating.

3) Urbon: This is the amount that should be taken from a purchaser or lessee when a contract is established and it is the first line of defense for the subsidiary if the purchaser or lessee breaches the contract.

4) Underlying assets of the lease contract: The underlying asset must be of monetary value and the subsidiary must have legal access to it, own it and sell it to cover the open exposure with the customers in question. The assets have also to be free of any of any kind of encumbrance.

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

5) Cash deposit free from any legal encumbrance with the subsidiary either in the form of equity of investment accountholders or off-balance sheet equity of investment accountholders.

6) Rated and unrated senior sukuk issued by first class financial institutions or by GCC sovereigns.

28 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Credit Quality

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

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

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

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

28 RISK MANAGEMENT (continued)

c) Concentration risk

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

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

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

	2017			2016		
	Assets US$ '000	***Liabilities US$ '000***	***IAH US$ '000***	*Assets US$ '000*	*Liabilities US$ '000*	*IAH US$ '000*
Manufacturing	**4,272,944**	**219,771**	**202,767**	3,922,073	240,393	173,444
Mining and quarrying	**182,855**	**6,902**	**27,252**	169,465	1,498	27,218
Agriculture	**127,190**	**7,246**	**7,294**	149,542	11,922	9,644
Construction and real estate	**3,259,085**	**21,663**	**36,223**	3,211,074	22,924	39,222
Financial	**3,646,634**	**2,703,293**	**1,759,254**	2,377,485	2,388,226	1,672,165
Trade	**1,622,738**	**222,384**	**161,548**	1,451,128	193,639	153,379
Personal and consumer finance	**2,926,192**	**4,025,988**	**9,716,539**	2,620,213	3,705,500	9,486,208
Government	**6,177,308**	**78,584**	**164,559**	6,592,359	84,263	149,594
Other Services	**3,238,265**	**1,774,610**	**1,806,673**	2,931,926	1,491,525	1,565,920
	25,453,211	**9,060,441**	**13,882,109**	23,425,265	8,139,890	13,276,794

d) Market risk

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

Profit rate risk

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

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

Equity price risk

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

The Group has total equity portfolio of US$ 367,595 thousand (2016: US$ 126,698 thousand) comprising of equity-type instruments at fair value through equity amounting to US$ 103,818 thousand (2016: US$ 107,225 thousand) and equity-type instruments at fair value through statement of income amounting to US$ 263,777 thousand (2016: US$ 19,473 thousand). Variation of 10% increase or decrease in the portfolio value will not have a significant impact on the Group's consolidated net income or owners' equity.

28 RISK MANAGEMENT (continued)

d) Market risk (continued)

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

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

	2017		
	Operational equivalent Long (Short) US$ '000	*Strategic equivalent Long (Short) US$ '000*	*Total equivalent Long (Short) US$ '000*
Currency			
Turkish Lira	**86,609**	**371,753**	**458,362**
Jordanian Dinar	**28,456**	**376,638**	**405,094**
Egyptian Pound	**1,211**	**108,894**	**110,105**
Sudanese Pound	**1,193**	**48,083**	**49,276**
Algerian Dinar	**(186)**	**112,093**	**111,907**
Lebanese Pound	**5,890**	**16,953**	**22,843**
Pound Sterling	**(4,110)**	**-**	**(4,110)**
Tunisian Dinar	**(855)**	**50,945**	**50,090**
Euro	**71,279**	**-**	**71,279**
South African Rand	**-**	**34,466**	**34,466**
Pakistani Rupees	**4,919**	**84,475**	**89,394**
Syrian Pound	**3,146**	**14,720**	**17,866**
Moroccan Dirham	**-**	**13,904**	**13,904**
Others	**78,435**	**-**	**78,435**

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

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

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

28 RISK MANAGEMENT (continued)

d) Market risk (continued)

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

At 31 December 2017

Currency	*Particular*	*Exposures in US$ '000*	*Maximum expected decrease %*	*Change in net income and owners' equity US$ '000*	*Maximum expected increase %*	*Change in net income and owners' equity US$ '000*
Algerian Dinar	Net Income	**27,450**	**-15%**	**(3,580)**	**5%**	**1,445**
	Total owners' equity	**200,526**	**-15%**	**(26,156)**	**5%**	**10,554**
Egyptian Pound	Net Income	**36,068**	**-20%**	**(6,011)**	**5%**	**1,898**
	Total owners' equity	**147,789**	**-20%**	**(24,632)**	**5%**	**7,778**
Turkish Lira	Net Income	**60,534**	**-20%**	**(10,089)**	**5%**	**3,186**
	Total owners' equity	**656,290**	**-20%**	**(109,382)**	**5%**	**34,542**
Sudanese Pound	Net Income	**20,965**	**-130%**	**(11,850)**	**5%**	**1,103**
	Total owners' equity	**63,490**	**-130%**	**(35,886)**	**5%**	**3,342**
S.African Rand	Net Income	**3,948**	**-15%**	**(515)**	**5%**	**208**
	Total owners' equity	**53,427**	**-15%**	**(6,969)**	**5%**	**2,812**
Syrian Pound	Net Income	**3,889**	**-20%**	**(648)**	**5%**	**205**
	Total owners' equity	**64,001**	**-20%**	**(10,667)**	**5%**	**3,368**
Pakistani Rupees	Net (Loss)	**(2,757)**	**-10%**	**251**	**5%**	**(145)**
	Total owners' equity	**92,439**	**-10%**	**(8,404)**	**5%**	**4,865**
Tunisian Dinar	Net (Loss)	**(1,441)**	**-10%**	**131**	**5%**	**(76)**
	Total owners' equity	**64,981**	**-10%**	**(5,907)**	**5%**	**3,420**
Moroccan Dirham	Net (Loss)	**(3,744)**	**-20%**	**624**	**5%**	**(197)**
	Total owners' equity	**28,375**	**-10%**	**(4,729)**	**5%**	**1,493**

At 31 December 2016

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

28 RISK MANAGEMENT (continued)

e) Operational Risk

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

Operational Risk Management Framework

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

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

The Operational Risk framework is subject to periodic Internal Audit.

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

Infrastructure Risks

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

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

Information Technology Risks

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

Staff risk

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

Business risk

This risk may take on the following forms:

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

28 RISK MANAGEMENT (continued)

f) Corporate governance

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

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

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

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

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

29 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The Group's investments in sukuk held at amortised cost have fair values amounting to US$ 2,289 million (2016: US$ 2,275 million).

Also included under investments are unquoted equity-type instruments at fair value through equity amounting to US$ 50,556 thousand (2016: US$ 45,169 thousand) which are carried at cost due to lack of other reliable methods for arriving at a reliable fair value for these investments.

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

30 EARNINGS PROHIITED BY SHARI'A

Earnings realised during the year from transactions that were not permitted by Shari'a amounted to US$ 12 million (2016: US$ 8 million). This amount has been taken to charity.