

Annual Report / 2016

# Trust Icon

YOUR PARTNER BANK

alBaraka 

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## INTRODUCTION

"Al Baraka Banking Group's philosophy, in essence, is that Allah, The Almighty, grants mankind the power to inherit the land on this earth. As such Man is not the owner of wealth but he is responsible for it.

The purpose of Man, by the commandment of Allah, The Almighty, is to construct, embellish, create and build on this earth. Man is therefore also ordained to create jobs for others. Thus, the wealth bestowed upon us belongs to Allah, The Almighty.

Therefore, we must apply Shari'a rules related to the ownership of wealth in creating the wealth and in investing, exchanging, growing and spending the wealth."

### Shaikh Saleh Abdullah Kamel

Chairman of Board of Directors  
Al Baraka Banking Group

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## HEAD OFFICE

Mr. Mohammed Isa Al Mutaweh  
CEO & Board Member  
Al Baraka Tower, Bahrain Bay  
P.O. Box 1882, Manama, Kingdom of Bahrain

Main Branch (Bahrain Bay)	Tel: +973 17 535 300 - Fax: +97317 533 993
Diplomatic Area Branch	Tel: +973 17 542 255 - Fax: +973 17 533 996
Isa Town Branch	Tel: +973 17 788 388 - Fax: +973 17 687 838
Muharraq Branch	Tel: +973 17 461 999 - Fax: +973 17 324 888
Riffa Branch	Tel: +973 17 768 600 - Fax: +973 17 490 003
Seef Muharraq Branch	Tel: +973 17 358 885 - Fax: +973 17 676 361
Ramil Mall Branch, A'ali	Tel: +973 17 646 677 - Fax: +973 17 646 676
Galleria Mall Branch	Tel: +973 17 166 600 - Fax: +973 17 911 844
Web: www.albaraka.bh	

## SUBSIDIARIES AND ASSOCIATES/ JOINT VENTURES

### 1. Al Baraka Bank Pakistan Limited

Mr. Shafqaat Ahmed  
Chief Executive Officer  
Plot No. 162, Bangalore Town  
Block 7 & 8, Shahrah-e-Faisal  
Karachi, Pakistan  
Tel: +9221 34 315 851, +9221 34 307 000  
Fax: +9221 34 323 761, +9221 34 546 465  
Email: albaraka@albaraka.com.pk  
Web: www.albaraka.com.pk

### 2. Itqan Capital Company

Mr. Adel Saud Dahlawi  
CEO & Board Member  
Jeddah, Prince Sultan Road  
Hay Al Nahda  
P.O. Box 8031  
Postal Code 21482  
Tel: +966 26 996 888, Fax: +966 26 338 852

### 3. Danat Al Baraka

The board members of the company:

1. Mr. Mohammed Isa Al Mutaweh: Chairman
2. Mr. Rashid Hassan Al Alaiwi: Board Member
3. Mr. Ali Yusuf Ali Al Ubaidli: Board Member
4. Mr. Ubaidli Yusuf Ali Al Ubaidli: Board Member
5. Dr. Khaled Abdulla Ateeq: Board Member

### The company address:

Flat 10, Building 2504, Road 2832, Block 428, Kingdom of Bahrain.  
Tel: +973 17 535300, Fax: +973 17 533993



His Royal Highness  
Prince Khalifa bin Salman  
Al Khalifa

The Prime Minister of  
the Kingdom of Bahrain



His Majesty King  
Hamad bin Isa  
Al Khalifa

The King of the Kingdom of  
Bahrain



His Royal Highness  
Prince Salman bin Hamad  
Al Khalifa

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

## CORPORATE PROFILE

### YOUR PARTNER BANK

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

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

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

During the year 2010, AIB completed the merger of its branches in Pakistan, which their operations dates back to 1991, with the branches of Emirates Global Islamic Bank Limited, to establish Al Baraka Bank Pakistan Limited. There after in financial year 2016, the bank acquired and merged Burj Bank Limited in ABPL leading to addition of 74 new branches. ABPL have assets in excess of Rs. 126 billion a workforce of more than 2700 professionals and a network of 224 branches in more than 100 cities and towns across the country. The Head office is located in Karachi.

In July 2012, the Bank acquired 60% of the issued shares of Itqan Capital (previously Al Tawfeek Financial Group). This share increased to 83.07% in October 2015. Itqan Capital is a closed joint stock company registered in the Kingdom of Saudi Arabia and licensed by the Capital Market Authority. The company engages in asset and portfolio management, and custody, research and advisory services. All products and services offered by the company are in strict compliance with the provisions of Islamic Sharia. The company's paid-up capital is SAR 173 million. This step represent the Bank and the parent company Al Baraka banking Group's strategy to enter key regional markets, for Saudi Arabia is the largest Arab economy with strong fundamentals and a stable financial and investment environment, which presents us with significant business and investment opportunities.

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

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

The authorized capital of Al Baraka Banking Group is US\$1.5 billion, while total equity amounts to around US\$2.0 billion. The Group has a wide geographical presence in the form of subsidiary banking units and representative offices in 15 countries, which in turn provide their Shari'a-compliant banking products and services through more than 600 branches. These banking Units are Jordan Islamic Bank, Jordan; Al Baraka Islamic Bank, Bahrain; Al Baraka Bank Pakistan Limited, Pakistan; Al Baraka Bank Algeria; Al Baraka Bank Sudan; Al Baraka Bank Ltd, South Africa; Al Baraka Bank Lebanon; Al Baraka Bank Tunis; Al Baraka Bank Egypt; Al Baraka Turk Participation Bank, Turkey and its branches in Iraq; Al Baraka Bank Syria and a representative office in Indonesia and a representative office in Libya.



## VISION

WE BELIEVE SOCIETY NEEDS A FAIR AND EQUITABLE FINANCIAL SYSTEM: ONE WHICH REWARDS EFFORT AND CONTRIBUTES TO THE DEVELOPMENT OF THE COMMUNITY.

## MISSION

TO MEET THE FINANCIAL NEEDS OF COMMUNITIES ACROSS THE WORLD BY CONDUCTING BUSINESS ETHICALLY IN ACCORDANCE WITH OUR BELIEFS, PRACTICING THE HIGHEST PROFESSIONAL STANDARDS AND SHARING THE NATURAL BENEFITS WITH THE CUSTOMERS, STAFF AND SHAREHOLDERS WHO PARTICIPATE IN OUR BUSINESS SUCCESS.

## VALUES

**Partnership:** Our shared beliefs create strong bonds that form the basis of long-term relationships with customers and staff.

**Driven:** We have the energy and perseverance it will take to make an impact in our customer's lives and for the greater good of society.

**Neighbourly:** We value and respect the communities we serve. Our doors are always open; our customers always experience a warm-hearted, hospitable welcome and accommodating service.

**Peace of Mind:** Our customers can rest assured that their financial interests are being managed by us to the highest ethical standards.

**Social Contribution:** By banking with us our customers make a positive contribution to a better society; their growth and our growth will benefit the world around us.



## FINANCIAL HIGHLIGHTS

### TOTAL ASSETS (USD Million)

<b>2016</b>	<b>2,385</b>
2015	1,855
2014	1,835
2013	1,631
2012	1,418

### FINANCING & INVESTMENTS (USD Million)

<b>2016</b>	<b>1,726</b>
2015	1,367
2014	1,339
2013	1,008
2012	1,112

### TOTAL DEPOSITS (USD Million)

<b>2016</b>	<b>2,041</b>
2015	1,589
2014	1,592
2013	1,416
2012	1,216

### TOTAL EQUITY (USD Million)

<b>2016</b>	<b>206.68</b>
2015	173.99
2014	169.88
2013	164.80
2012	169

## OPERATIONAL HIGHLIGHTS

- Al Baraka Islamic Bank has moved to its new headquarters in Al Baraka Towers.
- The Bank was awarded the Global Islamic Finance Award as the best Islamic bank in Treasury management in 2016.
- The Bank was awarded (along with six other ABG units) the best bank in Bahrain in 2016 within the annual awards by Global Finance.
- The Bank have launched an electronic banking services through the internet to provide our customers with banking services that satisfies their needs through saving time and effort and ease of access to services and usage of latest technology.
- Al Baraka Bank Pakistan Limited has successfully acquired Burj Bank Limited late in 2016. The result was a strong entity that owns 224 branches scattered in more than 100 Pakistani cities.
- As for the ATM network, The Bank installed five ATM machines during the year 2016 in Bahrain, to bring the total number of ATMs to 30. The focus was on installing stand- alone ATMs that are not part of branches of the Bank, with particular emphasis on drive through ATMs.
- International Islamic Rating Agency (IIRA) has assigned the Bank an international scale rating of (BBB-/A-3) and (BBB+/A-3(BH)) on the national scale with a stable outlook.
- Al Baraka Islamic Bank launched AIB Portal using BENEFIT Payment Gateway for Taqseet card repayment recovery, Al Barakat account top-up, and Al Barakat e-Statement, and the remittance system for Pakistan Rupee remittances.
- As part of its social responsibility, the bank have introduced "Al-Ruwad Program" which designed to train university graduates. With the purpose of preparing them for fill the leading and senior positions in the future.
- The Bank's focused on providing in-house training courses, sending staff members to attend short training courses and professional qualifications in the areas of anti-money laundering and terrorism financing to improve their performance and increase awareness and to fulfill mandatory CBB requirements. The training participation reached 224 participations.

## BOARD OF DIRECTORS



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1 Mr. Khalid Rashid Al Zayani  
Chairman

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2 Mr. Adnan Ahmed Yousif  
Deputy Chairman

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3 Mr. Abdul Latif Abdul Rahim Janahi  
Board Member

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4 Mr. Moosa Abdul Aziz Shehadah  
Board Member

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5 Mr. Ashraf Ahmed El-Ghamrawy  
Board Member

Please refer to page 44 for Board of Directors profiles.

## BOARD OF DIRECTORS (CONTINUED)



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6 Mr. Yousef Ali Fadil bin Fadil  
Board Member

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7 Mr. Maqbool Habib Khalfan  
Board Member

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8 Mr. Abdulrahman Abdulla Mohammed  
Board Member

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9 Dr. Khalid Abdulla Ateeq  
Board Member

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

## SHARI'A SUPERVISORY BOARD



Shaikh Dr. Abdul Sttar Abdul Karim Abu-Ghoudha  
Chairman



Shaikh Essam Mohammed Ishaq  
Member



Shaikh Nizam Mohammed Yaqoobi  
Member

## LIST OF COMMITTEES & SHARI'A SUPERVISORY BOARD FOR THE YEAR 2016

### Executive committee

**Mr. Adnan Ahmed Yousif**  
Chairman

**Mr. Abdulatif Abdulrahim Janahi**  
Member

**Mr. Abdul Rahman Abdulla Mohammed**  
Member

**Mr. Mohammed Isa Al Mutaweh**  
Member

### Audit & Corporate Governance Committee

**Mr. Maqbool Habib Khalfan**  
Chairman

**Mr. Mousa Abdulaziz Shehadeh**  
Member

**Mr. Yousif Ali Fadil bin Fadil**  
Member

**Sheikh Essam Mohammed Ishaq**  
Shari'a Member

### Remuneration & Board Affairs Committee

**Mr. Yousif Ali Fadil bin Fadil**  
Chairman

**Dr. Khalid Abdulla Ateeq**  
Member

**Mr. Maqbool Habib Khalfan**  
Member

### Risk Management Committee

**Dr. Khalid Abdulla Ateeq**  
Chairman

**Mr. Maqbool Habib Khalfan**  
Member

**Mr. Ashraf Ahmed Al Ghamrawi**  
Member

### Shari'a Supervisory Board

**Shaikh Dr. Abdul Sttar Abdul Karim Abu-Ghoudha**  
Chairman

**Shaikh Essam Mohammed Ishaq**  
Member

**Shaikh Nizam Mohammed Yaqoobi**  
Member

### External Auditors

Ernest & Young

## BOARD OF DIRECTORS REPORT

THE BANK SUSTAINED THE GROWTH IN INCOME ON A POSITIVE TRAJECTORY, DESPITE OF CHALLENGES POSED BY PREVAILING MARKET CONDITIONS.



Mr. Khalid Rashid Al Zayani  
Chairman

### TOTAL ASSETS (USD Million)

<b>2016</b>	<b>2,385</b>
2015	1,855
2014	1,835
2013	1,631
2012	1,418

The Bank will make efforts to achieve synergies and capitalize such a massive expansion in business network observed in financial year 2016 into exponential growth alongwith substantial improvements in operating efficiencies.

## BOARD OF DIRECTORS REPORT (CONTINUED)

### Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present our annual report for the year ended 31 December 2016.

### ECONOMIC REVIEW

Stagnant global trade, subdued investment, and heightened policy uncertainty marked another difficult year of the world economy. In this respect, the divergence amongst global inflationary pressures prompted pro-cyclical monetary tightening in several developing economies, in contrast to additional monetary easing in the euro area and Japan, and delayed interest-rate rise by the United States Federal Reserve. Further, the such increased deviation in global interest rates intensified capital flow volatility and exchange-rate pressures. Furthermore, the persistent weakness in aggregate demand in developed economies remains a drag on global growth, while low commodity prices, mounting fiscal and current-account imbalances and policy tightening have further dampened the growth prospects of many commodity-exporting economies. The already bleak growth was compounded by severe weather-related shocks, political challenges and large capital outflows in many developing regions.

Middle East Region is passing through very difficult phase in lieu of challenges posed on social, political and economic fronts. In this respect, the prevailing geopolitical situations badly impacted regional trade, tourism and resulted in outflows of capital from the region. At the same time, the retention of oil prices at historically lowest levels, key source of revenue in most of the regional countries, further aggravated the situation. Therefore, the leading international agencies have downgraded the economic outlook of the middle east region.

In such a challenging environment, effort to diversify or reduce reliance on hydrocarbon sector assisted to sustain Bahrain's economic growth on a positive trajectory in financial year 2016. In this respect, the government's spending on infrastructure projects, increase in tourism, rebound of construction sector and revitalization financial services sector lead the country's economy in current financial year. As per latest forecast issued by Bahrain Economic Development Board, the Bahrain economy/ GDP flourish at 2.8% in year 2016.

In a tangible improvement is noticed in economic fundamental owing to effective implementation of fiscal reforms, lower oil prices, improvements in security situation and reduction in power shortages. Inflation and the current account deficit were lower than expected, while foreign exchange reserves strengthened and the budget deficit shrank. As per latest survey published by Asian Development Bank, the Pakistan's economy grown at an accelerated rate of 4.7% against expectation drawn of 4.5%, despite of damage to cotton crop from flood, in financial year 2016. Strong performances in services and industry lifted growth overall in financial year 2016 and expected to further accelerate.

### PERFORMANCE REVIEW

With immense gratitude to Almighty Allah, the Bank sustained a steady journey, aligned with strategic roadmap, to accomplish ultimate outcomes of excellence by effectively coping with hardships of business environment. The robust business plans, professionalism, team work and urge to meet the ever evolving banking needs through provision of Shria' compliant solutions, were the keys to demonstrate such a strong resilience in these testing times. At the same time, the contribution of our investment in technologies, vigorous risk management framework and best business practices, cannot be undermined.

In this respect, the majority of key financial/ operational/ risk measures shown a landmark improvement evidencing the successful completion of another financial year. Alhamdulillah, the financial year ending 31 December 2016, with some odds, full of achievements.

It's a matter of great applause that the Bank has successfully completed acquisition and merger of a local Islamic retail bank "Burj Bank Limited" with subsidiary "Al Baraka Bank Pakistan Limited" effectively from 01 November 2016. Said merger increased the presence of the Bank to 100 cities in Pakistan, by addition of 74 new branches, supporting the achievability of a key strategic outcome of increasing geographical outreach to strengthen its competitive position in the local market along-with securing compliance with very stringent capital adequacy requirements prescribed by domestic regulatory authorities. Further, the synergic impacts of merged organization will lead to significant improvements in operating efficiencies and provides a strong platform to grow exponentially. Its herby emphasized that the merged entity is continued to remain our subsidiary, with effective shareholding of 57.40%, and will carry the Al Baraka logo/ brand in Islamic Republic of Pakistan.

At the same time, the Bank opened a couple of new branches in Kingdom of Bahrain and added 15 new branches in Pakistan in financial year 2016 further strengthening our geographical presence in regions we operate. Further, the ATM network was duly expanded and significant investment is made on e-banking solution to revalidate our virtual presence in market.

Moving forwards, the statement of financial position was flourished at a sharp pace to reach landmark size of USD 2,385 million as at 31 December 2016 from such balance amounted to USD 1,855 million maintained as at 31 December 2015, written a new history of accomplishment. In this respect, the Bank achieved organic growth by targeting low risk business/ customer segments, duly aligned with approved business plans, along-with acquisition of assets in lieu of aforementioned merger transaction. Said growth was primarily sourced through increasing penetration in domestic markets and exploited our strong business relationships in regional markets. It's a matter of great satisfaction that such a remarkable increase was observed in all business/ geographical segments or components of financial position.

## BOARD OF DIRECTORS REPORT (CONTINUED)



In this regards, the core banking assets (financing & investments) were grown at an accelerated rate of 26% to acclaim size of USD 1,727 million as at the end of year 2016 from level of these assets amounted to USD 1,367 million maintained as at 31 December 2015. More specifically, the "Financing" surpassed the milestone of USD 1 billion to exceed the level of USD 1,158 million in current financial year against balances of USD 910 million acceded in corresponding year and the "Investments" were grown to USD 569 million from last year levels of USD 457 million carried as at 31 December 2015. In lieu of prevailing operating environment, such a substantial increase in these assets was associated with new exposures predominantly entered with sovereigns or public sector entities along-with addition of a significant portion from aforesaid merger transaction.

Concurrently, the Bank achieved another milestone by increasing total deposits to level of USD 2,041 million in current financial year ending 31 December 2016 from such balances of USD 1,589 million maintained as at prior year end. Said growth was primarily fetched by such a massive expansion in branch network, provision of personalized customer services, offering competitive profit rates and utilizing the exploiting alternative sources of liquidity like borrowing from domestic or regional interbank markets. Further, the contribution of launch of new products/ reinforcement of existing successful products cannot be overlooked.

Furthermore, the acquisition and merger of a local Islamic retail bank in Pakistan, as already discussed above, brought a significant amount of customer accounts in the Bank. In achievability of such landmark growth, the overall objective to improve the quality and efficiency of liability base was not undermined. Such phenomenon is clearly evident from considerable reduction in concentration of deposit, increase in constitution of current & saving account and moderation of cost of funds.

Alhamdulillah, the Bank sustained the growth in income on a positive trajectory, despite of challenges posed by prevailing market conditions, in current financial year ending 31 December 2016. In this respect, the total operating income was significantly increased by 22% to reach USD 70 million in current financial year as compared to such income amounted to USD 57 million earned in year 2015. Such a commendable increase in operating income is resulted from growth in core banking assets, reemphasizing trade finance operations, improved liquidity management and rationalization of cost of funds to best established industry benchmarks.

Simultaneously, the merger and expansion of branch network resulted in a considerable amount increase in operating expenses in current year ending 2016 as compared to the such amounts incurred in prior year. Further, the launch of new products, strong marketing campaigns and technology related expenses, were also resulted in a significant increase in these balances in such a competitive environment. Therefore, these balances were increased by 14% from

expenses incurred amounted to USD 50.8 million in year 2015 to USD 57.9 million during the current year.

At the same time, the Bank added a net specific provisions amounted to USD 8.6 million to increase coverage against delinquent/ non-performing assets in accordance with approved prudential policies of the Bank. Further, the Bank incorporate a general provision amounted to USD 0.8 million to counter un-foreseen/ unidentified risks in assets portfolio during the current financial year.

However, the net profitability was slightly squeezed due to incorporation of massive amounts of provision and merger related costs/ challenges in current financial year ending 31 December 2016. Therefore, the net income after provision and taxation from USD 2.3 million earned in year ended 31 December 2016 was remained below the net profits of USD 6.0 million generated in year ended 31 December 2015.

### CREDIT RATING

In current financial year, the Islamic International Rating Agency (IIRA) a well-known Bahrain based rating agency has assigned an International Scale investment grade credit rating of BBB- (long term)/A3 (short term) and a National Scale rating of BBB+ (long term)/A3(short term) to the Bank. The outlook on such ratings is "stable".

Further, the Capital Intelligence maintained long term and short term foreign currency credit ratings of the Bank from BB and B respectively. At the same time, the financial strength ratings were remained intact and outlook on the such ratings is "Stable".

At the same time Al Baraka Bank Pakistan Limited (ABPL) has sustained local currency longterm and short-term rating entity A, and A1 respectively, as assigned by the Pakistan Credit Rating Agency (PACRA), while JCRVIS Credit Rating Company also assigned the same rating.

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

### CORPORATE AND SOCIAL RESPONSIBILITY

The Bank's business philosophy revolves around development of our communities by contributing towards generation of real economic activities based on high ethical standards, supporting the rehabilitation of underprivileged segments of society and assist to increase the outreach of each individual to basic necessities of life. In this respect, the Bank prepared a comprehensive plan to secure the achievability of our ultimate outcome/ goal, duly integrated with our vision/ mission, focussing on creation of job opportunities, supporting health care/ education projects, providing assistance to needy/ poor plan and many other projects of public welfare.

## BOARD OF DIRECTORS REPORT (CONTINUED)

Moving forward, the Bank has made a significant participation in Tamkeen Program “ an initiative of Government of Bahrain to support small and medium sized entities” , along-with supporting a number of other projects, resulted in creation of numerous jobs. Further, the Bank provided donation directly to poor or needy people, hospitals, education institutions or through charitable organization working to promote the captioned causes.

Simultaneously, the Bank provides internships/ training facilities to students of a number of local universities to nurture their skills in a highly professional environment. Further, the Bank supports a number of organizations working or doing research in the field of Islamic banking and finance.

Furthermore, the Bank sponsored many important international finance and banking events and conferences, more particularly the World Conference of Islamic Banking arranged by the Accounting and Auditing Organization of Islamic Finance (AAOIFI), University of Bahrain “World Renewable Energy Conference”, Ministry of Justice for Conference Upon Profit Hazrat Muhammad (PBUH) etc., during the current financial year ended 31 December 2016.

### FUTURE OUTLOOK

By successfully coming out of all sort of challenges posed by the adversities of operating environment, the Bank is well poised to pursue its strategic milestones of becoming a leading institution in Islamic finance industry. In this respect, our spirit to meet ever evolving banking needs of our community through provision of contemporary business solution based on high ethical standards, will continue to maintain us on our journey of achievements. Further, the Bank’s robust risk management practices/ framework will be further upgraded to effectively cope with challenges posed by domestic or global economic outlook.

More specifically, the Bank will make efforts to achieve synergies and capitalize such a massive expansion in business network observed in financial year 2016 into exponential growth alongwith substantial improvements in operating efficiencies. Further, the efforts will be underway to enhance of quality of assets, optimize riskiness and target alternative options to increase the capital base, aligned with approved strategies.

Simultaneously , as being a dynamic institution, we are not confining us to domestic/ regional market, but we are fully committed to provide our unique financial solution to people across the globe in coming months/ years. Further, the Bank will also enter in new arenas or avenues of banking based on strict principles of Shria.

Moving forwards, the Bank will keep improving, aligned with latest developments across the globe, its core business practices/ process. In this respect, the Bank has planned a significant amount of investment to upgrade the information technology infrastructure and strengthen the functions through availability of requisite skills.

### ACKNOWLEDGMENT

We are thankful to almighty Allah, by all our hearts, for sailing us through, with successes and achievements, in such a highly challenging time. We are so grateful to creator of universe for countless blessing bestowed on our organization.

It’s a matter of pride to express sincere appreciation on behalf of the Board to His Majesty King Hamad bin Isa Al Khalifa, HRH Prince Khalifa bin Salman Al Khalifa, the Prime Minister and HRH Prince Salman bin Hamad Al Khalifa, the Crown Prince, Deputy Supreme Commander of the Bahrain Defence Force and First Deputy Prime Minister for their patronage and unwavering support to the Bank over the years. We are also gratified to the Ministry of Industry and Commerce, the Central Bank of Bahrain, the State Bank of Pakistan and other government agencies for their invaluable input and guidance accorded to the Bank.

We express our gratitude to all our shareholders, valued customers and business partners for loyalty and trust placed on Bank. We are really grateful to, our parent company, the Al Baraka Banking Group and Shri’a Supervisory Board, for their constant support. Finally, the dedication and hard work of our employees across the Bank, who are key contributors in achievability of such a remarkable performance, cannot be left unpraised.



**Khalid Rashid ALZayani**  
Chairman

Al Baraka Islamic Bank B.S.C. (c)  
Manama, Kingdom of Bahrain  
19 February 2017

## EXECUTIVE MANAGEMENT



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1. Mr. Mohammed Isa Al Mutaweh  
CEO & Board Member

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

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2. Mr. Tariq Mahmood Kazim  
Deputy General Manager  
Support Services Group

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5. Mr. Nadeem Amjad Khan  
Assistant General Manager &  
Chief Financial Officer

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3. Mr. Rashid Hassan Al Alaiwi  
Deputy General Manager  
Business Group

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

Please refer to page 47 for Executive Management profiles.

## EXECUTIVE MANAGEMENT (CONTINUED)



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7. Mrs. Maisoon Mohammed bin Shams  
Assistant General Manager  
Head of Risk Management Department

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

---

9. Mr. Isa Jassim Al Obaidly  
Assistant General Manager  
Head of Human Resources & Administration

---

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

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

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12. Mr. Mohammed Jassim Ebrahim  
Manager  
Head of Shari'a Department

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13. Mr. Mohammed Hassan Al Mughani  
Manager  
Head of Internal Audit Department

## CHIEF EXECUTIVE'S REPORT

WE ARE IN A STRONG POSITION THAT ENABLES US TO CONTINUE ENHANCING OUR LEADING POSITION, ESPECIALLY THAT THERE ARE SIGNS OF IMPROVEMENT IN THE REGION'S ECONOMIES FOLLOWING



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

### TOTAL DEPOSITS (USD Million)

<b>2016</b>	<b>2,041</b>
2015	1,589
2014	1,592
2013	1,416
2012	1,216

The key financial, operational, and risk management performance indicators reported significant improvements, which reflects our success in implementing key strategic plans of the Bank.

## CHIEF EXECUTIVE'S REPORT (CONTINUED)

### INTRODUCTION

During 2016, the Bank continued to activate its prudent and diversified business initiatives and strategies in order to achieve good financial results during the year in an environment surrounded by unstable political and economic developments.

For the second consecutive year, the key financial, operational, and risk management performance indicators reported significant improvements, which reflects our success in implementing key strategic plans of the Bank, which focuses on improving the efficiency and quality of income-generating assets along with diversifying sources of operating income within a sound and cautious risk management framework. These successful achievements are the outcome of the continued supervision by the executive management and sincere efforts of the Bank's employees.

In this regard, we note with satisfaction the significant increase in all financial position items together with improved performance along with operational efficiency and operational risk structure for the financial year ended 31 December 2016 compared to the corresponding period last year, and most major indicators related to risk and return and growth showed significant improvement compared to previous years. It is gratifying that greater efforts on building high-quality assets, through targeting opportunities in low-risk markets or sectors, based on a variety of efficient, diversified and stable financing sources accompanied these increases.

During 2016, the Bank targeted businesses and economic activities that reflect the Bank's true mission on providing products that satisfies customer needs (both retail and corporate) and contribute to building relationships with solid foundations.

Both Bahrain and Pakistan operations showed a satisfactory growth simultaneously with continued efforts to expand branch and ATM's network and activate their role and enhancing stringent risk management regulations and controls set out to protect the Bank in light of prevailing market conditions and capital constraints. We have managed to achieve that goal without sacrificing profitability. To enforce these developments, the Bank has linked growth strategies while maintaining sound capital adequacy ratios compatible with regulatory requirements. Therefore, the Bank prefers placing its funds with sovereign and public sector entities, and other good credit rating and lower-risk entities as per the applicable laws and regulations.

In general, we are in a strong position that enables us to continue enhancing our leading position, especially that there are signs of improvement in the region's economies following oil price improvements, coinciding with the positive implications of economic reforms made by regional governments. While all international institutions and rating agencies unanimously agree on the soundness of the banking industry; strong liquidity position; sound capital

adequacy ratios; and reduction in nonperforming loans, which all comes with a strong government support that enables the sector to be ready for future financing and investment opportunities.

### FINANCIAL POSITION

The Bank achieved significant growth in its consolidated total assets reaching 28.6% (from USD 1.9 billion in 2015 to USD 2.4 billion in 2016). Receivable against Islamic Financing contracts portfolio represent the largest portion of the income-generating assets with a 21.8% growth (from USD 609.7 million in 2015 to USD 742.6 million in 2016) based on a selective and cautious growth policy during the year. Our Ijara Muntahia Bittamleek portfolio has growth up by 4.9% (from USD 266.4 million in 2015 to USD 279.8 million in 2016), Musharaka portfolio growth doubled to reach 105.3% (from USD 154.3 million in 2015 to USD 279.8 million in 2016) attributable to the accelerated growth in SME financing facilities, which conforms with the Bank's overall strategy. Sukuk portfolio has also growth up by 23.7% (from USD 375.4 million in 2015 to USD 464.3 million in 2016).

Furthermore, financing facilities in high-risk customer or market segments, such as real estate with law demand, were duly settled and not been renewed. In addition, a settlement (fully or partially) to a number of large long-outstanding nonperforming cases been made during 2016. In contrast, more provisions been made to meet some of the old accounts, given the overall financial and economic conditions. The Bank's efforts have resulted in the recovery of large amounts from some of the nonperforming counterparties.

Likewise, deposits from equity of investment accountholders and from financial institutions and from customers' current accounts represents a major source of funding for the Bank, on which the Bank achieved a significant growth in this portfolio by 28.3% (from USD 1.59 billion in 2015 to USD 2.04 billion in 2016), reflecting the Bank success in establishing long-term relationship based on mutual trust with customers. Contributing to this success was the introduction of a variety of saving and investment accounts like Al-Barakat account and the expansion of branch network in Bahrain and Pakistan.

The Bank continued to focus on its core business areas in Bahrain, Pakistan, GCC, and MENA in order to benefit from the available opportunities.

Growth in liquid assets reached 18.5% by end of 2016, which confirms the strong financial position of the Bank and opens broad opportunities to manage, invest, and deploy this liquidity while maintaining comfortable liquidity ratios at all times and within regulatory limits. Capital adequacy ratio reached satisfactory levels at 16.58% in 2016 compared to 16.97% in 2015 providing a capital base that will contribute to the Bank growth in the coming period.



## CHIEF EXECUTIVE'S REPORT (CONTINUED)



In Bahrain, the Bank's strategy focused on partnership opportunities with government and semi-government entities as well as high net worth customers. In addition, finances with guarantees or collaterals (e.g. mortgages) remained key avenues to achieve growth in the Bank assets. Furthermore, the Bank's participation in strategic projects with government entities (e.g. social housing project with Ministry of Housing and SME financing with Tamkeen) had a significant impact on the growth of Bank assets.

The Bank has participated in a club deal with couple of other local banks to finance social housing projects to build up 3,100 housing units, a step that supports the Bank's vision related to social responsibility and to enable citizens in meeting their residential needs. The Bank also participated in extending finance for couple of real estate developers to build residential and commercial towers. In addition, the Bank provided facilities to many commercial and industrial companies primarily to Aluminum Bahrain to construct the sixth production line. The Bank also expanded the financing facilities provided to building material traders and trade finance and letter of credits; we also entered into partnerships with GCC and Arab-based banks to secure medium-term credit lines.

Besides that, the Bank has strengthened its role in SME financing by increasing the financing facilities threshold within Tamkeen program from BHD 10 million to BHD 20 million, which reflects our commitment towards our social and developmental role in serving this category, which is considered a key player in local economy. The Bank has recently signed a new agreement with Tamkeen to participate the their new scheme (Tamweel Plus) with a BHD 20 million, a program targeting medium and large entities, where 70% of annual profits are covered by Tamkeen and that facility size ranges between BHD 1 and 2.5 million.

We are proud to be successful in building this strategic relationship with Tamkeen that is growing and expanding and fulfills our social responsibility principles towards this sector.

The launch of Al-Barakat premium savings account has contributed to the growth of deposit portfolio in Bahrain, due to the innovative awards system that offers cash prizes in the form of monthly salaries and car ruffles. The launch of this account has also enhanced the liquidity position sufficient to comply with regulatory requirements and invest any surplus to enhance Bank returns.

During 2016, International Islamic Rating Agency (IIRA) has assigned the Bank an international scale rating of (BBB-/A-3) and (BBB+/A-3(BH)) on the national scale with a stable outlook.

In Pakistan, the Bank's strategy focused on achieving cautious growth, which resulted in significant improvement in asset quality, demonstrated through the improvement in key financial ratios and specifically non-performing loans coverage ratio. In addition, the Bank continued his persistent monitoring on the asset base, which resulted in achieving success and continuous improvement during the past years.

Since merger and acquisition transactions represents strategic tools for the Bank growth in that area, Al Baraka Bank Pakistan Limited has successfully acquired Burj Bank Limited late in 2016. The result was a strong entity that owns 224 branches scattered in more than 100 Pakistani cities, positive results of this acquisition will emerge during 2017 and beyond.

The consolidated asset portfolio of both banks will become more solid with huge increase in financial position and growth opportunities during the coming years.

This transaction enabled the new entity to fulfill the minimum capital requirement amounting to PKR 10 billion (approximately USD 95 million).

The consolidated total assets of the new entity amount to USD 1.2 billion and total deposits stands at USD 954 million. The Bank maintains a healthy financing portfolio with loans to deposits ratio of 65% as at 31 October 2016. The portfolio has a good mix of retail and corporate clients that will enhance Bank's profitability.

After this transaction, Islamic Corporation for the Development of the Private Sector (ICD) that is the investment arm of the Islamic Development Bank (IDB) became a new shareholder of Al Baraka Bank Pakistan Limited with 11.8% ownership.

On the credit ratings, Pakistan Credit Rating Agency (PACRA) has assigned the Bank with a long-term rating (A) and a short-term rating (A1), also JCR-VIS Credit Rating Company Limited maintained its rating of the Bank at (A) for long-term and (A1) for short-term. These ratings were kept under observation due to the acquisition transaction.

Number of branches have increased to 224 scattered in more than 100 Pakistani cities, with prime locations to ease customer reach. All branches provides direct services through the internet. ATM network has also grown up to reach 208 ATM machines both onsite and offsite. Each location has a unique features not just providing easy access to customers but also reflecting the Bank's brand and image.

With regard to information technology initiatives during 2016, the Bank launches banking services through the internet, and a new anti-money laundering system (PAIBAS). More developments on internet applications related to Know-Your-Customer in addition to internal credit risk-rating framework and employee training.

A revamp process was made to the Treasury unit to enable trade in corporate sukuks as well as Musharaka shares and Mudharaba in capital markets. In addition, a biometric verification system (optical fingerprints) was implemented in branches for customer account opening procedures.

## CHIEF EXECUTIVE'S REPORT (CONTINUED)



### SAVING ACCOUNTS

#### ALBARAKAT SAVINGS ACCOUNT

A fully Sharia'a Compliant savings account from Al Baraka Islamic Bank, offering more cash prizes than ever before. Investing in alBarakat Savings Account gives you an opportunity to win Monthly Cash Prizes throughout the year, including a Grand Prize of BD 200,000 the draw for which will take place at the end of the year. Save and be among 77 monthly winners of unbelievable prizes which include a Monthly Grand Prize that starts from BD 5000 in the first month, reaching up to BD 200,000 by the end of the year. Other Monthly Prizes include a monthly salary of BD 555 for a year, along with many more cash rewards.

#### BD 200,000 CASH PRIZE

Monthly Cash Prizes throughout the year, including a Grand Prize of BD 200,000 the draw for which will take place at the end of the year.

### FINANCIAL PERFORMANCE

The Bank maintained a steady growth pattern in its operating income during the financial year ended 31 December 2016. Demonstrated through the significant growth in both total and net operating income, due to growth in core banking assets and its enhanced quality; improvement in liquidity management and rationalization of cost of funding; in addition to the Bank success in solving and offsetting nonperforming loans which assisted the Bank in releasing some provisions along with converting stagnant assets into income-generating. These achievements were made despite the challenges posed by lower rates and difficult market situation during the current year as compared to last year.

The Bank's total operating income for this year stood at USD 70.1 million as compared with USD 57.5 million reported last year, with a 21.9% growth. The main reasons for this growth was the increase in income from banking services by 37.6% compared to last year, and the booking of a fair value gain from merger and acquisition transaction.

The Bank's total operating expenses for the financial year stood at USD 57.9 million compared with USD 50.9 million were spent last year, a growth of 13.8%. The main reasons for increase in operating expenses this year were costs related to merger and acquisition transaction late 2016; opening new branches; capital expenditures related to IT systems; and expenses related to expansion in sectors and various activities including advertisement and marketing campaigns. However, it is worth mentioning that the Bank monitors expenses on a strict and continuous basis.

As a result, the Bank achieved net income before provisions and taxes of USD 12.2 million compared to USD 6.6 million reported last year, a significant 84.8% increase. In view of the continuous efforts to



## CHIEF EXECUTIVE'S REPORT (CONTINUED)



recover nonperforming loans and improving the quality of financing asset portfolio in both Bahrain and Pakistan, the Bank managed during 2016 to release USD 7.2 million of previously booked provisions. Nevertheless, due to its conservative approach, the Bank booked net USD 9.4 million additional provisions in 2016 compared with net USD 1 million written back in 2015.

After tax deductions, the Bank reported net profit of USD 2.3 million compared with USD 6 million reported last year, a decline of 61.7% due to above mentioned reasons.

Thus, it is clear that the Bank has achieved significant improvement in its income from core assets due to expansion in these activities, along with improvement in operating efficiency, which translated the large increase in total and net operating income, which was affected by above mentioned provision booking.

### CORPORATE IDENTITY OF THE BANK

In line with Al Baraka Banking Group (ABG) strategy related to the unification of the group and its units new identity, which was launched in 2009, with the objectives of ensuring a unified goals and strategies amongst all ABG units. For that reason, the Bank views this step as an essential achievement to attain a leading position in Islamic banking industry.

During 2016, the Bank continued developing its policies and high ethical professional standards related to the offering of innovative and highly efficient Sharia compliant services and products. Achieved through a number of programs along with plans currently under implementation to embody the new identity of the group in being the (Partner Bank) to our customers, investors, and all other stakeholders. Of these steps, included the implementation of a number of programs at all Bank levels, to promote the understanding and assimilation of the new corporate identity and the values and principles that it represents, which in turn, requires high skills and outstanding performance from all employees.

During the year in Pakistan, the Bank launched printed and electronic marketing campaigns through media included retail and consumer products and focused on highlighting the new identity of the Bank.

### GLOBAL AWARDS

In Bahrain, in reflection to its growing regional and global reputation, the Bank won several trophies and awards during 2016. The Bank was awarded the Global Islamic Finance Award as the best Islamic bank in Treasury management in 2016, outperforming a group of peer banks nominated by nomination committee, which is composed of global well-known experts in Islamic finance. In addition, the Bank was awarded (along with six other ABG units) the best bank in Bahrain in 2016 within the annual awards by Global Finance, a specialized magazine in finances offered to international banking and finance institutions.

In Pakistan and during 2016, the Bank received the CEO Club Leadership Award. This award was given to 100 outstanding CEO's, leaders, and companies in Pakistan, presented by the CEO Club Pakistan and Manager Today magazine. This honor confirms the sound approach that the Bank follows in laying the foundations of Islamic banking institution that is steadily moving towards leadership in the Pakistani market, while servicing the society in an active and responsible manner at the same time.

### MAIN OFFICE AND BRANCH NETWORK AND DELIVERY CHANNELS

In Bahrain, the most significant event during 2016 was movement of the Bank to its new headquarters in Al Baraka Towers in Bahrain Bay. The design of this new headquarter is characterized by superior privileges that meets the Bank's current and future needs. As being praised with the latest architectural style and equipped with latest technology and equipment and provides ample areas for staff offices with stunning views, and thus provides an inspiring and comfortable work environment at the same time. Consequently, the new headquarters will support a new start to the Bank locally and regionally and in line with future goals and aspirations. In addition, the Bank allocated the ground floor to provide various banking services to its individual and corporate clients.

As for the ATM network, the Bank added five new ATM's in 2016, which brings the total to 30 ATM's. In our continuous efforts to enhance banking services to its clients, the Bank have launched an electronic banking services through the internet to provide our customers with banking services that satisfies their needs through saving time and effort and ease of access to services and usage of latest technology.

In Pakistan, number of branches have jumped to 224 after the successful merge with Burj Bank, and have an ambitious plan to open more branches in Pakistan and Bahrain during the coming years, which reflects our commitment towards increasing our financing and deposits market share. Especially as the Bank has various products, targeting retail and corporate customers that includes so many privileges to satisfy customer needs in compliance with Sharia principles.

### HUMAN RESOURCES AND TRAINING

The Bank continued, during 2016, to create a conducive work environment and enhance the values and principles to promote the concept of working as a team that possess the required qualifications, expertise and capabilities needed for the Bank's operations and satisfying the needs and expectations of our customers as a basic goal. The Bank also continued its efforts to fill senior positions and improve the performance and productivity of its staff to serve our customers. We also paid special attention during the year to the work environment and customer relations with the aim to improve and develop the mutual relationship, along with human development and talent hunting, which will assist the Bank in implementing its new strategy. We have also introduced new systems of information

## CHIEF EXECUTIVE'S REPORT (CONTINUED)

technology to enable the Bank to provide latest banking services to its customers and to improve operational efficiency. During 2016, the Bank promoted 23 staff, and provided training programs to university students in cooperation with ABC, the number of trainees during 2016 reached 50 trainees.

As part of its social responsibility, the Bank's management introduced a (Al-Ruwad Program) designed to train university graduates. With the purpose of preparing them for fill the leading and senior positions in the future, after refining their knowledge and skills required to fulfill these functions. The Bank's management, in cooperation with ABC, has launched a training program for executive trainees in collaboration with Bahrain Institute of Banking and Finance (BIBF), which includes internal and external training on various areas in banking and bank departments in line with the requirements of the market. The Bank's management also focused on providing in-house training courses to improve performance and increase awareness of key business and other essential skills.

The Bank's management also focused on providing in-house training courses, sending staff members to attend short training courses and professional qualifications in the areas of anti-money laundering and terrorism financing to improve their performance and increase awareness and to fulfill mandatory CBB requirements. The training participation reached 224 participations.

The Bank has also honored long-serving employees for periods between 5 and 30 years by giving them certificates and prizes during the ABC strategy meeting held during last quarter in 2016. The number of honored employees was 16 employees.

### INFORMATION TECHNOLOGY

In view of globally rapid advances in information technology and the changing developments in this area that this entails worldwide, the Bank is very keen to modernize its computer network infrastructure; increase its capacity; and introducing modern technologies with high-speed data transfer capabilities, which will lead to significant timesaving and reduction of effort of the Bank employees. One of the achievements in 2016 was the launch of AIB Portal using BENEFIT Payment Gateway for Taqseet card repayment recovery, Al-Barakat account top-up, and Al-Barakat e-Statement, and the remittance system for Pakistan Rupee remittances.

### SOCIAL RESPONSIBILITY

In Al Baraka Islamic Bank, being an Islamic financial institution, we are committed towards the communities where we work, and believe that this role is a key feature of our committed business model. The fact that our Bank considered a pioneer in Islamic banking, we seek to maintain our position as the leading organization committed to the social responsibility.

The Bank continued during 2016 its social responsibilities through directing its products and services for the development of communities in which it operates; to enhance them socially and economically; and to improve the quality of these products and services; and through supporting small and medium enterprises and taking care of youth skills and training them. Also through social contributions and generous financial donations to serve community and charitable organizations through sponsorships and donations program to charities and local clubs and scientific centers; in addition to supporting needy families in Bahrain. The Bank has a special program to provide assistance to charities and humanitarian organizations licensed by local official institutions during the holy month of Ramadan.

The Bank continues its sponsorship of many important international finance and banking events and conferences held in Bahrain such as the World Islamic Banking Conference, Sharia bodies' conference, and AAOIFI conference, as being one of the main sponsors of these conferences. As a contribution towards the community, the Bank employs a number of students (who are in the final stages of their undergraduate studies) during summer, and fresh graduates with the aim to refine their knowledge.

### CONCLUSION

In conclusion to our presentation of the Bank performance during 2016, and in light of the positive results we achieved (particularly the growth in income-generating assets and strengthening operating income by enhancing returns from core banking activities in both Bahrain and Pakistan), we are confident about the future as we possess the required capital, human, and technological resources and that we maintain strong liquidity position that enables us to position ourselves in a leading position to take advantage from the regional and global economy.

## CHIEF EXECUTIVE'S REPORT (CONTINUED)



### SMALL AND MEDIUM ENTERPRISE FINANCING

#### FINANCE YOUR BUSINESS TODAY

Al Baraka Islamic Bank provides finance to meet all the needs of its business customers for various financing facilities.

Al Baraka Islamic Bank have partnered with Tamkeen to meet the demand for affordable financial solutions by private sector enterprises.

Small and Medium Enterprise can now avail Sharia compliant finance facilities for a maximum amount of BD500,000 over a tenure of 10 years at an attractive and subsidized profit rate.

#### Affordable financial solutions

For all your financing requirements, you can now avail Sharia compliant finance facilities for a maximum amount of BD500,000 over a tenure of 10 years at an attractive and subsidized profit rate up to 8% per annum.

In 2017, we will launch our new strategy (2017-2019), and we believe that the Bank surpassed the most difficult stage of the expected repercussions of the global economic environment due to global crisis and decrease in oil prices. Therefore, we will continue implementing our initiatives, in front of which, the strong and new takeoff in Pakistan following the merger deal, in addition to continuous diversification of services and products provided, and expanding our branch network and enhancing the capital base of the Bank. According to this strategy, we will increase our efforts to maximize customer satisfaction and win their loyalty, in addition to building a high quality income-generating assets portfolio through enhancing risk management policies and practices, governance, anti-money laundering and combating financing terrorism, and internal controls, including Sharia review, as well as tapping into new markets in Africa and Asia.

We believe that 2017 will notice a continued challenges and unstable environment, however, we believe that the economic fundamentals in the Kingdom of Bahrain and GCC will remain strong and supported by ambitious development programs. Further, the recovery of oil prices and global economy will create suitable environment to grow. Internally, the integration and expansion in innovative services, and products, and branches, and the move to our new headquarters, and improving the efficiency of our human capital, and the valued support from ABG, all will enhance the Bank's operations and profitability, and strengthen its local and regional standing.

#### Mohammed Isa Al-Mutaweh

Chief Executive Officer & Board Member



## CORPORATE GOVERNANCE

### Philosophy, Strategy and objectives

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

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

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

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

The board adopted written Corporate Governance Policy covering bank-wide corporate governance framework, matters related to the Board, and the principles and rules of Central Bank of Bahrain (CBB)

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

These disclosures should be read in conjunction with AIB's consolidated financial statements for the year ended 31 December 2016. To avoid any duplication, information required under CBB Rulebook PD module but already disclosed in other sections of the annual report has not been reproduced in these disclosures.

### Governance Framework

#### Ownership Structure

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

There has been no trading of Banks Shares during the year by the Directors or senior management. As at 31st December 2016, distribution schedule of shares, setting out the number and percentage of holders were in the following categories:

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

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

3	Hussain Mohsin Alharthe	Shareholder	-	Saudi	50,000	4.0830%
4	Bahrain Islamic Bank	Shareholder	-	Bahraini	10,000	0.8166%
5	Ibdar Bank	Shareholder	-	Bahraini	10,000	0.8166%
6	Suliman Abdulaziz Alrajhi	Shareholder	-	Saudi	5,000	0.4083%
7	Saleh Abdulaziz Alrajhi	Shareholder	-	Saudi	5,000	0.4083%
8	Abdullah Abdulaziz Alrajhi	Shareholder	-	Saudi	5,000	0.4083%

## CORPORATE GOVERNANCE (CONTINUED)

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

Distribution of ownership of shares by nationality;

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

Distribution of ownership of shares by size of shareholder;

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

### The Board of Directors (The Board)

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

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

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

### The principal functions of the Board are as follows:

- reviews and approves the Management's proposals on long-term strategic plans of the Bank as well as the strategic business plans and activities of the various business units and monitors the Management's performance in the implementation process;
- approves the annual budget for the Bank and conducts regular business review of achievements against the annual budget, as well as reviews the Management's business strategies and action plans;
- sets corporate values and clear lines of responsibility and accountability that are communicated throughout the Bank;
- ensures there is a managed and effective process to select and appoint key Senior Management officers that are qualified, professional and competent to administer the affairs of the Bank as well as approves a succession planning policy and effectively monitors Senior Management's performance on an ongoing basis;

## CORPORATE GOVERNANCE (CONTINUED)

### Governance Framework (Continued)

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

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

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

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

### Re-election of Directors

The previous Board's term expired in April 2014. In compliance with the Bank's Article of Association, the shareholders re-elected the existing Board members in the Annual General Meeting held in April 2014, for a period of three years ending April 2017.

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

### Termination of Board Membership:

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

1. If the member was appointed in violation to the provisions of the law.
2. If the member loses any of the conditions provided for in the Articles e.g. lack of legal capacity, convicted in bankruptcy, crimes of honour or breach of trust.
3. If he uses his membership to conduct a competitive business or causes real damages to the Bank.
4. If he is absent from the Board meeting for four consecutive meetings without legitimate reason.
5. If he resigns or discharged from office
6. If he occupies another salaried position other than an executive position which the Board decided to pay salary to him

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

## CORPORATE GOVERNANCE (CONTINUED)

### The Board Composition

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

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

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

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

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

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

A formal induction process exists for each new Director on joining the Board, including briefing on the Bank's Corporate Governance Policy

with copy for their reference, and meetings with other Directors and the Board Secretary. The Bank provides the necessary programs of continuing education to ensure that Directors are kept up to date with developments in the industry both locally and globally which assist them in carrying out their duties as Directors.

## CORPORATE GOVERNANCE (CONTINUED)

### Board meetings and attendances

In line with the nature and demands of the Bank's business, the Board meets at least every quarter unless further meetings are required. In 2016, the Board held 5 meetings, and the number of meetings attended by each member was as follows:

No	Name	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	Khalid Rashid Al-Zayani	4	5	7 January 2016 22 February 2016 11 May 2016 8 August 2016 14 November 2016	5/5
2	Adnan Ahmed Yousif				5/5
3	Abdullatif A.Raheem Janahi				5/5
4	Abdulrahman Abdulla Mohammed				5/5
5	Moosa A. Shihadah				5/5
6	Khalid Abdulla Ateeq				5/5
7	Ashraf A. El Ghamrawi				5/5
8	Yousef Ali Fadil Ben Fadil				5/5
9	Maqbool Habib Khalfan				5/5
10	Mohammed Isa Al Mutaweh				5/5

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

### Performance Evaluation

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

### Remuneration

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

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

### Remuneration Strategy

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

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

The Bank's reward package comprises of fixed pay, benefits, performance bonus and a long-term performance incentive plan. The Bank's variable remuneration policy will be driven primarily by a performance based culture that aligns employee interests with those of the shareholders of the Bank. These elements support the

## CORPORATE GOVERNANCE (CONTINUED)

achievement of our objectives through balancing rewards for both short-term results and long-term sustainable performance. Our strategy is designed to share our success, and to align employees' incentives with our risk framework and risk outcomes.

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

The Bank's remuneration policy in particular, considers the role of each employee and has set guidance on whether an employee is a Material Risk taker and/ or an Approved Person in a business line, control or support function. An Approved Person is an employee whose appointment requires prior regulatory approval because of the significance of the role within the Bank and an employee is considered a Material Risk taker if they are the Head of a significant business line or any individuals within their control who has a material impact on the Bank's risk profile.

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

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

In addition to the responsibilities of the Remuneration & Board Affairs Committee mentioned elsewhere in this report, the Remuneration & Board Affairs Committee is entrusted with specific and detailed responsibilities with regard to the Bank's variable remuneration policy and oversight of its implementation. These include but are not limited to ensuring that the system operates as intended, especially for Material Risk Takers, ensuring that variable remuneration forms

a substantial part of their total remuneration and is adjusted for all types of risks by reviewing the stress testing and back testing results. The Remuneration & Board Affairs Committee is also responsible for ensuring that for Approved Persons in risk management, internal audit, operations, Sharia' review, financial control and compliance functions, the mix of fixed and variable remuneration is weighted in favor of fixed remuneration. In addition, the Remuneration & Board Affairs Committee recommends that Board members' remuneration be based on their attendance and performance in compliance with Article 188 of the Bahrain Commercial Companies Law.

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

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

The aggregate remuneration paid to Remuneration & Board Affairs Committee members during the year in the form of sitting fees amounted to USD 17 thousand [2015: USD 12 thousand].

### Board remuneration

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

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

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

## CORPORATE GOVERNANCE

(CONTINUED)

### Directors' interests in the Bank's shares

Board Members	Shareholding at 1 January 2015	Shareholding at 31 December 2015	Changes in shareholding
Abdullatif A.Raheem Janahi	1,250	1,250	-

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

	2016	2015
<b>Directors:</b>		
Remuneration*	290	122
Sitting Fees	180	288
Allowances and others**	50	66
<b>Total</b>	<b>520</b>	<b>476</b>
<b>Staff inclusive of Chief Executive Officer:</b>		
<b>Fixed Remuneration</b>		
Approved persons and material risk takers-business line	1,914	1,601
Approved persons-others	1,094	1,083
Other staff in Bahrain	10,142	10,164
Staff of overseas subsidiary	13,198	11,956
<b>Total fixed remuneration</b>	<b>26,348</b>	<b>24,804</b>
<b>Variable Remuneration</b>		
Approved persons and material risk takers-business line	750	538
Approved persons-others	402	302
Other staff in Bahrain	1,450	1,165
Staff of overseas subsidiary	802	400
<b>Total variable remuneration</b>	<b>3,404</b>	<b>2,405</b>
<b>Total remuneration to staff</b>	<b>29,752</b>	<b>27,209</b>
<b>Shari'a Committee Members</b>	<b>72</b>	<b>73</b>

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

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

Total fixed remuneration for covered persons affected by the policy, having salaries & benefits exceeding BD 100,000, amounts to USD 2,100 thousand (2015: USD 1,816 thousand) and the number of persons affected: 5 (2015:5). The total variable remuneration for 2016 paid to these persons was USD 1,046 (2015: USD 830 thousand). Said variable remuneration comprises of upfront cash amounted to USD 418 thousand (2015: USD 332 thousand) and deferred shares amounted to USD 628 thousand (2015:USD 498 thousand). Further, the total amount of deferred remuneration outstanding as at 31 December 2016 are USD 628 thousand (2015:USD 498 thousand).

There is no severance pay during current year and corresponding period.

### Variable Remuneration for Staff

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

The Bank has adopted a Board approved framework to develop a transparent link between variable remuneration and performance. The framework is designed on the basis of meeting both satisfactory financial performance and the achievement of other non-financial factors, that will, all other things being equal, deliver a target bonus

## CORPORATE GOVERNANCE (CONTINUED)

pool for employees, prior to consideration of any allocation to business lines and employees individually. In the framework adopted for determining the variable remuneration pool, the Remuneration & Board Affairs Committee aims to balance the distribution of the Bank's profits between shareholders and employees.

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

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

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

For the overall Bank to have any funding for distribution of a bonus pool; threshold financial targets have to be achieved. The performance measures ensure that total variable remuneration is generally, considerably contracted where subdued or negative financial performance of the Bank occurs. Furthermore, the target bonus pool as determined above is subject to risk adjustments in line with the risk assessment and linkage framework.

### Remuneration of control functions

The remuneration level of staff in the control and support functions allows the Bank to employ qualified and experienced personnel in these functions. The Bank ensures that the mix of fixed and variable remuneration for control and support function personnel should be weighted in favor of fixed remuneration. The variable remuneration of control functions is to be based on function-specific objectives and is not determined by the financial performance of the business areas they monitor.

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

### Alignment with Risk

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

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

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

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

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

- the cost and quantity of capital required to support the risks taken;
- the cost and quantity of the liquidity risk assumed in the conduct of business; and
- Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

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

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

## CORPORATE GOVERNANCE (CONTINUED)

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

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

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

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

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

detrimental impact on the Bank during the concerned performance year.

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

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

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

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

### Incentive plans

The employees of the bank are eligible for a variety of incentive plans to achieve a direct linkage amongst the remuneration and current/ future performance of the bank.

In this respect, the separate short term incentive plans (STIP) and Long Term Incentive Plans (LTIP), are duly devised in the light of prevailing laws and regulations.

Main components of said remuneration are as follows:

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

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

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

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

## CORPORATE GOVERNANCE (CONTINUED)

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

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

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

In addition to non-cash short term incentives, in order to motivate and align employee with the long term business plan of the bank, the bank may decide to selectively award Long Term Incentive plans to employees contingent on the delivery of future performance targets for the bank. The Board Affairs & Remuneration Committee will confirm the employees eligible for the bank's LTIP scheme on an

annual basis. The performance horizon and quantum of award will also be determined on an annual basis, based on the performance requirements. All LTIP awards will be delivered as non-cash instruments and are delivered on assessment of results achieved at the end of the performance period. LTIPs vest immediately at the end of the performance period (a minimum of 3 years) and are subject to a six month retention period post vesting.

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

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

### External Consultants

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

### Board Committees

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

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

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

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

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

#### 1. Audit and Governance Committee

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

## CORPORATE GOVERNANCE (CONTINUED)

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

- monitoring and assessing the integrity of the consolidated financial statements as well as disclosures of the financial condition, results of operations and cash flows;
- monitoring processes designed to ensure an appropriate internal control system, including compliance with legal and regulatory requirements;

- monitoring the qualifications, independence and performance of the external auditors and of Internal Audit; and
- Monitoring the adequacy of financial reporting processes and systems of internal accounting and financial controls.

The members, number of meeting held, and attendance of members were as follows:

SR No	Names	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	Maqbool Habib Khalfan (Chairman)	4	4	22 Feb 2016	4/4
2	Moosa A. Shihadah			11 May 2016	4/4
3	Yousef Ali Fadil Ben Fadil			8 Aug 2016 14 Nov 2016	4/4

### 2. Remuneration & Board Affairs Committee

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

- Board of Directors' and individual directors' performance;
- Effectiveness of, and compliance with, the Bank's corporate governance policies and practices;
- Succession planning for the Board and senior management;
- Staff remuneration policy and fees for non-executive directors and for the Shari'a Supervisory Board;
- Approve, monitor and review the remuneration system to ensure the system operates as intended;
- Approve the remuneration policy and amounts for each Approved Person and Material Risk-taker, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits;
- Ensure remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees that earn same short-run profit but take different amount of risk on behalf of the bank;
- Ensure that for Material Risk Takers, variable remuneration forms a substantial part of their total remuneration;
- Review the stress testing and back testing results before approving the total variable remuneration to be distributed including salaries, fees, expenses, bonuses and other employee benefits;

- Carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The Remuneration and Board Affairs Committee will question payouts for income that cannot be realized or whose likelihood of realization remains uncertain at the time of payment;
- Ensure that for approved persons in risk management, internal audit, operations, financial control and compliance functions the mix of fixed and variable remuneration is weighted in favor of fixed remuneration;
- Recommend Board member remuneration based on their attendance and performance and in compliance with Article 188 of the Bahrain Commercial Companies Law; and
- Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves not to use Personal hedging strategies or remuneration-and liability related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

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

SR No	Names	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	Yousef Ali Fadil Ben Fadil (Chairman)	2	2	13 January 2016	2/2
2	Khalid Abdulla Ateeq			14 November 2016	2/2
3	Abdulrahman Abdulla Mohammed				2/2

## CORPORATE GOVERNANCE (CONTINUED)

### 3. Executive Committee

The primary purpose of the Committee is to consider specific matters delegated to it by the full Board and then make recommendations thereon to the Board or take decisions based on authorities specifically

delegated by the Board. The Board Executive Committee also has the power and authority to approve certain credit and investment proposals. The members, number of meeting held, and attendance of members are as follows:

SR No	Names	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	Adnan Ahmed Yousif	4	5	7 February 2016	5/5
2	Abdulrahman Abdulla Mohammed			6 April 2016	5/5
3	Mohammed Isa Al Mutaweh			27 June 2016	5/5
4	Abdullatif A.Raheem Janahi			17 October 2016 5 December 2016	5/5

### 4. Board Risk Management Committee

The primary responsibility of the Board Risk Management Committee is to ensure that the integrated risk management functions within the Bank are effectively discharged. The Committee has the overall responsibility for ensuring that the Bank develops appropriate risk policies and strategies for the relevant business activities.

The Risk Management Committee oversees the Bank's risk management framework, including the credit, market, liquidity and funding, operational, insurance, compliance and regulatory risks assumed by the Bank in the course of carrying on its business. It reviews regulator reports from Management on the measurement of risk and the adequacy and effectiveness of the Bank's risk management and internal controls systems.

A key purpose is to help monitoring the Bank's risk appetite for consideration by the Board, and agreeing and recommending a risk management framework to the Board that is consistent with the approved risk appetite. This framework, which is designed to achieve portfolio outcomes consistent with the Bank's risk/return expectations, includes:

- High-level risk management policies for each of the risk areas it is responsible for overseeing; and
- A set of risk limits to manage exposures and risk concentrations.

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

SR No	Names	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	Maqbool Habib Khalfan	4	4	21 February 2016	4/4
2	Ashraf A. El Ghamrawi			10 May 2016	4/4
3	Khalid Abdulla Ateeq			7 September 2016 6 December 2016	4/4

### Conflict of Interest

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

### Management Committees

In addition to the Board Committees, the Bank has in place mainly the following Management Committees with the Chief Executive Officer

functioning as the Chairman of each committee. The members of committees comprise the Heads of Departments who are drawn from relevant and related functions:

#### • Management Committee

The Management Committee's role is to oversee the implementation of the strategic objectives of the Group in relation to its business direction, operations, risk, expansion plans and overall policies and procedures.

## CORPORATE GOVERNANCE (CONTINUED)

### • **Asset and Liability Committee (ALCO)**

The Asset and Liability Committee's mandate is to monitor the liquidity and capital adequacy of the Group and review the Group's long term equity investments and its penetration into the different markets. The Committee reviews liquidity and cash flow of the Bank and the Group and sets balance sheet growth targets, besides monitoring the distribution of profits to investors.

### • **Commercial / Corporate/ Retail Credit Committee**

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

### • **Information Technology Steering Committee**

The IT Steering Committee's role is to draw up the Group's short and long term IT strategy and oversee and monitor its implementation throughout the Group with a view to effecting standardization in information and operation management.

### • **Cash Management Committee**

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

### • **IFRS-9 Implementation Committee**

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

### • **Strategy Steering Committee**

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

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

### **INTERNAL CONTROL**

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

The Bank's system of internal control includes:

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

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

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

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

## CORPORATE GOVERNANCE (CONTINUED)

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

### RISK MANAGEMENT

AIB is committed in complying with the best practices informed by Basel and IFSB guidelines and adhering to CBB requirements. Our Risk Management Framework aims at proactive management of risks in the full life cycle of a financial transaction, including its operating circumstances from origination to final disposal from the books of the Bank. The Bank maintains a prudent and disciplined approach to risk taking by upholding a comprehensive set of risk management policies, processes and limits, employing professionally qualified people with the appropriate skills, investing in technology and training, and actively promoting a culture of sound risk management at all levels.

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

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

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

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

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

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

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

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

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

Risk appetite of the Bank is both a qualitative and quantitative measure and reflects its level of risk tolerance in normal as well as in stressed scenarios. It is expressed as a measurable key performance indicator (KPI), a tolerance limit or as a qualitative guideline.

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

- well defined performance metrics in the form of KPIs,
- risk limits, exposure criteria, restrictions and controls, lending and investment standards as laid out in the internal risk policies and procedures manual,

## CORPORATE GOVERNANCE (CONTINUED)

### RISK MANAGEMENT (Continued)

- capital and liquidity benchmarks which are monitored in the Asset Liability Management Committee meetings,
- key business and risk management objectives, goals and strategy which are defined in business, investment and risk management strategies, and
- Management and oversight structures in the Bank through Management and Board committees. Our risk appetite defines the desired performance levels which, in turn, are embedded into management of the various risks within the Bank as well as the Capital of the Bank. Our risk appetite is integrated into the strategic, capital, and risk management planning process across business verticals

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

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

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

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

The Bank is committed to meeting the highest levels of ethical standards in all areas of its operations. The Compliance Department continued in 2016 to carry out its activities inherent to its area ensuring the bank's operations are in line with all applicable laws

and regulations, sending periodic regulatory information to the supervisory bodies, advises and keeps senior management informed on the implication of compliance laws and regulations that have a bearing on the Bank's operations, etc.

### Management of Credit Risk

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

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

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

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

The Bank has comprehensive credit rating / scoring models being applied in the spheres of retail and non-retail portfolios of the Bank. Our Credit department tracks arrears to ensure operational efficiency and compliance with the granting and follow-up policy by identifying changes in trends and variances from tolerance levels. Arrears percentages are reported daily and are evaluated on product, branch, industry, regional, operational (provincial) manager and national levels. Branch performance and targets include arrears targets, appropriately balanced with sales and profit targets.

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

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

## CORPORATE GOVERNANCE (CONTINUED)

### Management of Liquidity and Market Risk

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

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

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

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

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

### Management of Operational Risk

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

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

The management of Operational Risk has two key objectives:

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

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

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

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

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

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

## CORPORATE GOVERNANCE (CONTINUED)

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

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

### Capital Management

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

### Compliance

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

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

The Bank is committed to, and requires all its employees to display, the highest standards of integrity, professionalism and ethical behavior, and to comply with all relevant laws, rules and standards when conducting the business of the Bank. The Bank's compliance function is an independent function that identifies, evaluates, advises on, monitors and reports on the Bank's compliance risk. The Risk

management Department, together with the Internal Audit and Compliance Departments, provides independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board of Directors.

### CODE OF BUSINESS CONDUCT AND ETHICS FOR MEMBERS OF THE BOARD OF DIRECTORS

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

The Bank's Code of Business Conduct and Ethics applies to members of the Board, as well as Executive Management, officers, employees, agents, consultants and others, when they are representing or acting for the Bank. The Board of Directors, as well as officers and employees, act ethically at all times and acknowledge their adherence to the Bank's policies. Any waiver of the Code of Business Conduct and Ethics for a director or executive officer may be granted only by the Board or the appropriate Board committee, and must be promptly disclosed to the stockholders.

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

## CORPORATE GOVERNANCE (CONTINUED)

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

### ***The code envisages and expect from the board:***

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

### ***Conflict of interest:***

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

- **Business Interests** - If any member of the Board of Directors considers investing in securities issued by the Bank's customer, supplier or competitor, they should ensure that these investments do not compromise their responsibilities to the Bank. Many factors including the size and nature of the investment; their ability to influence the Bank's decisions; their access to confidential information of the Bank, or of the other entity, and the nature of the relationship between the Bank and the customer, supplier or competitor should be considered in determining whether a conflict exists. Additionally, they should disclose to the Bank any interest that they have which may conflict with the business of the Bank.
- **Related Parties** - As a general rule, the Directors should avoid conducting Bank's business with a relative or any counterparty in which the relative or other person is associated in any significant role. If such a related party transaction is unavoidable, they must fully disclose the nature of the related party transaction to the appropriate authority as per the Corporate Governance Guidelines

which are approved by the Board. Any dealings with a related party must be conducted in such a way that no preferential treatment is given to that party.

- **Use of Bank's Assets and Resources** - Each member of the Board of Directors has a duty to the Bank to advance its legitimate interests while dealing with the Bank's assets and resources. Members of The Board of Directors are prohibited from:
  - Using the Bank property, information or position for personal gain;
  - Acting on behalf of the Bank in any transaction in which they or any of their relative(s) have a significant direct or indirect interest.
- **Gifts** - Soliciting, demanding, accepting or agreeing to accept anything where any such gift is more than modest in value, or where acceptance of the gifts could create the appearance of a conflict of interest;

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

### ***Confidentiality:***

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

### **COMMUNICATION POLICY**

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

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

## CORPORATE GOVERNANCE (CONTINUED)

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

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

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

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

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

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

### Customer-Centric Initiatives

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

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

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

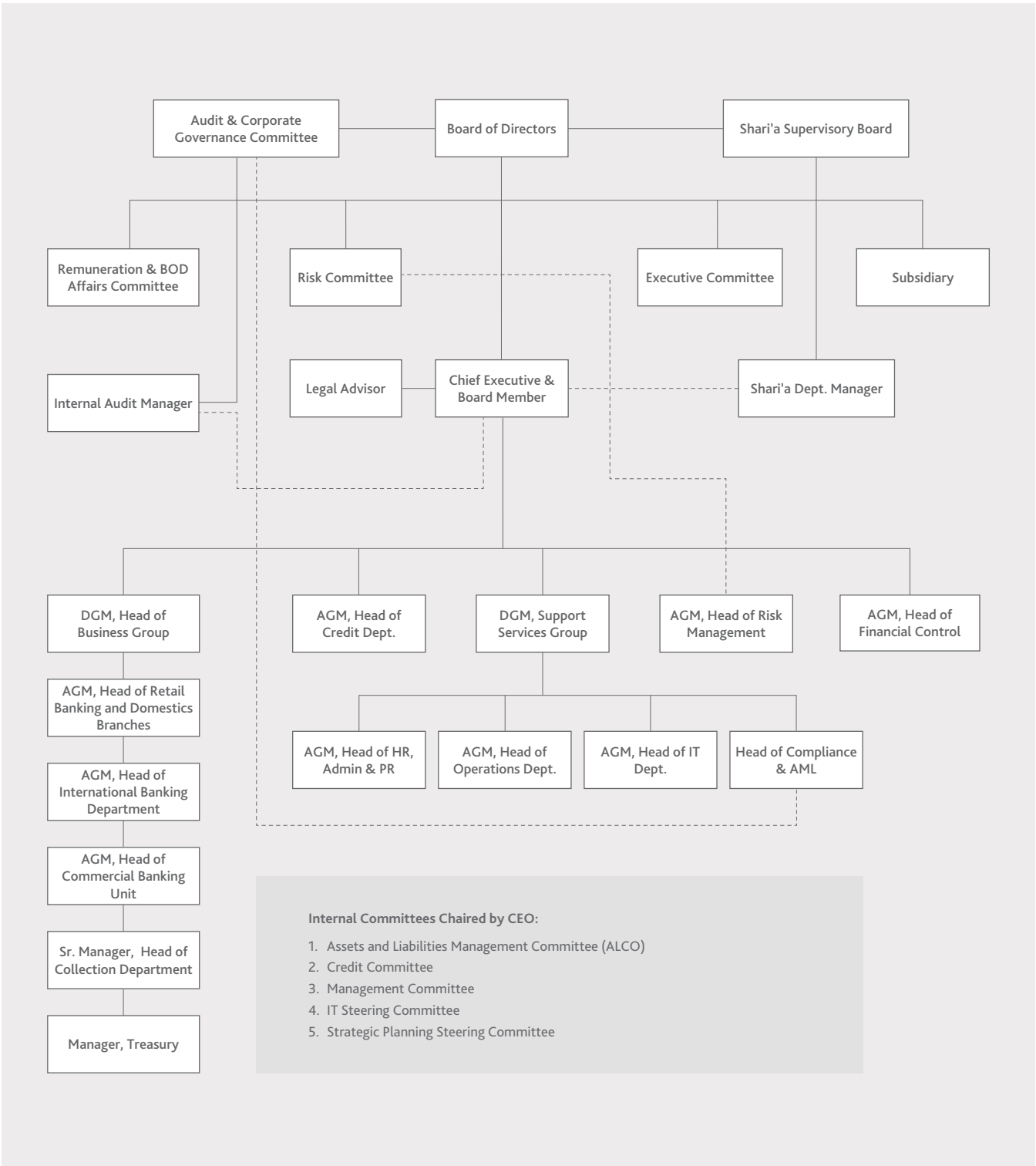
The Bank maintains comprehensive policy on handling of Whistleblowing and Customer Complaints, approved by the Board. All employees of the Bank are aware of and abide by this. The Bank has a designated Whistleblowing and Customer Complaints Team for handling of all internal and external complaints and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

### LEGAL AND REGULATORY RISK AND ANTI-MONEY LAUNDERING

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

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

# ORGANISATION CHART



## CORPORATE GOVERNANCE (CONTINUED)

### BOARD OF DIRECTORS PROFILES

#### Mr. Khalid Rashid Al Zayani

Chairman

Experience: 48 Years

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

#### Mr. Adnan Ahmed Yousif

Deputy Chairman

Experience: 44 Years

Mr. Adnan Ahmed Yousif is a highly regarded Senior banker with over four decades of international banking experience. He holds a Master of Business Administration degree from University of Hull, UK. He was earlier with Arab Banking Corporation, for over 20 years and last served as Director on its Board.

As President & Chief Executive, Mr. Yousif has lead Al Baraka Banking Group (ABG) since inception, developing the Group into one of the largest and most diversified Islamic banking groups in the world operating a network of over 700 branches in 15 countries, with its Head Office in the Kingdom of Bahrain. He is also the Chairman of Al Baraka Turk Participation Bank, Banque Al Baraka D'Algerie, Al Baraka Bank Ltd. South Africa, Al Baraka Bank Lebanon, Jordan Islamic Bank, Al Baraka Bank Egypt, Al Baraka Bank Syria, Al Baraka Bank Sudan, Al Baraka Bank Pakistan Ltd., Vice Chairman of Al Baraka Islamic Bank, Bahrain and a Board member of Al Baraka Bank Tunisia.

Mr. Adnan Yousif was the Chairman of the Union of Arab Banks, Lebanon for two terms (2007-2013). Besides having received many international awards he is the recipient of the Medal of Efficiency, a unique honor conferred by His Royal Highness - King Hamad Bin Isa Al Khalifa, the King of the Kingdom of Bahrain during the year 2011.

Mr. Yousif received the title of the CSR International Ambassador (Kingdom of Bahrain) from the CSR Regional Network. including twice the Islamic Banker of the Year award (2004 and 2009).

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

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

In Dec. 2016 Mr. Adnan Yousif was decorated with the Title of "High Commissioner to preach the United Nations Sustainable Development Goals 2030". He also won the Gold Award for Sustainable Development in recognition of his major role in the service and social responsibility programs both nationally and internationally, as well as recognition for the leading role of Al Baraka Group in the field of CSR activities at Oman International Conference on Social Responsibility 2016.

#### Mr. Abdul Latif Abdul Rahim Janahi

Board member

Experience: 45 Years

Mr. Abdul Latif Abdul Rahim Janahi is one of the early pioneers in Islamic economy, Islamic banking and Islamic insurance. He authored a number of books on these topics and prepared more than 60 studies and work papers presented at numerous events, conferences, seminars and, universities. He worked hard to promote the idea of Islamic banking, insurance and re-insurance in Bahrain and was behind the establishment of a number of banks, financial institutions and insurance and reinsurance companies in Bahrain and outside Bahrain. He has practical experience of more than 45 years in the areas of banking, insurance and reinsurance. He holds a diploma in insurance and is a recognized expert in conventional insurance, Takaful (Islamic insurance), Islamic banking and Islamic economics. Mr. Janahi is the founder and Chief Executive Officer of the Safwa International, Bahrain (consultancy), and board member of many Islamic banking and investment institutions such as the Islamic Bank of Bangladesh - Dhaka, Khaleej Finance and Investment (being the Chairman of the Board of Directors) and the Islamic Arab Bank and Islamic Insurance and Reinsurance Company.

## CORPORATE GOVERNANCE (CONTINUED)

### Mr. Moosa Abdul Aziz Shihadeh

Board member

Experience: 56 Years

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

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

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

### Mr. Ashraf Ahmed El-Ghamrawy

Board member

Experience: 40 Years

Mr. Ashraf Ahmed El-Ghamrawy is a Vice Chairman & CEO Al-Baraka Bank Egypt.

He obtained the Bachelor Degree in Commerce from Ain Shams University in addition to a professional Diploma in Banking Credit, as well as many other advanced courses in various banking fields.

Mr. Ashraf Started his career as a legal accountant specialized in the field of banking & financial institutions. In 1979, he moved to work in the banking sector and occupied many positions until he became the CEO & managing director for Al-Baraka Bank Egypt. Since 2010, he has become the vice Chairman & CEO. He has made great contribution to many essential banking issues, especially in debt collections & NPLs, establishing companies & a strong credit & investment portfolio.

He has been leading a teamwork who has been successfully able with a support by the BOD to change the Bank in a short period into a profitable institution.

He has obtained many appreciation certificates & has long outstanding experience in the field of development, centralization, IT & feasibility studies.

He contributes in charity & voluntary work. Mr. Ashraf occupies the following positions:

- Chairman of the Egyptian Saudi Company for Real Estate.
- Board Member in the Egyptian Company for Establishing & managing commercial malls.
- Board of Trustees' member & treasurer of the Egyptian Zakat Institution.
- Board Member & Chairman of Board Credit Committee of A.T.Lease.
- Board Member and Board Risk Management Committee (RMC), Al Baraka Islamic Bank, Bahrain.
- Board Member & Chairman of Board Audit Committee, Egyptian Takaful – Mumtalakat.

### Mr. Yousif Ali Fadil bin Fadil

Board member

Experience: 33 Years

Mr. Yousif Bin Fadil is a Board Member, Al Baraka Islamic Bank, Bahrain, Ajman Bank and Gulfa Mineral Water. Previously, General Manager of the Emirates Financial Company and before that Executive Manager for Investment, Dubai Islamic Bank and a number of senior positions at National Bank of Umm Al Qaiwain. Mr. Bin Fadil has also served as Member of the Boards of Directors of several financial institutions including, Union Insurance Company, U.A.E., Bahrain Islamic Bank, Bosnia International Bank and Dubai Islamic Insurance Company. He has more than 33 years of experience in the banking field. Mr. Bin Fadil, a UAE national, holds Bachelor's Degree in Mathematics & Computer Science from Gonzaga University, Spokane, Washington State, USA.

## CORPORATE GOVERNANCE (CONTINUED)

### Mr. Maqbool Habib Khalfan

Board member  
Experience: 49 Years

Businessman and former Banker. Born in 1955 in state of Qatar. 49 Years of experience in banking field. Graduated in Commerce (B Com.) from Cairo University in 1997. Started banking career in 1968 with Eastern Bank (standard Chartered Bank at present) in 1970 joined United Bank Ltd., in Qatar, at the time of opening the branch in the country. Joined Doha Bank, February 1987. Played major role in establishing and promoting the developments of Doha Bank. Promoted as General Manager of Doha Bank in December 1987. Held many high posts in Doha Bank before promoted to the General Manager. Left Doha Bank in July 1997. Joined Qatar industrial Development Bank as a General Manager in February 1997, and played significant roles in establishing such a non-commercial bank in State of Qatar. Left Qatar Industrial Development Bank at the end of May 2001 for concentration on his own Business. He is the Managing Partner of Arabian Exchange Company & Gulf Colors, and holds 50% Stakes in both Establishments.

### Mr. Abdulrahman Abdulla Mohammed

Board member  
Experience: 41 Years

Master of Business Administration Degree (MBA) from University of Hull, United Kingdom, around 41 years of experience in Banking Industry. Present Position, Board & Executive Committee Member at TAIB Bank (Aug 2011- till present) and Board & Executive Committee Member (June 2015 – till present) at Takaful International.

His past position was General Manager in National Bank of Bahrain, Board & executive Committee Member – Bahrain commercial facilities company and Chairman of the Board – National Motors Company.

### Dr. Khalid Abdulla Ateeq

Board member  
Experience: 35 Years

Dr. Khalid is currently the Chief Executive Officer and Board Member of Family Bank. Dr. Khalid has over 32 years of experience in banking, finance, auditing and accounting. Prior to join Family Bank, he was the Deputy CEO of Venture Capital Bank for seven years. Before that, he was Executive Director of Banking Supervision at the Central Bank of Bahrain for thirteen years, where he was responsible for the licensing, inspection and supervision of financial institutions, insuring that all banks and financial institutions, either operating or incorporated in Bahrain, complied with promulgated laws and regulations. Before joining the CBB, he was Assistant Professor at Bahrain University. In addition, through his diversified experience, Dr. Khalid served in senior posts with a number of reputable banks and firms. He holds a Ph.D. in Philosophy of Accounting from UK. Dr. Khalid is a Board Member at Med Gulf Company, Med Gulf Takaful and Itqan Company.

### Mr. Mohammed Isa Al Mutaweh

Chief Executive & Board member  
Experience: 30 Years

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

He has long experience in banking extending to more than 30 years during which he held leading positions in banks. He was General Manager and Board Member of Al Amin Bank, Bahrain, Chairman of the Credit Committee and member of the Executive Committee of Al Amin Bank. He also served as Executive Director of ABC Islamic Bank which is affiliated to Arab Banking Corporation. Prior to that he served in a senior position with National Bank of Bahrain in the Corporate Banking Division.

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

## CORPORATE GOVERNANCE (CONTINUED)

### EXECUTIVE MANAGEMENT

#### Mr. Mohammed Isa Al Mutaweh

CEO & Board Member

Experience 30 years

Mr. Mohammed Isa Al Mutaweh is the Chief Executive Officer and a member of the Board of Directors of Al Baraka Islamic Bank - Bahrain, Chairman of the Credit Committee and member of the Executive Committee. He has long experience in banking extending to more than 30 years during which he held leading positions in banks. He was General Manager and Board Member of Al Amin Bank, Bahrain, Chairman of the Credit Committee and member of the Executive Committee of Al Amin Bank. He also served as Executive Director of ABC Islamic Bank which is affiliated to Arab Banking Corporation. Prior to that he served in a senior position with National Bank of Bahrain in the Corporate Banking Division. Mr. Al Mutaweh is a member of the World Union of Arab Bankers and a member of the participation committee of the Awqaf properties investment fund of Islamic Development Bank (IDB), Jeddah and member of the board of Directors of International Trade Finance Corporation (ITFC) (one of the IDB's group companies) and ex-member of the board of directors of Bahrain association of banks and a member of Bahrain advisory council of the chartered institute of securities and investment (CISI), UK. Mr. Al Mutaweh has an MBA degree in Business administration from university of Hull, UK.

#### Mr. Tariq Mahmood Kazim

Deputy General Manager

Support Services Group

Experience: 33 Years

Bachelor Degree in Systems Engineering and Analysis (University of Petroleum and Minerals Dhahran/Saudi Arabia) 33 years of experience in Banking, Support Service, implementing Banking, Telecommunication and e-Commerce Solutions. Past careers include two years with Arabian Networks as General Manager and 16 years with NCR and AT&T as a Business Unit Leader. Joined Al Baraka Islamic Bank in April 2002.

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

#### Mr. Rashid Hassan Al Alaiwi

Deputy General Manager – Business Group

Experience: 35 Years

Mr. Rashid Al Alaiwi has extensive experience for more than 35 years in banking services. He participated in implementing a number of strategic initiatives and projects specifically in business process reengineering and in launching new banking products and services including electronic banking channels. Mr. Rashid has joined Al Baraka Islamic Bank in February 2009 and prior to that he held various senior positions in Bahrain Islamic Bank, Ithmaar Bank (formerly is known as Shamil Bank), and Bank of Bahrain & Kuwait.

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

#### Mr. Moosa Abdul Latif Mohammed

Assistant General Manager

Head of Operations

Experience: 37 Years

Banking Studies (Diploma) with 5 years banking experience with National Bank of Bahrain, and 32 years banking experience with Al Baraka Islamic Bank, Bahrain. Various managerial and banking courses inside and outside Bahrain.

#### Mr. Nadeem Amjad Khan

Assistant General Manager & Chief Financial Officer

Experience: 30 Years

Mr. Nadeem Amjad Khan is a Chartered Accountant and is a Fellow member of the Institute of Chartered Accountants of Pakistan. Prior to his appointment as CFO of Al Baraka Islamic Bank Bahrain, he worked in Al Baraka Pakistan at various senior positions.

He has also worked in leading accounting firms at senior positions in Assurance, Management consultancy and Tax department. He has also been teaching ACCA students. He specializes in accounting and financial matters, although he has developed broad expertise in treasury and capital markets.

He is also a Board Member in Al Baraka Bank Pakistan Limited. He has been nominated on the Committee on Accounting and Auditing Standards for interest free mode of financing and investments of ICAP.

Mr. Nadeem Khan transferred to ABPL effectively from 01 January 2017, a new CFO was appointed on the same date (Mr. Mohammed Abdulla Abdulrahim)

## CORPORATE GOVERNANCE (CONTINUED)

### Mr. Fouad Lakhdar El-Ouzani

Assistant General Manager  
Head of Credit Department  
Experience: 15 Years

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

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

### Mrs. Maisoon Mohammed bin Shams

Assistant General Manager  
Head of Risk Management Department  
Experience: 36 Years

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

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

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

### Mr. Asrar Uddin Abdul Ghafoor

Assistant General Manager  
Head of Information Technology Department  
Experience: 24 Years

Mr. Asrar Uddin has over 24 years of effective role in the IT departments of Islamic Banks within GCC region. In Feb 2003, he joined IT Dept. of Al Baraka Islamic Bank, Bahrain.

He possess a broad knowledge of Core Banking implementations and rollout of IT Projects

Mr. Asrar has done many automation to streamline day to day business requirements using internal IT resources.

Some of his major achievements are implementation of Misys Equation Core Banking System, HRMS, EFTS, Islamic Financing System, Risk Analyst System, successful completion of EMV Project, increasing branch and ATM network, implementation of IT policy and procedures, supporting other Al Baraka Banks in Pakistan, South Africa, Egypt, and Lebanon.

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

### Mr. Isa Jassim Al Obaidly

Assistant General Manager  
Head of Human Resources and Administration  
Experience: 29 Years

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

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

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

## CORPORATE GOVERNANCE (CONTINUED)

### Mr. Adel Jassim Al-Manea

Assistant General Manager  
Head of Commercial Banking Department  
Experience: 27 Years

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

He has over 27 years of banking experience in commercial and Offshore Banks with Local, International and Islamic Banks. 2 years banking experience with Bank of Bahrain and Kuwait, and 18 years banking experience with Ithmaar Bank. Various managerial and banking courses inside and outside Bahrain.

Joined Al Baraka Islamic Bank in August 2008.

### Mr. Hussain Habib Al Nattaie

Assistant General Manager  
Head of International Banking Department  
Experience: 13 Years

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

Mr. Hussain held several senior positions prior joining Al Baraka Islamic Bank, Hussain spent 13 years in the corporate finance and frontline business/development units for different prominent financial institutions like National Bank of Bahrain, The Arab Investment Company and Standard Chartered Bank.

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

### Mr. Mohammed Jassim Ebrahim

Manager  
Shari'a Department  
Experience: 8 Years

Mr. Mohammed Jassim is The Manager of Shari'a Department in Al Baraka Islamic Bank - Bahrain. He has Bachelor in Islamic Law (Fiqh and principles of Fiqh), from the Shari'a College of the Islamic University in Al Madinah Al Monawarah - KSA. Mr. Mohammed Jassim is a Certified Shari'a Adviser and Auditor (CSAA), from AAOIFI-Bahrain. Mr. Mohammed Jassim has more than 8 years of experience in Islamic Banking.

### Mr. Mohammed Hassan Al Mughani

Manager  
Head of Internal Audit Department  
Experience: 12 Years

Mr. Mohammed Al Mughani had joined Al Baraka Islamic Bank on Aug 2008 as a Manager – Internal Audit Department. He has 12 years of experience in internal and external audit, risk assessment and corporate governance.

He previously worked as an Assistant Manager – Audit Department at BDO Jawad Habib, Bahrain. Mr. Al Mughani is ACCA qualified and Certified Information System Auditor (CISA). He hold a BSc in Accounting from University of Bahrain.

## CORPORATE GOVERNANCE

(CONTINUED)

Name	Director since	Profession, directorships and affiliations
<b>Mr. Khalid Rashid Al Zayani</b>	06-May-2014	<p><b>Board Member and Shareholder</b></p> <p>Midal Cables Co. – Bahrain  Metal Form WLL – Bahrain  Aluwheel WLL – Bahrain  Gulf Closures WLL – Bahrain  First Motors WLL – Bahrain  IMERYS Al Zayani Fused Mineral WLL – Bahrain  Food Technology – Bahrain</p> <hr/> <p><b>Shareholder</b></p> <p>Khalid Al Zayani Family Co. – Bahrain  Al Zayani Investments – Bahrain  Zayani Motors – Bahrain  Euro Motors – Bahrain  Intersteel – Bahrain  Zayani Properties – Bahrain  Zayani Leasing – Bahrain  Zayani Industries – Bahrain  Body Works Co. – Bahrain  Al Aman Properties – Bahrain</p> <hr/> <p><b>Board Member</b></p> <p>Investcorp Bank – Bahrain</p>
<b>Mr. Adnan Ahmed Yousif</b>	06-May-2014	<p><b>Board Member &amp; President &amp; Chief Executive</b></p> <p>Al Baraka Banking Group</p> <hr/> <p><b>Chairman</b></p> <p>Al Baraka Turk Participation Bank - Turkey  Al Baraka Bank Limited – South Africa  Al Baraka Bank Lebanon-Lebanon  Jordan Islamic Bank -Jordan  Al Baraka Bank Egypt-Egypt  Al Baraka Bank Syria - Syria  Al Baraka Bank (Pakistan) Limited - Pakistan  Al Baraka Bank Sudan-Sudan  Al Baraka Bank Algeria-Algeria</p> <hr/> <p><b>Board Member</b></p> <p>Al Baraka Bank Tunis-Tunisia</p>

Name	Director since	Profession, directorships and affiliations
Mr. Abdul Latif Abdul Rahim Janahi	06-May-2014	<b>Shareholder and Chairman</b> Safwa International Co. – Bahrain Tawasol International Co. – Bahrain
Mr. Moosa Abdul Aziz Shihadeh	06-May-2014	<b>Chief Executive Officer</b> Jordan Islamic Bank-Jordan
Mr. Abdulrahman Abdulla Mohammed	06-May-2014	<b>Board Member</b> TAIB Bank – Bahrain Takaful International - Bahrain
Mr. Ashraf Ahmed El-Ghamrawy	06-May-2014	<b>Vice Chairman and Chief Executive Officer</b> Al Baraka Bank Egypt-Egypt
Mr. Yousif Ali Fadil Bin Fadil	06-May-2014	<b>Board Member</b> Ajman Bank – UAE Gulf Mineral Water (Gulfa) – UAE Al Baraka Banking Group - Bahrain
Mr. Maqboul Habib Khalfan	06-May-2014	<b>Managing Partner</b> Arabian Exchange Co. – Qatar Gulf Colours - Qatar  <b>Partner</b> Al Emadi Trading & Contracting – Qatar
Dr. Khalid Abdulla Ateeq	06-May-2014	<b>Chief Executive Officer</b> Family Bank – Bahrain
Mr. Mohammed Isa Al Mutaweh	06-May-2014	<b>Chief Executive Officer</b> Al Baraka Islamic Bank – Bahrain

## SOCIAL RESPONSIBILITY

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

During 2016, the Bank continued to carry out its social responsibility by directing its products and services for the construction of the communities in which it operates, and by improving the quality of these products and services, as well as through the support of financing small and medium-sized enterprises and developing youth skills. The Bank also continued its generous contributions and financial donations in the service of society through sponsorships and donations to charities, local clubs, and centers of scientific and religious as well as supporting needy families in Bahrain. The Bank also has a special program to provide assistance to charities and humanity centers during the holy month of Ramadan.

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

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



## SOCIAL RESPONSIBILITY

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

## SHARI'A SUPERVISORY BOARD'S REPORT

For financial year ended 31 December 2016

Date: 04 Jumada Al-Ola 1438 A.H.

Corresponding to: 01 February 2017

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

Report of the Fatwa and Shari'a Supervisory Board From 01.01.2016 to 31.12.2016

#### To the Shareholders of alBaraka Islamic Bank

Praise be to Allah, the Almighty, and Peace and

Blessings be upon our Prophet Muhammad, his Folk, and Companions All.

By virtue of the resolution of the General Assembly to appoint the Shari'a Supervisory Board of alBaraka Islamic Bank (the "Board"), and assigning us with these duties, we hereby provide you with the following report:

We, at the Shari'a Supervisory Board of AlBaraka Islamic Bank, have reviewed the principles adopted and the contracts pertinent to the transactions of the Bank for the period from 1/1/2016 to 31/12/2016. We have observed the due review and revision necessary to express our opinion on the Bank's compliance with the rulings and principles of the Noble Islamic Shari'a as well as its compliance with the Fatwa, resolutions, principles and guidelines previously issued or set by the Board. The management of the Bank is entrusted with implementation of such rulings, principles and Fatwa while the Board's responsibility is limited to expressing an independent opinion in light of the transactions submitted and presented to it.

We have exercised proper observation and review that covered review of contracts and procedures followed in the Bank by testing each type of transactions, and we have obtained all the information and explanations necessary to express an opinion on the extent to which the Bank's activities are in compliance with the rulings of the Noble Islamic Shari'a. In our opinion, AlBaraka Islamic Bank's contracts, documents and operations during the period from 01-01-2016 to 31-12-2016, presented to us, have all been concluded as per the rulings and principles of the Noble Islamic Shari'a. and the management has committed itself to segregate all the unintended gains obtained from sources or means prohibited by the provisions and principles of Islamic Shari'a and disburse of it towards charitable causes under the supervision of the Shari'a Supervisory Board, and management is not authorized to pay the Zakat on behalf of the shareholders, and as such the responsibility for payment of the Zakat lies with the shareholders in accordance with the Zakat calculation approved by the Shari'a Supervisory Board, which is USD 0.530 per share.

We invoke the Almighty Allah to rightly guide the Bank's management to better serve our noble religion, our dear country and to put everyone on the right path.

Verily, Allah is the Arbiter of All Success. Peace be with you.

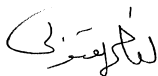
Peace and blessings be upon our Prophet, Muhammad, his Folk and Companions All.



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



Sheikh Esam Mohammed Ishaq  
Member of Shari'a Supervisory Board



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



Mohammed Jassim  
Head of Shari'a Department

## FINANCIAL STATEMENTS

For the year ended 31 December 2016

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## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

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

### Report on the Consolidated Financial Statements

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

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

### Opinion

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

### Report on other regulatory requirements

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

- a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith; and
- b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements.

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



Partner's registration no. 45

19 February 2017

Manama, Kingdom of Bahrain

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2016

	Notes	2016 US\$ '000	2015 US\$ '000
<b>ASSETS</b>			
Cash and balances with banks and financial institutions	4	280,611	236,879
Receivables	5	742,584	609,684
Mudaraba financing	6	776	-
Ijara Muntahia Bittamleek	7	279,768	266,398
Musharaka	8	316,728	154,260
Investments	9	548,899	450,811
Investments in real estate	10	5,974	5,974
Ijara income receivable	11	30,605	23,466
Investment in joint venture	12	14,576	-
Premises and equipment	13	30,029	25,084
Goodwill	14	28,181	17,659
Other assets	15	106,519	64,358
<b>TOTAL ASSETS</b>		<b>2,385,250</b>	<b>1,854,573</b>
<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED DEBT AND OWNERS' EQUITY</b>			
<b>Liabilities</b>			
Due to banks and financial institutions		58,474	46,728
Current accounts		293,308	232,586
Borrowings		90,582	65,407
Other liabilities	16	91,479	68,547
<b>Total liabilities</b>		<b>533,843</b>	<b>413,268</b>
<b>Equity of investment accountholders</b>	17	<b>1,598,245</b>	<b>1,244,594</b>
<b>Subordinated debt</b>	18	<b>46,478</b>	<b>22,722</b>
<b>Owners' Equity</b>			
Share capital	19	122,458	122,458
Reserves		25,156	20,275
Retained earnings		15,483	12,926
<b>Equity attributable to parent's shareholders</b>		<b>163,097</b>	<b>155,659</b>
Non-controlling interest		43,587	18,330
<b>Total owners' equity</b>		<b>206,684</b>	<b>173,989</b>
<b>TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED DEBT AND OWNERS' EQUITY</b>		<b>2,385,250</b>	<b>1,854,573</b>
<b>OFF-BALANCE SHEET ITEMS:</b>			
<b>EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>		<b>75,990</b>	<b>104,139</b>
<b>CONTINGENCIES AND COMMITMENTS</b>	20	<b>279,375</b>	<b>216,982</b>

Khalid Rashid Al-Zayani  
Chairman

Adnan Ahmed Yousif  
Deputy Chairman

Mohammed Essa Al Mutaweh  
Chief Executive Officer &  
Board Member

The attached explanatory notes 1 to 34 form part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2016

	Notes	2016 US\$ '000	2015 US\$ '000
<b>INCOME</b>			
Income from jointly financed sales		33,630	40,330
Income from jointly financed, other financing and investments	21	42,260	38,947
<b>Income from jointly financed assets</b>		<b>75,890</b>	<b>79,277</b>
Return on equity of investment accountholders before Group's share as a Mudarib		(61,137)	(69,244)
Group's share as a Mudarib		16,579	17,547
<b>Return on equity of investment accountholders</b>		<b>(44,558)</b>	<b>(51,697)</b>
<b>Group's share as a Mudarib and Rabalmal</b>			
Group's income from self financed sales		1,610	3,701
Group's income from self financed, other financing and investments	21	14,635	13,669
Revenue from banking services	22	12,834	9,278
Other income	23	2,680	3,092
Fair value gain on acquisition and merger	3	6,999	-
Group's Mudarib / agency fee from off-balance sheet equity of investment account holders		118	77
<b>TOTAL OPERATING INCOME</b>		<b>70,208</b>	<b>57,397</b>
<b>OPERATING EXPENSES</b>			
Staff expenses		(29,219)	(26,960)
Depreciation	13	(3,063)	(3,045)
Profit on due to banks and financial institutions		(439)	(107)
Other operating expenses	24	(25,207)	(20,678)
<b>TOTAL OPERATING EXPENSES</b>		<b>(57,928)</b>	<b>(50,790)</b>
<b>NET OPERATING INCOME</b>		<b>12,280</b>	<b>6,607</b>
(Provision for) / reversal of impairment - net	25	(9,442)	1,002
<b>INCOME BEFORE TAXATION</b>		<b>2,838</b>	<b>7,609</b>
Tax expense	26	(535)	(1,586)
<b>INCOME FOR THE YEAR</b>		<b>2,303</b>	<b>6,023</b>
Attributable to:			
Equity shareholders of the parent		2,213	4,970
Non-controlling interest		90	1,053
		<b>2,303</b>	<b>6,023</b>



Khalid Rashid Al-Zayani  
Chairman



Adnan Ahmed Yousif  
Deputy Chairman



Mohammed Essa Al Mutaweh  
Chief Executive Officer &  
Board Member

The attached explanatory notes 1 to 34 form part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2016

	Equity attributable to shareholders of the parent										
	Share capital US\$ '000	Reserves							Total US\$ '000	Non-controlling interest US\$ '000	Total owners' equity US\$ '000
Statutory US\$ '000		General US\$ '000	Employee defined benefit plan US\$ '000	Cumulative changes in fair value of investments US\$ '000	Revaluation reserve of Premises and Equipment US\$ '000	Foreign exchange US\$ '000	Retained earnings US\$ '000				
Balance at 1 January 2016	122,458	22,478	8,687	(173)	(121)	1,193	(11,789)	12,926	155,659	18,330	173,989
Cumulative changes in fair value	-	-	-	-	2,339	-	-	-	2,339	1,350	3,689
Foreign currency translation reserve	-	-	-	-	-	-	143	-	143	86	229
Net income for the year	-	-	-	-	-	-	-	2,213	2,213	90	2,303
Remeasurement gains on defined benefit plan	-	-	-	41	-	-	-	-	41	28	69
Acquisition and amalgamation (note 3)	-	-	-	-	-	-	-	-	-	26,405	26,405
Effects of changes in controlling interest in lieu of merger and acquisition (note 3)	-	-	-	18	(211)	-	2,330	565	2,702	(2,702)	-
Transfer to statutory reserve	-	221	-	-	-	-	-	(221)	-	-	-
<b>Balance at 31 December 2016</b>	<b>122,458</b>	<b>22,699</b>	<b>8,687</b>	<b>(114)</b>	<b>2,007</b>	<b>1,193</b>	<b>(9,316)</b>	<b>15,483</b>	<b>163,097</b>	<b>43,587</b>	<b>206,684</b>
Balance at 1 January 2015	122,458	21,981	8,687	(138)	(46)	-	(9,628)	8,453	151,767	18,110	169,877
Cumulative changes in fair value	-	-	-	-	(75)	-	-	-	(75)	(41)	(116)
Foreign currency translation reserve	-	-	-	-	-	-	(2,161)	-	(2,161)	(773)	(2,934)
Changes in fair value of premises and equipment	-	-	-	-	-	1,193	-	-	1,193	-	1,193
Net income for the year	-	-	-	-	-	-	-	4,970	4,970	1,053	6,023
Remeasurement losses on defined benefit plan	-	-	-	(35)	-	-	-	-	(35)	(19)	(54)
Transfer to statutory reserve	-	497	-	-	-	-	-	(497)	-	-	-
<b>Balance at 31 December 2015</b>	<b>122,458</b>	<b>22,478</b>	<b>8,687</b>	<b>(173)</b>	<b>(121)</b>	<b>1,193</b>	<b>(11,789)</b>	<b>12,926</b>	<b>155,659</b>	<b>18,330</b>	<b>173,989</b>

The attached explanatory notes 1 to 34 form part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 US\$ '000	2015 US\$ '000
<b>OPERATING ACTIVITIES</b>		
Net income before taxation	2,838	7,609
<b>Adjustments for:</b>		
Depreciation	3,063	3,045
Provision for / (reversal of) impairment - net	9,442	(1,002)
Gain on sale of premises and equipment	(45)	(54)
Share of loss from investment in joint venture	13	-
Gain on sale of investments	(2,942)	(901)
<b>Operating profit before changes in operating assets and liabilities</b>	<b>12,369</b>	<b>8,697</b>
<b>Net changes in operating assets and liabilities:</b>		
Balances with central banks in mandatory reserves	(70,066)	(39,809)
Receivables	(42,168)	73,662
Mudaraba financing	(220)	-
Ijara Muntahia Bittamleek	(11,356)	(45,358)
Musharaka	(46,803)	(38,146)
Ijara income receivable	(6,940)	(10,763)
Other assets	(12,778)	8,512
Other liabilities	6,527	15,778
Due to banks and other financial institutions	(2,127)	(13,651)
Current accounts	19,946	20,776
Equity of investment accountholders	200,269	(45,109)
Taxation paid	(635)	(675)
<b>Net cash from/(used) in operating activities</b>	<b>46,018</b>	<b>(66,086)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of investments	(156,425)	(220,788)
Investments sold / matured	98,198	215,435
Acquisition and merger, net of cash acquired (note 3)	23,481	-
Investment in a joint venture	(14,589)	-
Purchase of premises and equipment	(3,024)	(4,314)
Sale of premises and equipment	70	99
<b>Net cash used in investing activities</b>	<b>(52,289)</b>	<b>(9,568)</b>
<b>FINANCING ACTIVITY</b>		
Subordinated debt	23,756	2,214
Borrowings	25,175	35,378
<b>Net cash from financing activities</b>	<b>48,931</b>	<b>37,592</b>
Foreign currency translation adjustments	159	(1,580)
<b>INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>42,819</b>	<b>(39,642)</b>
Cash and cash equivalents at 1 January	274,334	313,976
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER (note 26)</b>	<b>317,153</b>	<b>274,334</b>

The attached explanatory notes 1 to 34 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 2016

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

	Balance at 1 January 2015 US\$ '000	Net withdrawals US\$ '000	Gross income US\$ '000	Mudarib's / agency fee US\$ '000	Balance at 31 December 2015 US\$ '000
Receivables	101,930	(8,958)	1,782	(77)	94,677
Investments	9,718	(256)	-	-	9,462
	<b>111,648</b>	<b>(9,214)</b>	<b>1,782</b>	<b>(77)</b>	<b>104,139</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

### 1. INCORPORATION AND PRINCIPAL ACTIVITY

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

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

The consolidated financial statements were approved by the Board of Directors on 19 February 2017.

### 2. ACCOUNTING POLICIES

#### 2.1 Basis of preparation

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

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

#### Statement of compliance

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

#### Basis of consolidation

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

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

Subsidiary is fully consolidated from the date control is transferred to the Bank and continue to be consolidated until the date that control ceases. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in owners' equity since the date of combination. Losses applicable to the non-controlling interest in excess of the non-controlling interest in a subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

### 2. ACCOUNTING POLICIES (Continued)

#### 2.1 Basis of preparation (Continued)

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

Bank	Ownership for 2016 / 2015	Year of incorporation	Country of incorporation	No. of branches/ offices at 31 December 2016 / 2015
<b>Held directly by the Bank</b>				
Al Baraka Bank (Pakistan) Limited* (note3)	57.40% / 64.64%	2004	Pakistan	224 / 130

\*Al Baraka Bank (Pakistan) Limited (ABPL) became a subsidiary on 21 December 2010. During the year, ABPL acquired and amalgamated Burj Bank Limited "a local Islamic Retail Bank operating in Islamic Republic of Pakistan" under a scheme of amalgamation which was approved by the shareholders of the Group and the relevant authorities (note 3).

#### Investment in Itqan Capital

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

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

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

#### 2.2 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements, for the year ended 31 December 2015, except for the adoption of new standards and interpretations effective as of 1 January 2016 and change in accounting policy with respect to the Group's premises and equipment.

##### FAS 27 'Investment Accounts'

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

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

#### 2.3 Summary of significant accounting policies

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

##### a. Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash in hand, balances with central banks in non-restricted accounts, balances with other banks and financial institutions and sales receivable with an original maturity of three months or less.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

### 2. ACCOUNTING POLICIES (Continued)

#### 2.3 Summary of significant accounting policies (Continued)

##### b. Receivables

###### Murabaha receivable

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

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

###### Wakala receivable

Wakala receivable are stated at cost plus accrued profit, less provision for doubtful amount.

###### Salam receivable

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

###### Istisna'a receivable

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

##### c. Mudaraba financing and Musharaka

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

##### d. Ijara Muntahia Bittamleek and Ijara income receivable

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

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

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

##### e. Investments

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

###### Investment in real estate

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

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

###### Equity-type instruments at fair value through equity

This includes all equity-type instruments that are designated as fair value through equity upon initial recognition. Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealised gains or losses recognised proportionately in owners' equity and equity of investment accountholders until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in owners' equity or equity of investment accountholders is recognised in consolidated statement of income.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

### 2. ACCOUNTING POLICIES (Continued)

#### 2.3 Summary of significant accounting policies (Continued)

##### e. Investments (Continued)

###### Debt-type instruments at amortised cost

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

###### Investment in associates and joint ventures

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

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

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

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

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

##### f. Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation and accumulated impairment in value except for land which is carried at fair value subsequent to initial recognition. The cost of additions and major improvements are capitalised; maintenance and repairs are charged to the consolidated statement of income as incurred. Gains or losses on disposal are reflected in other operating income. Depreciation is calculated using the straight-line method at rates intended to write-off the cost of the assets over their estimated useful lives. Any subsequent change in fair value of land is recognised in the consolidated statement of changes in owner's equity as per the revised policy.

##### g. Fair values

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

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

- (i) For investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the consolidated statement of financial position date.
- (ii) For unquoted investments, fair value is determined by reference to recent significant buy or sell transactions with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.
- (iii) For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for investments with similar terms and risk characteristics.
- (iv) Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less provision for impairment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

### 2. ACCOUNTING POLICIES (Continued)

#### 2.3 Summary of significant accounting policies (Continued)

##### **h. Business combination and goodwill**

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

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

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

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

##### **i. Equity of investment accountholders**

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

##### **j. Investment risk reserve**

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

##### **k. Profit equalisation reserve**

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

##### **l. Off-balance sheet equity of investment accountholders**

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

##### **m. Revenue recognition**

###### **Sales receivable**

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

###### **Mudaraba financing**

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

###### **Wakala financing**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

### 2. ACCOUNTING POLICIES (Continued)

#### 2.3 Summary of significant accounting policies (Continued)

##### m. Revenue recognition (Continued)

###### Ijara Muntahia Bittamleek

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

###### Musharaka

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

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

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

###### Fees and commission income

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

###### Dividends

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

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

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

###### Income from investments

Income from investments is recognised when earned.

###### Rental income

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

##### n. Return on equity of investment accountholders

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

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

##### o. Investment pool expenses

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

##### p. Taxation

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

###### Current

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

###### Deferred

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

### 2. ACCOUNTING POLICIES (Continued)

#### 2.3 Summary of significant accounting policies (Continued)

##### q. Contingencies and Commitments

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

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

##### r. Derecognition

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

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

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

##### s. Earnings prohibited by Shari'a

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

##### t. Foreign currencies

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

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

As at the reporting date, the assets and liabilities in foreign currencies are translated into the presentation currency of the Group (United States Dollar) at the rate of exchange ruling at the consolidated statement of financial position date and their income and expenses are translated at the average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of owners' equity. On disposal of a foreign operation, the deferred cumulative amount recognised in owners' equity relating to that particular foreign operation is recognised in the consolidated statement of income.

##### u. Impairment of financial assets

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment value was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated statement of income. In the case of equity-type instruments at fair value through equity, impairment is reflected directly as a write down of the financial asset. Impairment losses on equity-type instruments at fair value through equity are not reversed through the consolidated statement of income while any subsequent increases in their fair value are recognised directly in owners' equity.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

### 2. ACCOUNTING POLICIES (Continued)

#### 2.3 Summary of significant accounting policies (Continued)

##### v. Judgements and estimates

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

##### Impairment and uncollectibility of financial assets

An assessment is made at each consolidated statement of financial position date to determine whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the assessment (by the Group) of the value to it of anticipated future cash flows, is recognised in the consolidated statement of income. Specific provisions are created to reduce all impaired financial contracts to their realisable cash equivalent value.

##### Fair valuation of investments

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

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

##### Going concern

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

##### Classification of investments

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

##### w. Employees' end of service benefits

##### Defined contribution plan

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

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

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

##### Defined benefit plan

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

##### x. Zakah

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

##### y. Joint and self financed

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

### 2. ACCOUNTING POLICIES (Continued)

#### 2.3 Summary of significant accounting policies (Continued)

##### z. Offsetting

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

##### aa. Shari'a supervisory board

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

##### ab. Trade date accounting

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

### 3. BUSINESS COMBINATION AND ACQUISITION OF NON-CONTROLLING INTEREST

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

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

The following table sets out the details of the transaction:

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

#### Assets acquired and liabilities assumed

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

In order to apply the acquisition method of accounting for the amalgamation as referred above, the management is in the process of carrying out a detailed exercise for the identification and valuation of the assets acquired (including intangible assets, if any).

IFRS 3 allows the acquirer a maximum period of one year from the date of acquisition to finalise the accounting for business combination. If the initial accounting for a business combination remains incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report provisional amounts for the items for which the accounting is incomplete. Such provisional values shall be adjusted retrospectively within a period of one year from the acquisition date to reflect the results of the valuation and information that existed as of acquisition date. Accordingly, pending the completion of the detailed exercise for valuation of the acquired net assets referred above, the Group has reported provisional amounts for the assets acquired including the goodwill in respect of the amalgamation.

The fair valuation exercise is being carried out by an independent consultant. As of 31 October 2016, the fair value of shares issued (i.e. fair value of consideration given) has been finalised, however, the fair values of the assets acquired and liabilities assumed have been recognized at the carrying amounts based on the audited financial statements of BBL. Accordingly, the resultant goodwill recognised has been determined provisionally.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

### 3. BUSINESS COMBINATION AND ACQUISITION OF NON-CONTROLLING INTEREST (Continued)

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

	Fair value recognised on acquisition US\$ '000	Previous carrying value US\$ '000
<b>Assets</b>		
Cash and balances with banks and financial institutions	37,183	37,183
Receivables	31,225	31,225
Ijara Muntahia Bittamleek	2,014	2,014
Mudaraba	556	556
Musharaka	114,264	114,264
Investments	40,790	40,790
Premises and equipment	4,988	4,988
Other assets	30,118	30,199
	<b>261,138</b>	<b>261,219</b>
<b>Liabilities</b>		
Current accounts	40,776	40,776
Due to financial institutions	13,873	13,873
Other liabilities	16,474	16,474
Unrestricted investment accounts	153,382	153,382
	<b>224,505</b>	<b>224,505</b>
<b>Total identifiable net assets at fair value</b>	<b>36,633</b>	<b>36,714</b>
Goodwill arising on acquisition (as reported in the consolidated statement of financial position)	10,473	
<b>Purchase consideration</b>	<b>47,106</b>	
Total consideration comprises of :		
Fair value of the investment in associate	20,701	
Fair value of shares issued to non-controlling shareholders	26,405	
	<b>47,106</b>	

### 4. CASH AND BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS

	2016 US\$ '000	2015 US\$ '000
Cash in hand	32,808	23,696
Balances with State Bank of Pakistan		
Current account	5,553	4,271
Capital deposit account	-	19,500
Mandatory reserves	147,323	61,227
	<b>152,876</b>	<b>84,998</b>
Balances with CBB		
Current account	8,403	18,573
Mandatory reserves	29,077	25,607
	<b>37,480</b>	<b>44,180</b>
Balances with other banks and financial institutions	57,447	84,005
	<b>280,611</b>	<b>236,879</b>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

### 5. RECEIVABLES

	2016			2015		
	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000
Commodities	-	213,118	213,118	-	143,846	143,846
Salam financing	-	59,085	59,085	-	47,976	47,976
Istisna'a financing	-	76,063	76,063	-	51,609	51,609
Murabaha and others	3,167	391,214	394,381	3,800	390,113	393,913
Wakala	-	73,666	73,666	-	25,197	25,197
Gross receivables	3,167	813,146	816,313	3,800	658,741	662,541
Deferred profits	(165)	(23,363)	(23,528)	(346)	(21,013)	(21,359)
	3,002	789,783	792,785	3,454	637,728	641,182
Provision for impairment (note 25)	-	(50,201)	(50,201)	-	(31,498)	(31,498)
Net receivables	3,002	739,582	742,584	3,454	606,230	609,684

Receivables which are non-performing as of 31 December 2016 amounted to US\$ 74.4 million (2015: US\$ 55.2 million).

### 6. MUDARABA FINANCING

	2016			2015		
	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000
Banks and financial institutions	-	776	776	-	-	-

### 7. IJARA MUNTAHIA BITTAMLEEK

	2016			2015		
	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000
<b>Building</b>						
Cost	-	254,943	254,943	-	212,334	212,334
Accumulated depreciation	-	(49,388)	(49,388)	-	(35,050)	(35,050)
Net book value	-	205,555	205,555	-	177,284	177,284
<b>Equipment</b>						
Cost	20,000	52,614	72,614	21,906	55,639	77,545
Accumulated depreciation	(1,698)	(31,182)	(32,880)	(2,431)	(22,509)	(24,940)
Net book value	18,302	21,432	39,734	19,475	33,130	52,605
<b>Others</b>						
Cost	-	56,321	56,321	-	50,764	50,764
Accumulated depreciation	-	(21,842)	(21,842)	-	(14,255)	(14,255)
Net book value	-	34,479	34,479	-	36,509	36,509
<b>Total</b>						
Cost	20,000	363,878	383,878	21,906	318,737	340,643
Accumulated depreciation	(1,698)	(102,412)	(104,110)	(2,431)	(71,814)	(74,245)
Net book value	18,302	261,466	279,768	19,475	246,923	266,398

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

### 8. MUSHARAKA

	2016			2015		
	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000
Musharaka	-	321,733	321,733	-	156,973	156,973
Provision for impairment (note 25)	-	(5,005)	(5,005)	-	(2,713)	(2,713)
	-	316,728	316,728	-	154,260	154,260

Musharaka which are impaired as of 31 December 2016 amounted to US\$ 12.4 million (2015: US\$ 3 million).

### 9. INVESTMENTS

	2016			2015		
	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000
<b>i) Debt-type instruments at amortised cost</b>						
<b>Quoted</b>						
Sukuk	72,769	103,844	176,613	62,132	98,869	161,001
<b>Unquoted</b>						
Sukuk	204,780	82,880	287,660	188,411	25,986	214,397
	277,549	186,724	464,273	250,543	124,855	375,398
<b>ii) Equity-type instruments at fair value through equity</b>						
<b>Quoted</b>						
Listed equity shares	8,472	423	8,895	2,812	275	3,087
<b>Unquoted</b>						
Equity investments	60,350	499	60,849	57,392	498	57,890
Managed funds	1,000	5,000	6,000	1,000	5,000	6,000
Real estate related	4,636	7,323	11,959	8,595	2,821	11,416
	74,458	13,245	87,703	69,799	8,594	78,393
Less: Provision for impairment (note 25)	(2,622)	(455)	(3,077)	(1,995)	(985)	(2,980)
<b>Total investments</b>	<b>349,385</b>	<b>199,514</b>	<b>548,899</b>	<b>318,347</b>	<b>132,464</b>	<b>450,811</b>

Included in quoted equity type instruments, US \$ 8.7 million (2015: US \$ 2.9 million) of investments are fair valued using quoted prices in active markets.

Within unquoted investments which are held at fair value through equity are investments amounting to US\$ 77.5 million (2015: US\$ 73.0 million) which are held at cost less provision for impairment. These are mainly investments in unlisted companies whose shares are not traded on active markets. The investments are primarily in closely-held companies located in the Gulf Co-operation Council ("GCC"). The investments are held at cost less provision for impairment due to the unpredictable nature of their future cash flows and the lack of other suitable methods for determining a reliable fair value.

The Group's investments in sukuk held at amortised cost amounting to US\$ 462.8 million (2015: US\$ 374.9 million) has a fair value amounting to US\$ 461.9 million (2015: US\$ 371.5 million).

Investments stated at a carrying amount of US \$ 166.5 million (2015: US \$ 161 million) are placed in custody of a financial institution and such instruments having face value US \$ 45.119 million were pledged to secure a borrowing line.

### 10. INVESTMENTS IN REAL ESTATE

	2016 US\$ '000	2015 US\$ '000
Buildings	5,974	5,974

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

### 11. IJARA INCOME RECEIVABLE

	2016			2015		
	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000
Ijara income receivable	1,713	32,781	34,494	1,101	24,218	25,319
Provision for impairment (note 25)	-	(3,889)	(3,889)	-	(1,853)	(1,853)
	1,713	28,892	30,605	1,101	22,365	23,466

Total Ijara Muntahia Bittamleek and Ijara income receivable, which are non-performing as of 31 December 2016 amounted to US\$ 22.7 million (2015: US\$ 10.4 million).

### 12. INVESTMENT IN A JOINT VENTURE

	2016 US\$ '000	2015 US\$ '000
Investments made during the year	14,589	-
Share of loss for the year	(13)	-
	14,576	-

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

#### Summarised statement of financial position

	2016 US\$ '000	2015 US\$ '000
Non-current assets	17,005	-
Current assets	11,580	-
Current liabilities	(5)	-
<b>Net assets</b>	<b>28,580</b>	-
Group's ownership in equity	14,576	-
<b>Net carrying amount</b>	<b>14,576</b>	-

#### Summarised statement of profit and loss

Total income	2	-
Total expenses	(27)	-
<b>Total comprehensive loss</b>	<b>(25)</b>	-
<b>Group's net share of loss</b>	<b>(13)</b>	-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

### 13. PREMISES AND EQUIPMENT

	Land and buildings US\$ '000	Computer software & license US\$ '000	Office furniture and equipment US\$ '000	Vehicles US\$ '000	Total US\$ '000
<b>Cost:</b>					
At 1 January 2016	23,608	9,562	20,012	988	54,170
Additions	217	794	1,989	24	3,024
Disposals	(36)	-	(45)	(238)	(319)
Revaluation	-	-	-	-	-
Acquisition and amalgamation (note 3)	7,589	3,675	5,964	227	17,455
Exchange difference on opening balance	17	4	15	1	37
At 31 December 2016	31,395	14,035	27,935	1,002	74,367
<b>Depreciation:</b>					
At 1 January 2016	5,221	8,191	15,001	673	29,086
Provided during the year	939	664	1,330	130	3,063
Disposals	(32)	-	(38)	(224)	(294)
Acquisition and amalgamation (note 3)	4,111	3,260	4,990	106	12,467
Exchange difference on opening balance	2	3	10	1	16
At 31 December 2016	10,241	12,118	21,293	686	44,338
Net book values:					
<b>At 31 December 2016</b>	<b>21,154</b>	<b>1,917</b>	<b>6,642</b>	<b>316</b>	<b>30,029</b>
At 31 December 2015	18,387	1,371	5,011	315	25,084
Estimated useful lives for calculation of depreciation	20-30 years	4-5 years	1-10 years	4-5 years	

### 14. GOODWILL

	2016 US\$ '000	2015 US\$ '000
At 1 January	17,659	18,407
Additions	10,473	-
Foreign exchange translations	49	(748)
	28,181	17,659

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

### 15. OTHER ASSETS

	2016 US\$ '000	2015 US\$ '000
Deferred tax (note 15.1)	27,657	13,298
Collaterals pending sale	22,700	17,262
Advance against financing transactions	21,722	12,629
Advance against capital expenditures	7,791	5,322
Advance tax (note 26)	3,766	2,128
Accounts receivable	3,595	5,194
Income receivable	649	842
Others	22,426	10,575
<b>Total</b>	<b>110,306</b>	<b>67,250</b>
Provision for impairment (note 25)	(3,787)	(2,892)
	<b>106,519</b>	<b>64,358</b>

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

### 16. OTHER LIABILITIES

	2016 US\$ '000	2015 US\$ '000
Margins received	23,298	17,487
Accounts payable	16,971	17,649
Security deposit against Ijara Muntahia Bittamleek	16,073	12,743
Bills payable	13,254	8,437
Provision for employees benefits	7,950	7,389
Charity fund	549	580
Others	13,384	4,262
	<b>91,479</b>	<b>68,547</b>

### 17. EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH)

The Group manages and deploys Equity of IAH according to its Article of Association – Chapter 3 on Rules of Business. In this respect, the Bank invests its own funds separately or jointly with amount received from Equity of IAH. These funds received are managed in accordance with Shari' a requirements and standard of prudence is applied in the context of managing the overall portfolios to enable the Group to exercise its fiduciary responsibilities. The Group is authorised by Equity of IAH to invest the funds on the basis of Mudaraba, Murabaha, Salam, Ijara transactions and other forms of contract in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

	2016 US\$ '000	2015 US\$ '000
IAH - Non-banks	1,324,689	1,024,282
IAH - Banks	270,666	217,415
Profit equalisation reserve (note 17.1)	551	558
Investment risk reserve (note 17.2)	2,339	2,339
	<b>1,598,245</b>	<b>1,244,594</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

### 17. EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH) (Continued)

#### 17.1 Movement in profit equalisation reserve

	2016 US\$ '000	2015 US\$ '000
Balance at 1 January	558	574
Foreign exchange loss	(7)	(16)
Balance at 31 December	551	558

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

#### 17.2 Movement in investment risk reserve

	2016 US\$ '000	2015 US\$ '000
Balance at 1 January	2,339	2,338
Amount apportioned from income allocable to equity of IAH	-	2
Exchange difference	-	(1)
Balance at 31 December	2,339	2,339

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

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

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

The Group's share, as Mudarib, in the profits of equity of IAH is upto a maximum of 70% (2015: upto 70%) as per the terms of IAH agreements.

The Group has charged a total administrative expense of US\$ 5.8 million (2015: US\$ 3.4 million) to equity of IAH.

#### 17.3 Equity of Investment Accountholders rate of return

	Average 2016 Rate of return %			Average 2015 Rate of return %		
	Bahrain		Pakistan	Bahrain		Pakistan
	BD	USD		BD	USD	
Saving Accounts	0.11%	0.08%	2.13% - 3.04%	0.12%	0.11%	3.18%
One Month	0.56%	-	2.36% - 3.31%	0.64%	-	3.55%
Three Months	0.66%	0.89%	3.12% - 3.91%	0.74%	0.83%	4.22%
Six Months	0.77%	0.96%	3.77% - 3.49%	0.84%	0.89%	3.65%
Nine Months	0.81%	-	-	0.85%	-	-
1 Year	0.89%	1.03%	2.39% - 4.55%	0.98%	0.95%	4.66%
2 Years	1.00%	1.15%	1.52% - 4.83%	1.12%	1.06%	4.75%
3 Years	1.52%	-	3.70% - 5.22%	1.26%	-	5.25%
4 Years	-	-	4.95%	-	-	4.70%
5 Years	-	-	3.78% - 5.51%	-	-	5.54%

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 17. EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH) (Continued)

#### 17.4 Equity of Investment Accountholders by type

	2016 US\$ '000	2015 US\$ '000
Saving Accounts	682,772	483,160
One Month	102,085	64,609
Three Months	202,872	152,089
Six Months	175,048	135,906
Nine Months	4,194	3,825
1 Year	325,316	288,860
2 Years	46,897	62,356
3 Years	47,591	41,217
4 Years	5,178	5,643
5 Years	6,292	6,929
	<b>1,598,245</b>	<b>1,244,594</b>

#### 17.5 Equity of Investment Accountholders by maturity

	2016 US\$ '000	2015 US\$ '000
Accounts on demand	682,772	483,160
Accounts on a contractual basis *	915,473	761,434
	<b>1,598,245</b>	<b>1,244,594</b>

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

### 18. SUBORDINATED DEBT

	2016 US\$ '000	2015 US\$ '000
Subordinated Mudaraba and Murabaha by Ultimate Parent	32,555	6,014
Subordinated Mudaraba Sukuk	13,923	16,708
	<b>46,478</b>	<b>22,722</b>

### 19. OWNERS' EQUITY

	2016 US\$ '000	2015 US\$ '000
<b>(i) Share capital</b>		
Authorised 6,000,000 ordinary shares (2015: 6,000,000) of US\$ 100 each	600,000	600,000
Issued and fully paid 1,224,578 ordinary shares (2015: 1,224,578) of US\$ 100 each	122,458	122,458

Additional information on shareholding pattern

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

### 19. OWNERS' EQUITY (Continued)

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

	Number of shares	Number of shareholders	2016 % of total outstanding shares	Number of shares	Number of shareholders	2015 % of total outstanding shares
Less than 1%	58,823	12	4.81%	58,823	12	4.81%
1% up to less than 5%	50,000	1	4.08%	50,000	1	4.08%
	<b>108,823</b>	<b>13</b>	<b>8.89%</b>	108,823	13	8.89%

#### (ii) Statutory reserve

In accordance with the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net income attributable to the shareholders of the parent for the year is transferred to the statutory reserve until such time as the reserve reaches 50% of the Bank's paid-up share capital. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the CBB. An amount of US\$ 0.221 million was transferred to statutory reserve for the year ended 31 December 2016 (31 December 2015 : US\$ 0.497 million).

#### (iii) General reserve

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

#### (iv) Cumulative changes in fair value

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

#### (v) Revaluation reserve on premises and equipment

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

#### (vi) Foreign exchange reserve

This represents the translation reserve arising as a result of consolidation of the foreign subsidiary.

#### (vii) Employee defined benefit plan reserve

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

### 20. CONTINGENCIES AND COMMITMENTS

	2016 US\$ '000	2015 US\$ '000
Guarantees	99,255	64,291
Letters of credit	76,126	80,740
Foreign exchange contracts	64,576	39,453
Acceptances	24,979	29,254
Taxation	13,894	2,413
Others	545	831
	<b>279,375</b>	216,982

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 21. INCOME FROM JOINTLY AND SELF FINANCED, OTHER FINANCING AND INVESTMENTS

	2016 US\$ '000	2015 US\$ '000
Ijara Muntahia Bittamleek (note 21.1) - net	19,278	17,970
Income from investments	18,476	21,774
Musharaka	15,777	11,534
Gain on sale of investments	2,942	901
Dividends	193	235
Rental income	229	202
<b>Total</b>	<b>56,895</b>	<b>52,616</b>

	2016 US\$ '000	2015 US\$ '000
Income from jointly financed, other financings and investments	42,260	38,947
Income from self financed, other financings and investments	14,635	13,669
<b>Total</b>	<b>56,895</b>	<b>52,616</b>

#### 21.1 Ijara Muntahia Bittamleek

	2016 US\$ '000	2015 US\$ '000
Income from Ijara Muntahia Bittamleek	75,887	67,380
Depreciation on Ijara Muntahia Bittamleek	(56,609)	(49,410)
<b>Total</b>	<b>19,278</b>	<b>17,970</b>

### 22. REVENUE FROM BANKING SERVICES

	2016 US\$ '000	2015 US\$ '000
Fees and commissions	6,673	5,357
Letters of credit and acceptances	5,191	3,133
Guarantees	970	788
<b>Total</b>	<b>12,834</b>	<b>9,278</b>

### 23. OTHER INCOME

	2016 US\$ '000	2015 US\$ '000
Foreign exchange gain - net	1,640	1,692
Others	1,040	1,400
<b>Total</b>	<b>2,680</b>	<b>3,092</b>

### 24. OTHER OPERATING EXPENSES

	2016 US\$ '000	2015 US\$ '000
Premises costs	10,444	8,101
Business expenses	7,066	4,474
Administrative expenses	6,235	6,783
General expenses	1,462	1,320
<b>Total</b>	<b>25,207</b>	<b>20,678</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

### 25. MOVEMENT IN PROVISIONS FOR IMPAIRMENT

	Receivables US\$ '000	Musharaka US\$ '000	Investments US\$ '000	Ijara income receivable US\$ '000	Other assets US\$ '000	Total US\$ '000
<b>2016</b>						
<b>Notes</b>	<b>5</b>	<b>8</b>	<b>9</b>	<b>11</b>	<b>15</b>	
Provision at beginning of the year	31,498	2,713	2,980	1,853	2,892	41,936
Charged during the year	13,957	575	1,019	201	835	16,587
Written back during the year	(4,311)	(1,976)	(458)	(400)	-	(7,145)
	9,646	(1,401)	561	(199)	835	9,442
	41,144	1,312	3,541	1,654	3,727	51,378
Written off during the year	(1)	-	(465)	-	(719)	(1,185)
Transfer in on amalgamation	9,079	3,689	-	2,233	774	15,775
Exchange difference on opening balance	(21)	4	1	2	5	(9)
Provision at end of the year	50,201	5,005	3,077	3,889	3,787	65,959
<b>2015</b>						
<b>Notes</b>	<b>5</b>	<b>8</b>	<b>9</b>	<b>11</b>	<b>15</b>	
Provision at beginning of the year	47,521	2,565	5,913	1,485	3,311	60,795
Charged during the year	7,734	408	41	613	51	8,847
Written back during the year	(6,796)	(140)	(2,741)	(172)	-	(9,849)
	938	268	(2,700)	441	51	(1,002)
	48,459	2,833	3,213	1,926	3,362	59,793
Written off during the year	(15,643)	(16)	(122)	-	(288)	(16,069)
Exchange difference on opening balance	(1,318)	(104)	(111)	(73)	(182)	(1,788)
Provision at end of the year	31,498	2,713	2,980	1,853	2,892	41,936

The total general provision maintained against financing facilities as of 31 December 2016 amounted to US\$ 3.3 million (2015: US\$ 2.1 million).

### 26. TAXATION

Taxation relates to subsidiary in Pakistan and comprise:

	2016 US\$ '000	2015 US\$ '000
<b>Consolidated statement of financial position:</b>		
Advance tax - net	3,766	2,128
<b>Consolidated statement of income:</b>		
Current tax	577	751
Deferred tax	(42)	835
	535	1,586

### 27. CASH AND CASH EQUIVALENTS

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

	2016 US\$ '000	2015 US\$ '000
Cash in hand	32,808	23,696
Balances with central banks in current accounts	13,956	22,844
Balances with other banks and financial institutions	57,447	84,005
Receivables - international commodities (with an original maturity of 90 days or less)	212,942	143,789
	317,153	274,334

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

### 28. RELATED PARTY TRANSACTIONS

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

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

	Shareholders		Other Related Parties		Total	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
<b>Assets:</b>						
Cash and balances with banks and financial institutions	815	120	99	89	914	209
Receivables	-	-	48,548	35,499	48,548	35,499
Mudaraba financing	-	-	-	-	-	-
Ijara Muntahia Bittamleek	-	-	583	740	583	740
Musharaka	-	-	2,156	1,420	2,156	1,420
Ijara income receivable	-	-	81	78	81	78
Investments	-	-	86,946	71,625	86,946	71,625
Other assets	2,627	2,672	61	1	2,688	2,673
	<b>3,442</b>	<b>2,792</b>	<b>138,474</b>	<b>109,452</b>	<b>141,916</b>	<b>112,244</b>
<b>Liabilities:</b>						
Due to banks and financial institutions	3,416	5,401	654	1,627	4,070	7,028
Current account	126	100	2,575	2,586	2,701	2,686
Other liabilities	6	6	946	2,103	952	2,109
	<b>3,548</b>	<b>5,507</b>	<b>4,175</b>	<b>6,316</b>	<b>7,723</b>	<b>11,823</b>
<b>Equity of investment accountholders</b>	<b>6,160</b>	<b>16,976</b>	<b>84,433</b>	<b>54,181</b>	<b>90,593</b>	<b>71,157</b>
<b>Subordinated debt</b>	<b>32,555</b>	<b>6,014</b>	<b>-</b>	<b>-</b>	<b>32,555</b>	<b>6,014</b>
<b>Off-balance sheet equity of investment accountholders</b>	<b>-</b>	<b>-</b>	<b>74,715</b>	<b>89,480</b>	<b>74,715</b>	<b>89,480</b>
<b>Contingencies and commitments</b>	<b>-</b>	<b>-</b>	<b>4,432</b>	<b>10,242</b>	<b>4,432</b>	<b>10,242</b>
<b>Income</b>						
Income from jointly financed sales	-	-	1,127	1,171	1,127	1,171
Income from jointly financed, other financing and investments	-	-	1,035	459	1,035	459
Group's income from self financed, other financings	-	-	-	725	-	725
Other income	318	574	-	-	318	574
Group's Mudarib/agency fee from off-balance sheet equity of investment account holders	73	77	45	-	118	77
	<b>391</b>	<b>651</b>	<b>2,207</b>	<b>2,355</b>	<b>2,598</b>	<b>3,006</b>
<b>Expenses</b>						
Return on equity of investment accountholders before Group's share as a Mudarib	1,316	63	1,405	763	2,721	826
Other expenses	439	104	2,691	1,468	3,130	1,572
	<b>1,755</b>	<b>167</b>	<b>4,096</b>	<b>2,231</b>	<b>5,851</b>	<b>2,398</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

### 28. RELATED PARTY TRANSACTIONS (Continued)

Compensation of key management personnel is as follows:

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

	2016 US\$ '000	2015 US\$ '000
Salaries	4,040	3,726
Other benefits	2,318	2,279
	<b>6,358</b>	<b>6,005</b>

### 29. RISK MANAGEMENT

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

#### a. Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a regular basis.

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

	Up to 3 months US\$ '000	3 to 6 months US\$ '000	6 months to 1 year US\$ '000	1 to 3 years US\$ '000	3 to 5 years US\$ '000	5 to 10 years US\$ '000	10 to 20 years US\$ '000	Over 20 years US\$ '000	No fixed maturity US\$ '000	Total US\$ '000
<b>ASSETS</b>										
Cash and balances with banks	104,211	-	-	-	-	-	-	-	176,400	280,611
Receivables	391,810	170,117	97,407	41,301	11,815	3,388	-	-	26,746	742,584
Mudaraba financing	776	-	-	-	-	-	-	-	-	776
Ijara Muntahia Bittamleek	12,862	8,004	14,654	63,567	54,770	49,368	59,346	15,510	1,687	279,768
Musharaka	19,848	737	9,804	65,700	143,524	41,577	28,193	-	7,345	316,728
Investments	8,604	138,578	8,609	132,393	88,542	91,996	1,000	-	79,177	548,899
Investments in real estate	-	-	-	5,974	-	-	-	-	-	5,974
Ijara income receivable	735	378	723	2,741	2,220	2,398	2,185	571	18,654	30,605
Investment in joint Venture	-	-	-	-	-	14,576	-	-	-	14,576
Premises and equipment	-	-	-	-	-	-	-	-	30,029	30,029
Goodwill	-	-	-	-	-	-	-	-	28,181	28,181
Other assets	38,636	4,774	21,527	4,069	32,127	-	-	-	5,386	106,519
<b>Total assets</b>	<b>577,482</b>	<b>322,588</b>	<b>152,724</b>	<b>315,745</b>	<b>332,998</b>	<b>203,303</b>	<b>90,724</b>	<b>16,081</b>	<b>373,605</b>	<b>2,385,250</b>
<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED DEBT AND OWNERS' EQUITY</b>										
Due to banks and financial institutions	40,386	15,436	2,652	-	-	-	-	-	-	58,474
Current accounts	293,308	-	-	-	-	-	-	-	-	293,308
Borrowings	30,582	-	-	60,000	-	-	-	-	-	90,582
Other liabilities	72,265	2,360	3,974	7,506	5,371	3	-	-	-	91,479
<b>Total liabilities</b>	<b>436,541</b>	<b>17,796</b>	<b>6,626</b>	<b>67,506</b>	<b>5,371</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>533,843</b>
Equity of investment accountholders	696,872	233,404	250,970	223,456	89,501	78,031	26,011	-	-	1,598,245
Subordinated debt	1,631	-	1,366	5,463	5,463	32,555	-	-	-	46,478
<b>Total owners' equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>206,684</b>	<b>206,684</b>
Total liabilities, Equity of investment accountholders, subordinate debt and owner's equity	1,135,044	251,200	258,962	296,425	100,335	110,589	26,011	-	206,684	2,385,250
Net gap	(557,562)	71,388	(106,238)	19,320	232,663	92,714	64,713	16,081	166,921	-
Cumulative net gap	(557,562)	(486,174)	(592,412)	(573,092)	(340,429)	(247,715)	(183,002)	(166,921)	-	-
<b>Off-balance sheet equity of investment accountholders</b>	<b>4,500</b>	<b>62,085</b>	<b>9,405</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>75,990</b>

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### 29. RISK MANAGEMENT (Continued)

#### a. Liquidity risk (Continued)

The table below summarises the maturity profile of the Group's assets and liabilities as of 31 December 2015 based on contractual periods to cash conversion from the consolidated statement of financial position date. However, expected periods to cash conversion where there are no contractual terms.

	Up to 3 months US\$ '000	3 to 6 months US\$ '000	6 months to 1 year US\$ '000	1 to 3 years US\$ '000	3 to 5 years US\$ '000	5 to 10 years US\$ '000	10 to 20 years US\$ '000	Over 20 years US\$ '000	No fixed maturity US\$ '000	Total US\$ '000
<b>ASSETS</b>										
Cash and balances with banks	105,887	4,799	39,359	-	-	-	-	-	86,834	236,879
Receivables	307,063	148,187	59,184	53,265	14,194	2,217	-	-	25,574	609,684
Ijara Muntahia Bittamleek	12,564	7,334	19,240	72,862	56,679	38,951	45,735	12,846	187	266,398
Musharaka	2,242	2,208	3,663	17,001	78,748	39,696	10,407	-	295	154,260
Investments	13,403	313	7,000	160,566	97,160	110,650	1,000	-	60,719	450,811
Investments in real estate	-	-	-	5,974	-	-	-	-	-	5,974
Ijara income receivable	1,354	800	2,041	1,179	1,064	3,437	3,903	1,096	8,592	23,466
Premises and equipment	-	-	-	-	-	-	-	-	25,084	25,084
Goodwill	-	-	-	-	-	-	-	-	17,659	17,659
Other assets	23,952	935	23,104	-	13,448	-	-	-	2,919	64,358
<b>Total assets</b>	<b>466,465</b>	<b>164,576</b>	<b>153,591</b>	<b>310,847</b>	<b>261,293</b>	<b>194,951</b>	<b>61,045</b>	<b>13,942</b>	<b>227,863</b>	<b>1,854,573</b>
<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED DEBT AND OWNERS' EQUITY</b>										
Due to banks and financial institutions	13,525	8,550	24,653	-	-	-	-	-	-	46,728
Current accounts	232,586	-	-	-	-	-	-	-	-	232,586
Borrowings	27,407	-	-	38,000	-	-	-	-	-	65,407
Other liabilities	54,944	704	799	5,824	6,095	181	-	-	-	68,547
<b>Total liabilities</b>	<b>328,462</b>	<b>9,254</b>	<b>25,452</b>	<b>43,824</b>	<b>6,095</b>	<b>181</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>413,268</b>
Equity of investment accountholders	545,015	197,445	179,775	184,423	67,607	52,747	17,582	-	-	1,244,594
Subordinated debt	1,705	-	1,364	5,456	8,183	6,014	-	-	-	22,722
Total owners' equity	-	-	-	-	-	-	-	-	173,989	173,989
<b>Total liabilities, Equity of investment accountholders, subordinated debt and owner's equity</b>	<b>875,182</b>	<b>206,699</b>	<b>206,591</b>	<b>233,703</b>	<b>81,885</b>	<b>58,942</b>	<b>17,582</b>	<b>-</b>	<b>173,989</b>	<b>1,854,573</b>
Net gap	(408,717)	(42,123)	(53,000)	77,144	179,408	136,009	43,463	13,942	53,874	-
Cumulative net gap	(408,717)	(450,840)	(503,840)	(426,696)	(247,288)	(111,279)	(67,816)	(53,874)	-	-
Off-balance sheet equity of investment accountholders	17,827	76,850	9,462	-	-	-	-	-	-	104,139

#### b. Market risk

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

##### Profit rate risk

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

The Group is exposed to displaced commercial risk in the event of having equity of IAH profit rates that are lower than market rates. The Group has mitigated this risk through the setting up of reserves that will be used in case of a drop in IAH profit rates. The policies and procedures for displaced commercial risk are formulated and implemented at the segment level (Pakistan and Bahrain).

##### Foreign exchange risk

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

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### 29. RISK MANAGEMENT (Continued)

#### b. Market risk (Continued)

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

	2016			2015		
	Operational equivalent US\$ '000	Strategic equivalent US\$ '000	Total equivalent US\$ '000	Operational equivalent US\$ '000	Strategic equivalent US\$ '000	Total equivalent US\$ '000
Pakistani Rupees	31,210	51,452	82,662	28,452	33,509	61,961
Euro	(10,503)	-	(10,503)	(323)	-	(323)
Kuwaiti Dinars	6,514	-	6,514	13,225	-	13,225
Pound Sterling	(3,315)	-	(3,315)	(2,256)	-	(2,256)
Others	231	-	231	(59)	-	(59)

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

#### Foreign currency risk sensitivity analysis

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

Following is the sensitivity analysis that calculates the effect of a reasonable possible movement of the currency exchange rate against the US Dollar with all other variables held constant on the consolidated statement of income and the consolidated statement of owners' equity. The impact of a similar increase / (decrease) in exchange rates will be approximately opposite to the impact disclosed below:

Currency	Particular	Change	Exposures in US\$ '000	Effect on profit and loss/ Equity US\$ '000
<b>2016</b>				
Pakistani Rupees	Net long Position	20%	82,662	16,532
Euro	Net short Position	20%	(10,503)	(2,101)
Kuwaiti Dinars	Net long Position	20%	6,514	1,303
Pound Sterling	Net short Position	20%	(3,315)	(663)
<b>2015</b>				
Pakistani Rupees	Net long Position	20%	61,961	12,392
Euro	Net short Position	20%	(323)	(65)
Kuwaiti Dinars	Net long Position	20%	13,225	2,645
Pound Sterling	Net short Position	20%	(2,256)	(451)

#### 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.

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

Market indices	Change in equity price 2016 %	Effect on equity 2016 US\$ '000	Change in equity price 2015 %	Effect on equity 2015 US\$ '000
Karachi Stock Exchange	10%	890	10%	309

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

### 29. RISK MANAGEMENT (Continued)

#### b. Market risk (Continued)

As at the consolidated statement of financial position date, the Group had unquoted investments held at cost less provision for impairment of US \$ 77.5 million (31 December 2015: US \$ 73 million). The impact of changes in the value of these unquoted investments and the related impact on equity will only be reflected when the investment is sold or deemed to be impaired.

#### Concentration of investment portfolio

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

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

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

	*GCC US\$ '000	Rest of the world US\$ '000	Total US\$ '000
<b>31 December 2015</b>			
Banking	42,914	37,362	80,276
Government	89,687	173,354	263,041
Investment companies	82,976	-	82,976
Manufacturing	-	2,544	2,544
Real estate	9,183	6,608	15,791
Others	50	6,133	6,183
	<b>224,810</b>	<b>226,001</b>	<b>450,811</b>

#### c. Credit risk

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

#### Type of credit risk

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

#### Receivables

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

#### Istisna'a receivable

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

### 29. RISK MANAGEMENT (Continued)

#### c. Credit risk (Continued)

##### Musharaka

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

##### Ijara Muntahia Bittamleek

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

##### General credit policies and guiding principles

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

- 1) Financing will be extended when the Group can confidently expect that it will be repaid by the customer as agreed. This necessitates a thorough knowledge of the customer and clear understanding of the risks underlying the credit requests.
- 2) Financing should be extended where there are at least two clear sources of repayments.
- 3) It is generally preferred that the repayments are from cash generated by the customers' productive and ongoing income or activities.
- 4) Amounts, profits/other charges and terms under the prevailing market conditions for any proposed financing are to be consistent with the perceived quality of the risk being undertaken.
- 5) Financing should generally be extended where the Group's seniority as creditors is pari passu or better than any other financing.
- 6) Financing should be structured appropriately considering the purpose of the credit and the source of repayment.
- 7) Financing needs to be assessed on a stand alone basis as well as on portfolio basis to assess its impact on the total financing portfolio.
- 8) Compliance with all applicable local statutory and regulatory directives guidelines should be ensured in all cases.
- 9) Proprietary and ethical standards should be taken into account in all financing decisions.

##### Maximum exposure to credit risk

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

	<b>Gross Maximum Exposure to Credit Risk</b>	
	<b>2016</b>	2015
	<b>US\$ '000</b>	US\$ '000
Receivables	<b>742,584</b>	609,684
Mudaraba financing	<b>776</b>	-
Musharaka	<b>316,728</b>	154,260
Ijara Muntahia Bittamleek and Ijara income receivable	<b>310,373</b>	289,864
Contingencies and commitments	<b>264,936</b>	213,738

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

### 29. RISK MANAGEMENT (Continued)

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

Type of Islamic Financing Contract	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	692,941	25,432	74,412	792,785
Mudaraba financing	776	-	-	776
Musharaka	307,022	2,361	12,350	321,733
Ijara Muntahia Bittamleek and Ijara income receivable	290,673	918	22,671	314,262
	<b>1,291,412</b>	<b>28,711</b>	<b>109,433</b>	<b>1,429,556</b>

Type of Islamic Financing Contract	31 December 2015			
	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	546,701	39,269	55,212	641,182
Musharaka	152,964	1,001	3,008	156,973
Ijara Muntahia Bittamleek Ijara income receivable	280,644	628	10,445	291,717
	<b>980,309</b>	<b>40,898</b>	<b>68,665</b>	<b>1,089,872</b>

##### Aging analysis of past due but performing Islamic financing contracts

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

Type of Islamic Financing Contracts	31 December 2015			Total US\$ '000
	Less than 30 days US\$ '000	31 to 60 days US\$ '000	61 to 90 days US\$ '000	
Receivables	27,461	6,957	4,851	39,269
Musharaka	493	179	329	1,001
Ijara Muntahia Bittamleek and Ijara income receivable	429	123	76	628
	<b>28,383</b>	<b>7,259</b>	<b>5,256</b>	<b>40,898</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

### 29. RISK MANAGEMENT (Continued)

#### c. Credit risk (Continued)

##### Aging of Non-Performing Facilities

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

	31 December 2015				
	3-6 Months US\$ '000	6-12 Months US\$ '000	1-3 Years US\$ '000	3 Years & above US\$ '000	Total US\$ '000
Receivables	7,838	2,993	2,284	42,097	55,212
Musharaka	48	-	353	2,607	3,008
Ijara Muntahia Bittamleek and Ijara income receivable	6,992	505	2,114	834	10,445
	14,878	3,498	4,751	45,538	68,665

As at 31 December 2016 the fair value of the collateral that the Group holds relating to non performing facilities amounts to US \$ 32.2 million (2015: US \$ 24.2 million). The utilisation of the collaterals will be on customer by customer basis and will be limited to the customer's total exposure.

#### Credit Risk Mitigation

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

Collaterals listed hereunder attract capital relief from capital adequacy requirements:

- 1) Hamish Jiddiyah (HJ) (Security deposit): The Group takes this type of collateral in the transactions for which non-binding promises to perform is given by the customer. If a customer does not honour his promise to perform, the Group has recourse to the HJ. HJ is taken by the Group at the inception of the transaction but before signing the contracts. HJ constitutes partial guarantee to the Group for the performance of the contract by the customer. The Group will still have recourse to the customers for the unsecured position in case of default.
- 2) Third party guarantee: The Group should have recourse to the guarantor in case of customer's default. In order to qualify as eligible collateral, the guarantee should be unconditional and irrevocable. The guarantor must be solvent and, if applicable, should provide the Group with signed audited financial statements.
- 3) Underlying assets of the lease contract: The underlying asset must be of monetary value and the Group must have legal access to it, own it and sell it to cover the open exposure with the customers in question. The assets have also to be free of any kind of encumbrance. In the same lease contract a customer can pledge other assets that customers own other than the underlying assets in the contract. In order for the Group to consider these assets as pledged assets, it must meet all the conditions for the underlying assets under the lease contract. It must be legally enforceable, accessible, saleable and free of any kind of encumbrance. The value of the pledged asset must be used only to offset the amount against the customers.  
Any excess amount resulting from the closure of the pledge by the Group should be returned to the customer (pledger). The Group is conducting at least annual evaluation of the pledged assets and keeping adequate documentation of this evaluation.
- 4) Cash deposit free from any legal encumbrance with the subsidiary either in the form of equity of investment accountholders or off-balance sheet equity of investment accountholders.
- 5) Rated and unrated senior Sukuk issued by financial institutions or sovereigns.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

### 29. RISK MANAGEMENT (Continued)

#### c. Credit risk (Continued)

##### Credit Quality

Countries, governments and financial institutions will be rated on the basis of their unsecured medium term foreign currency obligations. This means that for governments and financial institutions the cross-border risk will also be part of the rating and the country's rating will be, in most cases, the ceiling on the financial institution's rating. Corporates will be rated on their senior unsecured medium term local currency obligations, unless the credit granted is across border or in foreign currency. In the latter case, the obligor's country's rating will be the ceiling on corporates' rating. Where all credit to a government is in local currency, the rating for that government is the best i.e. 1 on the rating scale, however, if the exposure to the government includes foreign currency, the rating for that government will be the same as the country's rating.

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

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

During the year 2016, US \$ 63.9 million (2015: US \$ 16.2 million) of financing facilities were renegotiated. Exposures amounting to US \$ 17 million of the restructured facilities are non-performing as of 31 December 2016 (2015: US \$ 6.7 million).

#### d. Operational risk

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

##### Infrastructure risks

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

In order to protect the Group from the infrastructure risk as outlined above, the Group is taking necessary measures as indicated in the Business Continuity Plan and/or Disaster Recovery Plan to cater for these risks.

##### Information technology risks

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

##### Staff risk

The main risks that might arise from staff risks are risks due to larceny, fraud, corruption, crime, etc. In order to prevent these risks from occurring, the Group has established a corporate culture which entails constructive ways of dealing with mistakes. The Group has also established an approval control steps in business processes as well as creating separate control processes. Further, the Group has already established measures of organisational structure in terms of segregation of duties as well as diverse training measures to reduce human error.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

### 30. CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS

The distribution by geographic region and industry sector was as follows:

	Assets		Liabilities and Subordinated debt		Equity of investment accountholders	
	2016	2015	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>Geographical region</b>						
Middle East	1,028,605	864,876	216,063	193,479	657,364	608,038
Europe	80,374	65,625	2,059	2,446	20	57
Asia	1,226,052	880,636	335,109	213,910	772,004	521,207
Others	50,219	43,436	27,090	26,155	168,857	115,292
	<b>2,385,250</b>	<b>1,854,573</b>	<b>580,321</b>	<b>435,990</b>	<b>1,598,245</b>	<b>1,244,594</b>

	Assets		Liabilities and Subordinated debt		Equity of investment accountholders	
	2016	2015	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>Industry sector</b>						
Trading and manufacturing	484,142	437,136	77,728	65,358	124,856	119,957
Banks and financial institutions	739,813	649,319	196,257	157,696	382,616	279,943
Construction	65,033	63,022	10,918	8,943	20,919	12,147
Others	1,096,262	705,096	295,418	203,993	1,069,854	832,547
	<b>2,385,250</b>	<b>1,854,573</b>	<b>580,321</b>	<b>435,990</b>	<b>1,598,245</b>	<b>1,244,594</b>

### 31. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Investments as described in note 9, includes certain equity-type instruments at fair value through equity which are carried at cost, due to the unpredictable nature of their future cash flows and the lack of other suitable methods for arriving at a reliable fair value for these investments.

### 32. SEGMENTAL INFORMATION

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

### 32. SEGMENTAL INFORMATION (Continued)

The segmental results of the Group were as follows:

	Middle East		Other Asian Countries	
	2016 US \$ '000	2015 US \$ '000	2016 US \$ '000	2015 US \$ '000
Assets	1,151,355	1,014,042	1,233,895	840,531
Liabilities, equity of investment accountholders, and Subordinated debt	1,075,172	930,005	1,103,394	750,579
Total income	39,036	26,976	31,172	30,421
Total operating expenses	(25,878)	(23,777)	(32,050)	(27,013)
Net operating income	13,158	3,199	(878)	3,408
(Provision) / reversal for impairment - net	(10,268)	(154)	826	1,156
Taxation	-	-	(535)	(1,586)
Income / (loss) for the year	2,890	3,045	(587)	2,978

### 33. SOCIAL RESPONSIBILITY

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

### 34. COMPARATIVE FIGURES

These consolidated financial statements have been prepared consolidating the results of former Burj Bank with AlBaraka Bank (Pakistan) Limited for the period from 1 November 2016 till 31 December 2016. The comparatives include the full year results of ABPL only and therefore the comparative information might not be fully comparable. Further, certain prior year figures have been reclassified to conform to the presentation adopted in the current year. Such reclassification did not affect previously reported net income or owner's equity.

# BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2016

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## BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2016

### 2. INTRODUCTION

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

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

For details on the Group's subsidiary as of 31 December 2016, refer note 2 of the consolidated financial statements of the Group.

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

### 3. CAPITAL ADEQUACY

To assess its capital adequacy requirements in accordance with the CBB requirements, the Group adopts the standardised approach for its credit risk, basic indicator approach for its operational risk and standardised measurement approach for its market risk. The CBB capital adequacy requirement is minimum accepted level for capital adequacy. The credit committee of the Group identify and approve assets suitable for funding by equity of Investment Accountholders ("IAH").

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

#### Table - 1. Capital structure

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

	31 December 2016			31 December 2015		
	CET 1 US\$'000	AT1 US\$'000	Tier 2 US\$'000	CET 1 US\$'000	AT1 US\$'000	Tier 2 US\$'000
<b>Common Equity Tier 1 (CET1)</b>						
Issued and fully paid ordinary shares	122,458			122,458		
General reserves	8,687			8,687		
Statutory reserves	22,699			22,478		
Retained earnings	3,266			884		
Current interim cumulative net income / losses	543			2,037		
Unrealized gains and losses on available for sale financial instruments	1,700			(416)		
Gains and losses resulting from converting foreign currency subsidiaries to the parent currency	(9,316)			(11,789)		
Other reserves	(114)			(173)		
<b>Total CET1 capital before minority interest</b>	<b>149,923</b>			<b>144,166</b>		
Minority interest in banking subsidiaries	36,146			19,370		
<b>Total CET1 capital prior to regulatory adjustments</b>	<b>186,069</b>			<b>163,536</b>		
Less:						
Goodwill	45,264			34,741		
Intangible other than mortgage servicing rights	819			505		
Deferred tax assets	18,813			6,716		
<b>Total CET 1 capital after the regulatory adjustments above (CET 1a)</b>	<b>121,173</b>			<b>121,574</b>		

## BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2016

### 2. CAPITAL ADEQUACY (Continued)

Table - 1. Capital structure (Continued)

	31 December 2016			31 December 2015		
	CET 1 US\$'000	AT1 US\$'000	Tier 2 US\$'000	CET 1 US\$'000	AT1 US\$'000	Tier 2 US\$'000
Other Capital (AT1 & T 2)						
Instruments issued by parent company		25,000	6,000		-	6,000
Instruments issued by banking subsidiaries to third parties		1,150	11,666		48	14,319
Assets revaluation reserve - property, plant, and equipment		-	1,193		-	1,193
General financing loss provisions		-	3,284		-	2,130
<b>Total Available AT1 &amp; T2 Capital</b>		<b>26,150</b>	<b>22,143</b>		<b>48</b>	<b>23,642</b>
<b>Total CET 1 Capital</b>	<b>121,173</b>			<b>121,574</b>		
<b>Total T1 Capital</b>		<b>147,323</b>			<b>121,622</b>	
<b>Total Capital</b>			<b>169,466</b>			<b>145,264</b>

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

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

	31 December 2016 Capital requirements US\$'000	31 December 2015 Capital requirements US\$'000
Type of islamic financing contracts		
Sales receivables	22,807	19,937
Ijara Muntahia Bittamleek & Ijara income receivable	12,035	10,948
Musharaka	11,081	5,537
	<b>45,923</b>	<b>36,422</b>

Table - 3. Capital requirement for market risk

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

	31 December 2016		31 December 2015	
	Self Financed US\$'000	Financed by IAH US\$'000	Self Financed US\$'000	Financed by IAH US\$'000
Market risk - standardised approach				
Foreign exchange risk	7,154	-	6,017	-
<b>Total of market risk - standardised approach</b>	<b>7,154</b>	<b>-</b>	<b>6,017</b>	<b>-</b>
<b>Multiplier</b>	<b>12.50</b>	<b>12.50</b>	<b>12.50</b>	<b>12.50</b>
	<b>89,425</b>	<b>-</b>	<b>75,213</b>	<b>-</b>
Eligible Portion for the purpose of the calculation	100%	30%	100%	30%
<b>Risk Weighted Exposures ("RWE") for CAR Calculation</b>	<b>89,425</b>	<b>-</b>	<b>75,213</b>	<b>-</b>
<b>Total market RWE</b>		<b>89,425</b>		<b>75,213</b>
		<b>12.50%</b>		<b>12.50%</b>
<b>Minimum capital requirement</b>		<b>11,178</b>		<b>9,402</b>

## BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2016

### 2. CAPITAL ADEQUACY (Continued)

**Table - 4. Capital Requirements for operational risk**

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

	31 December 2016 US\$'000	31 December 2015 US\$'000
<b>Indicators of operational risk</b>		
Average gross income	102,586	86,867
Multiplier	12.5	12.5
	<b>1,282,325</b>	<b>1,085,838</b>
Eligible Portion for the purpose of the calculation	15%	15%
<b>Total operational RWE</b>	<b>192,349</b>	<b>162,876</b>
	<b>12.50%</b>	<b>12.50%</b>
<b>Minimum capital requirement</b>	<b>24,044</b>	<b>20,359</b>

**Table - 5. Capital adequacy ratios**

	31 December 2016			31 December 2015		
	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio
Group's Capital adequacy ratio	16.58%	14.42%	11.86%	16.97%	14.21%	14.20%
Minimum regulatory requirements*	12.50%	10.50%	9.00%	12.50%	10.50%	9.00%
Al Baraka Bank Pakistan Limited **	20.41%	16.93%	16.93%	25.17%	19.99%	13.91%
Itqan Capital Company	33.97%	33.97%	33.97%	34.48%	34.48%	34.48%

\* Minimum required by CBB regulations under Basel III, this includes capital conversion buffer of 2.5%

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

#### Legal restrictions on capital and income mobility

Distributing profits by subsidiary to the parent is subject to compliance with applicable laws and regulations in Pakistan. Such distribution should go through the legal and regulatory channels applicable in relevant jurisdiction (i.e. Pakistan). Mobilisation of capital, reserves and equivalent funds out of the subsidiary to the parent is subject to the local rules and regulations. The parent is not subject to any restriction to support its subsidiary in the form of deposits or capital. However, as a procedure and approval has to be obtained from the CBB for increasing investment in subsidiary.

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

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

	31 December 2016			31 December 2015		
	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio
Capital adequacy ratio	10.35%	8.66%	8.66%	14.47%	11.62%	11.62%
Minimum regulatory requirements*	10.00%	7.50%	6.00%	10.00%	7.50%	6.00%

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

## BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2016

### 4. RISK MANAGEMENT

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

#### a. Credit risk

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

**Table - 7. Credit risk exposure**

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

	31 December 2016				31 December 2015			
	Self financed		Financed by IAH		Self financed		Financed by IAH	
	Total gross credit exposure US\$'000	*Average gross exposure over the period US\$'000	Total gross credit exposure US\$'000	*Average gross credit risk exposure over the period US\$'000	Total gross credit exposure US\$'000	*Average gross credit risk exposure over the period US\$'000	Total gross credit exposure US\$'000	*Average gross credit risk exposure over the period US\$'000
<b>Funded exposure</b>								
Cash and balances with banks and financial institutions	230,758	177,413	50,243	47,548	171,873	199,268	66,048	95,131
Sales receivables	3,002	3,097	739,582	631,293	3,454	6,458	606,230	592,279
Mudaraba financing	-	-	776	194	-	-	-	-
Ijara Muntahia Bittamleek	18,302	18,906	261,466	258,061	19,475	15,175	246,923	239,746
Musharaka	-	-	316,728	222,068	-	-	154,260	137,103
Investments	360,278	328,119	174,517	141,111	291,142	265,395	132,464	177,269
Investment in real estate	7,493	7,600	-	-	7,446	6,342	-	-
Ijara income receivables	1,713	1,259	28,892	26,986	1,101	907	22,365	21,592
Premises and equipment	32,203	28,072	-	-	27,214	24,728	-	-
Other assets	83,028	60,842	26,041	21,800	50,583	48,171	16,304	20,798
<b>Unfunded exposure</b>								
Contingencies and commitments	200,360	202,137	-	-	174,285	177,317	-	-
	<b>937,137</b>	<b>827,445</b>	<b>1,598,245</b>	<b>1,349,061</b>	<b>746,573</b>	<b>743,761</b>	<b>1,244,594</b>	<b>1,283,918</b>

\*Average balances are computed based on quarter end balances.

## BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2016

### 3. RISK MANAGEMENT (Continued)

#### a. Credit risk (Continued)

Table - 8. Credit risk – geographic breakdown

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

	31 December 2016				31 December 2015			
	Self financed *geographic area		Financed by IAH *geographic area		Self financed *geographic area		Financed by IAH *geographic area	
	Middle East US\$'000	Other Asian countries US\$'000	Middle East US\$'000	Other Asian countries US\$'000	Middle East US\$'000	Other Asian countries US\$'000	Middle East US\$'000	Other Asian countries US\$'000
Cash and balances with banks	40,587	190,171	26,242	24,001	44,260	127,613	37,851	28,197
Sales receivables	3,002	-	472,141	267,441	3,454	-	356,758	249,472
Mudaraba financing	-	-	-	776	-	-	-	-
Ijara Muntahia Bittamleek	18,302	-	220,257	41,209	19,475	-	201,884	45,039
Musharaka	-	-	76	316,652	-	-	101	154,159
Investments	218,227	142,051	81,020	93,497	171,123	120,019	106,128	26,336
Investment in real estate	7,493	-	-	-	7,446	-	-	-
Ijara income receivables	1,713	-	25,758	3,134	1,101	-	20,412	1,953
Premises and equipment	11,537	20,666	-	-	11,713	15,501	-	-
Other assets	10,916	72,112	2,536	23,505	10,444	40,139	1,861	14,443
	<b>311,777</b>	<b>425,000</b>	<b>828,030</b>	<b>770,215</b>	<b>269,016</b>	<b>303,272</b>	<b>724,995</b>	<b>519,599</b>

\* Segmental information is presented in respect of the Group's geographical segments. The geographical segments are based upon the location of the units responsible for recording the transactions and reflects the manner in which financial information is evaluated by management and the Board of Directors. For financial reporting purposes, the Group is divided into two geographical segments, Middle East and Other Asian Countries. Other Asian Countries predominantly includes operations in Pakistan.

## BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2016

### 3. RISK MANAGEMENT (Continued)

#### a. Credit risk (Continued)

**Table - 9. Credit risk – counterparty type breakdown**

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

	31 December 2016				31 December 2015			
	Self financed		Financed by IAH		Self financed		Financed by IAH	
	Funded US\$'000	Unfunded US\$'000	Funded US\$'000	Unfunded US\$'000	Funded US\$'000	Unfunded US\$'000	Funded US\$'000	Unfunded US\$'000
Cash items	24,579	-	8,229	-	11,344	-	12,352	-
Claims on Sovereigns	415,598	-	92,322	-	332,128	-	64,549	-
Claims on Public Sector Entities	60,344	7,069	145,601	-	55,482	3,907	52,530	-
Claims on banks	51,322	21,906	294,704	-	42,559	41,604	256,581	-
Claims on corporate	20,986	171,101	663,507	-	6,862	128,334	612,872	-
Mortgage	-	-	203,607	-	-	-	155,495	-
Past dues receivables	-	-	53,626	-	-	-	34,733	-
Regulatory Retail Portfolio	-	284	96,061	-	440	-	28,662	-
Equity investment	11,556	-	471	-	11,243	-	350	-
Investment in Funds	7,865	-	5,000	-	1,050	-	5,000	-
Holding of Real Estate	58,254	-	12,361	-	58,421	-	7,298	-
Other assets	86,273	-	22,756	-	52,759	440	14,172	-
	<b>736,777</b>	<b>200,360</b>	<b>1,598,245</b>	<b>-</b>	<b>572,288</b>	<b>174,285</b>	<b>1,244,594</b>	<b>-</b>

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

**Table - 10. Credit risk – related party transactions**

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

	31 December 2016		31 December 2015	
	Self financed	Financed by IAH	Self financed	Financed by IAH
	Funded US\$'000	Funded US\$'000	Funded US\$'000	Funded US\$'000
Cash and balances with bank	-	914	-	209
Sales Receivable	-	48,548	-	35,499
Musharaka	-	2,156	-	1,420
Ijara Muntahia Bittamleek	-	583	-	740
Investments	14,576	18,028	17,283	-
Ijara Income Receivable	-	81	-	78
Other Assets	2,688	-	2,672	1
Contingencies and commitments	4,432	-	10,242	-
	<b>21,696</b>	<b>70,310</b>	<b>30,197</b>	<b>37,947</b>

## BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2016

### 3. RISK MANAGEMENT (Continued)

#### a. Credit risk (Continued)

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

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

	31 December 2016 Self financed US\$'000	31 December 2015 Self financed US\$'000
<b>Assets</b>		
Investment in a subsidiary	82,662	61,961
Subordinated mudaraba sukuk	-	19,500
Equity investment in Itqan Capital	54,342	54,342
Other receivables	-	952
	<b>137,004</b>	<b>136,755</b>
<b>Contingencies and commitments</b>		
Letters of credit	4,054	187
Guarantees	285	285
Acceptances	3,098	2,385
	<b>7,437</b>	<b>2,857</b>

##### Table - 11. Credit risk – concentration of risk

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

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

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

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

## BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2016

### 3. RISK MANAGEMENT (Continued)

**Table - 11. Credit risk – concentration of risk (Continued)**

The following are the balances representing the concentration of risk to individual counterparties as of 31 December 2015:

Counterparties *	Funded US\$'000
Counterparty # 1	121,684
Counterparty # 2	104,857
Counterparty # 3	88,163
Counterparty # 4	79,522
Counterparty # 5	44,181
Counterparty # 6	42,568
Counterparty # 7	39,389
Counterparty # 8	32,411
Counterparty # 9	28,226

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

#### Past due and non-performing facilities

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

#### Highly leveraged counter parties

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

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

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

	31 December 2016					31 December 2015				
	Past due but performing US\$'000	Non- performing Islamic financing contracts US\$'000	Aging of non performing facilities			Past due but performing US\$'000	Non- performing Islamic financing contracts US\$'000	Aging of non performing facilities		
			90 days to 1 year US\$'000	1 year to 3 years US\$'000	Over 3 years US\$'000			90 days to 1 year US\$'000	1 year to 3 years US\$'000	Over 3 years US\$'000
Corporates	16,785	67,139	28,327	12,056	26,756	27,938	36,312	14,404	2,755	19,152
Investment Firms	433	18,645	-	-	18,645	5	18,805	-	-	18,805
Individuals	1,205	12,453	10,671	826	956	374	3,431	2,543	353	535
Others	10,288	11,196	879	3,080	7,237	12,581	10,117	1,429	1,643	7,046
	28,711	109,433	39,877	15,962	53,594	40,898	68,665	18,376	4,751	45,538

## BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2016

### 3. RISK MANAGEMENT (Continued)

#### a. Credit risk (Continued)

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

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

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

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

The following table summarises the total provisions against non performing financing facilities disclosed by counterparty type as of 31 December 2015:

	Specific allowances							Balance at the end of the year US\$'000
	Opening Balance US\$'000	Charges during the year US\$'000	Write-Back during the year US\$'000	Write-offs during the year US\$'000	Transferred from investment risk reserve US\$'000	Exchange difference on opening balance US\$'000		
Corporates	24,637	2,810	(2,415)	(94)	-	(1,002)	23,936	
Investment Firms	21,936	3,870	(3,870)	(15,481)	-	(345)	6,110	
Individuals	879	179	(188)	(82)	-	(22)	766	
Others	2,631	1,244	(633)	(13)	-	(107)	3,122	
	<b>50,083</b>	<b>8,103</b>	<b>(7,106)</b>	<b>(15,670)</b>	<b>-</b>	<b>(1,476)</b>	<b>33,934</b>	

A collective provision of US\$ 0.6 million was charged during the year and accumulated balance has been increased to US\$ 2.1 million as at 31 December 2015.

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

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

	31 December 2016			31 December 2015		
	Non-performing Islamic financing contracts US\$'000	Specific provision US\$'000	Collective provision* US\$'000	Non-performing Islamic financing contracts US\$'000	Specific provision US\$'000	Collective provision US\$'000
Middle East	41,115	15,495	2,535	30,069	6,484	1,860
Other Asian countries	68,318	40,316	749	38,596	27,450	270
	<b>109,433</b>	<b>55,811</b>	<b>3,284</b>	<b>68,665</b>	<b>33,934</b>	<b>2,130</b>

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

## BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2016

### 3. RISK MANAGEMENT (Continued)

#### a. Credit risk (Continued)

**Table - 15. Credit risk – restructured Islamic financing contracts**

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

	31 December 2016 Total US\$'000	31 December 2015 Total US\$'000
Restructured Islamic financing contracts	63,875	16,213

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

**Table - 16. Counterparty credit risk exposure**

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

	31 December 2016		31 December 2015	
	Gross positive FV of contracts US\$'000	* Collateral held US\$'000	Gross positive FV of contracts US\$'000	* Collateral held US\$'000
Cash and balances with banks and financial institutions	281,001	-	237,921	-
Sales receivables	742,584	428,640	609,684	397,567
Mudaraba financing	776	776	-	-
Ijara Muntahia Bittamleek	279,768	106,823	266,398	113,649
Musharaka	316,728	316,652	154,260	154,159
Investments	534,795	-	423,606	-
Investment in real estate	7,493	-	7,446	-
Ijara income receivables	30,605	-	23,466	-
Premises and equipment	32,203	-	27,214	-
Other assets	109,069	-	66,887	-
	2,335,022	852,891	1,816,882	665,375

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

**Table - 17. Counterparty credit risk exposure**

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

	31 December 2016		31 December 2015	
	Gross positive FV of contracts US\$'000	Collateral held US\$'000	Gross positive FV of contracts US\$'000	Collateral held US\$'000
Ijara Muntahia Bittamleek & Ijara income receivable	310,373	69,534	289,864	82,512

## BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2016

### 3. RISK MANAGEMENT (Continued)

#### b. Market risk

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

#### Table - 18. Market risk capital requirements

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

	31 December 2016		31 December 2015	
	Sukuk risk US\$'000	Foreign exchange risk US\$'000	Sukuk risk US\$'000	Foreign exchange risk US\$'000
RWE	-	89,429	-	75,213
Capital requirements (12.5%)	-	11,179	-	9,402
Maximum value of RWE	-	89,429	3	75,428
Minimum value of RWE	-	75,218	-	70,968

#### Table - 19. Equity position risk in Banking Book

The following table summarises the total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 31 December 2016:

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

Investments stated at a carrying amount of US\$ 166.5 million are placed in custody of a financial institution and such instruments having face value US\$ 45.119 million were pledged to secure a borrowing line.

The following table summarises the total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 31 December 2015:

	Total gross exposure US\$'000	Average gross exposure over the period US\$'000	Publicly held US\$'000	Privately held US\$'000	Capital requirement US\$'000
Managed funds	6,000	6,020	-	6,000	306
Private equity	14,643	14,295	11,237	3,406	1,989
Real estate related	27,243	31,386	-	27,243	12,831
	47,886	51,701	11,237	36,649	15,126

The investments stated at a carrying amount of US\$ 161 million are placed in custody of a financial institution against borrowing line.

## BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2016

### 3. RISK MANAGEMENT (Continued)

#### b. Market risk (Continued)

##### Table - 20. Equity gains or losses in Banking Book

The following table summarises the cumulative realised and unrealised gains or (losses) during the year ended:

	31 December 2016 US\$'000	31 December 2015 US\$'000
Cummulative realised gains arising from sale or liquidation	2,942	901
Total unrealised gains/ (losses) recognised in the balance sheet but not through P&L	1,700	(416)
Unrealised gross gains/ (losses) included in Tier One Capital	1,700	(416)
Assets revaluation reserve - property, plant, and equipment	1,193	1,193

#### Interest Rate Risk:

The Bank generates funds mainly through profit sharing arrangements or agency modes. In lieu of inherent nature of such contract, the Bank does not bench mark the return on these balances to a particular bench mark. The key factors affecting the rate of return are as follows:

- Availability of profitable opportunities in the market
- Key economic fundamentals and liquidity levels

Policy interest rates promulgated by domestic and leading global monetary agencies.

#### c. Equity of Investment Accountholders

The Group manages and deploys Equity of IAH according to its Article of Association – Chapter 3 on Rules of Business. In this respect, the Bank invests its own funds separately or jointly with amount received from Equity of Investment Account Holders. These funds received are managed in accordance with Shari' a requirements and standard of prudence is applied in the context of managing the overall portfolios to enable the Bank to exercise its fiduciary responsibilities. The Group is authorised by Equity of Investment Accountholders to invest the funds on the basis of Mudaraba, Murabaha, Salam, Ijara transactions and other forms of contract in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

The composition, characteristics, diversification, and concentration of portfolios are monitored within appropriate risk limits and indicators detailed in the Group's credit risk, liquidity risk, and other risks policies of the group. The strategic objectives of the investments of the funds are:

- a) Investment in Shari' a compliant opportunities;
- b) Targeted returns;
- c) Compliance with credit and Investment policy and overall business plan; and
- d) Diversified portfolio.

Funds are invested in Shari' a compliant commercial or consumer financing as well as short, medium, and long term investments excluding strategic investments. A due diligence process is in place which is consistent with business and risk policy guidelines of the Group after deduction of mandatory reserves and making allowance for short-term liquidity requirements.

Under all the aforesaid arrangement the Group can commingle the IAH funds with its own funds (Self-Financed). Some of the assets right from inception is designated exclusively as Self Financed by the Group. These self financed assets are deducted from total assets to arrive at "Jointly Financed Assets". To segregate the Jointly Financed Assets into self financed and Investment accountholders (IAH), the Group applies formula to identify the proportional share of each fund's in the Jointly Financed Assets .

The Group's share of profit as a Mudarib for managing equity of IAH and their share of income is based on the terms and conditions of the related Mudarib agreements. These funds are invested in Islamic modes of financing and investments including murabaha, salam, istisna, wakala, musharaka, mudaraba and ijara. The Group is offering these accounts for saving and term accounts ranging from 1 months to 5 years. There are no separate designations for portfolio managers, investment advisors and trustee. IAH accounts are managed at Head Office and subsidiary levels by relevant departments.

Investors' share of income is calculated based on the income generated from joint investment accounts after deducting the expenses related to investment pool "mudarib expenses". Mudarib expenses include all expenses incurred by the Group, including specific provisions, but excluding staff cost and depreciation. The Group's "mudarib profit" is deducted from investors' share of income before distributing such income. In some cases, equity of IAH withdrawn before maturity and without completing contractual period are entitled to profits for the outstanding period.

## BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2016

### 3. RISK MANAGEMENT (Continued)

#### c. Equity of Investment Accountholders (Continued)

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

##### Investment risk reserve

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

##### Profit equalisation reserve

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

##### Displaced commercial risk

The Group is exposed to displaced commercial risk in the event of having equity of IAH profit rates that are lower than market rates. The Group has mitigated this risk through the setting up of reserves that will be used in case of a drop in IAH profit rates. The policies and procedures for displaced commercial risk are formulated and implemented at the segment level (Pakistan and Bahrain).

##### Complaint procedure / awareness programs

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

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

##### Penalty charges

A financial penalty of US\$ 7 thousand (2015: US\$ 0.4 thousand) was charged by the CBB during the year ended 31 December 2016 mainly in lieu of anomalies in electronic funds transferred.

A financial penalty of US\$ 5 thousand (2015: US\$ 3 thousand) was charged by SBP to the Group's subsidiary in Pakistan during the year ended 31 December 2016.

##### Non-Shari'a complaint income

The Group has received US\$ 382 thousand (2015: US\$ 348 thousand) from customers as penalty for default or other non sharia compliant sources, which was disposed through charity contribution.

#### Table - 21. Equity of Investment Accountholders

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

	31 December 2016 US\$'000	31 December 2015 US\$'000
IAH - Banks	270,666	217,415
IAH - Non-banks	1,324,689	1,024,282
Profit equalisation reserve	551	558
Investment risk reserve	2,339	2,339
	<b>1,598,245</b>	<b>1,244,594</b>

## BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2016

### 3. RISK MANAGEMENT (Continued)

#### c. Equity of Investment Accountholders (Continued)

**Table - 22. Ratio of reserves to total IAH**

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

	31 December 2016	31 December 2015
PER to IAH (%)	0.03%	0.04%
IRR to IAH (%)	0.15%	0.19%

**Table - 23. Equity of Investment Accountholders by Islamic financing product type**

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

	31 December 2016	31 December 2015
Sales receivable	54.89%	58.87%
Mudaraba	0.06%	0.00%
Musharaka	23.51%	14.98%
Receivable	21.55%	26.15%

**Table - 24. Equity of Investment Accountholders by Counterparty Type**

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

Counterparty type	31 December 2016	31 December 2015
Banks	17.06%	17.61%
Investment Firms	5.38%	2.86%
Corporates	15.88%	16.64%
Residentials	49.83%	51.08%
Others	11.86%	11.80%

**Table - 25. Investment Accountholders share of profit**

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

	31 December 2016	31 December 2015
Administrative expenses charged to equity of investment accountholders	5,755	3,405
Share of profits earned by IAH, before transfers to/from reserves	61,137	69,244
Percentage share of profit earned by IAH before transfer to/from reserves	4.53%	5.40%
Share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	44,558	51,697
Percentage share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	3.30%	4.03%
Share of profit paid out to Bank as mudarib	16,579	17,547
Mudarib Fee to total Investment Profits	27.12%	25.34%

## BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2016

### 3. RISK MANAGEMENT (Continued)

#### c. Equity of Investment Accountholders (Continued)

**Table - 26. Movement in profit equalisation reserve**

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

	31 December 2016 US\$'000	31 December 2015 US\$'000
Balance at 1 January	558	574
Foreign exchange loss	(7)	(16)
	551	558
Percentage of the profit earned on equity of investment accountholders appropriated to profit equalisation reserve	Nil	Nil

**Table - 27. Movement in investment risk reserve**

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

	31 December 2016 US\$'000	31 December 2015 US\$'000
Balance at 1 January	2,339	2,338
Amount apportioned from income allocable to equity of investment accountholders	-	2
Exchange difference	-	(1)
	2,339	2,339
Percentage of the profit earned on equity of investment accountholders appropriated to investment risk reserve	Nil	Nil

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

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

The Group's share, as Mudarib, in the profits of IAH is up to a maximum of 70% (31 December 2015: up to 70%) as per the terms of IAH agreements.

**Table - 28. Equity of Investment Accountholders by type of assets**

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

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

## BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2016

### 3. RISK MANAGEMENT (Continued)

#### c. Equity of Investment Accountholders (Continued)

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets for the year ended 31 December 2015:

	Opening Actual Allocation US\$'000	Movement US\$'000	Closing Actual Allocation US\$'000
Cash and balances with banks	96,842	(30,794)	66,048
Sales receivable	615,838	(9,608)	606,230
Ijara Muntahia Bittamleek	221,040	25,883	246,923
Musharaka	116,382	37,878	154,260
Investments	199,237	(66,773)	132,464
Ijara income receivables	13,144	9,221	22,365
Other assets	27,220	(10,916)	16,304
	1,289,703	(45,109)	1,244,594

#### Table - 29. Equity of Investment Accountholders profit earned and paid

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

	Profit earned		Profit paid to IAH	
	US\$'000	%age	US\$'000	%age
2016	61,137	4.53%	44,558	3.30%
2015	69,244	5.40%	51,696	4.03%
2014	72,635	6.05%	58,786	4.90%
2013	68,754	6.37%	55,662	5.15%
2012	75,886	7.75%	61,441	6.27%

#### Table - 30. Treatment of assets financed by Equity of Investment Accountholders

The following table summarises the treatment of assets financed by IAH in the calculation of risk weighted assets (RWA) for capital adequacy purposes as of 31 December 2016:

	RWA US\$ '000	RWA for capital adequacy purposes US\$ '000	Capital charges US\$ '000
Type of Claims			
Claims on Sovereign	56,981	17,094	2,137
Claims on PSEs	8,028	2,408	301
Claims on Banks	176,616	52,985	6,623
Claims on Corporates	636,092	190,828	23,854
Mortgage	71,906	21,572	2,697
Regulatory Retail Portfolio	207,228	62,168	7,771
Past due facilities	78,567	23,570	2,946
Investment in securities	8,399	2,520	315
Holding of Real Estates	49,444	14,833	1,854
Other Assets	22,756	6,827	853
	1,316,017	394,805	49,351

## BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2016

### 3. RISK MANAGEMENT (Continued)

#### c. Equity of Investment Accountholders (Continued)

**Table - 30. Treatment of assets financed by Equity of Investment Accountholders (Continued)**

The following table summarises the treatment of assets financed by IAH in the calculation of risk weighted assets (RWA) for capital adequacy purposes as of 31 December 2015:

Type of Claims	RWA US\$ '000	RWA for capital adequacy purposes US\$ '000	Capital charges US\$ '000
Claims on Sovereign	46,229	13,869	1,734
Claims on PSEs	18,157	5,447	681
Claims on Banks	143,416	43,025	5,378
Claims on Corporates	576,966	173,090	21,636
Mortgage	162,104	48,631	6,079
Regulatory Retail Portfolio	15,733	4,720	590
Past due facilities	44,930	13,479	1,685
Investment in securities	9,786	2,936	367
Holding of Real Estates	29,191	8,757	1,095
Other Assets	14,172	4,252	532
	1,060,684	318,206	39,777

#### d. Off-balance sheet equity of Investment Accountholders

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

The Group as fund manager will manage and administer the investment account in a proper, diligent and efficient manner in accordance with applicable laws and local regulations.

The Group has appropriate procedures and controls in place commensurate to the size of its portfolio which includes:

- Organizing its internal affairs in a responsible manner, ensuring it has appropriate internal controls and risk management systems and procedures and controls designed to mitigate and manage such risks;
- Observing high standards of integrity and fair dealing in managing the scheme to the best interest of its investors; and
- Ensuring that the Group has the requisite level of knowledge and experience for the tasks that is undertaken and is competent for the work undertaken.

**Table - 31. Off-balance sheet equity of Investment Accountholders by Islamic product type**

The following table summarises the breakdown of Off-balance sheet equity of IAH by type of Islamic financing contracts as of:

#### Islamic products

	31 December 2016	31 December 2015
Sales receivables	87.62%	90.91%
Investments	12.38%	9.09%

**Table - 32. Off-balance sheet equity of Investment Accountholders by counterparty type**

The following table summarises the percentage of financing for each category of counterparty to total financing as of:

#### Counterparty type

	31 December 2016	31 December 2015
Banks	87.62%	78.12%
Corporate	12.38%	21.88%

## BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2016

### 3. RISK MANAGEMENT (Continued)

**Table - 33. Off-balance sheet equity of Investment Accountholders by type of assets**

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

	Opening actual allocation US\$ '000	Movement US\$ '000	Closing actual allocation US\$ '000
Sales receivables	94,677	(28,092)	66,585
Investments	9,462	(57)	9,405
	104,139	(28,149)	75,990

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the year ended 31 December 2015:

	Opening actual allocation US\$ '000	Movement US\$ '000	Closing actual allocation US\$ '000
Sales receivables	101,930	(7,253)	94,677
Investments	9,718	(256)	9,462
	111,648	(7,509)	104,139

**Table - 34. Quantitative indicators of financial performance and position**

The following table summaries the historical returns over the past five years:

	2016 US\$ '000	2015 US\$ '000	2014 US\$ '000	2013 US\$ '000	2012 US\$ '000
Gross Income	1,810	1,782	1,772	105	1,209
Mudarib Fee	118	77	99	47	168

The Group's share of profit as a Mudarib for managing Off-balance sheet equity of Investment accountholders and their share of income is based on the terms and conditions of the related mudarib agreements. These mudarib agreements are done at the individual Counter party level.

#### e. Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on regular basis. The liquidity management policy at a minimum includes the following:

- Provide clear guidance on the composition and role of the asset/liability committee or such other committee or department responsible for managing liquidity.
- Establish approval processes to ensure adherence to liquidity risk management processes.
- Require periodic calculations to determine the extent to which the segments are funding long-term assets with short-term liabilities.
- Establish liquidity ratio benchmarks, e.g. parameters for the funding of long-term assets with short-term liabilities to guide liquidity management and the method for computing liquidity indicators.
- Establish limits on the degree of concentrations that are deemed acceptable. This should:
  - Ensure diversification of funding by origin and term structure by, for example, guarding against concentration by individuals or groups of depositors, types of deposit instruments, market sources of deposit, geographical sources, term to maturity, and deposit currencies. Where concentrations occur, the segments manage their assets and liquidity profile to mitigate the risk; and
  - Set procedures for the orderly restoration of the liquidity position in the event of loss of funding where such concentrations are unavoidable. In addition, the segments conduct an impact analysis on its dependency on any such concentrations.

## BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2016

### 3. RISK MANAGEMENT (Continued)

#### e. Liquidity risk (Continued)

- f. Provide for periodic review of the deposit structure. The review should include the volume and trend of various types of deposits offered, maturity distributions of time deposits, profit rate paid on each type of deposit, prevailing market profit rate, limits on large time deposits, public funds, and non-resident deposits.
- g. Provide for the review of alternate funding sources including stand-by facilities and lines of credit.
- h. Establish a framework for the composition of assets.
- i. Assess the acceptable mismatch in combination with currency commitments. The segments undertake separate analysis of their strategy for each currency individually. They set and regularly review limits on the size of cash flow mismatches over particular time horizons for foreign currencies in aggregate, and for each significant currency.

#### Table - 35. Liquidity ratios

The following table summarises the liquidity ratios as of:

	31 December 2016	31 December 2015
Liquid assets to total assets	20.69%	20.53%
Short term assets to short term liabilities	74.41%	60.90%

#### Table - 36. Quantitative indicators of financial performance and position

	2016 *	2015	2014	2013	2012
Return on average equity	1.2%	3.5%	1.2%	0.6%	-6.1%
Return on average assets	0.1%	0.3%	0.1%	0.1%	-0.8%
Cost to Income Ratio	82.5%	88.5%	92.7%	91.1%	98.4%

\* Return based on total income and equity (including non-controlling interest)

### 5. OTHERS

The responsibility for payment of Zakat is on individual shareholders and investment accountholders. However, in Pakistan, Zakah is deducted at source from the Equity of Investment accountholders as required by local laws.

The Group has dedicated staff and hires services of professional firms to ensure compliance with applicable laws and regulations. Further, the legal cases are actively followed in collaboration of legal councils and directly monitored by the strategic management.

## CBB - COMPOSITION OF CAPITAL DISCLOSURE REQUIREMENTS STATEMENT OF FINANCIAL POSITION

### Appendix PD-2

#### Step-1

	As per published financial statements 31 December 2016 US \$ '000	As per Consolidated PIRI Return 31 December 2016 US \$ '000
<b>Assets</b>		
Cash and balances with banks and financial institutions	280,611	281,001
Receivables	742,584	745,868
Mudaraba financing	776	776
Ijara Muntahia Bittamleek	279,768	279,768
Musharaka	316,728	316,728
Investments	548,899	520,141
Investments in real estate	5,974	7,493
Ijara income receivable	30,605	30,605
Investment in joint venture & associates	14,576	14,655
Premises and equipment	30,029	32,204
Goodwill	28,181	45,263
Other assets	106,519	109,069
<b>Total Assets</b>	<b>2,385,250</b>	<b>2,383,571</b>
<b>Liabilities</b>		
Due to banks and financial institutions	58,474	58,474
Current accounts	293,308	293,308
Borrowings	90,582	90,582
Other liabilities	91,479	95,166
<b>Total liabilities</b>	<b>533,843</b>	<b>537,530</b>
<b>Equity of Investment Account Holders</b>	<b>1,598,245</b>	<b>1,598,245</b>
<b>Subordinated debt</b>	<b>46,478</b>	<b>44,658</b>
<b>Shareholders' Equity</b>		
<b>CET 1</b>		
Share capital	122,458	122,458
Retained earnings	15,483	3,807
Reserves	25,156	28,133
<b>Total Shareholders' Equity</b>	<b>163,097</b>	<b>154,398</b>
Non controlling interest	43,587	48,740
<b>Total Liabilities, URIA and shareholders' equity</b>	<b>2,385,250</b>	<b>2,383,571</b>

## CBB - COMPOSITION OF CAPITAL DISCLOSURE REQUIREMENTS STATEMENT OF FINANCIAL POSITION

### Appendix PD-2

#### Step-2

	As per published financial statements 31 December 2016 US \$ '000	As per Consolidated PIRI Return 31 December 2016 US \$ '000	
<b>Assets</b>			
Cash and balances with banks and financial institutions	280,611	281,001	
Receivables	742,584	745,868	
Mudaraba financing	776	776	
Ijara Muntahia Bittamleek	279,768	279,768	
Musharaka	316,728	316,728	
Investments carried at fair value through profit & loss	-	6,865	
Investments carried at amortized cost	462,797	462,797	
Investments carried at fair value through equity	86,102	50,479	
Investments in real estate	5,974	7,493	
Ijara income receivable	30,605	30,605	
Investment in joint venture & associates	14,576	14,655	
Premises and equipment	30,029	32,204	
of which intangibles	1,917	1,917	A
Goodwill	28,181	45,263	B
Other assets	106,519	109,069	
of which deferred tax	27,657	27,657	C
<b>Total Assets</b>	<b>2,385,250</b>	<b>2,383,571</b>	
<b>Liabilities</b>			
Due to banks and financial institutions	58,474	58,474	
Current accounts	293,308	293,308	
Borrowings	90,582	90,582	
Other liabilities	91,479	95,166	
<b>Total liabilities</b>	<b>533,843</b>	<b>537,530</b>	
<b>Equity of Investment Account Holders</b>	<b>1,598,245</b>	<b>1,598,245</b>	
<b>Subordinated debt</b>	<b>46,478</b>	<b>44,658</b>	
of which subordinated debt additional Tier1	26,541	25,000	D
of which subordinated debt-Tier -2 issued by parent	6,014	6,000	E
of which subordinated debt-Tier -2 issued by subsidiary	13,923	13,658	F
<b>Shareholders' Equity</b>			
<b>CET 1</b>			
Share capital	122,458	122,458	G
Retained earnings	15,483	3,807	H
Statutory reserve	22,699	22,699	I
General reserves	8,687	8,687	J
Foreign Exchange Reserve	(9,316)	(9,316)	K
Revaluation reserve on investments	2,007	1,700	L
Other reserves	(114)	(114)	M
Non controlling interest	43,587	48,740	N
<b>Tier 2</b>			
Revaluation reserve on premises and equipment	1,193	1,193	O
Collective Impairment Provision	-	3,284	P
<b>Total Shareholders' Equity</b>	<b>206,684</b>	<b>203,138</b>	
<b>Total Liabilities, URIA and shareholders' equity</b>	<b>2,385,250</b>	<b>2,383,571</b>	

Legal entities included within the regulatory scope of consolidation but excluded from the accounting scope of consolidation:

Name	Activities	Total Assets	Total Equity
Itqan Capital Company	Fund management and investment advisory	32,296	30,431

Disclosure template for main features of regulatory capital instruments

## CBB - COMPOSITION OF CAPITAL DISCLOSURE REQUIREMENTS

### Appendix PD-3

#### Key features of regulatory capital instruments

1	Issuer	Al Baraka Islamic Bank	Al Baraka Islamic Bank	Al Baraka Islamic Bank	Al Baraka Bank (Pakistan) Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA	NA	NA
3	Governing law(s) of the instrument	Kingdom of Bahrain	Kingdom of Bahrain	Kingdom of Bahrain	All applicable laws and regulations of the Islamic Republic of Pakistan
<b>Regulatory treatment</b>					
4	Transitional CBB rules	CET 1	AT1	Tier 2	Tier 2
5	Post-transitional CBB rules	CET 1	AT1	Tier 2	Tier 2
6	Eligible at solo/group/group&solo	Both solo and Group	Both solo and Group	Both solo and Group	GROUP
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Subordinated debt	Subordinated debt	Unrestricted Mudaraba Sukuk
8	Amount recognised in regulatory capital (Currency in USD K, as of most recent reporting date)	122,458	25,000	6,000	13,658
9	Par value of instrument	100	Not Applicable	Not Applicable	Not Applicable
10	Accounting classification	Equity	Liability - amortized cost	Liability - amortized cost	Liability - amortized cost
11	Original date of issuance	Various	2016	2015	2014
12	Perpetual or dated	Perpetual	Perpetual	Dated	Dated
13	Original maturity date	Not Applicable	Perpetual	2022	2021
14	Issuer call subject to prior supervisory approval	Not Applicable	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	Not Applicable	Not Applicable	Not Applicable	Not Applicable
16	Subsequent call dates, if applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
<b>Coupons / dividends</b>					
17	Fixed or floating dividend/coupon	As decided by shareholder	Fixed	Fixed	Floating
18	Coupon rate and any related index	Not Applicable	7%	3%	KIBOR
19	Existence of a dividend stopper	Not Applicable	No	No	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Partially discretionary	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	Not Applicable	No	Not Applicable	Not Applicable
22	Noncumulative or cumulative	Not Applicable	Non-cummulative	Non-cummulative	Non-cummulative
23	Convertible or non-convertible	Not Applicable	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	Not Applicable	Not Applicable	Not Applicable	Not Applicable
25	If convertible, fully or partially	Not Applicable	Not Applicable	Not Applicable	Not Applicable
26	If convertible, conversion rate	Not Applicable	Not Applicable	Not Applicable	Not Applicable
27	If convertible, mandatory or optional conversion	Not Applicable	Not Applicable	Not Applicable	Not Applicable
28	If convertible, specify instrument type convertible into	Not Applicable	Not Applicable	Not Applicable	Not Applicable
29	If convertible, specify issuer of instrument it converts into	Not Applicable	Not Applicable	Not Applicable	Not Applicable
30	Write-down feature	Not Applicable	No	No	No
31	If write-down, write-down trigger(s)	Not Applicable	Not Applicable	Not Applicable	Not Applicable
32	If write-down, full or partial	Not Applicable	Not Applicable	Not Applicable	Not Applicable
33	If write-down, permanent or temporary	Not Applicable	Not Applicable	Not Applicable	Not Applicable
34	If temporary write-down, description of write-up mechanism	Not Applicable	Not Applicable	Not Applicable	Not Applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to all liabilities	Subordinate to all liabilities	Subordinate to all liabilities	Subordinate to all liabilities
36	Non-compliant transitioned features	Not Applicable	No	No	No
37	If yes, specify non-compliant features	Not Applicable	Not Applicable	Not Applicable	Not Applicable

## CBB - COMPOSITION OF CAPITAL DISCLOSURE REQUIREMENTS

## Appendix PD-4

Form of general disclosures to be used for transitional regulatory changes (From 31 December 2016 to 31 December 2018)		AMOUNTS SUBJECT TO PRE- 2015 TREATMENT		
<b>Common Equity Tier 1 capital: instruments and reserves</b>				
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	122,458		G
2	Retained earnings	3,807		H
3	Accumulated other comprehensive income (and other reserves)	23,656		I-M
4	<i>Not Applicable</i>			
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	36,146	18,892	N
6	<b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>186,067</b>		
<b>Common Equity Tier 1 capital: regulatory adjustments</b>				
7	Prudential valuation adjustments	-		
8	Goodwill (net of related tax liability)	45,264	-	B
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	819	1,098	A
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	18,813	-	C
11	Cash-flow hedge reserve	-		
12	Shortfall of provisions to expected losses	-		
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	-		
14	Not applicable.			
15	Defined-benefit pension fund net assets	-		
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-		
17	Reciprocal cross-holdings in common equity	-		
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-		
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-		
20	Mortgage servicing rights (amount above 10% threshold)	-		
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-		
22	Amount exceeding the 15% threshold	-		
23	of which: significant investments in the common stock of financials			
24	of which: mortgage servicing rights			
25	of which: deferred tax assets arising from temporary differences			
26	National specific regulatory adjustments	-		
REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT				
OF WHICH: [INSERT NAME OF ADJUSTMENT]				
OF WHICH: ...				
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-		
28	<b>Total regulatory adjustments to Common equity Tier 1</b>	<b>64,895</b>		
29	<b>Common Equity Tier 1 capital (CET1)</b>	<b>121,172</b>		

## CBB - COMPOSITION OF CAPITAL DISCLOSURE REQUIREMENTS

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Additional Tier 1 capital: instruments			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	25,000	D
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	25,000	
33	<i>Directly issued capital instruments subject to phase out from Additional Tier 1</i>		
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	1,150	
35	<i>of which: instruments issued by subsidiaries subject to phase out</i>		
36	<b>Additional Tier 1 capital before regulatory adjustments</b>	<b>26,150</b>	
Additional Tier 1 capital: regulatory adjustments			
37	Investments in own Additional Tier 1 instruments	-	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
41	National specific regulatory adjustments	-	
	REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT		
	OF WHICH: [INSERT NAME OF ADJUSTMENT]		
	OF WHICH: ...		
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43	<b>Total regulatory adjustments to Additional Tier 1 capital</b>	<b>-</b>	
44	<b>Additional Tier 1 capital (AT1)</b>	<b>26,150</b>	
45	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>147,322</b>	
Tier 2 capital: instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	6,000	E
47	<i>Directly issued capital instruments subject to phase out from Tier 2</i>		
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	11,666	F
49	<i>of which: instruments issued by subsidiaries subject to phase out</i>		
50	Provisions & Assets revaluation reserve - property, plant, and equipment	4,477	O-P
51	<b>Tier 2 capital before regulatory adjustments</b>	<b>22,143</b>	
Tier 2 capital: regulatory adjustments			
52	Investments in own Tier 2 instruments		
53	Reciprocal cross-holdings in Tier 2 instruments		
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)		
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		
56	National specific regulatory adjustments		
	REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT		
	OF WHICH: [INSERT NAME OF ADJUSTMENT]		
	OF WHICH: ...		

## CBB - COMPOSITION OF CAPITAL DISCLOSURE REQUIREMENTS

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57	Total regulatory adjustments to Tier 2 capital	-	
58	Tier 2 capital (T2)	22,143	
59	Total capital (TC = T1 + T2)	169,465	
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT		
	OF WHICH: [INSERT NAME OF ADJUSTMENT]		
	OF WHICH: ...		
60	Total risk weighted assets	1,022,807	
<b>Capital ratios</b>			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	11.85%	
62	Tier 1 (as a percentage of risk weighted assets)	14.40%	
63	Total capital (as a percentage of risk weighted assets)	16.57%	
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement expressed as a percentage of risk weighted assets)		
65	<i>of which: capital conservation buffer requirement</i>		
66	<i>of which: bank specific countercyclical buffer requirement (N/A)</i>		
67	<i>of which: D-SIB buffer requirement (N/A)</i>		
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)		
<b>National minima including CCB (if different from Basel 3)</b>			
69	CBB Common Equity Tier 1 minimum ratio	9.0%	
70	CBB Tier 1 minimum ratio	10.5%	
71	CBB total capital minimum ratio	12.5%	
<b>Amounts below the thresholds for deduction (before risk weighting)</b>			
72	Non-significant investments in the capital of other financials	-	
73	Significant investments in the common stock of financials	-	
74	Mortgage servicing rights (net of related tax liability)	-	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-	
<b>Applicable caps on the inclusion of provisions in Tier 2</b>			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	3,284	P
77	Cap on inclusion of provisions in Tier 2 under standardised approach	9,263	
78	N/A		
79	N/A		
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2020 and 1 Jan 2024)</b>			
80	<i>Current cap on CET1 instruments subject to phase out arrangements</i>		
81	<i>Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)</i>		
82	<i>Current cap on AT1 instruments subject to phase out arrangements</i>		
83	<i>Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)</i>		
84	<i>Current cap on T2 instruments subject to phase out arrangements</i>		
85	<i>Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)</i>		