ABG Sukuk Limited

(incorporated as an exempted company with limited liability in the Cayman Islands)

U.S.$400,000,000 Tier 1 Capital Certificates

The U.S.$400,000,000 Tier 1 Capital Certificates (the **Certificates**) of ABG Sukuk Limited (in its capacity as issuer and in its capacity as trustee, as applicable, the **Trustee**) will be constituted by a declaration of trust (the **Declaration of Trust**) dated 31 May 2017 (the **Issue Date**) entered into between the Trustee, Al Baraka Banking Group B.S.C. (the **Bank**) and BNY Mellon Corporate Trustee Services Limited as the delegate of the Trustee (the **Delegate**). The Certificates confer on the holders of the Certificates from time to time (the **Certificateholders**) the conditional right to receive certain payments (as more particularly described herein) arising from an undivided ownership interest in the assets of a trust declared by the Trustee pursuant to the Declaration of Trust (the **Trust**) over the Trust Assets (as defined in the terms and conditions of the Certificates (the **Conditions**)) and the Trustee will hold such Trust Assets upon trust absolutely for the Certificateholders *pro rata* according to the face amount of Certificates held by each Certificateholder in accordance with the Declaration of Trust and the Conditions.

If a Non-Viability Event (as defined in the Conditions) occurs, a Write-down (as defined in the Conditions) shall occur on the relevant Non-Viability Event Write-down Date (as defined in the Conditions), as more particularly described in Condition 11 (*Write-down at the Point of Non-Viability*). In such circumstances, the Certificates shall be cancelled (in the case of a Write-down in whole) or written-down in part on a *pro rata* basis (in the case of a Write-down in part) by the Trustee in accordance with the prevailing Capital Regulations (as defined in the Conditions) and the Certificateholders' rights to the Trust Assets (including the Mudaraba Assets) shall automatically be deemed to be irrevocably and unconditionally written-down in the same manner as the Certificates. See "*Risk Factors – Certificateholders' right to receive payment of the principal amount of the Certificates and the Certificateholders' right to any profit will be written-down (in whole or in part) upon the occurrence of a Non-Viability Event*".

Periodic Distribution Amounts (as defined in the Conditions) shall be payable subject to and in accordance with the Conditions on the outstanding face amount of the Certificates from (and including) the Issue Date to (but excluding) 31 May 2022 (the **First Call Date**) at a rate of 7.875 per cent. per annum. If the Certificates are not redeemed or purchased and cancelled in accordance with the Conditions on or prior to the First Call Date, Periodic Distribution Amounts shall be payable from (and including) the First Call Date subject to and in accordance with the Conditions at a fixed rate, to be reset on the First Call Date and every five years thereafter, equal to the Relevant Five Year Reset Rate (as defined in the Conditions) plus a margin of 6.014 per cent. per annum. Periodic Distribution Amounts will, if payable pursuant to the Conditions, be payable semi-annually in arrear on 31 May and 30 November in each year, commencing on 30 November 2017. Payments on the Certificates will be made free and clear of and without deduction for, or on account of, taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature, imposed or levied by or on behalf of any Relevant Jurisdiction (as defined in the Conditions) (the **Taxes**) to the extent described under Condition 13 (*Taxation*). Each payment of a Periodic Distribution Amount will be made by the Trustee provided that the Bank (in its capacity as Mudareb (as defined in the Conditions)) shall have paid Rab-al-Maal Mudaraba Profit and Rab-al-Maal Final Mudaraba Profit (as applicable) (each as defined in the Conditions) equal to such Periodic Distribution Amount pursuant to the terms of the Mudaraba Agreement (as defined in the Conditions). Payments of such profit amounts under the Mudaraba Agreement are subject to mandatory cancellation if a Non-Payment Event (as defined in the Conditions) occurs, and payments of Rab-al-Maal Mudaraba Profit are otherwise at the sole discretion of the Bank (as Mudareb). Any Periodic Distribution Amounts not paid as aforesaid will not accumulate and neither the Trustee nor the Certificateholders shall have any claim in respect thereof.

The payment obligations of the Bank under the Mudaraba Agreement (including all payments which are the equivalent of principal and profit) (the **Relevant Obligations**) will rank in priority only to all Junior Obligations (as defined in the Conditions), *pari passu* with all other Pari Passu Obligations (as defined in the Conditions) and junior to all Senior Obligations (as defined in the Conditions).

The Certificates are perpetual securities and have no fixed or final redemption date. Unless the Certificates have previously been redeemed or purchased and cancelled as provided for in the Conditions, the Bank may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, redeem all but not some only of the Certificates on the First Call Date or on any Periodic Distribution Date falling after the First Call Date in accordance with Condition 10.1(b) (*Trustee's Call Option*). In addition, upon the occurrence of a Tax Event or the occurrence and continuation of a Capital Event (each as defined in the Conditions), the Certificates may be redeemed in whole (but not in part), or the terms thereof may be varied by the Trustee (but only upon the instructions of the Bank (acting in its sole and absolute discretion)), in each case at any time on or after the Issue Date in accordance with Conditions 10.1(c) (*Redemption or Variation due to Taxation*) and 10.1(d) (*Redemption or Variation for Capital Event*). Any redemption or variation is subject to the conditions described in Condition 10.1 (*Redemption and Variation*).

The Bank has been assigned a rating of "BB+" (long term) with a negative outlook and "B" (short term) by Standard & Poor's Credit Market Services Europe Limited (**S&P**) and has been assigned a rating of "BBB+" (long term) and "A3" (short term) by each of Islamic International Rating Agency and Dagong Global Credit Company Limited. S&P is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). Neither Islamic International Rating Agency nor Dagong Global Credit Company Limited are established in the European Union or registered under the CRA Regulation. The Certificates will not be rated by any rating organisation upon their issue.

A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The Certificates will be limited recourse obligations of the Trustee. An investment in the Certificates involves certain risks. For a discussion of these risks, see "*Risk Factors*".

This Prospectus has been approved by the Central Bank of Ireland (the **Central Bank of Ireland**) as competent authority under Directive 2003/71/EC, as amended (which includes the amendments made by Directive 2010/73/EU) (the **Prospectus Directive**). The Central Bank of Ireland only approves this Prospectus as meeting the requirements imposed under Irish and European Union law pursuant to the Prospectus Directive. Such approval relates only to Certificates which are to be admitted to trading on a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC) (**MiFID**) and/or which are to be offered to the public in any Member State of the European Economic Area. Application has been made to the Irish Stock Exchange plc (the **Irish Stock Exchange**) for the Certificates to be admitted to the official list (the **Official List**) and to trading on its regulated market (the **Main Securities Market**). The Main Securities Market is a regulated market for the purposes of MiFID. References in this Prospectus to Certificates being **listed** (and all related references) shall mean that such Certificates have been (a) admitted to the Official List and (b) admitted to trading on the Main Securities Market.

The Certificates will be represented by interests in a global certificate in registered form (the **Global Certificate**) deposited on or before the Issue Date with, and registered in the name of, a nominee for a common depositary (the **Common Depositary**) for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, S.A. (**Clearstream, Luxembourg**). Interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Definitive Certificates evidencing holdings of interests in the Certificates will be issued in exchange for interests in the Global Certificate only in certain limited circumstances described herein.

Prospective investors are referred to the section headed "*Restrictions on marketing and sales to retail investors*" on page vii of this Prospectus for information regarding certain restrictions on marketing and sales to retail investors.

The transaction structure relating to the Certificates (as described in this Prospectus) has been approved by the Shari'a Supervisory Board of the Bank, the Fatwa and Sharia Supervisory Board of Dubai Islamic Bank PJSC, the Fatwa & Shariah Supervisory Board of KFH Capital Investment Company KSCC, the Fatwa and Shari'a Supervisory Board of Noor Bank PJSC, the Sharia'a Supervisory Board of QInvest and the Shariah Supervisory Committee of Standard Chartered Bank. Prospective Certificateholders should not rely on such approvals in deciding whether to make an investment in the Certificates and should consult their own *Shari'a* advisers as to whether the proposed transaction described in such approvals is in compliance with their individual standards of compliance with *Shari'a* principles.

The Certificates may only be offered, sold or transferred in registered form in minimum face amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.

Global Co-ordinator

Standard Chartered Bank

Joint Lead Managers

Bank ABC	**Dubai Islamic Bank PJSC**	**Emirates NBD Capital**
KFH Capital	**Noor Bank**	**QInvest**

Standard Chartered Bank

The date of this Prospectus is 29 May 2017

This Prospectus comprises a prospectus for the purposes of Article 5.3 of the Prospectus Directive, in each case, for the purpose of giving information with regard to the Trustee, the Bank and its subsidiaries and affiliates taken as a whole and the Certificates which, according to the particular nature of the Trustee, the Bank and of the Certificates, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Trustee and the Bank and of the Certificates. The Trustee and the Bank accept responsibility for the information contained in this Prospectus. To the best of the knowledge of each of the Trustee and the Bank, each having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

The opinions, assumptions, intentions, projections and forecasts expressed in this Prospectus with regard to the Trustee and the Bank are honestly held by the Trustee and the Bank, have been reached after considering all relevant circumstances and are based on reasonable assumptions and are not misleading in any material respect.

None of the Joint Lead Managers, nor any of their directors, affiliates, advisers or agents, the Delegate or the Agents (as defined in the Conditions) or any of their respective affiliates has independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any of them as to the accuracy, adequacy, reasonableness or completeness of the information contained in this Prospectus or any other information provided by the Trustee or the Bank in connection with the Certificates.

To the fullest extent permitted by law, the Joint Lead Managers, the Delegate and the Agents accept no responsibility whatsoever for the contents of this Prospectus or for any other statement, made or purported to be made by a Joint Lead Manager, the Delegate or any Agent or on its behalf in connection with the Trustee, the Bank or the issue and offering of the Certificates. Each Joint Lead Manager, the Delegate and each Agent accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement.

No person is or has been authorised by the Trustee, the Bank, the Delegate or the Agents to give any information or to make any representation not contained in or not consistent with this Prospectus or any other document entered into in relation to the offering of the Certificates and, if given or made, such information or representation should not be relied upon as having been authorised by the Trustee, the Bank, the Delegate, the Agents or any of the Joint Lead Managers. Neither the delivery of this Prospectus nor the offering, sale or delivery of the Certificates shall, in any circumstances, constitute a representation or create any implication that the information contained in this Prospectus is correct subsequent to the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or the financial or trading position of the Trustee or the Bank since the date hereof or, if later, the date upon which this Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Certificates is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

No comment is made, or advice is given by, the Trustee, the Delegate, the Agents, the Bank or the Joint Lead Managers or any of their respective directors, affiliates, advisers or agents in respect of taxation matters relating to the Certificates or the legality of the purchase of the Certificates by an investor under applicable or similar laws. Any investor in the Certificates should be able to bear the economic risk of an investment in the Certificates for an indefinite period of time.

The Certificates have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**) or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act (**Regulation S**)) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws.

The transaction structure relating to the Certificates (as described in this Prospectus) has been approved by the Shari'a Supervisory Board of the Bank, the Fatwa and Sharia Supervisory Board of Dubai Islamic Bank PJSC, the Fatwa & Shariah Supervisory Board of KFH Capital Investment Company KSCC, the Fatwa and Shari'a Supervisory Board of Noor Bank PJSC, the Sharia'a Supervisory Board of QInvest and the Shariah Supervisory Committee of Standard Chartered Bank. Prospective Certificateholders should not rely on such approvals in deciding whether to make an investment in the Certificates and should consult their own *Shari'a* advisers as to whether the proposed transaction described in such approvals is in compliance with their individual standards of compliance with *Shari'a* principles.

Each prospective investor is advised to consult its own tax adviser, legal adviser and business adviser as to tax, legal, business and related matters concerning the purchase of any Certificates.

This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy Certificates in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. None of the Joint Lead Managers, the Trustee, the Delegate, the Agents or the Bank makes any representation to any investor in the Certificates regarding the legality of its investment under any applicable laws.

The distribution of this Prospectus and the offering, sale and delivery of the Certificates in certain jurisdictions may be restricted by law. None of the Trustee, the Bank, the Joint Lead Managers, or any of their respective directors, affiliates, advisers, agents, the Delegate or the Agents represents that this Prospectus may be lawfully distributed, or that Certificates may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Trustee, the Bank, the Joint Lead Managers, or any of their respective directors, affiliates, advisers, agents, the Delegate or the Agents which is intended to permit a public offering of the Certificates or distribution of this Prospectus in any jurisdiction where action for that purpose is required.

Accordingly, the Certificates may not be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

Persons into whose possession this Prospectus comes are required by the Trustee, the Bank and the Joint Lead Managers to inform themselves about and to observe any such restrictions. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of the Certificates in the United States, the United Kingdom, the Cayman Islands, the United Arab Emirates (the **UAE**) (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, the Kingdom of Bahrain, the Kingdom of Saudi Arabia (**Saudi Arabia**), the State of Qatar, the State of Kuwait (**Kuwait**), Japan, Hong Kong, Malaysia, Singapore and Switzerland.

For a description of the restrictions on offers, sales and deliveries of Certificates and on the distribution of this Prospectus and other offering material relating to the Certificates, see "*Subscription and Sale*".

This Prospectus does not constitute an offer or an invitation to subscribe for or purchase Certificates and should not be considered as a recommendation by the Trustee, the Bank, the Delegate, the Agents, the Joint Lead Managers, or any of their respective directors, affiliates, advisers, agents or any of them that any recipient of this Prospectus or any other information supplied in connection with the issue of the Certificates should subscribe for, or purchase, the Certificates. Each recipient of this Prospectus should make, and shall be taken to have made, its own independent investigation and appraisal of the condition (financial or otherwise) and affairs, and its own appraisal of the creditworthiness, of the Trustee and the Bank. None of the Joint Lead Managers, the Delegate or any Agent undertakes to review the financial condition or affairs of the Trustee or the Bank during the life of the arrangements contemplated by this Prospectus nor to advise any investor or potential investor in the Certificates of any information coming to the attention of any of the Joint Lead Managers, the Delegate or any Agent.

The Certificates may not be a suitable investment for all investors. Each potential investor in Certificates must determine the suitability of its investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Certificates, the merits and risks of investing in the Certificates and the information contained in this Prospectus;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Certificates and the impact the Certificates will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Certificates, including where the currency of payment is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Certificates and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

The Certificates are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Certificates unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Certificates will perform under changing conditions, the resulting effects on the value of the Certificates and the impact this investment will have on the potential investor's overall investment portfolio.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (a) the Certificates are legal investments for it; (b) the Certificates can be used as collateral for various types of borrowing; and (c) other restrictions apply to its purchase or pledge of any Certificates. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Certificates under any applicable risk-based capital or similar rules.

STABILISATION

In connection with the issue of the Certificates, Standard Chartered Bank (the **Stabilisation Manager**) (or persons acting on behalf of the Stabilisation Manager) may over-allot Certificates or effect transactions with a view to supporting the market price of the Certificates at a level higher than that which might otherwise prevail, but in so doing, the Stabilisation Manager shall act as principal and not as agent of the Trustee or the Bank. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the Issue Date and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the Issue Date and 60 days after the date of the allotment of the Certificates. The Stabilisation Manager (or persons acting on behalf of the Stabilisation Manager) must conduct such stabilisation in accordance with all applicable laws and rules.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Some statements in this Prospectus may be deemed to be forward looking statements. The words "anticipate", "believe", "expect", "plan", "intend", "targets", "aims", "seeks", "estimate", "project", "will", "would", "may", "could", "continue", "should" and similar expressions are intended to identify forward looking statements. All statements other than statements of historical fact included in this Prospectus, including, without limitation, those regarding the financial position of the Bank, or the business strategy, management plans and objectives for future operations of the Bank, are forward looking statements. These forward looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Bank's actual results, performance or achievements, or industry results, to be materially different from those expressed or implied by these forward looking statements. These forward looking statements are contained in the sections entitled "*Risk Factors*" and "*Description of the Bank*" and other sections of this Prospectus. The Bank has based these forward looking statements on the current view of its management with respect to future events and financial performance. These forward looking statements are based on numerous assumptions regarding the Bank's present, and future, business strategies and the environment in which the Bank expects to operate in the future. Important factors that could cause the Bank's actual results, performance or achievements to differ materially from those in the forward looking statements are discussed in this Prospectus (see "*Risk Factors*").

Forward looking statements speak only as at the date of this Prospectus and, without prejudice to any requirements under applicable laws and regulations, the Trustee and the Bank expressly disclaim any obligation or undertaking to publicly update or revise any forward looking statements in this Prospectus to reflect any change in the expectations of the Trustee or the Bank or any change in events, conditions or circumstances on which these forward looking statements are based. Given the uncertainties of forward looking statements, the Trustee and the Bank cannot assure potential investors that projected results or events will be achieved and the Trustee and the Bank caution potential investors not to place undue reliance on these statements.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

Historical financial statements

The Group prepared its audited consolidated financial statements as at and for the years ended 31 December 2016 (the **2016 Financial Statements**) and 31 December 2015 (the **2015 Financial Statements** and, together with the 2016 Financial Statements, the **Consolidated Financial Statements**) in accordance with the Financial Accounting Standards (**FAS**), issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (**AAOIFI**) and, for matters where no AAOIFI standard exists and provided it does not conflict with *Shari'a* rules and principles and the conceptual framework of AAOIFI, International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board (**IASB**) and in conformity with the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law (the **Financial Institutions Law**). The Group's selected historical consolidated financial data as at and for the years ended 31 December 2014 and 31 December 2015 appearing in this Prospectus has been extracted from the 2015 Financial Statements and the 2016 Financial Statements, respectively. The Group prepared its interim condensed consolidated financial statements as at and for the three months ended 31 March 2017 (the **Interim Financial Information**) in accordance with guidance given by the International Accounting Standard 34 – "Interim Financial Reporting" and using accounting policies which are consistent with those used in the preparation of the 2016 Financial Statements.

The Group's financial year ends on 31 December and references in this Prospectus to 2014, 2015 and 2016 are to the 12-month period ending on 31 December in each such year.

The Trustee is a special purpose company established in the Cayman Islands. The Trustee is not required by Cayman Islands law, and does not intend, to publish audited financial statements or appoint an auditor.

Alternative Performance Measures (*APMs*)

A number of the financial measures presented by the Group in this Prospectus are not defined in the FAS or IFRS. However, the Group believes that these measures provide useful supplementary information to both investors and the Group's management, as they facilitate the evaluation of the Group's performance. It is to be noted that, since not all companies calculate financial measurements in the same manner, these are not always comparable to measurements used by other companies. Accordingly, these financial measures should not be seen as a substitute for measures defined in the FAS or IFRS. Unless otherwise stated, the table below presents alternative performance measures, along with their reconciliation to the extent that such information is not defined in the FAS or IFRS and not included in the Consolidated Financial Statements:

APM	Definition	Reconciliation with the relevant Financial Statements
Return on Average Assets	Financial measure expressing the net income for either (i) the year as a percentage of average assets for the year, with average assets calculated as the sum of the total assets at the beginning and at the end of the year divided by two or (ii)	<u>Net income for the year</u> As set out in the Consolidated Statement of Income of each of the 2016 Financial Statements and the 2015 Financial Statements.

APM	Definition	Reconciliation with the relevant Financial Statements
	the three-month period as a percentage of average assets for the three-month period and multiplying such percentage by four, with average assets calculated as the sum of the total assets at the beginning and at the end of the three-month period divided by two, as the context requires.	Net income for the three-month period As set out in the Interim Consolidated Statement of Income of the interim condensed consolidated financial statements for the three months ended 31 March 2017. Total assets As set out in either (i) the Consolidated Statement of Financial Position of each of the 2016 Financial Statements and the 2015 Financial Statements or (ii) the Interim Consolidated Statement of Financial Position of the interim condensed consolidated financial statements as at 31 March 2017, as the context requires.
Return on Average Owners' Equity	Financial measure expressing net income for either (i) the year as a percentage of average of total owners' equity for the year, with average of total owners' equity calculated as the sum of the total owners' equity at the beginning and at the end of the year divided by two or (ii) the three-month period as a percentage of average of total owners' equity for the three-month period and multiplying such percentage by four, with average of total owners' equity calculated as the sum of the total owners' equity at the beginning and at the end of the three-month period divided by two, as the context requires.	Net income for the year See above. Net income for the three-month period See above. Total owners' equity As set out in either (i) the Consolidated Statement of Financial Position of each of the 2016 Financial Statements and the 2015 Financial Statements or (ii) the Interim Consolidated Statement of Financial Position of the interim condensed consolidated financial statements as at 31 March 2017, as the context requires.
Return on Average Parent's Shareholders' Equity	Financial measure expressing net income for either (i) the year attributable to equity holders of the parent as a percentage of average of total parent's shareholders' equity for the year, with average of total parent's shareholders' equity calculated as the sum of the total parent's shareholders' equity at the beginning and at the end of the year divided by two or (ii) the three-	Net income for the year attributable to equity holders of the parent As set out in the Consolidated Statement of Income of each of the 2016 Financial Statements and the 2015 Financial Statements.

APM	Definition	Reconciliation with the relevant Financial Statements
	month period attributable to equity holders of the parent as a percentage of average of total parent's shareholders' equity for the three-month period and multiplying such percentage by four, with average of total parent's shareholders' equity calculated as the sum of the total parent's shareholders' equity at the beginning and at the end of the three-month period divided by two.	<u>Net income for the three-month period attributable to equity holders of the parent</u> As set out in the Interim Consolidated Statement of Income of the interim condensed consolidated financial statements for the three months ended 31 March 2017. <u>Total parent's shareholders' equity</u> Refers to the same concept/figure as "Equity attributable to parent's shareholders" as set out in either (i) the Consolidated Statement of Financial Position of each of the 2016 Financial Statements and the 2015 Financial Statements or (ii) the Interim Consolidated Statement of Financial Position of the interim condensed consolidated financial statements as at 31 March 2017, as the context requires.
Cost to Income ratio	Financial measure expressing total operating expenses as a percentage of total operating income.	<u>Total operating expenses</u> As set out in either (i) the Consolidated Statement of Income of each of the 2016 Financial Statements and the 2015 Financial Statements or (ii) the Interim Consolidated Statement of Income of the interim condensed consolidated financial statements for the three months ended 31 March 2017, as the context requires. <u>Total operating income</u> As set out in either (i) the Consolidated Statement of Income of each of the 2016 Financial Statements and the 2015 Financial Statements or (ii) the Interim Consolidated Statement of Financial Position of the interim condensed consolidated financial statements

APM	Definition	Reconciliation with the relevant Financial Statements
		as at 31 March 2017, as the context requires.
Owners' Equity to Total Assets	Financial measure expressing total owners' equity as a percentage of total assets.	Total owners' equity See above. Total assets See above.
Total Financing and Investment as a Multiple of Equity	Financial measure to express total financing and investments divided by total owners' equity.	Total financing and investments Refers to the aggregate of "Receivables", "*Mudaraba* and *Musharaka* financing", "Investments" and "*Ijarah Muntahia Bittamleek*", in each case, as set out in the Consolidated Statement of Financial Position of each of the 2016 Financial Statements and the 2015 Financial Statements. Total owners' equity See above.
Liquid Assets to Total Assets	Financial measure expressing liquid assets as a percentage of total assets, with liquid assets calculated as the sum of (i) cash and balances with banks, (ii) international commodity *murabaha* maturing in less than three months and (iii) bank *mudaraba* maturing in less than three months.	Cash and balances with banks As set out in the Consolidated Statement of Financial Position of each of the 2016 Financial Statements and the 2015 Financial Statements. International commodity *murabaha* maturing in less than three months Derived from "international commodity *murabaha*" as set out in note 4.1 to each of the 2016 Financial Statements and 2015 Financial Statements. Bank *mudaraba* maturing in less than three months Derived from "*Mudaraba* financing" as set out in note 5 to each of the 2016 Financial Statements and 2015 Financial Statements. Total Assets See above.
Net Book Value per Share (US$)	Financial measure to express equity attributable to parent's shareholders	Equity attributable to parent's shareholders' shares

APM	Definition	Reconciliation with the relevant Financial Statements
	divided by the number of outstanding shares, where outstanding shares represents the number of shares issued and paid-up less the number of treasury shares.	As set out in the Consolidated Statement of Financial Position of each of the 2016 Financial Statements and the 2015 Financial Statements. Issued and paid-up shares Refers to the same concept/figure as "Share capital" as set out in the Consolidated Statement of Financial Position of each of the 2016 Financial Statements and the 2015 Financial Statements. Treasury shares As set out in the Consolidated Statement of Financial Position of each of the 2016 Financial Statements and the 2015 Financial Statements.
Assets to deposits ratio	Financial measure expressing total assets as a percentage of total deposits.	Total assets See above. Total deposits Refers to the aggregate of "Customer current and other accounts", "Due to banks" and "Equity of Investment Accountholders (IAH)", in each case as set out in the Consolidated Statement of Financial Position of each of the 2016 Financial Statements and the 2015 Financial Statements.
Gross non-performing asset ratio	Financial measure expressing non-performing exposures as a percentage of total financing and investments.	Non-performing exposures Refers to the aggregate of the concept/figure "Non-performing" as set out in each of notes 4.1, 4.2, 4.3, 4.4, 5.1 and 5.2 to the Consolidated Statement of Financial Position of each of the 2016 Financial Statements and the 2015 Financial Statements. Total financing and investments See above.
Net profit spread ratio	Financial measure expressing average profit rate on financing and investments less average profit rate paid on customer	Net income from jointly financed contracts and investments As set out in either (i) the

APM	Definition	Reconciliation with the relevant Financial Statements
	deposits, with (i) the average profit rate on financing and investments calculated as the sum of net income from jointly financed contracts and investments and net income from self-financed contracts and investments, divided by the average of total financing and investments, with the average of total financing and investments calculated as either (a) the sum of total financing and investments at the beginning and at the end of the year divided by two or (b) the sum of total financing and investments at the beginning and at the end of the three-month period divided by two, as the context requires; and (ii) the average profit rate paid on customer deposits calculated as the return on equity of investment accountholders divided by the average of total deposits, with the average of total deposits calculated as either (a) the sum of total deposits at the beginning and at the end of the year divided by two or (b) the sum of total deposits at the beginning and at the end of the three-month period divided by two, as the context requires, and, in the case of the three-month period ratio, multiplying such ratio by four.	Consolidated Statement of Income of each of the 2016 Financial Statements and the 2015 Financial Statements or (ii) the Interim Consolidated Statement of Income of the interim condensed consolidated financial statements for the three months ended 31 March 2017, as the context requires. Net income from self-financed contracts and investments As set out in either (i) the Consolidated Statement of Income of each of the 2016 Financial Statements and the 2015 Financial Statements or (ii) the Interim Consolidated Statement of Income of the interim condensed consolidated financial statements for the three months ended 31 March 2017, as the context requires. Financing and investments See above. Return on equity of investment accountholders As set out in either (i) the Consolidated Statement of Income of each of the 2016 Financial Statements and the 2015 Financial Statements or (ii) the Interim Consolidated Statement of Income of the interim condensed consolidated financial statements for the three months ended 31 March 2017, as the context requires. Total deposits See above.

Presentation of other information

Rounding

Certain figures and percentages included in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown in the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Currencies

Except where local currency sums are explicitly mentioned, all financial data relating to the Units appearing in this Prospectus is stated in the US$ equivalent of the audited local currency-based balance sheets and income statements of such Units, prepared (for consolidation purposes) in accordance with FAS, issued by the AAOIFI (and IFRS where the FAS is silent) and without any Group level adjustments or eliminations.

In this Prospectus, unless otherwise specified or the context otherwise requires, references to "US dollars", "US$", "USD" and "United States dollars" are to the lawful currency of the United States of America, its territories and possessions; references to "BD", "BHD" and "Bahrain dinars" are to the lawful currency of Bahrain; references to "TND" and "Tunisian dinars" are to the lawful currency of Tunisia; references to "TRY" and "Turkish lira" are to the lawful currency of Turkey; references to "EGP" and "Egyptian pounds" are to the lawful currency of Egypt; references to "JOD" and "Jordanian dinars" are to the lawful currency of Jordan; references to "LBP" and "Lebanese pounds" are to the lawful currency of Lebanon; references to "SAR" and "Saudi Arabian riyals" are to the lawful currency of Saudi Arabia; references to "ZAR" and "South African rand" are to the lawful currency of South Africa; references to "DZD" and "Algerian dinars" are to the lawful currency of Algeria; references to "SYP" and "Syrian pounds" are to the lawful currency of Syria; references to "PKR" and "Pakistani rupees" are to the lawful currency of Pakistan; references to "LYD" and "Libyan dinars" are to the lawful currency of Libya; and references to "SDG" and "Sudanese pounds" are to the lawful currency of Sudan.

Translations of amounts from Bahrain dinars to U.S. dollars in this Prospectus are solely for the convenience of the reader. The Bahrain dinar has been pegged to the U.S. dollar at a fixed exchange rate of 0.377 Bahrain dinars per U.S. dollar and, accordingly, unless otherwise indicated, translations of amounts from Bahrain dinars to U.S. dollars have been made at this exchange rate for all periods presented in this Prospectus.

Such translations should not be construed as representing that Bahrain dinar amounts referred to in this Prospectus have been or could have been converted into United States dollars at this or any other rate of exchange.

The assets and liabilities and the income statements of the Units are translated from their respective jurisdictions' local currencies in which they are presented into the presentation currency of the Group (US$) at, in the case of the assets and liabilities, the exchange rate on the relevant financial position date and, in the case of the income statements, at the average exchange rates for the year. The exchange rates used for various currencies are given below:

	Profit & Loss					Balance Sheet				
Equivalent per USD	**For the three months ended 31 March 2017**	**For the three months ended 31 March 2016**	**For the year ended 31 December 2016**	**For the year ended 31 December 2015**	**For the year ended 31 December 2014**	**As at 31 March 2017**	**As at 31 March 2016**	**As at 31 December 2016**	**As at 31 December 2015**	**As at 31 December 2014**
TND	2.301	2.035825	2.0479	1.9626	1.7010	2.2841	2.0175	2.3411	2.0275	1.8625
TRY	3.592	2.88475	2.9809	2.71	2.1918	3.63	2.78	3.51	2.919	2.3255
EGP.............	17.515	8.107475	9.3189	7.6892	7.0815	18.1691	8.8866	19.0933	7.8297	7.1577
JOD	0.709	0.709	0.709	0.709	0.709	0.709	0.709	0.709	0.709	0.709

	Profit & Loss					Balance Sheet				
Equivalent per USD	**For the three months ended 31 March 2017**	**For the three months ended 31 March 2016**	**For the year ended 31 December 2016**	**For the year ended 31 December 2015**	**For the year ended 31 December 2014**	**As at 31 March 2017**	**As at 31 March 2016**	**As at 31 December 2016**	**As at 31 December 2015**	**As at 31 December 2014**
LBP	1507.5	1507.5	1507.5	1507.5	1507.5	1507.5	1507.5	1507.5	1507.5	1507.5
BHD	0.377	0.377	0.377	0.377	0.377	0.377	0.377	0.377	0.377	0.377
SAR	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
ZAR	13.2953	15.6277	14.6962	12.8453	10.8521	12.9686	14.9584	13.7767	15.5543	11.5617
DZD	110.1945	106.935925	109.4708	99.7874	80.7436	109.615	109.3597	110.94	103.0388	87.8781
SYP	517.43	442.85	433.9217	336.65	167.3461	517.43	442.85	517.43	336.65	197.96
PKR	104.8458	104.799175	104.7882	102.8344	101.4503	104.97	104.7717	104.825	104.905	100.3625
SDG	6.9495	6.4301	6.6122	6.4301	6.6022	6.9786	6.4301	7.1003	6.4301	6.3033

Third party and market share data

There is no independently determined financial services industry data available in the jurisdictions in which the Group operates (except in Turkey, where the Participation Banks Association of Turkey publishes sector data for the Turkish participation banking sector). As a result, any Group market share data included in this Prospectus represents the Group's own estimates of its market shares based on the financial statements published by banks operating in those jurisdictions and, where available, industry data, such as that produced by the central banks of those jurisdictions. All such market share information is referred to herein as having been estimated and simply represents an approximation of the Group's actual market shares. Nevertheless, the Group believes that its estimates of market share are helpful as they give prospective investors a better understanding of the industry and jurisdictions in which the Group operates as well as its position within that industry and in each such jurisdiction. Although all such estimations have been made in good faith based on the information available and the Group's knowledge of the markets within which it operates, the Bank cannot guarantee that a third party expert using different methods would reach the same conclusions.

Certain statistical information relating to the Units included in this Prospectus has been derived from official public sources from the respective jurisdictions in which the Group operates, including the central banks of Algeria, Turkey, Jordan, Egypt, Bahrain, Pakistan, Tunisia, Saudi Arabia, Indonesia, Syria, Libya, Iraq, South Africa, Lebanon and Sudan. All such statistical information may differ from that stated in other sources for a variety of reasons, including the fact that the underlying assumptions and methodology (including definitions and cut-off times) may vary from source to source. This data may subsequently be revised as new data becomes available and any such revised data will not be circulated by the Group to investors who have purchased the Certificates.

Certain statistical and other information in this Prospectus, including in relation to crude oil prices and global population figures, have been obtained from public sources identified in this Prospectus. All statistical information provided in this Prospectus, and the component data on which it is based, may not have been compiled in the same manner as data provided by, and may be different from statistics published by, other sources, for a variety of reasons, including the use of different definitions and cut-off times. Accordingly, the statistical data contained in this Prospectus should be treated with caution by prospective investors. The Trustee and the Bank accept responsibility for accurately reproducing all such third party information and as far as each of the Trustee and Bank is aware and is able to ascertain from that published information, no facts have been omitted which would render such reproduced information inaccurate or misleading.

Where information has not been independently sourced, it is the Group's own information.

No incorporation of website information

The Bank's website is www.albaraka.com. The information on this website or any other website mentioned in this Prospectus or any website directly or indirectly linked to these websites has not been verified and is not incorporated by reference into this Prospectus, and investors should not rely on it.

Definitions

Capitalised terms which are used but not defined in any section of this Prospectus have the meaning attributed thereto in the Conditions or any other section of this Prospectus. In addition, the following terms as used in this Prospectus have the meanings defined below:

- references to **GCC** are to the Gulf Co-operation Council;
- references to **Bahrain** are to the Kingdom of Bahrain;
- references to the **CBB** are to the Central Bank of Bahrain;
- references to a **Member State** are references to a Member State of the European Economic Area;
- references to the **MENA region** are to the Middle East and North Africa region;
- references to **OPEC** are to the Organisation of the Petroleum Exporting Countries; and
- references to **€** are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

Restrictions on marketing and sales to retail investors

The Certificates are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as, or with features similar to those of, the Certificates to retail investors.

By purchasing, or making or accepting an offer to purchase, any Certificates from the Trustee, the Bank and/or the Joint Lead Managers, each prospective investor represents, warrants, agrees with and undertakes to the Trustee, the Bank and each of the Joint Lead Managers that:

(a) it is not a retail client in the European Economic Area (**EEA**) (as defined in the United Kingdom Financial Conduct Authority's handbook);

(b) it will not sell or offer the Certificates (or any beneficial interests therein) to retail clients (as defined in Article 4(1)(12) of MiFID) in the EEA or do anything (including the distribution of this Prospectus) that would or might result in the buying of the Certificates (or such beneficial interests therein) or the holding of a beneficial interest in the Certificates by a retail client in the EEA, other than in relation to any sale or offer to sell Certificates (or such beneficial interest therein) to a retail client in any EEA member state, where (i) it has conducted an assessment and concluded that the relevant retail client understands the risks of an investment in the Certificates (or such beneficial interests therein) and is able to bear the potential losses involved in an investment in the Certificates (or such beneficial interests therein) and (ii) it has at all times acted in relation to such sale or offer in compliance with MiFID to the extent it applies to it or, to the extent MiFID does not apply to it, in a manner which would be in compliance with MiFID if it were to apply to it; and

(c) it has complied and will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Certificates (or any beneficial interests therein), including (without limitation) any such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Certificates by investors in any relevant jurisdiction.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Certificates (or any beneficial interests therein) from the Trustee, the Bank and/or the

Joint Lead Managers, the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

NOTICE TO RESIDENTS OF THE UK

The Certificates represent interests in a collective investment scheme (as defined in the Financial Services and Markets Act 2000 (**FSMA**)) which has not been authorised, recognised or otherwise approved by the United Kingdom Financial Conduct Authority. Accordingly, this Prospectus is not being distributed to and must not be passed on to the general public in the United Kingdom.

The distribution in the United Kingdom of this Prospectus and any other marketing materials relating to the Certificates (a) if effected by a person who is not an authorised person under the FSMA, is being addressed to, or directed at, only the following persons: (i) persons who are Investment Professionals as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the **Financial Promotion Order**); (ii) persons falling within any of the categories of persons described in Article 49(2) (High net worth companies, unincorporated associations, etc.) of the Financial Promotion Order; or (iii) any other person to whom it may otherwise lawfully be made in accordance with the Financial Promotion Order; and (b) if effected by a person who is an authorised person under the FSMA, is being addressed to, or directed at, only the following persons: (i) persons falling within one of the categories of Investment Professional as defined in Article 14(5) of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (the **Promotion of CISs Order**); (ii) persons falling within any of the categories of person described in Article 22(a)-(d) (High net worth companies, unincorporated associations, etc.) of the Promotion of CISs Order; or (iii) any other person to whom it may otherwise lawfully be made in accordance with the Promotion of CISs Order. Persons of any other description in the United Kingdom may not receive and should not act or rely on this Prospectus or any other marketing materials in relation to the Certificates.

Potential investors in the United Kingdom in the Certificates are advised that all, or most, of the protections afforded by the United Kingdom regulatory system will not apply to an investment in the Certificates and that compensation will not be available under the United Kingdom Financial Services Compensation Scheme.

Any individual intending to invest in the Certificates should consult his professional adviser and ensure that he fully understands all the risks associated with making such an investment and that he has sufficient financial resources to sustain any loss that may arise from such investment.

NOTICE TO RESIDENTS OF THE CAYMAN ISLANDS

No invitation whether directly or indirectly may be made to any member of the public of the Cayman Islands to subscribe for the Certificates and this Prospectus shall not be construed as an invitation to any member of the public of the Cayman Islands to subscribe for the Certificates.

NOTICE TO RESIDENTS OF THE KINGDOM OF SAUDI ARABIA

This Prospectus may not be distributed in Saudi Arabia except to such persons as are permitted under the "Offers of Securities Regulations" issued by the Capital Market Authority of Saudi Arabia (the **Capital Market Authority**).

The Capital Market Authority does not make any representations as to the accuracy or completeness of this Prospectus, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Prospectus. Prospective purchasers of Certificates should conduct their own due diligence on the accuracy of the information relating to the Certificates. If a prospective purchaser does not understand the contents of this Prospectus he or she should consult an authorised financial adviser.

NOTICE TO RESIDENTS OF THE KINGDOM OF BAHRAIN

Each potential investor intending to subscribe for any Certificates (each, a **potential investor**) may be required to provide satisfactory evidence of identity and, if so required, the source of funds to purchase the Certificates within a reasonable time period determined by the Bank and the Joint Lead Managers. Pending the provision of such evidence, an application to subscribe for any Certificates will be postponed. If a potential investor fails to provide satisfactory evidence within the time specified, or if a potential investor provides evidence but neither the Bank nor the Joint Lead Managers are satisfied therewith, its application to subscribe for any Certificates may be rejected in which event any money received by way of application will be returned to the potential investor (without any additional amount added thereto and at the risk and expense of such potential investor). In respect of any Bahraini potential investors, the Bank will comply with Bahrain's Legislative Decree No. (4) of 2001 with respect to Prohibition and Combating of Money Laundering (as amended) and various ministerial orders issued thereunder including, but not limited to, Ministerial Order No. (7) of 2001 with respect to Institution's Obligations Concerning the Prohibition and Combating of Money Laundering, and the Module titled 'Anti-Money Laundering and Combating of Financial Crime' contained in Volume 6 of the CBB Rulebook.

This offer is a private placement. It is not subject to all of the regulations of the CBB that apply to public offerings of securities. This Prospectus is therefore intended only for "accredited investors" as defined herein. The Certificates hereby offered by way of private placement are offered in minimum denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.

A copy of this Prospectus has been submitted and filed with the CBB. Filing of this Prospectus with the CBB does not imply that any Bahraini legal or regulatory requirements have been complied with. The CBB has not in any way considered the merits of the Certificates to be offered for investment whether in or outside of Bahrain.

Neither the CBB nor the Bahrain Bourse assumes responsibility for the accuracy and completeness of the statements and information contained in this Prospectus and each expressly disclaims any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the contents of this Prospectus. The Bank accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Bank (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

NOTICE TO RESIDENTS OF THE STATE OF QATAR

This Prospectus does not and is not intended to constitute an offer, sale or delivery of the Certificates under the laws of the State of Qatar and has not been and will not be reviewed or approved by or registered with the Qatar Financial Markets Authority, the Qatar Financial Centre Regulatory Authority, the Qatar Exchange or the Qatar Central Bank. The Certificates have not been, and will not be, offered, sold or delivered at any time, directly or indirectly, in the State of Qatar, including the Qatar Financial Centre, in a manner that would constitute a public offering. The Certificates are not and will not be traded on the Qatar Exchange.

NOTICE TO RESIDENTS OF THE STATE OF KUWAIT

Unless all necessary approvals from the Kuwait Capital Markets Authority (the **CMA**) pursuant to Law No. 7 of 2010, and its executive bylaws (each as amended) together with the various resolutions, regulations, guidance principles and instructions issued pursuant thereto, or in connection therewith (regardless of nomenclature) or any other applicable law or regulation in Kuwait, have been given in respect of the offering, marketing and sale of the Certificates, the Certificates may not be offered for sale, nor sold, in Kuwait. This Prospectus is not for general circulation to the public in Kuwait nor will the Certificates be sold by way of a public offering in Kuwait. For the avoidance of doubt, no Certificates shall be offered, marketed and/or sold in Kuwait except on a private placement basis to Professional Clients (as defined in Module 1 of the executive bylaws of Law No. 7 of 2010 (each as amended)). Where the Certificates are intended to be purchased onshore in Kuwait, the same may only be so purchased through a CMA Licensed Person duly authorised to undertake such activity pursuant to Law No. 7 of 2010 of Kuwait, and its executive bylaws (each as amended)).

Investors from Kuwait acknowledge that the CMA and all other regulatory bodies in Kuwait assume no responsibility whatsoever for the contents of this Prospectus and do not approve the contents thereof or verify the validity and accuracy of its contents. The CMA, and all other regulatory bodies in Kuwait, assume no responsibility whatsoever for any damages that may result from relying (in whole or in part) on the contents of this Prospectus. Prior to purchasing any Certificates, it is recommended that a prospective holder of any

Certificates seeks professional advice from its advisors in respect of the contents of this Prospectus so as to determine the suitability of purchasing the Certificates.

NOTICE TO RESIDENTS OF MALAYSIA

The Certificates may not be offered for subscription or purchase and no invitation to subscribe for or purchase the Certificates in Malaysia may be made, directly or indirectly, and this Prospectus or any document or other materials in connection therewith may not be distributed in Malaysia other than to persons falling within the categories set out in Schedule 6 or Section 229(1)(b), Schedule 7 or Section 230(1)(b) and Schedule 8 or Section 257(3) of the Capital Market and Services Act 2007 of Malaysia.

The Securities Commission of Malaysia shall not be liable for any non-disclosure on the part of the Trustee or the Bank and assumes no responsibility for the correctness of any statements made or opinions or reports expressed in this Prospectus.

VOLCKER RULE

The Volcker Rule, which became effective on 1 April 2014, but was subject to a conformance period for certain entities that concluded on 21 July 2015, generally prohibits "banking entities" (which is broadly defined to include U.S. banks and bank holding companies and many non-U.S. banking entities, together with their respective subsidiaries and other affiliates) from (i) engaging in proprietary trading, (ii) acquiring or retaining an ownership interest in or sponsoring a "covered fund", and (iii) entering into certain relationships with "covered funds". The general effects of the Volcker Rule remain uncertain; any prospective investor in the Certificates and any entity that is a "banking entity" as defined under the Volcker Rule which is considering an investment in the Certificates should consult its own legal advisers and consider the potential impact of the Volcker Rule in respect of such investment. If investment by "banking entities" in the Certificates is prohibited or restricted by the Volcker Rule, this could impair the marketability and liquidity of such Certificates. No assurance can be made as to the effect of the Volcker Rule on the ability of certain investors subject thereto to acquire or retain an interest in the Certificates, and accordingly none of the Trustee, the Bank, the Joint Lead Managers, the Delegate or the Agents, or any of their respective affiliates, makes any representation regarding (a) the status of the Trustee under the Volcker Rule (including whether it is a "covered fund" for their purposes) or (b) the ability of any purchaser to acquire or hold the Certificates, now or at any time in the future.

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RISK FACTORS

The purchase of the Certificates may involve substantial risks and is suitable only for sophisticated investors who have the knowledge and experience in financial and business matters necessary to enable them to evaluate the risks and merits of an investment in the Certificates. Before making an investment decision, prospective purchasers of the Certificates should consider carefully, in light of their own financial circumstances and investment objectives, all of the information in this Prospectus.

Each of the Trustee and the Bank believes that the following factors may affect their ability to fulfil their respective obligations under the Certificates and the Transaction Documents. All of these factors are contingencies which may or may not occur and neither the Trustee nor the Bank is in a position to express a view on the likelihood of any such contingency occurring. Factors which the Trustee and the Bank believe may be material for the purpose of assessing the market risks associated with the Certificates are also described below.

Each of the Trustee and the Bank believes that the factors described below represent the principal risks inherent in investing in the Certificates but the inability of the Trustee and the Bank to make payments on or in connection with the Certificates and the Transaction Documents may occur for other reasons and neither the Trustee nor the Bank represents that the statements below regarding the risks of holding any Certificate are exhaustive.

Although the Trustee and the Bank believe that the various structural elements described in this Prospectus lessen some of these risks for Certificateholders, there can be no assurance that these measures will be sufficient to ensure payment to Certificateholders of any Periodic Distribution Amount or the Dissolution Distribution Amount or any other amounts payable in respect of the Certificates on a timely basis or at all. There may also be other considerations, including some which may not be presently known to the Trustee or the Bank or which the Trustee or the Bank currently deems immaterial, that may impact any investment in the Certificates.

Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision. Words and expressions defined in the Conditions and "Global Certificate" shall have the same meanings in this section.

FACTORS THAT MAY AFFECT THE TRUSTEE'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER OR IN CONNECTION WITH THE CERTIFICATES

The Trustee has no operating history and no material assets

The Trustee is a special purpose company with limited liability incorporated under the laws of the Cayman Islands on 6 March 2017 and has no operating history. The Trustee has not as at the date of this Prospectus, and will not, engage in any business activity other than the issuance of the Certificates, the acquisition of the Trust Assets as described herein, acting in the capacity as Trustee and other activities incidental or related to the foregoing as required under the Transaction Documents. As the Trustee is a Cayman Islands company, it may not be possible for Certificateholders to effect service of process on it outside the Cayman Islands.

The Trustee's only material assets, which will be held on trust for Certificateholders, will be the Trust Assets, including the right to receive amounts paid by the Mudareb under the Mudaraba Agreement. Therefore, the Trustee is subject to all the risks to which the Bank is subject to the extent that such risks could limit the Bank's ability to satisfy in full and on a timely basis its obligations under the Transaction Documents.

The ability of the Trustee to pay amounts due on the Certificates will be dependent upon receipt by the Trustee from the Bank of amounts to be paid under the Mudaraba Agreement (which in aggregate may not be sufficient to meet all claims under the Certificates and the Transaction Documents).

RISKS RELATING TO THE BANK AND ITS ABILITY TO FULFIL ITS OBLIGATIONS UNDER THE TRANSACTION DOCUMENTS

As a parent company, the Bank is reliant on the ability of the Units to generate and pay profits and remit dividends to the Bank in order to effect a return to shareholders

As a parent company, the Bank conducts its operations principally through, and derives most of its revenues from, the Units and has limited revenue-generating operations of its own. Consequently, the Bank's cash flows and ability to meet its cash requirements and to service its debt, including payments under the Transaction Documents, depend upon the profitability and cash flows it receives from the Units.

The ongoing ability of the Units to pay dividends or make other distributions or payments to the Bank will be subject to, among other things, the availability of profits or funds for the purpose (which, in turn, will depend on the future performance of the entity concerned) and restrictions on the making of such distributions contained in covenants given in connection with financial indebtedness and in applicable laws and regulations. If profits from the Units decline, or if the Units (or any of them) are for whatever reason unable to remit profits, dividends or other distributions to the Bank in the manner currently conducted, the Bank's consolidated profits and cash flows may be materially adversely affected, which in turn may affect the Bank's ability to meet its payment obligations under the Transaction Documents.

The Group is affected by regional and global financial markets and economic conditions and could be materially adversely affected by any deterioration in economic conditions in Bahrain and the wider MENA region

Since the onset of the global financial crisis in late 2007, disruptions in the global capital and credit markets, coupled with the re-pricing of credit risk and the deterioration of the real estate markets in the United States, Europe, Bahrain, the other countries of the GCC and elsewhere, have created difficult conditions in the financial markets. These conditions have resulted in historically high levels of volatility across many markets (including the capital markets) and the failure of a number of financial institutions in the United States and Europe. At times since then, there has also been a material reduction in the availability of financing, both for financial institutions and their customers. As a result, many financial institutions have been compelled to rely on central banks and governments to provide liquidity and, in some cases, additional capital.

Governments and regulators around the world, including in Bahrain and other countries in the MENA region, enacted legislation and took measures intended to help stabilise the financial system and increase the flow of credit to their economies. These measures included recapitalisation through the purchase of securities issued by financial institutions (including ordinary shares, preferred shares and other hybrid or quasi-equity instruments), guarantees by governments of debt issued by financial institutions and government-sponsored mergers and acquisitions of and divestments by financial institutions. Despite such measures, international capital and credit markets have continued to experience volatility. There can be no assurance that any or all of these measures will continue to positively affect volatility and credit availability or that governments will continue to support recovery in this way.

In particular, the decision of the U.S. Federal Reserve Bank to raise interest rates in each of December 2015, December 2016 and March 2017 for the first time since 2008 (with further rate rises possible throughout the remainder of 2017) will likely further exacerbate the reduced liquidity in credit and capital markets and, if U.S. interest rate rises continue in line with U.S. Federal Reserve Bank expectations, may adversely impact the Group's net interest margins and borrowing costs. Further, in a referendum held in June 2016, voters in the United Kingdom voted to exit the European Union. Although the process and timeline of the United Kingdom's exit from the European Union has not been finally determined, the results of the referendum led to a significant depreciation of the pound sterling against other major currencies and created volatility on most major stock exchanges around the world. To the extent that such economic uncertainty continues or the process of the United Kingdom's expected exit from the European Union causes further economic uncertainty and disruption in the global financial markets, this may have adverse consequences for the global economy.

The foregoing conditions have had an adverse effect on the business growth and results of operations of banks in the MENA region. Although growth has returned to certain global and MENA region markets, investors should note that if significant market disruptions and high levels of volatility recur, the Group may experience reductions in business activity, increased funding costs and funding pressures, decreased asset values, increased credit losses and impairment charges and lower profitability and cash flows. In particular, since mid-2014, international crude oil prices have fallen significantly, with the monthly average price of the OPEC reference basket falling from a monthly average of US$105.61 in July 2014 to a monthly average of US$26.50 in January 2016, before partially recovering to US$45.84 in June 2016 and more recently US$54.15 in March 2017[1]. A sustained low oil price environment may potentially adversely impact the economic growth in some of the key markets in which the Group operates, which could materially adversely affect many of the Units' borrowers and contractual counterparties resulting in increased provisions for credit losses and reduced demand for loans and other banking services. This could adversely affect the Group's business, financial condition, results of operations and prospects, which in turn may affect the Bank's ability to meet its payment obligations under the Transaction Documents.

The Group operates in a region that is subject to ongoing political and security concerns

The majority of the Group's operations are conducted, and the majority of the Group's assets are located, in Africa and the Middle East. Specifically, the Units provide Islamic finance services and products in Bahrain, Jordan, Turkey, Egypt, Algeria, Tunisia, South Africa, Lebanon, Pakistan, Saudi Arabia, Sudan and Syria (together the **Group's Key Jurisdictions**), and the Group holds a licence to commence operations in Morocco in connection with the Group's latest Unit to be announced, Bank alTamweel wa alInma, in partnership with BMCE Bank of Africa Group (**BMCE**). Certain countries (and other countries in which the Group may in the future conduct operations) have in the past experienced periods of (and in some cases continue to experience) political and economic instability all of which serve to undermine business confidence, and which can adversely affect the performance of the Units operating in such jurisdictions or, indeed, the Group's performance in general.

In particular, since 2011, there has, from time to time, been significant political and social unrest in a number of the jurisdictions in which the Group operates including, in particular, Tunisia, Turkey, Egypt, Libya, Bahrain, Pakistan, Iraq, Sudan and Syria. This unrest, which has ranged from public demonstrations, sometimes violent, to armed conflict, civil war, foreign military intervention and the overthrow of existing leadership, has led to the collapse of political regimes in Tunisia, Egypt and Libya and civil war and armed conflict in Syria, Libya and Iraq. Other potential sources of instability in the region include the global conflict with '*Da'esh*' (also referred to as the so-called 'Islamic State'), a further deterioration in the currently poor relations between the United States and Iran and an escalation in the Israeli-Palestinian conflict.

These situations have given rise to increased political uncertainty across the Group's Key Jurisdictions, have caused significant disruption to the economies of affected countries and have had a destabilising effect on oil and gas prices. It is not generally possible to predict the occurrence of events or circumstances, such as war or hostilities, or the impact of these occurrences and there is no certainty that extremists or terrorist groups will not escalate violent activities in the Group's Key Jurisdictions or that any currently stable governments in the Group's Key Jurisdictions will be successful in maintaining the prevailing levels of domestic order and stability.

Any political disturbances leading to turbulence in the financial markets in the Group's Key Jurisdictions may have an adverse impact on the operations and profitability of the Group. Continued financial market and political uncertainty in the Group's Key Jurisdictions could materially impact the financial prospects and condition of the Units' customers which in turn may decrease the Units' customer deposits or their customers' demand for financing or other products offered by them. These factors could result in decreased asset values and increased provisions for the Group. Such instability could also negatively affect the value of the Group's investments in any affected countries. No assurance can be given that the Group would be able to sustain the profitable operation of its business if adverse political events or circumstances that impacted the Group's Key Jurisdictions were to occur.

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1 Source: OPEC Reference Basket as at 1st March 2017.

Investing in emerging markets generally involves a higher degree of risk

Investors should be aware that investments in emerging markets, including certain of those in which the Group operates or is seeking to operate, involve a higher degree of risk than investments in more developed markets, including risks such as higher volatility, limited liquidity and changes in the legal, economic and political environment.

Specific emerging market country risks that may have a material adverse effect on the Group's business, financial condition, results of operations or prospects include, among other things:

- political, social and economic instability, riots, insurrection or other forms of civil disturbance or violence;
- war, terrorism, invasion, rebellion, malicious acts or revolution;
- government actions or interventions, including expropriation or nationalisation of assets, increased protectionism, the introduction of tariffs or subsidies;
- changing fiscal and tax regimes;
- arbitrary or inconsistent government action, including capricious application of tax laws and selective tax audits;
- changes in, or in the interpretation or enforcement of, laws and regulations;
- difficulties and delays in obtaining requisite governmental licences, permits or approvals or renewing existing ones;
- cancellation, nullification or unenforceability of contractual rights; and
- underdeveloped industrial and economic infrastructure.

Changes in investment policies or shifts in the prevailing political or economic climate in any of the countries in which the Group operates or seeks to operate could result in the introduction of increased government regulations with respect to, among other things:

- price controls;
- export and import controls;
- *zakat*, income and other taxes;
- customs and immigration;
- foreign ownership restrictions;
- foreign exchange, currency and capital controls; and
- labour and welfare benefit policies.

In addition, there can be no assurance that the market for securities bearing emerging market risk, such as the Certificates, will not be affected negatively by events elsewhere, especially in the emerging markets. Accordingly, prospective investors should exercise particular care in evaluating the risks involved and must determine for themselves whether, in light of those risks, an investment in the Certificates is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

Risks Related to the Group's Business

In the course of its business activities, the Group is exposed to a variety of risks, the most significant of which are credit risk, market risk, operational risk, liquidity risk and concentration risk (each of which is described below). Investors should note that any failure to adequately control these risks could result in adverse effects on the business, results of operations, financial condition and prospects of the Group.

Credit Risk

Credit risks arising from adverse changes in the credit quality and recoverability of various forms of financing, securities and amounts due from counterparties are inherent in a wide range of the Group's businesses, principally in its financing and investment activities. In particular, the Group is exposed to the risk that customers of its Units may fail to meet their contractual obligations in respect of their financings and that the collateral (if any) securing the payment of such financings may be insufficient.

Credit risks could arise from a deterioration in the credit quality of specific clients, issuers and counterparties of the Group, or from a general deterioration in local or global economic conditions, or from systematic risks within financial systems. Such credit risks could affect the recoverability and value of the Group's assets and require an increase in the Group's provisions for the impairment of financing, securities and other credit exposures.

As the Group expands its business and its credit exposure consequently increases, management of the Group will need to continually monitor the credit quality of its portfolio. This will be particularly important in light of the current economic conditions in the MENA region. The markets in which the Group operates have been negatively affected by the global economic slowdown, which has impacted the various key industry sectors including manufacturing, trade, tourism and real estate. Accordingly, the Units may experience a higher level of credit defaults in the future, all of which would be likely to have a material adverse effect on the Group's profitability and results of operations, which in turn may affect the Bank's ability to meet its payment obligations under the Transaction Documents.

Market Risk

The most significant market risks to which the Group is exposed are profit rate, foreign exchange and equity price risks associated with its investment and asset and liability management activities. Changes in profit rate levels, yield curves and spreads may affect the profit rate margin realised between the Group's lending and investment activities and its borrowing costs, and the values of assets that are sensitive to profit rate and spread changes.

The Group's principal profit earning assets are its investments in Islamic financing instruments and its investments in Islamic sukuk whilst its principal profit paying liabilities are its depositors' accounts. Any significant movements in profit rates that result in either (i) the profit rates that the Group earns on its profit earning assets reducing faster than any corresponding reduction in the profit rates which the Group pays on its profit paying liabilities or (ii) the rates which the Group pays on its profit paying liabilities increasing faster than the Group is able to increase the profit rates which it earns on its profit earning assets could have a material adverse effect on its business, results of operations, financial condition or prospects.

Further, changes in equity prices may affect the value of the Group's investment portfolio. A worsening of current financial market conditions could cause further market volatility and further economic disruption. It is difficult to predict changes in economic and market conditions accurately and to anticipate the effects that such changes could have on the Group's financial performance and business operations.

The Bank is also exposed to the effects of fluctuations in foreign currency exchange rates on its financial position and cash flows (see "*Exchange controls affecting certain Units and currency fluctuations may restrict the Bank's ability to convert or transfer currencies, which could adversely affect the Bank's ability to receive profits or effect payments to finance the Group's investments*").

There can be no assurance that the Group will be able to protect itself from any adverse effects of future volatility in profit rates, equity prices or currency exchange rates, which may have a material adverse effect on its business, financial condition, results of operations or prospects, which in turn may affect the Bank's ability to meet its payment obligations under the Transaction Documents.

Operational Risk

The Bank faces the risk of losses resulting from fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, systems and equipment failures, natural disasters or the failure of external systems (for example, those of the Group's counterparties or vendors). Although the Group has implemented risk controls and loss mitigation strategies, and substantial resources are devoted to developing efficient procedures and to staff training, it is not possible to eliminate each of the operational risks entirely. The Bank is therefore exposed to operational risk that could negatively impact its business and results of operations.

Liquidity Risk

Liquidity risk could arise from the inability of the Group to anticipate and provide for unforeseen decreases or changes in funding sources which could have adverse consequences on the Group's ability to meet its obligations when they fall due.

The Bank obtains its funding from diverse sources, primarily from non-bank/financial institution depositors and equity of investment accountholders. The Bank's customer deposits (excluding bank deposits) amounted to US$18.3 billion, or 85.3 per cent. of its total liabilities, as at 31 December 2016 compared to US$19.3 billion, or 85.9 per cent. of its total liabilities, as at 31 December 2015. The deposits which the Group accepts from its customers are mostly short-term in nature. By contrast, the Group's advances have more diversified maturities (see note 27(a) to the 2016 Financial Statements which illustrates the Group's net liquidity gaps). Accordingly, there is a risk that, if a significant number of the Group's customers choose not to roll over their deposits at any time or withdraw their deposits at a rate faster than the rate at which obligors repay financing provided by the Group, the Group could experience difficulties in funding those lost deposits. The risk of this happening is likely to increase at times of poor economic performance when the Group's customers are more likely to need cash and it may be more expensive for the Group to fund those withdrawals from other sources.

As at 31 December 2016, the Group's 25 largest depositors accounted for 10 per cent. of its customer deposits and customer deposits accounted for 90 per cent. of the Group's total funding. Any withdrawal of a significant portion of these large deposits may have an adverse effect on the Group's financial condition and results of operations.

Liquidity risk in Islamic banks is heightened by the fact that less *Shari'a*-compliant liquidity products are available to them than is the case for conventional banks. There is no assurance that the Group will not experience significant liquidity constraints in the future and any such constraints could have a material adverse effect on its business, results of operations, financial condition or prospects, which in turn may affect the Bank's ability to meet its payment obligations under the Transaction Documents.

Concentration Risk

Concentrations in the financing receivables and deposit portfolio of the Group subject it to risks from default by its larger borrowers, from exposure to particular industry sectors and from the withdrawal of any large deposits.

The ten largest private sector borrowers (which excludes those borrowers which are either wholly or majority owned by any government) represented 14 per cent. of the Group's total gross financing (which includes receivables, *Mudaraba* and *Musharaka financing* and *Ijarah Muntahia Bittamleek*) as at 31 December 2016. As at 31 December 2016, the Group's largest funded exposure to a private sector borrower group, including connected exposures, was US$177 million, which constituted 1.2 per cent. of its total gross financing as at 31 December 2016.

In terms of the industry concentration of the financing of the Group, as at 31 December 2016, government accounted for 28.14 per cent., manufacturing accounted for 16.7 per cent and construction and real estate accounted for 13.7 per cent.

As at 31 December 2016, banks and other financial institutions accounted for 5 per cent. of the Group's total deposits and customers' deposits accounted for 95 per cent. The Bank's funding benefits from a wide and diversified deposit base, albeit skewed toward retail deposits. Although the Group considers that it has adequate access to sources of funding, the withdrawal of a significant portion of these deposits may have an adverse effect on its financial condition or results of operations. A downturn in the financial condition or prospects of any of the Group's depositors, or in the sectors in which they operate, could have a material adverse effect on the financial condition or results of operations of the Group, which in turn may affect the Bank's ability to meet its payment obligations under the Transaction Documents.

The Group’s operations in Jordan and Turkey account for a significant part of its consolidated revenues and net income

Although the Group is seeking to diversify its product base and extend its geographic footprint, the Group’s Turkish and Jordanian Units accounted for, respectively, 39 per cent. and 20 per cent. of the Group’s total operating income and 29 per cent. and 28 per cent. of the Group’s total net income, in each case for the year ended 31 December 2016. These markets are likely to continue to account for a large portion of the Group’s business in the future. As a result, the Group’s results of operations and growth are and will continue to be affected generally by financial, political and economic developments in or affecting these countries. If revenues or net income derived from either of these markets declines, and if the Group is not able to generate revenues or net income of a comparable size from the other markets in which it operates or is seeking to operate, the dependence of the Group on deriving a significant proportion of its consolidated revenues and income from such markets may have a material adverse effect on the Group’s business, financial condition and results of operations in the future.

In particular, Turkey has from time to time experienced volatile political, economic and social conditions including two financial crises in 1994 and 2000/2001 and a failed coup d’etat in July 2016. Turkey has also experienced a number of terrorist incidents and significant foreign exchange variations in recent years. Any prolonged or deepened political instability or worsening of the current global economic slowdown may adversely affect Turkey’s economy and financial condition which will in turn affect the Group’s business, financial condition, results of operations or prospects, which in turn may affect the Bank’s ability to meet its payment obligations under the Transaction Documents.

The interests of the Group’s controlling shareholder may, in certain circumstances, be different from the interests of the Certificateholders

The Group’s founder and controlling shareholder, together with companies controlled by him, directly and indirectly holds 74.07 per cent. of ABG’s shares as at 31 December 2016. As such, he is in a position to exert a controlling influence over the outcome of actions requiring shareholders’ approval. Investors should be aware that the interests of the Group’s shareholders may, in certain circumstances, be different from those of the Group’s creditors (including the Certificateholders).

The Group's risk management policies, systems and procedures may not prove effective in all circumstances

In the course of its business activities, the Group is exposed to a wide variety of banking risks. While the Group believes that it has implemented appropriate policies, systems and procedures to control these risks, risk management techniques may not be fully effective in mitigating its exposure in all market environments or against all types of risk, including risks that are currently unidentified or not anticipated.

The Group's methods of managing risk include the use of historical market behaviour and setting appropriate risk appetite and maximum tolerance levels to determine and monitor risk exposures. In addition, stress testing using forward-looking scenarios is designed to assist the Group in analysing the impact of possible future events on its capital, profitability, liquidity and funding position, which in turn helps to shape the Group's strategy. The Group's risk management methods are intended to assist it in predicting possible impacts on its risk exposures, but actual outcomes may prove to be significantly different from those which its risk management models predict and could be significantly greater than historical measures indicate.

Investors should note that any failure by the Group to adequately control the risks to which it is exposed, including as a result of any failure to successfully implement new risk management systems in the future, could have a material adverse effect on the Group's reputation, business, results of operations, financial condition or prospects, which in turn may affect the Bank’s ability to meet its payment obligations under the Transaction Documents.

Exchange controls affecting certain Units and currency fluctuations may restrict the Bank's ability to convert or transfer currencies, which could adversely affect the Bank's ability to receive profits or effect payments to finance the Group's investments

The Bank maintains its accounts on a consolidated group basis, and reports its results of operations, in US dollars. As a result, its reported financial results are subject to the effects of fluctuations in foreign currency exchange rates on the translation of the results of Units whose operational currencies are different from its reporting currency. The major foreign currencies to which the Group is exposed are the Algerian dinar, Pakistani rupees, Egyptian pound, Turkish lira, South African rand, Sudanese pound, Tunisian dinar and Syrian pound. As a result, significant fluctuations in the exchange rates between any of these currencies and the US dollar could affect the Group's reported results of operations.

In particular, on 3 November 2016, the Central Bank of Egypt announced the move to a liberalised exchange rate regime and other measures in order to quell distortions in the domestic foreign currency market and reduce foreign exchange shortages. Pursuant to the new exchange rate regime, banks and other market participants are at liberty to quote and trade at any exchange rate, and bid and ask exchange rates are expected to be determined by supply and demand. As a result, the Egyptian pound depreciated against the US dollar to EGP 14.6350 per US$1.00 (buy rate) on 3 November 2016, as compared to EGP 8.7700 (buy rate) per US$1.00 on 2 November 2016. On 11 January 2017, the market exchange rate (buy rate), as published by the Central Bank of Egypt, was US$1.00 = EGP 18.6358, representing a 52.9 per cent. depreciation since 2 November 2016. This led to significant foreign currency translation adjustments in respect of Al Baraka Bank Egypt (**ABE**). Any further depreciation of the currency may result in reduced Group revenues which could impact the Group's cash-flow and profitability.

Currency depreciation has also had a significant impact on the operations of Al Baraka Türk Participation Bank (**ABTPB**). In nominal terms, between 31 December 2015 and 31 December 2016, the Turkish lira depreciated against the US dollar by 20.6 per cent. In real terms, based upon the consumer price index-based real effective exchange rate, the Turkish lira depreciated by 5.5 per cent. during this period. Any further significant depreciation of the Turkish lira against the US dollar or other major currencies may adversely affect ABTPB's business, financial condition and/or results of operations.

In addition, the Group's financing facilities that are denominated in currencies other than the Bank's reporting currency may also increase the Bank's overall exposure to a particular currency. The Bank's assessment and estimates of future changes in exchange rates and the chosen degree of risk aversion or risk tolerance may therefore materially impact its ability to protect successfully against currency fluctuations. At present, the Group is not party to any hedging transactions.

In addition, certain jurisdictions in which the Group operates or may seek to operate have instituted or may seek to institute exchange control policies which limit or restrict a company's ability to convert earnings into other currencies or to remit sums in respect of management fees or dividends in internationally accepted funds to the Group. Similarly, the Group may experience difficulties in funding operating businesses in certain jurisdictions in consequence of such exchange controls. Such restrictions on the ability of any Unit to convert or transfer currencies could have a material adverse effect on the Group's business, financial condition and results of operations, which in turn may affect the Bank's ability to meet its payment obligations under the Transaction Documents.

Significant competition in markets in which the Group operates may have a material adverse effect on its business, financial condition and results of operations

Although many Units are leading providers of retail Islamic banking services in their home jurisdiction, each Unit faces increasing competition both from Islamic banks (in particular, new entrants to the market) and from conventional banks (in particular, those opening Islamic windows), which may increase pressure on such Unit to improve the range and sophistication of the products and services currently offered by it. In addition to domestic banks, international banks are also increasing their presence in the GCC and MENA region, either directly or through strategic investments, and compete with the Units for their clients.

Competition in its key areas of operation, among other things, may limit the Group's ability to implement its growth strategy, increase its client base and expand its operations. If the Group experiences increasing margin pressure and rising operating expenses as the banking sector in each of the markets in which it operates develops and/or the Group is not able to compete effectively against its competitors in such market and/or the Group incurs significant additional costs as it seeks to compete effectively, these factors could have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

The Group's market position will depend on the effectiveness of its marketing initiatives and its ability to anticipate and respond to various factors affecting the industry, including new products and services, pricing strategies by competitors, shifts in consumer preferences and changes in economic, political and social conditions in the countries in which the Group operates. There can be no assurances that each Unit will be able to compete effectively with current or future competitors, nor that the increasingly competitive pressures faced by each Unit from such business will not have a material adverse effect on the Group's future performance.

Any failure by the Group to successfully implement its strategy in the coming years could negatively affect its competitive position in the markets in which it operates which could result in reduced income or a failure to achieve anticipated levels of income, which in turn may affect the Bank's ability to meet its payment obligations under the Transaction Documents.

The Bank cannot be certain that it will continue to grow or that it will be able to manage its growth effectively

The Bank's growth strategy is predicated on organic growth opportunities supplemented by opportunistic expansion into new markets, including through acquisitions (see "*Description of Al Baraka Banking Group B.S.C. – Vision, Mission and Strategy – Strategy*"). It has made significant investments in purchasing interests in the Units and in developing and sustaining the range (and consistency) of services and products offered by the Group and intends to make significant further such investments. However, the Bank cannot give any assurance that its recent rates of growth will be maintained in the future or that it will be successful in expanding into any other jurisdictions or business areas in which it may identify growth opportunities. The execution of its strategy is dependent on regional regulations and the central banks of the countries in which the Group wishes to expand. Regulatory restrictions or refusals by local regulators to grant the required approvals to the Group may impact implementation of its strategy.

In addition, management of growth requires, among other things, stringent control of financial systems and operations, including increased risk management and internal control policies and procedures as well as credit analysis and reporting, the continued development of such controls, policies and procedures, the hiring and training of new personnel (competition for such personnel with relevant expertise in the Group's target (and existing) markets is high due to relative scarcity of qualified individuals) and continued access to funds to finance the relevant growth. It also significantly increases costs, including the cost of recruiting, training and retaining a sufficient number of suitably qualified personnel and the cost of compliance arising from exposure to additional activities and jurisdictions.

While the Group believes that it has a highly capable management team and strong operational and managerial resources and control systems, there remains a risk that the rapid development and establishment of Islamic finance businesses in the Group's target new markets may raise unanticipated operational or control issues. In particular, challenges may arise through the establishment or acquisition of new businesses (the acquisition of which in particular may require significant management time and resource in achieving effective integration of business, systems and personnel, which time and resource would otherwise be available for the ongoing development and expansion of existing operations) and managing the increased scope, geographical diversity and operating complexity of the Group's business as a consequence of such growth. In particular, such expansion will require the Group to maintain close co-ordination between its logistical, technical, accounting, finance, marketing and sales personnel, and may place a significant strain on the its managerial, operational, financial and other resources.

If the Group is not successful in meeting the challenges associated with any significant acquisitions which it may make, or in managing its future growth efficiently and effectively, this could have a material and adverse effect on the Group's business, results of operations, financial condition or prospects and could therefore affect the ability of the Bank to perform its obligations in respect of the Transaction Documents.

The Bank may pursue investment opportunities in countries in which it has no previous investment experience or in jurisdictions that are subject to greater social, economic and political risks than developed countries

As part of its diversification and expansion strategy, the Bank may choose to pursue projects and investment opportunities in the GCC and other regions of the world, such as Asia, Africa, Europe and the Americas. It may therefore invest in countries in which it has little or no previous investment experience. As a result, the Bank may not be able to adequately assess the risks of investing in such countries (irrespective of advice from its advisers), and may be unfamiliar with the laws and regulations of such countries applicable to its investments. The Bank cannot guarantee that its strategy will be successful in such markets. The Group could lose some or all of the value of its investments made as part of the Bank's diversification strategy.

In addition, investments made by the Bank in emerging markets may involve a greater degree of risk than investments in developed countries. Among other things, investments in emerging markets may be subject to less publicly available information, more volatile markets, less sophisticated securities market regulation, less favourable tax provisions and a greater likelihood of severe inflation, unstable currency values, corruption, war, expropriation of personal property and cancellation of contractual rights than investments in companies based in developed countries. In addition, investment opportunities in certain emerging markets may be restricted by legal limits on foreign ownership and provide less protection of shareholder rights, especially the rights of minority shareholders, that is customary in more developed markets.

If any of the foregoing risks were to occur or if the Bank failed to correctly identify the risks associated with an investment, the Group's business, results of operations, financial condition or prospects could be materially and adversely affected and this could therefore affect the ability of the Bank to perform its obligations in respect of the Transaction Documents.

Failure by Units or their employees to comply with worldwide laws and regulations could result in liabilities and could have a material adverse effect on the Group's business

Units are subject to, or seek to comply with, laws and regulations with worldwide application (including, without limitation, regulations promulgated by the United Nations, the European Union and the Organisation for Economic Co-operation and Development, which govern and/or affect where and how the relevant Unit's business may be conducted. Further, the Group's shareholders, financiers, suppliers or other entities with which the Group conducts business (including shareholders of the Units) may be subject to or may seek to comply with such laws and regulations.

The Group is also required to comply with applicable know-your-customer, anti-money laundering and counter-terrorism financing laws and regulations in Bahrain and other jurisdictions where it operates, including those related to countries subject to sanctions by the United States Office of Foreign Assets Control (**OFAC**), similar regulations of other jurisdictions, and applicable anti-corruption laws in the jurisdictions in which it conducts business. Actual or perceived non-compliance with current or future applicable laws and regulations could result in criminal liability on the account of the Bank, the Units and/or their respective directors, the imposition of significant fines or other monetary penalties, as well as negative publicity and reputational damage. In addition, the Group cannot predict what effect subsequent changes in laws or regulations may have on the Group's business.

Any of the foregoing could have a material adverse effect on the Group's business, financial condition or the results of operations, which in turn may affect the Bank's ability to meet its payment obligations under the Transaction Documents.

Each Unit is a regulated entity, and regulatory issues experienced in a country in which a Unit operates may affect the regulatory status of other Units

Each Unit undertakes activities in its home jurisdiction under regulation by that jurisdiction's central bank and/or financial regulator. As such, each Unit is subject to a number of prudential and regulatory controls applicable in such jurisdiction designed to maintain the safety and soundness of banks, ensure their compliance with economic and other objectives and limit their exposure to risk. The regulations to which the relevant Unit is subject may limit its ability to carry on certain parts of its business, to increase its financing portfolio or to raise capital and may also increase its cost of doing business. In addition, increased regulations or changes in applicable laws and regulations and the manner in which they are interpreted or enforced in the relevant jurisdiction may impose significant additional compliance costs on the Group and could have a material adverse effect on the relevant Unit's business, the products or services it is able to offer, the value of its assets and its financial condition.

Furthermore, non-compliance with regulatory guidelines could expose the Group to potential liabilities, fines and other sanctions that could potentially affect the Group's operations or ability to operate. Although each Unit works closely with its regulators and continually monitors the regulatory environment in which it operates, future changes in regulation, fiscal or other policies which materially adversely affect the Group's business, the value of its assets and its financial condition cannot be predicted and are beyond the control of the Group.

In order to carry out and expand its businesses, it is necessary for the Group to maintain or obtain a variety of licences, permits, approvals and consents from various regulatory, legal, administrative, tax and other governmental authorities and agencies. The processes for obtaining these licences, permits, approvals and consents are often lengthy, complex, unpredictable and costly. If the Group is unable to maintain or obtain the relevant licences, permits, approvals and consents, its ability to achieve its strategic objectives could be impaired. Suspension, cancellation or other action taken in respect of a banking licence or other regulatory issues encountered by a Unit in one jurisdiction may impact upon the regulatory status of other Units in other jurisdictions or the Group as a whole.

The Group's business and growth prospects may be disrupted if the Group loses the services of certain key personnel or if the Group is not able to identify and employ expert personnel in the markets in which the Group operates

The Group's ability to maintain and grow its business will depend, in part, on the continued service of the Group's key executives and employees and the Group's ability to continue to recruit, retain and motivate qualified personnel.

If one or more of the Group's key personnel are unable or unwilling to continue in their present positions, or if they joined a competitor, the Group may not be able to replace them easily or quickly and the Group's business may in consequence be significantly disrupted. The Group may also experience difficulties in transferring existing personnel to certain of the countries in which the Group operates or in attracting new qualified personnel for employment in such countries. Any such events could have an adverse effect on the Group's financial condition and results of operations.

In addition, the Group is not insured against loss that may be incurred as a result of the departure of any of its key personnel. The loss of certain members of the Bank's senior management team or any significant number of its mid-level managers and skilled professionals, or their counterparts within the Units, may result in a loss of organisational focus, poor execution of operations and corporate strategy or an inability to identify and execute potential strategic initiatives, and the Group provides no assurance that it will be able to attract and retain the key personnel which it anticipates it will need to achieve the Group's business objectives. While the Group believes that it has effective succession planning, staff recruitment, training and incentive programmes in place, if it is unable to manage its personnel needs successfully including (i) retaining key personnel, and/or (ii) attracting and recruiting new qualified personnel at a pace consistent with its growth, or if the Group is required to offer significantly higher compensation to attract and retain key personnel, this could impede the implementation of the Bank's strategy, hinder the growth of its business and have a material adverse effect on its business, financial condition and results of operations, which in turn may affect the Bank's ability to meet its payment obligations under the Transaction Documents.

Rapid technological changes may increase competition and render technologies, products or services used or offered by the Group obsolete

The Islamic finance industry is characterised by rapid increases in the diversity and sophistication of the technologies and services offered. As a result, the Group may face increasing competition from technologies, services and products currently being developed, or which may be developed in the future, by both its existing competitors and new market entrants. The development and regulatory acceptance of new technologies involves time, substantial cost and risks. The Group cannot accurately predict how emerging and future technological changes will affect its operations or the competitiveness of its products and services.

The Group's ability to deliver services may be interrupted due to a systems failure or shutdown in its networks

The Bank depends on its information technology (**IT**) systems to process a large number of transactions on an accurate and timely basis, and to store and process substantially all of the Group's business and operating data. The proper functioning of the Group's financial control, risk management, credit analysis and reporting, accounting, customer service and other IT systems, as well as the communication networks between its branches and main data processing centres, are critical to the Group's business and ability to compete effectively. The Bank's business activities would be materially disrupted if there is a partial or complete failure of any of the IT systems or communications networks. Such failures can be caused by a variety of factors, including natural disasters, extended power outages, computer viruses and other malicious acts. The proper functioning of the Group's IT systems also depends on accurate and reliable data and other system input, which are subject to human error. Any failure or delay in recording or processing the Group's transaction data could subject it to claims for losses and regulatory fines and penalties.

Each Unit has set up a disaster recovery data centre (housing back-up IT operations and data storage systems) for use in the event of a catastrophe or failure of its primary data centre and IT infrastructure. However, there can be no assurance that these safeguards will be fully effective in the event of a disaster. In addition, notwithstanding the Group's significant and planned investment in IT systems and products, its networks may be vulnerable to damage or interruptions in operations. Any such failure could adversely affect the quality of services provided and damage the Group's ability to attract and retain customers. Any of the foregoing may consequentially have a material adverse effect on the Group's business, financial condition, results of operations or prospects, which in turn may affect the Bank's ability to meet its payment obligations under the Transaction Documents.

The Group could be exposed to significant risks if its insurance coverage proves to be inadequate

While the Group maintains insurance against standard risks, such as fire or accidental damage, there can be no assurance that the proceeds available from its insurance policies will be sufficient to protect the Group from all possible loss or damage resulting from any insured events.

Further, certain of the Group's operations are conducted in jurisdictions which are subject to political, social, economic and market risks. Damages arising as a result of such risks are not usually covered by insurance policies, in consequence of which insurance coverage may prove to be inadequate, thereby causing a material adverse effect on the Group's business and results of operations should an insurable event occur, which in turn may affect the Bank's ability to meet its payment obligations under the Transaction Documents.

Inflation could increase the Group's costs and decrease the Group's operating margins

The economies of certain countries in which the Group operates have from time to time experienced high rates of inflation. The Group incurs most of its operating expenses in local currency in the countries in which the Group operates. As a result, the Group tends to experience increases in certain of the Group's local currency costs which are sensitive to rises in the general price levels, including salaries and rents, in countries with high inflation rates. The Group may not, however, be able to maintain the prices the Group charges for the Group's products and services at levels that will preserve the Group's operating margins, due to competitive pressures, regulatory requirements or other reasons. Any such decrease in the Group's operating margins could have a material adverse effect on the Group's business, financial condition and results of operations which, in turn, may affect the Bank's ability to meet its payment obligations under the Transaction Documents.

Weaknesses and uncertainties relating to the legal and regulatory systems in certain of the countries in which the Group operates may create an uncertain and higher-risk environment for investment and business activities

A number of the countries in which the Group operates or in which it may operate in the future remain in various stages of transition; both financially and from a legal and regulatory perspective. Although in some cases many laws and regulations have been liberalised and modernised, in some cases the procedural safeguards of the legal and regulatory regime remain in a state of development, with the consequence that laws and regulations (often conflicting with previous laws or regulations) may be applied inconsistently. As the legal environment remains subject to continuous development, investors in these countries may face uncertainty as to the security of their investments. Such inconsistent interpretation and lack of clarity and certainty could affect the Group's ability, *inter alia*, to enforce the Group's rights under, among other things, its financing agreements, licences and commercial contracts or to defend the Group against claims by others, which, in turn, could have a material adverse effect on the Group's business, financial condition and results of operations.

Any unexpected changes in the legal systems in any of the countries in which the Group operates may have a material adverse effect on the rights of Certificateholders or the investments that the Bank has made or may make in the future, which may in turn have a material adverse effect on the Bank's business, financial condition, results of operations or prospects, which in turn may affect the Bank's ability to meet its payment obligations under the Transaction Documents.

Government action may have a material adverse effect on the Group's business

Governmental authorities in certain countries in which the Group operates or may seek to operate may have a high degree of discretion and, at times, act selectively or arbitrarily, without hearing or prior notice. Further, governments in such jurisdictions may have the power, by regulation or government act, to interfere in certain circumstances with the performance of a company's business. Such governmental actions could include the denial or withdrawal of licenses, sudden and unexpected tax audits, criminal prosecutions and civil actions, any of which could have a material adverse effect on the Group's business, financial condition and results of operations, which in turn may affect the Bank's ability to meet its payment obligations under the Transaction Documents.

Tax systems in countries in which the Group operates are uncertain and various tax laws are subject to differing interpretations

The Group seeks to structure the holding of its investments in a tax efficient manner in accordance with the then current relevant tax regulations in the various jurisdictions in which it operates, and in which it holds such investments.

Tax authorities may conclude differently from the Group (and its advisers) as to the amounts of tax to which the Group should be subject. In addition, tax systems in certain of the countries in which the Group operates are characterised by frequent changes in tax regulations. As a result, certain tax regulations may either not be subject to firmly established interpretations, or be subject to frequently changing interpretation by the tax authorities. Such uncertainty may make tax planning difficult for the Group and its Units, and any such change of law, regulation or interpretation (or divergence of views by any authority to that of the Group) may have a material adverse effect on the Group's business, results of operations, financial condition or prospects and this could therefore affect the Bank's ability to perform its obligations in respect of the Transaction Documents.

RISKS RELATING TO THE CERTIFICATES

Certificateholders' right to receive payment of the principal amount of the Certificates and the Certificateholders' right to any profit will be written-down (in whole or in part) upon the occurrence of a Non-Viability Event

If a Non-Viability Event (as defined in the Conditions) occurs, the Certificates will be cancelled (in the case of a Write-down in whole) or written-down in part on a *pro rata* basis (in the case of a Write-down in part) by the Trustee as determined by the Bank in consultation with the Regulator or as the Regulator may, in its sole discretion, direct in accordance with the prevailing Capital Regulations and all rights of any Certificateholder for payment of any amounts due under or in respect of the Certificates (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, a Bank Event) shall, as the case may be, be cancelled or written-down in part on a *pro rata* basis among the Certificateholders and, in each case, will not be restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Notice or the Non-Viability Event Write-down Date and even if the Non-Viability Event has ceased. Further, while it is intended that the ordinary shares of the Bank should absorb losses prior to the Certificates, a Write-down in full or in part of the Certificates could occur prior to the ordinary shares of the Bank absorbing losses in full. A Write-down shall not constitute a Dissolution Event. As a result, Certificateholders may lose all or part, as the case may be, of their investment in the Certificates. Investors should also be aware that the application of a non-viability loss absorption feature similar to Condition 11 (*Write-down at the Point of Non-Viability*) has not been tested in Bahrain and therefore some degree of uncertainty may exist in its application.

The circumstances triggering a Write-down are unpredictable

The occurrence of a Non-Viability Event is inherently unpredictable and depends on a number of factors, many of which are outside of the Bank's control. The occurrence of a Non-Viability Event is subject to, *inter alia*, a subjective determination by the Regulator (as defined in the Conditions). As a result, the Regulator may require a Write-down in circumstances that are beyond the control of the Bank and with which the Bank may not agree.

See "*Certificateholders' right to receive payment of the principal amount of the Certificates and the Certificateholders' right to any profit will be written-down (in whole or in part) upon the occurrence of a Non-Viability Event*".

The exercise (or perceived likelihood of exercise) of any such power by the Regulator or any suggestion of such exercise could materially adversely affect the value of the Certificates and could lead to the holders of the Certificates losing some or all of their investment in the Certificates.

The financial viability of the Bank will also depend in part on decisions made by the Bank in relation to its business and operations, including the management of its capital position. In making such decisions, the Bank will not necessarily have regard to the interests of Certificateholders and, in particular, the consequences for Certificateholders of any such decisions and there can be no assurance in any such circumstances that the interests of the Bank, its shareholders and the Regulator will be aligned with those of the Certificateholders.

The payment obligations of the Bank under the Mudaraba Agreement are subordinated and unsecured obligations

Payments of Periodic Distribution Amounts will be made by the Trustee provided that the Bank (as Mudareb) shall have paid to the Trustee profit amounts equal to such Periodic Distribution Amounts pursuant to the terms of the Mudaraba Agreement. In this regard, prospective investors should note that the payment obligations of the Bank under the Mudaraba Agreement rank junior to all Senior Obligations (as defined in the Conditions), rank *pari passu* with all Pari Passu Obligations (as defined in the Conditions) and rank in priority only to all Junior Obligations (as defined in the Conditions), as more particularly described in Condition 4.2 (*Subordination*).

Further, the payment obligations of the Bank under the Mudaraba Agreement are unsecured and no collateral is or will be given by the Bank in relation thereto.

The Trustee may exercise its enforcement rights in relation to the Mudaraba Agreement only in the manner provided in Condition 12.3 (*Winding-up, Dissolution or Liquidation*). If the Bank were wound up, liquidated or dissolved, the Bank's liquidator would apply the assets of the Bank to satisfy all claims of creditors in respect of Senior Obligations in priority to the claims of the holders of the Certificates. If the Bank does not have sufficient assets to settle claims of such creditors in full, the claims of the Trustee in relation to the Relevant Obligations will not be settled. Further, the Trustee will share equally in payment with the claims of creditors in respect of Pari Passu Obligations. In such case, there may not be sufficient assets to satisfy the claims of the holders of the Certificates in full and holders could lose all or part of their investment.

No limitation on issuing senior securities; subordination

Other than the limitations in relation to the issue of further Tier 1 Capital by the Bank as set out in Condition 4.3 (*Other Issues*) which limit the circumstances in which Tier 1 Capital of the Bank can be issued that ranks senior to the Certificates, there is no restriction in the Conditions or in the terms of the Transaction Documents on the Bank (in its capacity as Mudareb or otherwise) incurring additional financing or issuing securities or creating any guarantee or contractual support arrangement which would rank senior to the Certificates and the obligations of the Bank under the Mudaraba Agreement (**Bank Senior Obligations**). The issue of or the creation of any such Bank Senior Obligations may reduce the amount recoverable by Certificateholders on a winding-up of the Bank. Accordingly, in the winding-up of the Bank and after payment to creditors in respect of Senior Obligations, there may not be a sufficient amount of funds to satisfy the amounts owing to the Certificateholders. See also "*–The payment obligations of the Bank under the Mudaraba Agreement are subordinated and unsecured obligations*".

Payments of Periodic Distribution Amounts are conditional upon certain events and may be cancelled and are non-cumulative

The Bank may elect, in its sole discretion and by instructing the Trustee to such effect, not to make payment of a Periodic Distribution Amount (in whole or in part) to Certificateholders on the corresponding Periodic Distribution Date, except that no such election may be made in respect of the Periodic Distribution Amount payable on the Dissolution Date or if the Trustee has given notice to Certificateholders that the Certificates will be redeemed in whole in accordance with Condition 10 (*Redemption and Variation*), all as more particularly provided in Condition 8.2 (*Non-Payment Election*).

In addition, if a Non-Payment Event (as defined in the Conditions) occurs, the Bank (in its capacity as Mudareb) shall be prohibited from paying Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit on any Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be) pursuant to the Mudaraba Agreement, and as a result thereof the Trustee shall be prohibited from paying Periodic Distribution Amounts to the Certificateholders on the corresponding Periodic Distribution Dates, as more particularly provided in Condition 8.1 (*Non-Payment Event*).

If any amount of Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit or Periodic Distribution Amount is not paid as a consequence of the Bank's election or a Non-Payment Event then, from the date of such election or Non-Payment Event, the Bank will be prohibited from declaring or paying certain distributions or dividends and from redeeming, purchasing, cancelling, reducing or otherwise acquiring certain securities, in each case for a limited period of time, as more particularly described in Condition 8.4 (*Dividend and Redemption Restrictions*). However, the Certificateholders shall have no claim in respect of any Periodic Distribution Amount not paid as a result of either an election by the Bank or a Non-Payment Event and the consequential non-payment of any Periodic Distribution Amount in such a circumstance shall not constitute a Dissolution Event. The Bank shall not have any obligation to make any subsequent payment in respect of any such unpaid profit (whether from its own cash resources, from the Mudaraba Reserve or otherwise) and the Trustee will not have any obligation to make any subsequent payment in respect of any such Periodic Distribution Amounts.

If such a situation occurs, the Certificateholders shall not receive Periodic Distribution Amounts on their investment in the Certificates and neither the Trustee nor the Certificateholders shall have any claim in respect thereof. Any non-payment of Periodic Distribution Amounts or perceived risk of such non-payment may have a material adverse effect on the market value of the Certificates.

The Certificates are Perpetual Securities and contain limited Dissolution Events

The Certificates are perpetual securities which have no scheduled payment date. The Trustee is under no obligation to redeem the Certificates at any time and the Certificateholders have no right to call for their redemption unless a Bank Event occurs.

The Dissolution Events and Certificateholders' rights following a Dissolution Event are set out in Condition 12 (*Dissolution Events and Winding-up*). The Dissolution Events in the Conditions are limited to: (a) Bank Events (being (i) a default by the Mudareb for a period of seven days or more in the payment of any principal or profit amount due and payable by it under the Mudaraba Agreement; (ii) a final determination by a court or other official body that the Bank is insolvent or bankrupt or unable to pay its debts; (iii) (x) a compulsory liquidation of the Bank pursuant to Article 145 of the Financial Institutions Law, for the purposes of Article 156 of the Financial Institutions Law or (y) an administrator is appointed, an order is made or an effective resolution is passed for the winding-up or dissolution or administration of the Bank or the Bank applies or petitions for a winding-up or administration order in respect of itself except, in each case, (A) for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate (acting in accordance with the Declaration of Trust and the Conditions or by an Extraordinary Resolution of the Certificateholders); or (B) for any step or procedure which is part of a solvent reconstruction or amalgamation approved by any court of competent jurisdiction or other competent authority) and (b) Trustee Events (being similar in nature to Bank Events in respect of the Trustee), all as more fully described in the Conditions.

In certain circumstances the Bank may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, redeem the Certificates, including on the First Call Date or any Periodic Distribution Date thereafter and if a Tax Event or a Capital Event occurs, as more particularly described in Condition 10 (*Redemption and Variation*), although there is no assurance that the Bank will require it to do so.

Therefore, prospective investors should be aware that they may be required to bear the financial risks of an investment in the Certificates indefinitely, unless:

(i) the Trustee exercises its rights to redeem the Certificates in accordance with Condition 10 (*Redemption and Variation*);

(ii) the Trustee is directed by an Extraordinary Resolution of the Certificateholders, or by the Delegate (acting in accordance with the Declaration of Trust and the Conditions), following a Bank Event to redeem the Certificates; or

(iii) they sell their Certificates.

The exercise of (or perceived likelihood of exercise of) any such redemption feature of the Certificates may limit their market value, which is unlikely to rise substantially above the price at which the Certificates can be redeemed.

If the Certificates are redeemed, there can be no assurance that Certificateholders will be able to reinvest the amount received upon redemption in a comparable security at a rate that will provide the same rate of return as their investment in the Certificates. Potential investors should consider reinvestment risk in light of other investments available at that time. See also "*Absence of secondary market/limited liquidity*" for a description of the risks relating to the ability of holders of Certificates to sell the Certificates in the secondary market.

Basel regulatory framework as implemented in Bahrain may have an effect on the Certificates

The Basel Committee on Banking Supervision (the **Basel Committee**) has put forward a number of fundamental reforms to the regulatory capital framework for internationally active banks. On 16 December 2010 and on 13 January 2011, the Basel Committee issued guidance on the eligibility criteria for Tier 1 and Tier 2 capital instruments as part of a package of new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for credit institutions (**Basel III**). The international implementation of the Basel III reforms began on 1 January 2013; however, the requirements are subject to a series of transitional arrangements that will be phased in over a period of time. The Basel Committee's press release dated 13 January 2011 entitled "*Minimum requirements to ensure loss absorbency at the point of non-*

viability" (the **January 2011 Press Release**) included an additional qualification requirement for Tier 1 and Tier 2 capital instruments under Basel III.

This requirement (the **Non-Viability Requirement**) requires contractual or legislative terms providing for, at the option of the relevant authority, the writing-off of the principal amount of Tier 1 instruments or the conversion of such Tier 1 instruments into ordinary shares upon the occurrence of the earlier of: (a) a decision that a write-off, without which the relevant bank would become non-viable, is necessary; and (b) the decision to make a public sector injection of capital, without which the relevant bank would become non-viable, in each case as determined by the relevant authority (a **Non-Viability Event**). This definition is for illustrative purposes only and may not necessarily reflect the meaning ascribed to the term "Non-Viability Event" (or any term equivalent thereto) pursuant to any law or regulation implementing Basel III in Bahrain.

The January 2011 Press Release states that instruments issued after 1 January 2013 must meet the Non-Viability Requirement in order to be recognised as Tier 1 or Tier 2 instruments for regulatory capital purposes.

In August 2014, the CBB published the final version of Module CA of the CBB Rulebook setting out the proposed implementation of Basel III in Bahrain (**Module CA**), which came into force in January 2015.

The CBB has provided the Bank with a letter of no objection to the issuance of the Certificates as Tier 1 Capital under the Module CA.

To the extent that the relevant statutory and/or regulatory authorities in Bahrain introduce any amendments to the Module CA, or introduce a statutory resolution regime to implement loss absorbency upon the occurrence of a Non-Viability Event, either through the writing-off of the principal amount of the instruments or the conversion of such instruments into ordinary shares, it is possible that such amendments or loss absorbency measures, if applicable to the Certificates, could (i) (in the event of any introduction of a statutory regime) supersede the write-down provisions contained in Condition 11 (*Write-down at the Point of Non-Viability*), or (ii) (in the event of any amendments to the Module CA) give rise to a Capital Event as a consequence of which the Certificates may be redeemed or varied pursuant to Condition 10.1(d) (*Redemption or Variation for Capital Event*). The introduction (or anticipation) of any such amendments or new statutory resolution regime could, therefore, materially adversely affect the value of the Certificates. See "*– Variation upon the occurrence and continuation of a Capital Event or the occurrence of a Tax Event*" and "*–The Certificates may be subject to early redemption; redemption is conditional*".

The Certificates will cease to accrue profit from the due date for redemption (if any)

Investors are advised that each Certificate will cease to accrue profit from the due date for redemption (following liquidation of the Mudaraba). Consequently, should payments owing to Certificateholders on the due date for redemption (if any) be received by them after the due date for any reason, no additional profit payment, late payment amount or other equivalent amount will be payable in respect of such delay. See Condition 7.3 (*Cessation of Accrual*).

Due to the deeply subordinated nature of the obligations arising under the Certificates, the Conditions contain limited remedies

The Certificates are perpetual instruments with no fixed redemption date and there is no obligation on the Trustee to pay the face amount of the Certificates other than in accordance with the exercise of a call option in accordance with Condition 10.1(b) (*Trustee's Call Option*), a redemption in accordance with Condition 10.1(c) (*Redemption or Variation due to Taxation*), a redemption in accordance with Condition 10.1(d) (*Redemption or Variation for Capital Event*) or following the occurrence of a Bank Event in accordance with Condition 12.1 (*Bank Events*). In addition, the Trustee may be prohibited from making, or instructed by the Bank not to make, payments of Periodic Distribution Amounts on the Certificates in accordance with Condition 8 (*Periodic Distribution Restrictions*) and Periodic Distribution Amounts will not therefore be due other than in the limited circumstances described in the Conditions.

Moreover, pursuant to Condition 12 (*Dissolution Events and Winding-up*), upon the occurrence of any Bank Event, and following the delivery of a Dissolution Notice pursuant to Condition 12.1 (*Bank Events*), the Mudaraba will be liquidated in accordance with the provisions of the Mudaraba Agreement and the remedies available to the Trustee, the Delegate and/or the Certificateholders (as applicable) are limited to giving notice to the Trustee and the Bank that the Certificates outstanding are, and shall immediately become, due and payable without presentation, demand, protest or other notice of any kind at their aggregate outstanding face amount together with any Outstanding Payments and thereafter: (i) instituting any steps, actions or proceedings for the winding-up or bankruptcy of the Bank; and/or (ii) proving in the winding-up of the Bank; and/or (iii) claiming in the liquidation of the Bank; and/or (iv) taking such other steps, actions or proceedings which, under the laws of Bahrain, have an analogous effect to the actions referred to in paragraphs (i) to (iv) above, in each case, for the payment of amounts due under the Mudaraba Agreement. Therefore, it will only be possible to enforce claims for payment of such amounts when the same have become due pursuant to the Mudaraba Agreement and the Conditions.

Furthermore, the Senior Obligations of the Bank will first have to be satisfied in any winding-up, bankruptcy, dissolution, liquidation or analogous proceedings before the Certificateholders may expect to obtain any amounts in respect of their Certificates and prior thereto Certificateholders will have only limited (if any) ability to influence the conduct of such winding-up, liquidation or analogous proceedings.

Resettable fixed rate instruments have a market risk

A holder of an instrument with a fixed profit (or equivalent) rate that will be reset during the term of the instrument (as will be the case for the Certificates with effect from each Reset Date (as defined in the Conditions) if not previously redeemed and/or purchased and cancelled) is exposed to the risk of fluctuating profit rate levels and uncertain profit rate income. While the expected profit rate on the Certificates is fixed until the First Call Date (with a reset of the initial profit rate on the First Call Date as set out in the Conditions and every five years thereafter), the current investment return rate in the capital markets (the **market return rate**) typically changes on a daily basis. As the market return rate changes, the market value of the Certificates may also change, but in the opposite direction. If the market return rate increases, the market value of the Certificates would typically decrease. If the market return rate falls, the market value of the Certificates would typically increase. Certificateholders should be aware that movements in these market return rates can adversely affect the market value of the Certificates and can lead to losses for the Certificateholders if they sell the Certificates.

Variation upon the occurrence and continuation of a Capital Event or the occurrence of a Tax Event

Upon the occurrence and continuation of a Capital Event or the occurrence of a Tax Event, the Bank may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, subject as provided in Condition 10.1(c) (*Redemption or Variation due to Taxation*) or 10.1(d) (*Redemption or Variation for Capital Event*) (as the case may be) and without any requirement for consent or approval of the Certificateholders, vary the terms of the Mudaraba Agreement, subject to approval of the Shari'a Supervisory Board of the Bank, and the Certificates such that the Certificates become or, as appropriate, remain, Qualifying Tier 1 Instruments (as defined in the Conditions).

A Capital Event is deemed to have occurred if the Bank is notified in writing by the Regulator to the effect that the outstanding face amount of the Certificates is excluded (in full or in part) from the consolidated or consolidated solo Tier 1 Capital of the Bank (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital). A Tax Event will arise if the Bank or the Trustee (as the case may be) would, in making any payments under the Mudaraba Agreement or on the Certificates (as the case may be) has or will or would on the next date for such payment, be required to pay Additional Amounts or additional amounts under clause 5.11 of the Mudaraba Agreement (and such requirement cannot be avoided by the Bank or the Trustee (as the case may be) taking reasonable measures available to it). Each of Tax Event and Capital Event is more particularly described in Condition 10.1 (*Redemption and Variation*).

The tax and stamp duty consequences of holding the Certificates following variation as contemplated in Condition 10.1 (*Redemption and Variation*) could be different for certain Certificateholders from the tax and stamp duty consequences for them of holding the Certificates prior to such variation and none of the Trustee, the Delegate, the Agents or the Bank shall be responsible to any Certificateholder for any such consequences in connection therewith. Further, while the Conditions stipulate that the variation (as contemplated by the Conditions) must not be materially less favourable to the Certificateholders (other than in respect of the tax treatment of the new instrument in the hands of all or any Certificateholder, or any transfer or similar taxes that may apply on the acquisition of the new instrument, as stated aforesaid), no assurance can be given as to whether any of these changes will negatively affect any particular Certificateholder.

The Certificates are limited recourse obligations

The Certificates are not debt obligations of the Trustee. Instead, the Certificates represent an undivided ownership interest solely in the Trust Assets. Recourse to the Trustee in respect of the Certificates is limited to the Trust Assets, and the proceeds of the Trust Assets are the sole source of payments on the Certificates. Upon receipt by the Trustee of a Dissolution Notice in accordance with the terms of Condition 12.1 (*Bank Events*), the sole rights of each of the Trustee and/or the Delegate (acting on behalf of the Certificateholders) will be (subject to Condition 12.3 (*Winding-up, Dissolution or Liquidation*)) against the Bank to perform its obligations under the Transaction Documents.

Certificateholders will have no recourse to any assets of the Trustee (other than the Trust Assets in the manner contemplated in the Transaction Documents) or of the Delegate or the Agents (to the extent that each of the Delegate and the Agents (as applicable) fulfils all of its obligations under the Transaction Documents to which it is party) or any of their respective affiliates in respect of any shortfall in the expected amounts from the Trust Assets. The Bank is obliged to make certain payments under the Transaction Documents directly to the Trustee, and the Trustee and/or the Delegate will have direct recourse against the Bank to recover such payments due to the Trustee pursuant to the Transaction Documents. After enforcing or realising the rights in respect of the Trust Assets and distributing the net proceeds of such Trust Assets in accordance with Condition 0, the obligations of the Trustee and/or the Delegate in respect of the Certificates shall be satisfied and neither the Trustee nor the Delegate nor any Certificateholder may take any further steps against the Trustee to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished. Furthermore, under no circumstances shall the Trustee, the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets (other than as expressly contemplated in the Transaction Documents) and the sole right of the Delegate and the Certificateholders against the Trustee and the Bank shall be (in accordance with Condition 12.3 (*Winding-up, Dissolution or Liquidation*)) to enforce their respective obligations under the Transaction Documents.

Absence of secondary market/limited liquidity

There is no assurance that a secondary market for the Certificates will develop or, if it does develop, that it will provide the Certificateholders with liquidity of investment or that it will continue for the life of the Certificates. Accordingly, a Certificateholder may not be able to find a buyer to buy its Certificates readily or at prices that will enable the Certificateholder to realise a desired yield. The market value of the Certificates may fluctuate and a lack of liquidity, in particular, can have a material adverse effect on the market value of the Certificates. The Certificates generally may have a more limited secondary market liquidity and may be subject to greater price volatility than conventional debt securities as they are perpetual securities (see "*–The Certificates are Perpetual Securities*"), are subordinated (see "*–The payment obligations of the Bank under the Mudaraba Agreement are subordinated and unsecured obligations*"), will be permanently written-down (in whole or in part) upon the occurrence of a Non-Viability Event (see "*–Certificateholders' right to receive payment of the principal amount of the Certificates and the Certificateholders' right to any profit will be written-down (in whole or in part) upon the occurrence of a Non-Viability Event*") and payments of Periodic Distribution Amounts may be restricted in certain circumstances (see "*–Payments of Periodic Distribution Amounts are conditional upon certain events and may be cancelled and are non-cumulative*").

Application has been made for the Certificates to be admitted to the Official List and for such Certificates to be admitted to trading on the Irish Stock Exchange. However, there can be no assurance that any such listing or admission to trading will occur on or prior to the Issue Date or at all or, if it does occur, that it will enhance the liquidity of the Certificates.

Accordingly, the purchase of the Certificates is suitable only for investors who can bear the risks associated with a lack of liquidity in the Certificates and the financial and other risks associated with an investment in the Certificates.

The Certificates may be subject to early redemption; redemption is conditional

Upon the occurrence of a Tax Event or the occurrence and continuation of a Capital Event, the Bank may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, at any time, having given not less than 30 nor more than 60 days' prior notice to the Certificateholders in accordance with Condition 17 (*Notices*) (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem in accordance with the Conditions all, but not some only, of the Certificates together with any accrued but unpaid Periodic Distribution Amounts (as more particularly described in Condition 10.1(c) (*Redemption or Variation due to Taxation*) in relation to a Tax Event, and Condition 10.1(d) (*Redemption or Variation for Capital Event*) in relation to a Capital Event).

Any redemption of the Certificates is subject to the requirements in Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*), including obtaining the prior approval of the Regulator. There can be no guarantee that the approval of the Regulator will be received on time or at all.

There is no assurance that the Certificateholders will be able to reinvest the amount received upon redemption at a rate that will provide the same rate of return as their investment in the Certificates. During any period when the Bank may instruct the Trustee to redeem the Certificates, the market value of the Certificates generally will not rise substantially above the relevant redemption amount payable in respect of the Certificates. Potential investors should consider reinvestment risk in light of other investments available at that time.

Investment in the Mudaraba Assets

Pursuant to the Mudaraba Agreement, the proceeds of the issuance of the Certificates will be contributed by the Trustee (as Rab-al-Maal) to the Mudareb which proceeds shall form the initial capital of the Mudaraba (the **Mudaraba Capital**). The Mudaraba Capital will be invested by the Bank (as Mudareb), on an unrestricted co-mingling Mudaraba basis, in its general business activities and, following investment of the Mudaraba Capital in accordance with the terms of the Investment Plan, the assets in which the Mudaraba Capital are invested shall constitute *pro rata* undivided assets of the Mudaraba (the **Mudaraba Assets**) with a view to earning profit therefrom, which will in turn be applied towards payments due to Certificateholders in respect of the Certificates.

No investigation or enquiry will be made and no due diligence will be conducted in respect of any Mudaraba Assets. The investment activities of the Mudaraba will be carried out by the Bank, and the Certificateholders shall have no ability to influence such activities. The Bank shall be granted the express entitlement to co-mingle the Mudaraba Capital with its shareholders' equity and such amounts may be co-mingled with its own assets and, as a result, it may not be possible to identify the Mudaraba Assets separately from the assets of the Bank.

If any of the risks relating to the business of the Bank mentioned above (see "*–Risks relating to the Bank*") materialise or otherwise impact the Bank's business, the value of and profit earned from the investment in such Mudaraba Assets may decrease which may, in turn, have a material adverse effect on the Bank's ability to fulfil its payment obligations under the Mudaraba Agreement and, consequently, the Trustee's ability to make payments in respect of the Certificates.

Furthermore, while the Mudareb has agreed in the Mudaraba Agreement to ensure that the Mudaraba Capital is invested in accordance with the Investment Plan (and with the degree of skill and care that it would exercise in respect of its own assets), the Mudaraba Agreement also provides that there is no guarantee of any return from the Mudaraba Assets. In addition, the Trustee and the Mudareb have agreed in the Mudaraba Agreement that the Mudareb shall not be responsible for any losses to the Mudaraba Capital suffered by the Trustee except to the extent such losses are caused by: (i) the Mudareb's breach of the Mudaraba Agreement; or (ii) the Mudareb's gross negligence, wilful misconduct or fraud.

Accordingly, potential investors are advised that any claim by or on behalf of the Trustee for the Mudaraba Capital following any Dissolution Event may be reduced if and to the extent that the Mudareb is able to prove that any losses to the Mudaraba Capital were not caused by: (i) the Mudareb's breach of the Mudaraba Agreement; or (ii) the Mudareb's gross negligence, wilful misconduct or fraud. If the Mudareb is able to provide such proof, Certificateholders may lose all or some of their investment. It is not possible to state with certainty what approach any court with jurisdiction will take in such circumstances.

RISKS RELATING TO ENFORCEMENT

Enforcing arbitration awards and foreign judgments in Bahrain

The Transaction Documents, the Certificates (except for Condition 4.2 (*Subordination*) and clause 2.4 of the Mudaraba Agreement) and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law. Any dispute in relation to the Transaction Documents, the Certificates and any non-contractual obligations arising out of or in connection with them, may be referred to arbitration in London, England under the London Court of International Arbitration Rules. Bahrain has ratified the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Any arbitration award rendered in London should therefore be enforceable in Bahrain in accordance with the terms of the New York Convention. Under the New York Convention, Bahrain has an obligation to recognise and enforce foreign arbitration awards, unless the party opposing enforcement can prove one of the grounds under Article V of the New York Convention to refuse enforcement, or the Bahrain courts find that the subject matter of the dispute is not capable of settlement by arbitration or enforcement would be contrary to the public policy of Bahrain.

Under the terms of the Transaction Documents and the Certificates, any such dispute may also be referred to the courts of England (who shall have exclusive jurisdiction to settle any dispute arising from such documents) if the relevant party with the option to litigate so requires. In these circumstances, each party irrevocably agrees to submit to the exclusive jurisdiction of the courts of England.

Notwithstanding that a judgment may be obtained in an English court, there is no assurance that the Bank has or would at the relevant time have assets in the United Kingdom against which such a judgment could be enforced.

There is limited reciprocity between Bahrain and other countries in relation to the recognition and enforcement of judgments. Bahrain's courts may enforce a foreign court judgment without re-examining the merits of the claim, provided that:

(i) such court enforces judgments and orders rendered in Bahrain;

(ii) the courts of Bahrain did not have jurisdiction in the matter in respect of which the order or judgment has been made and it was made by a foreign court of competent jurisdiction under the jurisdiction rules or laws applied by such court;

(iii) the parties had been served with due notice to attend and had been properly represented;

(iv) the judgment was final in accordance with the law of the court making it; and

(v) the judgment did not conflict with any previous decision of the Bahrain courts and did not involve any conflict with public order or morality in Bahrain.

As there has been no reciprocity between England and Bahrain in relation to the recognition and enforcement of judgments, the courts of Bahrain are unlikely to enforce an English judgment without requesting that a fresh case be filed in the Bahrain courts which may result in the Bahrain courts re-examining the merits of the claim, although the Bahrain courts may also accept the English court judgment as evidence of a debt. The choice by the parties of English law as the governing law of the Transaction Documents and the Certificates (except for Condition 4.2 (*Subordination*) and clause 2.4 of the Mudaraba Agreement) will be recognised by the courts of Bahrain provided that the provisions thereof are (i) proved, as a matter of evidence, by the party relying on it and (ii) not contrary to Bahraini public order and morality.

Judicial precedents in Bahrain generally do not have binding effect on subsequent decisions except as a directive for decisions of the Constitutional Court (the **Constitutional Court**). Although decisions rendered by the Court of Cassation (**Court of Cassation**) do not have binding effect on lower courts, the present practice is for the lower courts to adhere to the precedents and principles laid down by the Court of Cassation. There is no formal system of reporting court decisions in Bahrain except for those decisions of the Court of Cassation and the Constitutional Court.

The insolvency regime in Bahrain is relatively untested with limited guidance as to how the legislative framework will be applied in practice by the courts in Bahrain

Prospective investors should note that the insolvency regime in Bahrain is relatively untested as there have been a limited number of large scale insolvencies. As a result, there is limited guidance as to how the legislative framework will be applied in practice and, in particular, the definitive approach that would be adopted by a court in Bahrain or the relevant insolvency official in relation to assessing the claims of senior and subordinated creditors of the Bank.

Change in law

The Transaction Documents and the Certificates (except for Condition 4.2 (*Subordination*) and clause 2.4 of the Mudaraba Agreement which are governed by the laws of Bahrain) are governed by English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible change to English law and/or Bahraini law after the date of this Prospectus, nor can any assurance be given as to whether any such change could adversely affect the ability of the Trustee or the Bank to make payments under the Transaction Documents or the Certificates, as applicable.

ADDITIONAL RISK FACTORS

Certificateholders must rely on Euroclear and Clearstream, Luxembourg procedures

The Certificates will be represented on issue by a Global Certificate that will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Global Certificate, investors will not be entitled to receive Certificates in definitive form. Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the ownership interests in the Global Certificate.

While the Certificates are represented by the Global Certificate, investors will be able to trade their ownership interests only through Euroclear and Clearstream, Luxembourg and their respective participants.

While the Certificates are represented by the Global Certificate, the Trustee will discharge its payment obligation under the Certificates by making payments through the relevant clearing systems. A holder of an ownership interest in the Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the Certificates. The Trustee has no responsibility or liability for the records relating to, or payments made in respect of, ownership interests in the Global Certificate.

Holders of ownership interests in the Global Certificate will not have a direct right to vote in respect of the Certificates so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

No assurance can be given as to *Shari'a* rules

The Shari'a Supervisory Board of the Bank, the Fatwa and Sharia Supervisory Board of Dubai Islamic Bank PJSC, the Fatwa & Shariah Supervisory Board of KFH Capital Investment Company KSCC, the Fatwa and Shari'a Supervisory Board of Noor Bank PJSC, the Sharia'a Supervisory Board of QInvest and the Shariah Supervisory Committee of Standard Chartered Bank have confirmed that the Transaction Documents are, in their view, *Shari'a*-compliant. However, there can be no assurance that the Transaction Documents or the issue and trading of the Certificates will be deemed to be *Shari'a*-compliant by any other *Shari'a* board or *Shari'a* scholars. None of the Trustee, the Bank, the Delegate, the Agents or the Joint Lead Managers makes any representation as to the *Shari'a*-compliance of the Transaction Documents, or of the Certificates and/or any trading thereof, and potential investors are reminded that, as with any *Shari'a* views, differences in opinion are possible.

In addition, prospective investors are reminded that the enforcement of any obligations of any of the parties under the Conditions or the Transaction Documents would, if in dispute, be the subject of arbitration in London under the LCIA Rules. The Bank has also agreed under certain of the Transaction Documents to submit to the jurisdiction of the courts of England. In such circumstances, the arbitrator or judge, as the case may be, will first apply the relevant law of the relevant Transaction Document in determining the obligation of the parties.

***Shari'a* requirements in relation to interest awarded by a court**

In accordance with applicable *Shari'a* principles, each of the Trustee and the Delegate will waive all and any entitlement it may have to interest awarded in its favour by any court in connection with any dispute under the Mudaraba Agreement. Should there be any delay in the enforcement of a judgment given against the Bank, judgment interest may accrue in respect of that delay and, as a result of the waiver referred to above, Certificateholders will not be entitled to receive all, or any part of, such interest.

Certificates with a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade

As the Certificates have a denomination consisting of the minimum Authorised Denomination (as defined in the Conditions and further described in Condition 2.1 (*Form and Denomination*)) plus a higher integral multiple of another smaller amount, it is possible that the Certificates may be traded in amounts in excess of such minimum Authorised Denomination that are not integral multiples of such minimum Authorised Denomination. In such case a Certificateholder who, as a result of trading such amounts, holds a face amount of less than the minimum Authorised Denomination would need to purchase an additional amount of Certificates at or in excess of the minimum Authorised Denomination such that it holds an amount equal to at least the minimum Authorised Denomination to be able to trade such Certificates. Certificateholders should be aware that a holding of Certificates which has a face amount that is not an integral multiple of the minimum Authorised Denomination may be illiquid and difficult to trade.

If a Certificateholder holds an amount which is less than the minimum Authorised Denomination in his account with the relevant clearing system at the relevant time, such Certificateholder may not receive a Definitive Certificate in respect of such holding (should Definitive Certificates be printed) and would need to purchase a face amount of Certificates such that its holding amounts to at least an Authorised Denomination in order to be eligible to receive a Definitive Certificate.

If Definitive Certificates are issued, holders should be aware that Definitive Certificates which have a denomination that is not an integral multiple of the minimum Authorised Denomination may be illiquid and difficult to trade.

Consents are required in relation to the variation of Transaction Documents and other matters

The Conditions contain provisions for calling meetings of Certificateholders to consider matters affecting their interests generally and for obtaining written resolutions on matters relating to the Certificates from Certificateholders without calling a meeting. A written resolution signed by or on behalf of the holders of not less than 75 per cent. in face amount of the Certificates who for the time being are entitled to receive notice of a meeting in accordance with the provisions of the Declaration of Trust and whose Certificates are outstanding shall, for all purposes, take effect as an Extraordinary Resolution.

In certain circumstances, where the Certificates are held in global form in the clearing systems, the Trustee will be entitled to rely upon:

(i) where the terms of the proposed resolution have been notified through the relevant clearing system(s), approval of a resolution proposed by the Trustee, the Delegate or the Bank or given by way of electronic consents communicated through the electronic communications systems of the relevant clearing systems in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in face amount of the Certificates for the time being outstanding; and

(ii) where electronic consent is not being sought, consent or instructions given in writing directly to the Trustee, the Delegate and/or the Bank by accountholders in the clearing systems with entitlements to the Global Certificate or, where the accountholders hold such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held (directly or via one or more intermediaries), provided that the Trustee has obtained commercially reasonable evidence to ascertain the validity of such holding and taken reasonable steps to ensure such holding does not alter following the giving of such consent/instruction and prior to effecting such resolution.

A written resolution or an electronic consent as described above may be effected in connection with any matter affecting the interests of Certificateholders, including the modification of the Conditions, that would otherwise be required to be passed at a meeting of Certificateholders satisfying the special quorum in accordance with the provisions of the Declaration of Trust, and shall for all purposes take effect as an Extraordinary Resolution passed at a meeting of Certificateholders duly convened and held. These provisions permit defined majorities to bind all Certificateholders including Certificateholders who did not attend and vote at the relevant meeting and Certificateholders who voted in a manner contrary to the majority.

The Conditions also provide that the Delegate may, without the consent or approval of the Certificateholders, agree to the substitution of another company as obligor under the Certificates in place of the Trustee, in the circumstances described in Condition 12.2 (*Trustee Events*).

The Conditions also provide that the Delegate may, without the consent or approval of the Certificateholders, agree to the variation of the terms of the Certificates so that they become or, as appropriate, remain, Qualifying Tier 1 Instruments, as provided in Condition 10.1(c) (*Redemption or Variation due to Taxation*) and Condition 10.1(d) (*Redemption or Variation for Capital Event*).

The Declaration of Trust also contains provisions permitting the Delegate from time to time and at any time without the consent or approval of the Certificateholders to make any modification to the Declaration of Trust if, in the sole opinion of the Delegate, such modification: (a) is of a formal, minor or technical nature; or (b) is made to correct a manifest error; or (c) is not materially prejudicial to the interests of the Certificateholders then outstanding and is other than in respect of a Reserved Matter (as defined in the Declaration of Trust) or any provision of the Declaration of Trust referred to in the definition of Reserved Matter. Unless the Delegate otherwise agrees, any such modification shall as soon as practicable thereafter be notified to the Certificateholders and shall in any event be binding upon the Certificateholders.

Exchange rate risks and exchange controls

The Trustee will make all payments on the Certificates in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of U.S. dollars or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls which could adversely affect an applicable exchange rate. Neither the Bank nor the Trustee has any control over the factors that generally affect these risks, such as economic, financial and political events and the supply and demand for applicable currencies. In recent years, exchange rates between certain currencies have been volatile and volatility between such currencies or with other currencies may be expected in the future. An appreciation in the value of the Investor's Currency relative to U.S. dollars would decrease: (i) the Investor's Currency equivalent yield on the Certificates; (ii) the Investor's Currency equivalent value of the principal payable on the Certificates (to the extent that any Dissolution Distribution Amount, or the aggregate outstanding face amount of the Certificates, becomes payable as provided in the Conditions); and (iii) the Investor's Currency equivalent market value of the Certificates.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate as well as the availability of a specified foreign currency at the time of any payments including of any Periodic Distribution Amount on a Certificate. As a result, investors may receive less amounts under the Certificates than expected, or no such amounts. Even if there are no actual exchange controls, it is possible that U.S. dollars may not be available at the date of redemption of the Certificates.

RISK FACTORS RELATING TO TAXATION

Change of tax law

Statements in this Prospectus concerning the taxation of investors are of a general nature and are based upon current law and practice in the jurisdictions stated. Such law and practice is, in principle, subject to change, possibly with retrospective effect, and this could adversely affect investors.

In addition, any change in legislation or in practice in a relevant jurisdiction could adversely impact (i) the ability of the Trustee to service the Certificates and/or (ii) the market value of the Certificates.

Prospective purchasers of the Certificates are advised to consult their tax advisers as to the consequences under Bahraini and other applicable tax laws of acquiring, holding and disposing of the Certificates and receiving payments under the Certificates.

See "*Taxation–Bahrain*" for further details.

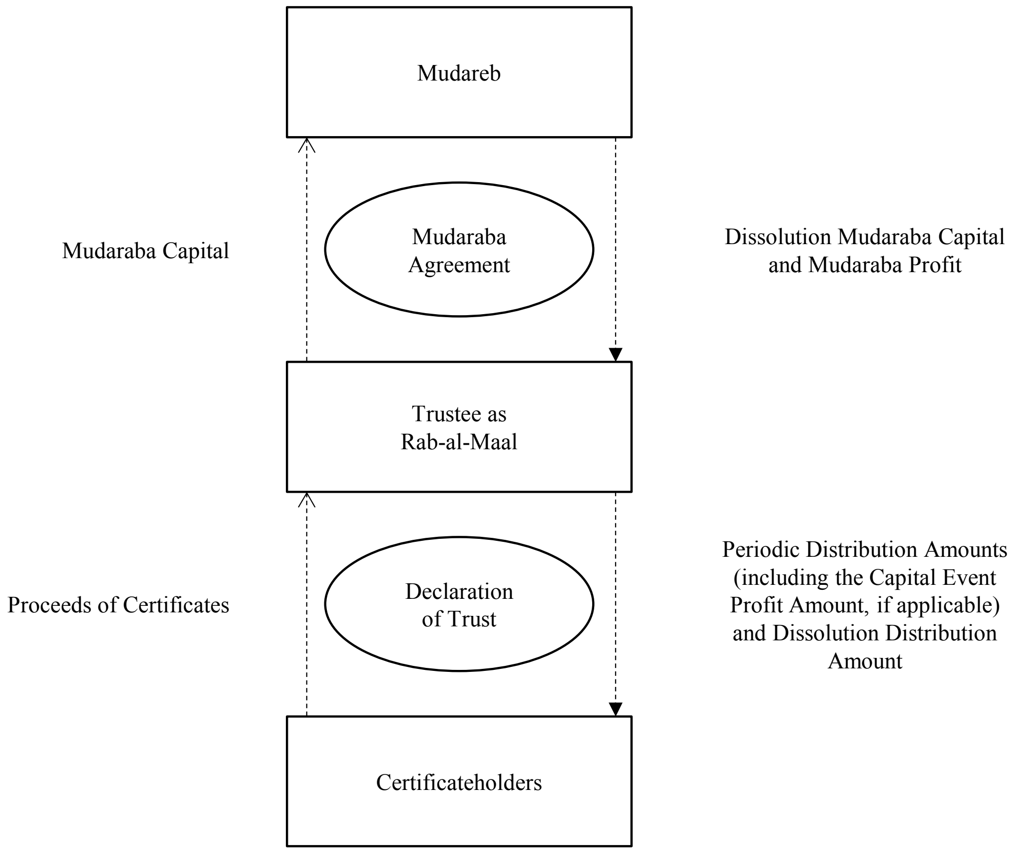
Taxation risks on payments

Payments made by the Bank to the Trustee under the Transaction Documents or by the Trustee in respect of the Certificates could become subject to taxation. The Mudaraba Agreement requires the Bank to pay additional amounts in the event that any withholding or deduction is required by Bahraini law to be made in respect of payments made by it to the Trustee under that document. Furthermore, Condition 13 (*Taxation*) provides that the Trustee is required to pay additional amounts in respect of any such withholdings or deductions imposed by the Cayman Islands or Bahrain in certain circumstances. If the Trustee fails to gross-up for any such withholding or deduction on payments due in respect of the Certificates to Certificateholders, the Bank has, pursuant to the Declaration of Trust, unconditionally and irrevocably undertaken (irrespective of the payment of any fee), as a continuing obligation, to pay to the Delegate (for the benefit of the Certificateholders) such additional amounts as shall be necessary in order that the aggregate net amounts received by the Certificateholders and the Delegate for the benefit of the Certificateholders after all withholdings or deductions shall equal the amounts that would have been receivable in the absence of any such deduction or withholding. The circumstances described above may entitle the Bank to instruct the Trustee to redeem or vary the Certificates pursuant to Condition 10.1(c) (*Redemption or Variation due to Taxation*). See "*–The Certificates may be subject to early redemption; redemption is conditional*" and "*–Variation upon the occurrence and continuation of a Capital Event or the occurrence of a Tax Event*" for a description of the consequences thereof.

STRUCTURE DIAGRAM AND CASH FLOWS

Set out below is a simplified structure diagram and description of the principal cash flows relating to the Certificates. This does not purport to be complete and is qualified in its entirety by reference to, and must be read in conjunction with, the more detailed information appearing elsewhere in this Prospectus. Potential investors are referred to the Conditions and the detailed descriptions of the relevant Transaction Documents set out elsewhere in this Prospectus for a fuller description of certain cash flows and for an explanation of the meaning of certain capitalised terms used below. Potential investors should read this entire Prospectus carefully, especially the risks of investing in the Certificates discussed under "Risk Factors".

Structure Diagram



Principal Cash Flows

Payments by the Certificateholders and the Trustee

On the Issue Date, the Certificateholders will pay the issue price in respect of the Certificates to the Trustee. Pursuant to the Declaration of Trust, the Trustee will declare a trust, in favour of the Certificateholders, over:

(a) the cash proceeds of the issuance of the Certificates, pending application thereof in accordance with the terms of the Transaction Documents;

(b) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets (as defined below);

(c) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by the Bank (acting in any capacity) pursuant to any of the Transaction Documents and the covenant given to the Trustee by the Bank pursuant to clauses 11.1 and 11.10 of the Declaration of Trust); and

(d) all amounts standing to the credit of the Transaction Account from time to time,

and all proceeds of the foregoing (together, the **Trust Assets**).

The proceeds of the issuance of the Certificates will be contributed by the Trustee (as Rab-al-Maal) to the Mudareb and shall form the initial capital of the Mudaraba (the **Mudaraba Capital**) pursuant to the Mudaraba Agreement. The Mudaraba Capital will be invested, on an unrestricted co-mingling Mudaraba basis, by the Bank in its general business activities and, following investment of the Mudaraba Capital in accordance with the terms of the Investment Plan, the assets in which the Mudaraba Capital are invested shall constitute *pro rata* undivided assets of the Mudaraba (the **Mudaraba Assets**).

Periodic payments by the Trustee

Unless a Non-Payment Event occurs or a Non-Payment Election has been made, prior to each Periodic Distribution Date, the Mudareb shall distribute the profit generated by the Mudaraba to both the Trustee and the Mudareb in accordance with an agreed profit sharing ratio (99 per cent. to the Trustee (as Rab-al-Maal) and 1 per cent. to the Mudareb). The Trustee shall apply its share of the profit (if any) generated by the Mudaraba on each Periodic Distribution Date to pay the Periodic Distribution Amount due to the Certificateholders on such date.

Payments of Mudaraba Profit (as defined in the Mudaraba Agreement) by the Bank (as Mudareb) are at the sole discretion of the Bank (as Mudareb) and may only be made in circumstances where a Non-Payment Event has not occurred. The Mudareb shall not have any obligation to make any subsequent payment in respect of such unpaid profit (whether from its own cash resources, from the Mudaraba Reserve or otherwise).

Under the terms of the Mudaraba Agreement, the Mudareb shall be expressly entitled to co-mingle the Mudaraba Capital with its shareholders' equity and such amounts may be co-mingled in its general business activities.

Dissolution payments, redemption and variation by the Trustee and the Mudareb

The Mudaraba is a perpetual arrangement with no fixed end date. Accordingly, the Certificates are perpetual securities in respect of which there is no fixed redemption date.

Subject to certain conditions set out in clause 7 of the Mudaraba Agreement, the Bank (as Mudareb) may (acting in its sole and absolute discretion) elect to liquidate the Mudaraba in whole, but not in part, on the basis of a final constructive liquidation of the Mudaraba in the following circumstances:

(i) on the First Call Date or any Periodic Distribution Date after the First Call Date, by giving not less than 35 nor more than 65 days' prior notice to the Trustee; or

(ii) on any date on or after the Issue Date (whether or not a Periodic Distribution Date), by giving not less than 35 nor more than 65 days' prior notice to the Trustee:

  (a) if a Tax Event occurs; or

  (b) if a Capital Event occurs and is continuing.

The Bank may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, upon receipt of notice in accordance with paragraph (i) above, redeem all of, but not only some of, the Certificates, and upon receipt of notice in accordance with paragraph (ii) above redeem all of, but not only some of, the Certificates or vary the terms thereof, in each case by giving not less than 30 nor more than 60 days' prior notice to the Certificateholders, all as more particularly described in the Conditions, and in each case following final constructive liquidation of the Mudaraba, as described above.

The Bank (as Mudareb) and the Trustee undertake in the Mudaraba Agreement, in circumstances where the Certificates are required by the Bank to be varied upon the occurrence of a Tax Event or the occurrence and continuation of a Capital Event, to make such variations as are necessary to ensure that the Certificates become or, as appropriate, remain Qualifying Tier 1 Instruments.

OVERVIEW OF THE OFFERING

The following overview should be read as an introduction to, and is qualified in its entirety by reference to, the more detailed information appearing elsewhere in this Prospectus. This overview does not contain all of the information that an investor should consider before investing in the Certificates. Each investor should read the entire Prospectus carefully, especially the risks of investing in the Certificates discussed under "Risk Factors".

Words and expressions defined in the Conditions shall have the same meanings in this overview.

Certificates	U.S.$400,000,000 Tier 1 Capital Certificates.
Trustee	ABG Sukuk Limited, a special purpose company incorporated with limited liability on 6 March 2017 under the laws of the Cayman Islands and formed and registered in the Cayman Islands with incorporation number 320576 with its registered office at c/o MaplesFS Limited, P.O. Box 1093, Queensgate House, Grand Cayman KY1-1102, Cayman Islands.
Ownership of the Trustee	The authorised share capital of the Trustee is U.S.$100 consisting of 100 ordinary shares of U.S.$1.00 each, 100 of which are fully paid and issued. The Trustee's entire issued share capital is held on trust for charitable purposes by MaplesFS Limited as share trustee under the terms of a declaration of trust.
Administration of the Trustee	The affairs of the Trustee are managed by MaplesFS Limited (the **Trustee Administrator**), who has agreed to perform certain management functions and provide certain clerical, administrative and other services pursuant to a corporate services agreement dated 11 May 2017 between the Trustee Administrator and the Trustee (the **Corporate Services Agreement**). The Trustee Administrator's registered office is c/o MaplesFS Limited, P.O. Box 1093, Queensgate House, Grand Cayman KY1-1102, Cayman Islands.
Mudareb / Obligor	Al Baraka Banking Group B.S.C.
Rab-al-Maal	ABG Sukuk Limited.
Risk Factors	Certain factors may affect the Trustee's ability to fulfil its obligations under the Certificates and the Bank's ability to fulfil its obligations under the Transaction Documents. In addition, certain factors are material for the purpose of assessing the market risks associated with the Certificates. These are set out under "*Risk Factors*".
Global Co-ordinator	Standard Chartered Bank.
Joint Lead Managers	Arab Banking Corporation (B.S.C.), Dubai Islamic Bank PJSC, Emirates NBD PJSC, KFH Capital Investment Company KSCC, Noor Bank PJSC, QInvest LLC and Standard Chartered Bank.
Delegate	BNY Mellon Corporate Trustee Services Limited. Pursuant to the Declaration of Trust, the Trustee shall delegate to the Delegate certain of the present and future powers, trusts, authorities and discretions vested in the Trustee by certain provisions of the Declaration of Trust. In particular, the Delegate shall be entitled (and, in certain circumstances, shall, subject to being requested and indemnified and/or secured and/or pre-funded to its satisfaction, be obliged) to take

	enforcement action in the name of the Trustee against the Bank following a Bank Event.
Principal Paying Agent and Calculation Agent	The Bank of New York Mellon, London Branch.
Registrar and Transfer Agent	The Bank of New York Mellon S.A./N.V., Luxembourg Branch.
Summary of the transaction structure and Transaction Documents	An overview of the structure of the transaction and the principal cash flows is set out under "*Structure Diagram and Cash Flows*" and a description of the principal terms of certain of the Transaction Documents is set out under "*Summary of the Principal Transaction Documents*".
Issue Date	31 May 2017.
Issue Price	100 per cent.
Periodic Distribution Dates	31 May and 30 November every year, commencing on 30 November 2017.
Periodic Distributions	Subject to Condition 8 (*Periodic Distribution Restrictions*), Periodic Distribution Amounts shall be payable on each Periodic Distribution Date up to and including the First Call Date at a rate of 7.875 per cent. per annum. If the Certificates are not redeemed or purchased and cancelled in accordance with the Conditions on or prior to the First Call Date, Periodic Distribution Amounts shall be payable on each Periodic Distribution Date after the First Call Date (subject as aforesaid) at a fixed rate, to be reset on the First Call Date and every five years thereafter, equal to the Relevant Five Year Reset Rate plus a margin of 6.014 per cent. per annum. If the Bank makes a Non-Payment Election or a Non-Payment Event occurs, the Trustee shall not pay the corresponding Periodic Distribution Amounts (or any part thereof, as applicable) and neither the Bank nor the Trustee shall have any obligation to make any subsequent payment in respect of any unpaid Periodic Distribution Amount as more particularly described in Condition 8 (*Periodic Distribution Restrictions*).
Form of Certificates	The Certificates will be issued in registered form as described in "*Global Certificate*". The Certificates will be represented on issue by a Global Certificate which will be deposited with, and registered in the name of a nominee of, a common depositary for Euroclear and Clearstream, Luxembourg. Ownership interests in the Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by each relevant clearing system and its participants. Definitive Certificates evidencing a holding of Certificates will be issued in exchange for interests in the Global Certificate only in limited circumstances.
Clearance and Settlement	Certificateholders must hold their interest in the Global Certificate in book-entry form through Euroclear or Clearstream, Luxembourg. Transfers within and between Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant clearing systems.
Denomination of the Certificates	The Certificates will be issued in registered form in face amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.

Status of the Certificates

Each Certificate will represent an undivided ownership interest in the Trust Assets, will be a limited recourse obligation of the Trustee and will rank *pari passu* without any preference or priority with all other Certificates; see Condition 4.1 (*Status*).

The Relevant Obligations will (a) constitute Tier 1 Capital of the Bank on a solo and consolidated basis, (b) constitute direct, unsecured, conditional and subordinated obligations of the Bank, (c) rank junior to all Senior Obligations (as defined in the Conditions), (d) rank *pari passu* with all Pari Passu Obligations (as defined in the Conditions) and (e) rank in priority only to all Junior Obligations (as defined in the Conditions); see Condition 4.2 (*Subordination*).

Trust Assets

The Trust Assets consist of:

(a) the cash proceeds of the issue of the Certificates, pending application thereof in accordance with the terms of the Transaction Documents;

(b) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets;

(c) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by the Bank (acting in any capacity) pursuant to any of the Transaction Documents and the covenants given to the Trustee pursuant to clauses 11.1 and 11.10 of the Declaration of Trust); and

(d) all amounts standing to the credit of the Transaction Account from time to time,

and all proceeds of the foregoing, which will be held by the Trustee upon trust absolutely for and on behalf of the Certificateholders *pro rata* according to the face amount of Certificates held by each such Certificateholder in accordance with the Declaration of Trust and the Conditions.

Redemption of Certificates and variation of their terms

The Certificates are perpetual securities and accordingly do not have a fixed or final redemption date. The Certificates may be redeemed in whole but not in part, or the terms thereof may be varied by the Trustee (but only upon the instructions of the Bank (acting in its sole and absolute discretion)) only in accordance with the provisions of Condition 10 (*Redemption and Variation*).

Pursuant to Condition 10.1(b) (*Trustee's Call Option*), the Trustee may (but only upon the instructions of the Bank (acting in its sole and absolute discretion)), on the First Call Date or on any Periodic Distribution Date thereafter, redeem all, but not some only, of the Certificates at the Trustee Call Amount.

In addition (on any date on or after the Issue Date, whether or not a Periodic Distribution Date), upon the occurrence of a Tax Event or the occurrence and continuation of a Capital Event all, but not some only, of the Certificates may be redeemed at the Tax Redemption Amount or the Capital Event Amount, respectively, or the terms of the Certificates may be varied, in each case in accordance with Conditions 10.1(c)

	(*Redemption or Variation due to Taxation*) and 10.1(d) (*Redemption or Variation for Capital Event*). Any redemption of the Certificates is subject to the conditions described in Condition 10.1 (*Redemption and Variation*).
Write-down at the Point of Non-Viability	If a Non-Viability Event (as defined in the Conditions) occurs, a Write-down (as defined in the Conditions) shall occur on the relevant Non-Viability Event Write-down Date (as defined in the Conditions), as more particularly described in Condition 11 (*Write-down at the Point of Non-Viability*). In such circumstances, the Certificateholders' rights to the Trust Assets shall automatically be deemed to be irrevocably and unconditionally written-down in the same manner as the Certificates and the Certificates shall be cancelled (in the case of a Write-down in whole) or written-down in part on a *pro rata* basis (in the case of a Write-down in part) by the Trustee in accordance with the prevailing Capital Regulations. See Condition 11 (*Write-down at the Point of Non-Viability*).
Bank Events	Subject to Condition 12 (*Dissolution Events and Winding-up*), if a Bank Event occurs and a Dissolution Notice is delivered pursuant to Condition 12.1 (*Bank Events*), and if so requested in writing by the Certificateholders of at least one-fifth of the then aggregate face amount of the Certificates outstanding, the Trustee and/or the Delegate shall, subject to Condition 12.3 (*Winding-up, Dissolution or Liquidation*), take the actions referred to therein.
Withholding Tax	Subject to Condition 9.2 (*Payments subject to applicable laws*) and Condition 13 (*Taxation*), all payments in respect of the Certificates by or on behalf of the Trustee shall be made free and clear of and without withholding or deduction for, or on account of, any Taxes (as defined in Condition 13 (*Taxation*)), unless the withholding or deduction of the Taxes is required by law. In such event, the Trustee will pay (subject to certain specified exclusions) Additional Amounts (as defined in the Conditions) so that the full amount which otherwise would have been due and payable under the Certificates in the absence of such deduction or withholding is received by the parties entitled thereto. In addition, the Transaction Documents provide that payments thereunder by the Bank (in its capacity as the Mudareb) shall be made free and clear of and without withholding or deduction for and on account of any Taxes, unless such withholding or deduction is required by law and, in such case, provide for the payment by the Bank of additional amounts so that the full amount which would otherwise have been received, in the absence of such withholding or deduction, by the Trustee.
Trustee Covenants	The Trustee has agreed to certain restrictive covenants as set out in Condition 6 (*Covenants*).
Ratings	The Bank has been assigned a rating of BB+ (long term) with a negative outlook and B (short term) by S&P and BBB+ (long term) and A3 (short term) internationally and A+ (bh) (long term) and A2 (bh) (short term) nationally by each of Islamic International Rating Agency and Dagong Global Credit Company Limited. A rating is not a recommendation to buy, sell or hold securities and may

be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued or endorsed by a credit rating agency established in the European Union and registered under the CRA Regulation (or is endorsed and published or distributed by subscription by such a credit rating agency in accordance with the CRA Regulation). Whilst S&P is established in the European Union and registered under the CRA Regulation, neither of Islamic International Rating Agency and Dagong Global Credit Company Limited are established in the European Union or registered under the CRA Regulation.

The Certificates will not be rated by any rating organisation upon their issue.

Certificateholder Meetings

A summary of the provisions for convening meetings of the Certificateholders to consider matters relating to their interests as such is set out in Condition 18 (*Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination*).

Tax Considerations

See "*Taxation*" for a description of certain tax considerations applicable to the Certificates.

Listing and Admission to Trading

Application has been made to the Irish Stock Exchange for the Certificates to be admitted to listing on the Official List and for the Certificates to be admitted to trading on the Main Securities Market.

Transaction Documents

The Declaration of Trust, the Agency Agreement and the Mudaraba Agreement are referred to herein as the **Transaction Documents**.

Governing Law

The Transaction Documents and the Certificates, except for Condition 4.2 (*Subordination*) and clause 2.4 of the Mudaraba Agreement, and any non-contractual obligations arising out of or in connection with them will be governed by, and construed in accordance with, English law. Condition 4.2 (*Subordination*) and clause 2.4 of the Mudaraba Agreement are governed by, and shall be construed in accordance with, the laws of Bahrain.

Limited Recourse

Proceeds of the Trust Assets are the sole source of payments on the Certificates. Save as otherwise provided in Condition 4.4 (*Limited Recourse and Agreement of Certificateholders*), the Certificates do not represent an interest in any of the Trustee, the Delegate, the Bank, any of the Agents or any of their respective affiliates.

If the net proceeds of the realisation of, or enforcement with respect to, the Trust Assets are not sufficient to make all payments due in respect of the Certificates, Certificateholders will have no recourse to any assets of the Trustee (other than the Trust Assets in the manner contemplated in the Transaction Documents) or of the Delegate or the Agents (to the extent that each of the Delegate and the Agents (as applicable) fulfils all of its respective obligations under the Transaction Documents to which it is a party) or any of their respective affiliates in respect of any shortfall in the expected amounts from the Trust Assets.

The Bank is obliged to make certain payments under the Transaction Documents directly to or to the order of the Trustee. Such payment obligations form part of the Trust Assets and the Trustee and/or the Delegate will, subject to Condition 4.2 (*Subordination*) and Condition

12.3 (*Winding-up, Dissolution or Liquidation*), have direct recourse against the Bank to recover payments due to the Trustee from the Bank pursuant to such Transaction Documents notwithstanding any other provision of Condition 4.4 (*Limited Recourse and Agreement of Certificateholders*). Such right of the Trustee and the Delegate shall constitute an unsecured claim against the Bank. None of the Certificateholders, the Trustee or the Delegate shall be entitled to claim any priority right in respect of any specific assets of the Bank in connection with the enforcement of any such claim.

See Condition 4.4 (*Limited Recourse and Agreement of Certificateholders*) for further details.

Selling Restrictions There are restrictions on the distribution of this Prospectus and the offer or sale of Certificates in the United States, the United Kingdom, the Cayman Islands, the UAE (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, the Kingdom of Bahrain, Saudi Arabia, the State of Qatar, Kuwait, Japan, Hong Kong, Malaysia, Singapore and Switzerland. See "*Subscription and Sale*".

Use of Proceeds The proceeds of the issue of the Certificates will be contributed by the Trustee (as Rab-al-Maal) to the Bank (as Mudareb) as Mudaraba Capital pursuant to the terms of the Mudaraba Agreement as described in "*Use of Proceeds*".

TERMS AND CONDITIONS OF THE TIER 1 CAPITAL CERTIFICATES

The following (except for the text in italics) is the text of the Terms and Conditions of the Certificates which (subject to modification and except for the text in italics) will be endorsed on each Certificate in definitive form (if issued) and will, save as provided in "Global Certificate", apply to the Global Certificate:

ABG Sukuk Limited (in its capacity as issuer and in its capacity as trustee, as applicable, the **Trustee**, acting pursuant to the powers delegated to it by the Trustee pursuant to the Declaration of Trust (as defined below)) has issued Tier 1 Capital Certificates (the **Certificates**) in an aggregate face amount of U.S.$400,000,000. The Certificates are constituted by a declaration of trust (the **Declaration of Trust**) dated 31 May 2017 (the **Issue Date**) made between the Trustee, Al Baraka Banking Group B.S.C. (the **Bank**) and BNY Mellon Corporate Trustee Services Limited as the delegate of the Trustee (the **Delegate**, which expression shall include all persons for the time being appointed as the delegate or delegates under the Declaration of Trust).

Payments relating to the Certificates will be made pursuant to an agency agreement dated the Issue Date (the **Agency Agreement**) made between the Trustee, the Bank, the Delegate, The Bank of New York Mellon, London Branch as principal paying agent (in such capacity, the **Principal Paying Agent** and together with any further or other paying agents appointed from time to time in respect of the Certificates, the **Paying Agents**), The Bank of New York Mellon S.A./N.V., Luxembourg Branch as registrar (in such capacity, the **Registrar**) and as transfer agent (in such capacity, the **Transfer Agent** and, together with the Registrar and any further or other transfer agents appointed from time to time in respect of the Certificates, the **Transfer Agents**) and The Bank of New York Mellon, London Branch as calculation agent (the **Calculation Agent**, which expression includes the Calculation Agent for the time being). The Paying Agents, the Transfer Agents and the Calculation Agent are together referred to in these terms and conditions (the **Conditions**) as the **Agents**. References to the "Agents" or any of them shall include their successors.

These Conditions include summaries of, and are subject to, the detailed provisions of the Transaction Documents (as defined in Condition 1 (*Interpretation*)). Copies of the Transaction Documents are available for inspection and/or collection during normal business hours at the specified offices of the Principal Paying Agent. The Certificateholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Transaction Documents applicable to them.

Each initial Certificateholder, by its acquisition and holding of its interest in a Certificate, shall be deemed to authorise and direct the Trustee, on behalf of the Certificateholders: (i) to contribute the sums paid by it in respect of its Certificate(s) to the Mudareb (as defined in Condition 5 (*The Trust*)) in accordance with the Mudaraba Agreement (as defined in Condition 5 (*The Trust*)); (ii) to act as Rab-al-Maal pursuant to the Mudaraba Agreement on its behalf (which authorisation and direction shall also apply to its successors in title and any Substituted Trustee (as defined below)); and (iii) to enter into each Transaction Document, subject to the provisions of the Declaration of Trust and these Conditions.

1 Interpretation

Words and expressions defined in the Declaration of Trust and the Agency Agreement shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of any inconsistency between any such document and these Conditions, these Conditions will prevail. In addition, in these Conditions the following expressions have the following meanings:

Additional Amounts has the meaning given to it in Condition 13 (*Taxation*);

Applicable Regulatory Capital Requirements means any requirements contained in the Capital Regulations for the maintenance of capital from time to time applicable to the Bank, including transitional rules and waivers granted in respect of the foregoing;

Authorised Denomination has the meaning given to that term in Condition 2.1 (*Form and Denomination*);

Authorised Signatory means any person who: (a) holds the office of President and Chief Executive of the Bank from time to time; or (b) is duly authorised by the Bank to sign documents on its behalf;

Bahrain means the Kingdom of Bahrain;

Bank Event means:

(i) **Non-payment**: the Bank (acting in its capacity as Mudareb) fails to pay an amount which is equivalent to principal or profit (including Additional Amounts) due and payable by it pursuant to the Mudaraba Agreement and the failure continues for a period of seven days (save in each case where such failure occurs solely as a result of the occurrence of a Non-Payment Event or, in the case of profit only, a Non-Payment Election); or

(ii) **Insolvency**: a final determination is made by a court or other official body that the Bank is insolvent or bankrupt or unable to pay its debts (which shall be deemed to include any debt or other financing arrangement issued (or intended to be issued) in compliance with the principles of *Shari'a* and which is treated as debt for the purposes of applicable law, in each case whether entered into directly or indirectly by the Bank); or

(iii) **Winding-up**: (A) there is a compulsory liquidation of the Bank pursuant to Article 145 of the Financial Institutions Law, for the purposes of Article 156 of the Financial Institutions Law or (B) an administrator is appointed, an order is made or an effective resolution is passed for the winding-up or dissolution or administration of the Bank or the Bank applies or petitions for a winding-up or administration order in respect of itself except, in each case, (a) for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate (acting in accordance with the Declaration of Trust and these Conditions) or by an Extraordinary Resolution of the Certificateholders or (b) for any step or procedure which is part of a solvent reconstruction or amalgamation approved by any court of competent jurisdiction or other competent authority; or

(iv) **Analogous Event**: any event occurs which under the laws of Bahrain has an analogous effect to any of the events referred to in paragraph (ii) or (iii) above.

Basel III Documents means the Basel Committee on Banking Supervision document "*A global regulatory framework for more resilient banks and banking systems*" released by the Basel Committee on Banking Supervision on 16 December 2010 and revised in June 2011 and the Annex contained in its document "*Basel Committee issues final elements of the reforms to raise the quality of regulatory capital*" on 13 January 2011;

Business Day means a day, other than a Friday, Saturday, Sunday or public holiday, on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in New York City, London and Manama, Bahrain;

Capital Event is deemed to have occurred if the Bank is notified in writing by the Regulator to the effect that the outstanding face amount of the Certificates is excluded (in full or in part) from the consolidated or solo Tier 1 Capital of the Bank (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital);

Capital Event Amount in relation to a Certificate means 100 per cent. of its outstanding face amount together with any Outstanding Payments;

Capital Event Profit Amount means, on the date of final constructive liquidation of the Mudaraba pursuant to subclause 7.3(c) of the Mudaraba Agreement, an amount equal to 1 per cent. of the Mudaraba Capital on such date;

Capital Regulations means, at any time, the regulations, requirements, guidelines and policies relating to capital adequacy for Islamic banks then in effect in Bahrain, including those of the Regulator and, as at 31 May 2017, includes the module of the Central Bank of Bahrain Rulebook Volume 2 (Islamic Banks) entitled 'Business Standards – CA Capital Adequacy';

Central Bank means the Central Bank of Bahrain, which is empowered to issue binding Regulations, Resolutions and/or Directives under Articles 37 and 38 of the Financial Institutions Law, or any successor thereto;

Certificateholder means a person in whose name a Certificate is registered in the Register (or, in the case of joint Certificateholders, the first named thereof) and the expressions **holder** and **holder of Certificates** and related expressions shall (where appropriate) be construed accordingly;

Code means the U.S. Internal Revenue Code of 1986, as amended;

Common Equity Tier 1 Capital means capital of the Bank qualifying as, and approved by the Regulator as, or capital which would, but for any applicable limitation on the amount of such capital, qualify as common equity tier 1 capital in accordance with the Capital Regulations;

Day-count Fraction means the actual number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with twelve 30-day months and, in the case of an incomplete month, the number of days elapsed of the Periodic Distribution Period in which the relevant period falls (including the first such day but excluding the last));

Determination Date means, in respect of a Reset Period, the third Business Day prior to the commencement of such Reset Period;

Dispute has the meaning given to it in Condition 21.2 (*Arbitration*);

Dissolution Distribution Amount means the Trustee Call Amount, the Capital Event Amount or the Tax Redemption Amount, as the case may be, or such other amount in the nature of a redemption amount as may be determined in accordance with these Conditions;

Dissolution Event means a Bank Event and/or a Trustee Event;

Dissolution Notice has the meaning given to it in Condition 12.1 (*Bank Events*);

Dissolution Request has the meaning given to it in Condition 12.1 (*Bank Events*);

Distributable Funds means the aggregate of the Bank's (a) consolidated retained earnings and reserves after the transfer of any amounts to non-distributable reserves; and (b) profits (after the transfer of any profits to reserves, if applicable), in each case (i) as set out in the most recent audited or (as the case may be) auditor reviewed consolidated financial statements of the Bank; and (ii) to the extent not restricted from distribution by applicable law or otherwise;

Extraordinary Resolution has the meaning given to it in the Declaration of Trust;

Final Mudaraba Profit has the meaning given to it in the Mudaraba Agreement;

Financial Institutions Law means The Central Bank of Bahrain and Financial Institutions Law, Decree Law No. 64/2006 (as amended);

First Call Date means 31 May 2022;

First Mudaraba Profit Distribution Date means 30 November 2017;

Initial Period means the period from (and including) the Issue Date to (but excluding) the First Call Date;

Initial Periodic Distribution Rate has the meaning given to it in Condition 7.4(a) (*Periodic Distribution Rate*);

Junior Obligations means all claims of the holders of Ordinary Shares and all payment obligations of the Bank in respect of its other Common Equity Tier 1 Capital;

LCIA means the London Court of International Arbitration;

Margin means 6.014 per cent. per annum;

Mudaraba has the meaning given to it in Condition 5 (*The Trust*);

Mudaraba Agreement has the meaning given to it in Condition 5 (*The Trust*);

Mudaraba Assets has the meaning given to it in Condition 5 (*The Trust*);

Mudaraba Capital has the meaning given to it in Condition 5 (*The Trust*);

Mudaraba End Date means (i) the date on which the Certificates are redeemed in whole but not in part in accordance with these Conditions, following the liquidation of the Mudaraba in accordance with the terms of the Mudaraba Agreement or (ii) (if earlier), in the case of a Write-down in whole only, the Non-Viability Event Write-down Date;

Mudaraba Profit has the meaning given to that term in the Mudaraba Agreement;

Mudaraba Profit Distribution Date means 31 May and 30 November in each year, starting on (and including) the First Mudaraba Profit Distribution Date;

Mudaraba Reserve has the meaning given to it in the Mudaraba Agreement;

Mudareb has the meaning given to it in Condition 5 (*The Trust*);

Non-Payment Election has the meaning given to it in Condition 8.2 (*Non-Payment Election*);

Non-Payment Event has the meaning given to it in Condition 8.1 (*Non-Payment Event*);

Non-Viability Event means that the Regulator has notified the Bank in writing that it has determined that the Bank is, or will become, Non-Viable without:

(i) a Write-down; or

(ii) a public sector injection of capital (or equivalent support);

Non-Viability Event Write-down Date shall be the date on which the Write-down will take place as specified in the Non-Viability Notice, which date shall be no later than ten Business Days (or such earlier date as determined by the Regulator) after the date of the Non-Viability Notice;

Non-Viability Notice has the meaning given to it in Condition 11.2 (*Non-Viability Notice*);

Non-Viable means (a) insolvent, bankrupt, unable to pay a material part of its obligations as they fall due or unable to carry on its business, or (b) any other event or circumstance occurs which is specified as constituting non-viability by the Regulator or in the applicable banking regulations;

Ordinary Shares means the ordinary shares of the Bank;

Outstanding Payments means, in relation to any amounts payable on redemption of the Certificates, an amount representing accrued but unpaid Periodic Distribution Amounts, or part thereof (as the case may be), for the Periodic Distribution Period during which redemption occurs up to the date of redemption plus Additional Amounts thereon, if any, and, if the Certificates are redeemed following a Capital Event, shall include a further profit amount in an amount equal to the Capital Event Profit Amount;

Pari Passu Obligations means all subordinated payment obligations of the Bank which rank, or are expressed by their terms to rank, *pari passu* with the Relevant Obligations;

Payment Business Day has the meaning given to it in Condition 9.4 (*Payment only on a Payment Business Day*);

Periodic Distribution Amount has the meaning given to it in Condition 7.2 (*Periodic Distribution Amounts*);

Periodic Distribution Date means 31 May and 30 November in each year, starting on (and including) 30 November 2017;

Periodic Distribution Period means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Periodic Distribution Date and each successive period beginning on (and including) a Periodic Distribution Date and ending on (but excluding) the next succeeding Periodic Distribution Date;

Person means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

Potential Dissolution Event means an event which, with the giving of notice, lapse of time, determination of materiality or fulfilment of any other applicable condition (or any combination of the foregoing), would constitute a Dissolution Event;

Proceedings has the meaning given to it in Condition 21.5 (*Submission to Jurisdiction*);

Profit Rate means, in respect of the Initial Period, the Initial Periodic Distribution Rate, and, in respect of each Reset Period thereafter, the rate calculated in accordance with the provisions of Condition 7.4(a) (*Periodic Distribution Rate*);

Qualifying Tier 1 Instruments means instruments (whether securities, trust certificates, interests in limited partnerships or otherwise) other than Ordinary Shares or other Common Equity Tier 1 Capital, issued directly or indirectly by the Bank that:

(i) will be eligible to constitute (or would, but for any applicable limitation on the amount of such capital, constitute) Tier 1 Capital of the Bank;

(ii) have terms and conditions not materially less favourable to a Certificateholder than the Certificates (as reasonably determined by the Bank (**provided that** in making this determination the Bank is not required to take into account the tax treatment of the new instrument in the hands of all or any Certificateholders, or any transfer or similar taxes that may apply on the acquisition of the new instrument) **provided that** a certification to such effect of two Authorised Signatories shall have been delivered to the Trustee and the Delegate prior to the variation of the terms of the instruments);

(iii) will constitute direct or indirect (whether by a guarantee or equivalent support undertaking by the Bank) obligations of the Bank;

(iv) rank on a winding up at least *pari passu* with the Relevant Obligations;

(v) have at least the same face value and profit distribution dates as the Certificates and an at least equal profit or distribution rate or rate of return as the Certificates;

(vi) are listed on the same stock exchange as the Certificates;

(vii) have, to the extent such payment is not cancelled, the same claim to accrued but unpaid distributions;

(viii) (where the instruments are varied prior to the First Call Date) have the same first call date as the Certificates;

(ix) have the same optional redemption dates as the Certificates save that any right to redeem the Certificates, as amended, prior to the fifth anniversary of the Issue Date may be disapplied if such right to redeem would cause a Capital Event; and

(x) preserve the Relevant Obligations upon any redemption of the Certificates and the ranking of any claims in a winding-up or dissolution of the Bank,

and which may include such technical changes as necessary to reflect the requirements of Tier 1 Capital under the Capital Regulations then applicable to the Bank (including, without limitation, such technical changes as may be required in the further adoption and implementation of the Basel III Documents);

Rab-al-Maal has the meaning given to it in Condition 5 (*The Trust*);

Rab-al-Maal Final Mudaraba Profit has the meaning given to it in the Mudaraba Agreement;

Rab-al-Maal Mudaraba Profit has the meaning given to it in the Mudaraba Agreement;

Record Date means, in the case of the payment of a Periodic Distribution Amount, the date falling on the 15th day before the relevant Periodic Distribution Date and, in the case of the payment of a Dissolution Distribution Amount, the date falling two Payment Business Days before the date for payment of the relevant Dissolution Distribution Amount, as the case may be;

Register has the meaning given to it in Condition 2.1 (*Form and Denomination*);

Registered Account has the meaning given to it in Condition 9.1 (*Payments in respect of the Certificates*);

Regulator means the Central Bank or any successor entity having primary bank supervisory authority with respect to the Bank in Bahrain;

Relevant Date in respect of a Certificate means (a) the date on which payment in respect of such Certificate first becomes due or (b) if the full amount of the money payable has not been received by the Principal Paying Agent or the Delegate on or before the due date, the date on which, the full amount of the money having been so received, notice to that effect has been duly given to Certificateholders in accordance with Condition 17 (*Notices*);

Relevant Jurisdiction means each of the Cayman Islands and Bahrain or, in each case, any political subdivision or any authority thereof or therein having power to tax to which payments made by the Trustee or the Bank in connection with the Certificates become generally subject;

Relevant Obligations has the meaning given to it in Condition 4.2 (*Subordination*);

Relevant Five Year Reset Rate means the mid-swap rate for U.S. dollar swap transactions with a maturity of five years displayed on Reuters page "ICESWAP1" (or such other page as may replace that page on Bloomberg, or such other service as may be nominated by the Person providing or sponsoring the information appearing there for the purposes of displaying comparable rates) at or around 11.00 a.m. (New York time) on the Determination Date. If the correct mid swap rate does not appear on that page, the five year U.S. dollar mid swap rate shall instead be determined by the Calculation Agent on the basis of the arithmetic mean of quotations provided by the principal office of each of four major banks in the U.S. dollar swap market of the rates at which swaps in U.S. dollars are offered by it at approximately 11.00 a.m. (New York time) on the Determination Date to participants in the U.S. dollar swap market for a five-year period, expressed as a percentage and rounded, if necessary, to the nearest 0.0001 per cent. (0.00005 per cent. being rounded upwards). If on any Determination Date fewer than four, or none, of the four major banks in the U.S. dollar swap market provides the Calculation Agent with the quotations referred to in the foregoing sentence, the Relevant Five Year Reset Rate shall be determined to be the Relevant Five Year Reset Rate as at the last preceding Reset Date or, in the case of the first Determination Date, shall be determined to be the mid-swap rate, as mentioned in the first sentence of this definition, as at the Issue Date;

Reserved Matter has the meaning given to it in the Declaration of Trust;

Reset Date means the First Call Date and every fifth anniversary thereafter;

Reset Period means the period from (and including) the First Call Date to (but excluding) the earlier of (a) the Mudaraba End Date and (b) the following Reset Date, and (if applicable) each successive period thereafter from (and including) such Reset Date to (but excluding) the earlier of (x) the Mudaraba End Date and (y) the next succeeding Reset Date;

Rules has the meaning given to it in Condition 21.2 (*Arbitration*);

Senior Obligations means all unsubordinated payment obligations of the Bank and all subordinated payment obligations (if any) of the Bank except Junior Obligations and Pari Passu Obligations;

Subsidiary means, in relation to any Person (the **first person**) at any particular time, any other Person (the **second person**) whose affairs and policies the first person controls or has the power to control, whether by ownership or share capital, contract, the power to appoint or remove members of the governing body of the second person or otherwise;

Substituted Territory has the meaning given to it in Condition 12.2 (*Trustee Events*);

Substituted Trustee has the meaning given to it in Condition 12.2 (*Trustee Events*);

Taxes has the meaning given to it in Condition 13 (*Taxation*);

Tax Event is deemed to have occurred if in making any payment of Mudaraba Profit under the Mudaraba Agreement by the Bank (acting in its capacity as Mudareb) or any payment of a Periodic Distribution Amount under the Certificates by the Trustee (as the case may be), the Bank or the Trustee (as the case may be) has or will or would on the next payment date under, as the case may be, the Mudaraba Agreement or the Certificates, become obliged to pay Additional Amounts or additional amounts under clause 5.11 of the Mudaraba Agreement (in each case, whether or not a Non-Payment Event has occurred or a Non-Payment Election has been made), in each case as a result of any change in, or amendment to, the laws, published practices or regulations of a Relevant Jurisdiction, or any change in the application or interpretation of such laws, published practices or regulations, which change or amendment becomes effective (or, in the case of application or interpretation, is announced) on or after the Issue Date (and such requirement cannot be avoided by the Bank or the Trustee (as the case may be) taking reasonable measures available to it);

Tax Redemption Amount, in relation to a Certificate, means 100 per cent. of its outstanding face amount together with any Outstanding Payments;

Tier 1 Capital means capital qualifying as, and approved by the Regulator as, tier 1 capital in accordance with the Capital Regulations;

Transaction Account has the meaning given to it in Condition 5 (*The Trust*);

Transaction Documents means each of the Declaration of Trust, the Agency Agreement and the Mudaraba Agreement;

Trust Assets has the meaning given to it in Condition 5 (*The Trust*);

Trustee Call Amount, in relation to a Certificate, means 100 per cent. of its outstanding face amount together with any Outstanding Payments;

Trustee Event means any of the following events:

(i) **Non-Payment**: default is made in the payment of the Dissolution Distribution Amount, or default is made in the payment of any Periodic Distribution Amount, in each case, on the due date for payment thereof and, in the case of any Periodic Distribution Amount only, such default continues for a period of seven days; or

(ii) **Insolvency**: a final determination is made by a court or other official body that the Trustee is insolvent or bankrupt or unable to pay its debts in relation to the Certificates; or

(iii) **Winding-up**: an administrator is appointed, an order is made or an effective resolution is passed for the winding-up or dissolution or administration of the Trustee or the Trustee applies or petitions for a winding-up or administration order in respect of itself except, in each case, (a) for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate (acting in accordance with the Declaration of Trust and these Conditions) or by an Extraordinary Resolution of the Certificateholders or (b) for any step or procedure which is part of a solvent reconstruction or amalgamation approved by any court of competent jurisdiction or other competent authority; or

(iv) **Analogous Event**: any event occurs that under the laws of the Cayman Islands has an analogous effect to any of the events referred to in paragraph (ii) above.

For the purpose of subparagraph (i) above, all amounts payable in respect of the Certificates shall be considered due and payable (including any amounts calculated as being payable under Condition 7.4 (*Periodic Distributions*)) notwithstanding that the Trustee has at the relevant time insufficient funds or relevant Trust Assets to pay such amounts including, without limitation, as a result of any failure by the Mudareb to comply with the matters described in Condition 4.4(c) (*Limited Recourse and Agreement of Certificateholders*) (save in each case where such insufficient funds arise solely as a result of the occurrence of a Non-Payment Event or a Non-Payment Election);

Trustee's Territory has the meaning given to it in Condition 12.2 (*Trustee Events*); and

Write-down means:

(i) the Certificateholders' rights to the Trust Assets (including the Mudaraba Assets) shall automatically be deemed to be irrevocably and unconditionally cancelled (in the case of a Write-down in whole) or written-down in part (in the case of a Write-down in part) in the same manner as the Certificates;

(ii) the Certificates shall be cancelled (in the case of a Write-down in whole) or written-down in part on a *pro rata* basis (in the case of a Write-down in part) by the Trustee as determined by the Bank in consultation with the Regulator or as the Regulator may, in its sole discretion, direct; and

(iii) all rights of any Certificateholder for payment of any amounts due under or in respect of the Certificates (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, a Dissolution Event) shall, as the case may be, be cancelled or written-down in part on a *pro rata* basis among the Certificateholders and, in each case, will not be restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Notice or the Non-Viability Event Write-down Date and even if the Non-Viability Event has ceased,

and references herein to "written-down" shall be construed accordingly.

All references in these Conditions to **U.S. dollars**, **U.S.$** and **$** are to the lawful currency of the United States of America.

2 Form, Denomination and Title

2.1 Form and Denomination

The Certificates are issued in registered form in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each an **Authorised Denomination**). A Certificate will be issued to each Certificateholder in respect of its registered holding of Certificates. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Certificateholders (the **Register**).

Upon issue, the Certificates will be represented by a Global Certificate which will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear Bank SA/ NV (Euroclear) and Clearstream Banking, S.A. *(Clearstream, Luxembourg). Ownership interests in the Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by Euroclear and Clearstream, Luxembourg (as applicable), and their respective participants. These Conditions are modified by certain provisions contained in the Global Certificate. Except in certain limited circumstances, owners of interests in the Global Certificate will not be entitled to receive definitive Certificates representing their holdings of Certificates. See "Global Certificate".*

2.2 Title

The Trustee will cause the Registrar to maintain the Register outside the United Kingdom in accordance with the provisions of the Agency Agreement. Title to the Certificates passes only by registration in the Register. The registered Certificateholder will (except as otherwise required by law) be treated as the absolute owner of the Certificates represented by the Certificate for all purposes (whether or not any payment thereon is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate) and no person will be liable for so treating the holder of any Certificate. The registered Certificateholder will be recognised by the Trustee as entitled to his Certificate free from any equity, set-off or counterclaim on the part of the Trustee against the original or any intermediate holder of such Certificate.

3 Transfers of Certificates

3.1 Transfers

Subject to Conditions 3.4 (*Closed Periods*) and 3.5 (*Regulations*) and the provisions of the Agency Agreement, a Certificate may be transferred in an Authorised Denomination only by depositing the Certificate by which it is represented, with the form of transfer on the back duly completed and signed, at the specified office of any of the Transfer Agents together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the individuals who have executed the forms of transfer.

Transfers of interests in the Global Certificate will be effected in accordance with the rules of the relevant clearing system through which the interest is held.

3.2 Delivery of New Certificates

Each new Certificate to be issued upon any transfer of Certificates will, within five business days of receipt by the relevant Transfer Agent of the duly completed form of transfer endorsed on the relevant Certificate (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), be delivered at the specified office of the relevant Transfer Agent or mailed by uninsured mail at the risk of the holder entitled to the Certificate to the address specified in the form of transfer. For the purposes of this Condition, **business day** shall mean a day on which banks are open for business in the city in which the specified office of the Transfer Agent with whom a Certificate is deposited in connection with a transfer is located. Where some but not all of the Certificates in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the Certificates not so transferred will, within five business days of receipt by the relevant Transfer Agent of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Certificates not so transferred to the address of such Certificateholder appearing on the Register or as specified in the form of transfer.

3.3 Formalities Free of Charge

Registration of any transfer of Certificates will be effected without charge by or on behalf of the Trustee or any Transfer Agent except that the Trustee may require payment of a sum to it (or the giving of such indemnity as the Trustee or any Transfer Agent may reasonably require) to cover any stamp duty, tax or other governmental charges which may be imposed in relation to the registration.

3.4 Closed Periods

No Certificateholder may require the transfer of a Certificate to be registered during the period of 15 days ending on a Periodic Distribution Date or any other date on which any payment of the face amount or payment of any premium or profit in respect of a Certificate falls due.

3.5 Regulations

All transfers of Certificates and entries on the Register will be made subject to the detailed regulations concerning the transfer of Certificates scheduled to the Declaration of Trust. The Regulations may be changed by the Trustee from time to time with the prior written approval of the Delegate (acting in accordance with the Declaration of Trust and these Conditions) and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Certificateholder who requests a copy of such regulations.

The Certificateholders shall be entitled to receive, in accordance with Condition 3.2 (*Delivery of New Certificates*), only one Certificate in respect of his entire holding of Certificates. In the case of a transfer of a portion of the face amount of a Certificate, a new Certificate in respect of the balance of the Certificates not transferred will be issued to the transferor in accordance with Condition 3.2 (*Delivery of New Certificates*).

4 Status, Subordination and Limited Recourse

4.1 Status

The Certificates represent undivided ownership interests in the Trust Assets and are limited recourse obligations of the Trustee. Each Certificate will constitute unsecured obligations of the Trustee and shall at all times rank *pari passu* without any preference or priority, with all other Certificates. The rights and claims of the Trustee and the Certificateholders against the Bank in respect of the Relevant Obligations are subordinated as described in Condition 4.2 (*Subordination*).

4.2 Subordination

4.2.1 The payment obligations of the Bank under the Mudaraba Agreement (including all payments which are the equivalent of principal and profit) (the **Relevant Obligations**) will (a) constitute Tier 1 Capital of the Bank on a solo and consolidated basis, (b) constitute direct, unsecured, conditional and subordinated obligations of the Bank, (b) rank junior to all Senior Obligations, (c) rank *pari passu* with all Pari Passu Obligations and (d) rank in priority only to all Junior Obligations.

4.2.2 In the event of any winding-up or liquidation of the Bank including, without limitation, any compulsory liquidation of the Bank pursuant to Article 145 of the Financial Institutions Law, for the purposes of Article 156 of the Financial Institutions Law, the Relevant Obligations shall rank junior to all Senior Obligations but *pari passu* with all Pari Passu Obligations and in priority to all other Junior Obligations.

4.2.3 The Trustee may only exercise its enforcement rights in relation to any Relevant Obligation or in relation to any of its other rights under the Mudaraba Agreement or any other Transaction Document in the manner provided in Condition 12.3 (*Winding-up, Dissolution or Liquidation*).

4.2.4 The Trustee will, in each relevant Transaction Document, unconditionally and irrevocably waive any right of set-off, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of the Relevant Obligations. No collateral is or will be given by the Bank for the Relevant Obligations and any collateral that may have been or may in the future be given in connection with other obligations of the Bank shall not secure the Relevant Obligations.

4.2.5 Nothing in these Conditions shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Delegate or the rights and remedies of the Delegate in respect thereof, all of which shall accordingly remain unsubordinated.

4.3 Other Issues

So long as any of the Certificates remain outstanding, the Bank (in its capacity as Mudareb or otherwise) will not issue any securities (regardless of name or designation) or create any guarantee of, or provide any contractual support arrangement in respect of, the obligations of any other entity which in each case constitutes (on a solo basis) issued Tier 1 Capital of the Bank if claims in respect of such securities, guarantee or contractual support arrangement would rank (as regards distributions on a return of assets on a winding-up or in respect of distribution or payment of dividends and/or any other amounts thereunder) senior to the Relevant Obligations. This prohibition will not apply if at the same time or prior thereto: (a) these Conditions and (to the extent applicable) the Transaction Documents are amended to ensure that the Trustee (on behalf of the Certificateholders) obtains; and/or (b) the Relevant Obligations have, in each case, the benefit of, such of those rights and entitlements as are contained in or attached to such securities or under such guarantee or contractual support arrangement as are required so as to ensure that claims in respect of the Relevant Obligations rank *pari passu* with, and contain substantially equivalent rights of priority as to distributions or payments on, such securities or under such guarantee or contractual support arrangement.

4.4 Limited Recourse and Agreement of Certificateholders

Save as provided in this Condition 4.4 (*Limited Recourse and Agreement of Certificateholders*), the Certificates do not represent an interest in any of the Trustee, the Delegate, the Bank, any of the Agents or any of their respective affiliates. Each Certificateholder, by subscribing for or acquiring the Certificates, acknowledges and agrees that notwithstanding anything to the contrary contained in these Conditions or any Transaction Document:

(a) no payment of any amount whatsoever shall be made by the Trustee or any of its directors, officers, employees or agents on its behalf except to the extent funds are available therefor from the Trust Assets;

(b) the Trustee may not deal with the Mudaraba Assets or realise or deal with its interest, rights, title, benefit and entitlements, present and future, in, to and under the Transaction Documents and the Trust Assets except in the manner expressly permitted by the Transaction Documents;

(c) the proceeds of the Trust Assets are the sole source of payments on the Certificates. Payment by the Trustee of any Periodic Distribution Amount or any amount required to redeem the Certificates is subject to receipt by the Trustee of the amounts expected to be received by it from the Mudareb in accordance with the provisions of the Mudaraba Agreement;

(d) if the net proceeds of the realisation of, or enforcement with respect to, the Trust Assets is not sufficient to make all payments due in respect of the Certificates, Certificateholders will have no recourse to any assets of the Trustee (other than the Trust Assets in the manner contemplated in the Transaction Documents) or of the Delegate or the Agents, or any of their respective affiliates in respect of any such shortfall, and no recourse shall be had in respect of, and no Certificateholder will have any claim for, the payment of any amount (including any fee, indemnity or other amount) due and owing hereunder or under any Transaction Document, or any other obligation or claim arising out of or based upon the Transaction Documents, against the Trustee to the extent the Trust Assets have been exhausted (following which all obligations of the Trustee shall be extinguished) or the Delegate or the Agents;

(e) it will not petition for, institute or join with any other person in instituting proceedings for the reorganisation, arrangement, liquidation, bankruptcy, winding-up or receivership or other proceedings under any bankruptcy or similar law against the Trustee or any of its directors, officers, agents, shareholders or affiliates as a consequence of such shortfall described in paragraph (d) of this Condition 4.4 or otherwise;

(f) no recourse (whether by institution or enforcement of any legal proceedings or assessment or otherwise) in respect of any breaches of any duty, obligation or undertaking of the Trustee arising under or in connection with these Conditions or the Transaction Documents by virtue of any customary law, statute or otherwise shall be had against any shareholder, officer, director or corporate services provider of the Trustee in their capacity as such. The obligations of the Trustee under these Conditions and the Transaction Documents are corporate or limited liability obligations of the Trustee and no personal liability shall attach to or be incurred by the shareholders, members, officers, agents, directors or corporate services provider of the Trustee (in each of their respective capacities as such), save in the case of their wilful default or actual fraud. References in these Conditions to wilful default or actual fraud means a finding to such effect by a court of competent jurisdiction (in relation to the conduct of the relevant party);

(g) it shall not be entitled to claim or exercise any right of set-off, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of any sums due under such Certificate. No collateral is or will be given for the payment obligations under the Certificates; and

(h) the Trustee and Mudareb have agreed in the Mudaraba Agreement that the Mudareb shall not be responsible for any losses to the Mudaraba Capital suffered by the Trustee unless such losses are caused by (i) the Mudareb's breach of the Mudaraba Agreement or (ii) the Mudareb's gross negligence, wilful misconduct or fraud.

The Bank is obliged to make certain payments under the Transaction Documents directly to or to the order of the Trustee. Such payment obligations form part of the Trust Assets and the Trustee and/or the Delegate will, subject to Condition 4.2 (*Subordination*) and Condition 12.3 (*Winding-up, Dissolution or Liquidation*), have direct recourse against the Bank to recover payments due to the Trustee from the Bank pursuant to such Transaction Documents notwithstanding any other provision of this Condition 4.4 (*Limited Recourse and Agreement of Certificateholders*). Such right of the Trustee and the Delegate shall constitute an unsecured claim against the Bank. None of the Certificateholders, the Trustee and the Delegate shall be entitled to claim any priority right in respect of any specific assets of the Bank in connection with the enforcement of any such claim.

5 The Trust

5.1 The Mudaraba Agreement

ABG Sukuk Limited (in its capacity as Trustee and as the Rab-al-Maal) will enter into a mudaraba agreement (the **Mudaraba Agreement**) to be dated the Issue Date with the Bank (in such capacity, the **Mudareb**). Pursuant to the Mudaraba Agreement, the Rab-al-Maal will contribute the proceeds of the issue of the Certificates to the Mudareb, which proceeds will form the initial capital of the Mudaraba (as defined below) and which may be subject to change after the Issue Date in accordance with Condition 10.2 (*Purchase*) (the **Mudaraba Capital**). The Mudareb will invest the Mudaraba Capital in its general business activities and, following investment of the Mudaraba Capital in the Mudareb's general business activities, the Mudaraba Capital shall constitute *pro rata* undivided assets in the Mudareb's general business activities (the **Mudaraba Assets**) in accordance with the Mudaraba Agreement, which shall include an investment plan prepared by the Mudareb and shall constitute a mudaraba (the **Mudaraba**).

The Trustee has opened a transaction account (the **Transaction Account**) in its own name with the Principal Paying Agent (details of which are set out in the Declaration of Trust) into which the Mudareb will pay all amounts due to the Trustee under the Mudaraba Agreement. If the Trustee is substituted in accordance with Condition 12.2 (*Trustee Events*), the Substituted Trustee will be required to open a new transaction account in its name with the Principal Paying Agent into which the Mudareb will pay all amounts due to the Trustee under the Mudaraba Agreement from the date of substitution onwards, and references in these Conditions to the "Transaction Account" will be construed accordingly.

5.2 The Trust Assets

Pursuant to the Declaration of Trust, the Trustee holds:

(a) the cash proceeds of the issue of the Certificates, pending application thereof in accordance with the terms of the Transaction Documents;

(b) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets;

(c) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by the Bank (acting in any capacity) pursuant to any of the Transaction Documents and the covenant given to the Trustee pursuant to clauses 11.1 and 11.10 of the Declaration of Trust); and

(d) all amounts standing to the credit of the Transaction Account from time to time,

and all proceeds of the foregoing (together, the **Trust Assets**) upon trust absolutely for and on behalf of the Certificateholders *pro rata* according to the face amount of Certificates held by each such Certificateholder in accordance with the Declaration of Trust and these Conditions.

5.3 Order of Priority for Payments

On each Periodic Distribution Date and on any date fixed for payment of the Dissolution Distribution Amount, the Principal Paying Agent shall apply the monies standing to the credit of the Transaction Account in the following order of priority (in each case, only if and to the extent that payments of a higher priority have been made in full):

(a) first (to the extent not previously paid), to the Delegate and/or any Appointee (as defined in the Declaration of Trust) in respect of all amounts owing to it under the Transaction Documents in its capacity as Delegate in accordance with the Declaration of Trust;

(b) second, only if such payment is due on or before a Periodic Distribution Date (to the extent not previously paid) to pay, *pro rata* and *pari passu*; (i) the Trustee in respect of all amounts owing to it under the Transaction Documents in its capacity as trustee; and (ii) the Trustee Administrator in respect of all amounts owing to it under the Transaction Documents, the Corporate Services Agreement in its capacity as trustee administrator and registered office provider;

(c) third, only if such payment is due on a Periodic Distribution Date, and subject to Condition 8 (*Periodic Distribution Restrictions*), in or towards payment *pari passu* and rateably of all Periodic Distribution Amounts (including Additional Amounts) due but unpaid;

(d) fourth, only if such payment is due on a date fixed for payment of the Dissolution Distribution Amount, in or towards payment *pari passu* and rateably of the Dissolution Distribution Amount; and

(e) fifth, only after all amounts required to be paid in respect of the Certificates have been discharged in full, in payment of any residual amount to the Bank.

6 Covenants

The Trustee has covenanted in the Declaration of Trust that, *inter alia*, for so long as any Certificate is outstanding, it shall not (without the prior written consent of the Delegate (given in accordance with the Declaration of Trust and these Conditions)):

(a) incur any indebtedness in respect of financed, obtained or raised money whatsoever (whether structured (or intended to be structured) in accordance with the principles of *Shari'a* or otherwise), or give any guarantee or indemnity in respect of any obligation of any person or issue any shares (or rights, warrants or options in respect of shares or securities convertible into or exchangeable for shares) except, in all cases, as contemplated in the Transaction Documents;

(b) secure any of its present or future indebtedness or present or future obligations (whether structured in accordance with the principles of *Shari'a* or otherwise) by granting or permitting to be outstanding any lien, pledge, charge, mortgage or other security interest upon any of its present or future undertakings, assets, properties or revenues (other than those arising by operation of law (if any) or under or pursuant to any of the Transaction Documents);

(c) sell, transfer, assign, participate, exchange or pledge, mortgage, hypothecate or otherwise encumber (by security interest, lien (statutory or otherwise), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever or otherwise, or permit such to occur or suffer such to exist) any part of its interest in any of the Trust Assets except pursuant to any of the Transaction Documents (other than those arising by operation of law);

(d) use the proceeds of the issue of the Certificates for any purpose other than as stated in the Transaction Documents;

(e) amend or agree to any amendment to any Certificate or Transaction Document (other than in accordance with the terms thereof) in each case in a manner which is materially prejudicial to the rights of Certificateholders, without the prior approval of the Certificateholders by way of Extraordinary Resolution, save that it shall be permitted to make such variations to the Transaction Documents and these Conditions as are required pursuant to Condition 10.1 (*Redemption and Variation*);

(f) act as trustee in respect of any trust other than the Trust or in respect of any parties other than the Certificateholders;

(g) have any subsidiaries or employees;

(h) redeem or purchase any of its shares or pay any dividend or make any other distribution to its shareholders;

(i) prior to the date which is one year and one day after the date on which all amounts owing by the Trustee under the Transaction Documents have been paid in full, put to its directors or shareholders any resolution for, or appoint any liquidator for, its winding-up (except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate or by an Extraordinary Resolution of the Certificateholders) or any resolution for the commencement of any other bankruptcy or insolvency proceedings with respect to it; and

(j) enter into any contract, transaction, amendment, obligation or liability other than the Transaction Documents or any permitted amendment or supplement thereto or as expressly permitted or required thereunder or engage in any business or activity other than:

(i) as provided for or permitted in the Transaction Documents;

(ii) the ownership, management and disposal of the Trust Assets as provided in the Transaction Documents; and

(iii) such other matters which are incidental thereto.

7 Periodic Distributions

7.1 Distribution of Mudaraba Profit

The Trustee has agreed in the Mudaraba Agreement that the Bank shall be entitled (in its capacity as Mudareb or otherwise) to utilise the Mudaraba Assets (and the proceeds thereof) to make payments in respect of the Senior Obligations or to cover losses of the Mudaraba and that such entitlement shall apply at any time before an order has been made, or an effective resolution has been passed, for the winding-up, dissolution or liquidation (or other analogous event) of the Bank (in its capacity as Mudareb or otherwise).

7.2 Periodic Distribution Amounts

Subject to Conditions 4.2 (*Subordination*), 4.4 (*Limited Recourse and Agreement of Certificateholders*), 7.3 (*Cessation of Accrual*), 8 (*Periodic Distribution Restrictions*), 9 (*Payments*) and 11 (*Write-down at the Point of Non-Viability*), the Trustee shall distribute to Certificateholders, out of amounts transferred into the Transaction Account, a distribution in relation to their respective holdings of Certificates on each Periodic Distribution Date equal to the Periodic Distribution Amount. Subject as provided in Condition 7.4 (*Periodic Distributions*), the **Periodic Distribution Amount** payable on each Periodic Distribution Date (i) falling prior to and including the First Call Date shall be U.S.$39.375 per U.S.$1,000 in face amount of the Certificates and (ii) falling after the First Call Date shall be the relevant amount calculated pursuant to Condition 7.4 (*Periodic Distributions*).

7.3 Cessation of Accrual

Subject to Conditions 4.2 (*Subordination*), 8 (*Periodic Distribution Restrictions*) and 11 (*Write-down at the Point of Non-Viability*), each Certificate will cease to be eligible to earn Periodic Distribution Amounts from the due date for redemption, following liquidation of the Mudaraba in accordance with these Conditions and the Mudaraba Agreement.

7.4 Periodic Distributions

Subject to Condition 8 (*Periodic Distribution Restrictions*), the Certificates bear profit at the applicable Profit Rate from (and including) the Issue Date in accordance with the provisions of this Condition 7 (*Periodic Distributions*). Periodic Distribution Amounts will not be cumulative and any Periodic Distribution Amount which is not paid will not accumulate or compound and Certificateholders will have no right to receive such Periodic Distribution Amount at any time, even if Periodic Distribution Amounts are paid in the future. Subject to Condition 8 (*Periodic Distribution Restrictions*), Periodic Distribution Amounts shall be payable on the Certificates semi-annually in arrear on each Periodic Distribution Date, in each case as provided in this Condition 7 (*Periodic Distributions*).

If a Periodic Distribution Amount is required to be calculated in respect of a period of less than a full Periodic Distribution Period (the **Relevant Period**) (including, without limitation, in connection with the payment of any Outstanding Payments on redemption of the Certificates), it shall be calculated as an amount equal to the product of: (a) the applicable Profit Rate; (b) the face amount of the relevant Certificates; and (c) the applicable Day-count Fraction for the Relevant Period, rounding the resultant figure to the nearest cent (half a cent being rounded upwards).

(a) Periodic Distribution Rate

For the Initial Period, the Certificates bear profit at the Profit Rate of 7.875 per cent. per annum (the **Initial Periodic Distribution Rate**).

The Profit Rate will be reset on each Reset Date on the basis of the aggregate of the Margin and the Relevant Five Year Reset Rate on the relevant Determination Date, as determined by the Calculation Agent.

The Calculation Agent will, as soon as practicable upon determination of the Profit Rate which shall apply to the Reset Period commencing on the relevant Reset Date, but in no event later than the second Business Day thereafter, cause the applicable Profit Rate and the corresponding Periodic Distribution Amount to be notified to each of the Trustee, the Bank, the Delegate, the Agents, the Irish Stock Exchange or any other stock exchange on which the Certificates are for the time being listed and to be notified to Certificateholders in accordance with Condition 17 (*Notices*). To the extent that the Calculation Agent is unable to notify the Irish Stock Exchange, or any other stock exchange on which the Certificates are for the time being listed, the Calculation Agent shall promptly notify the Bank, who shall procure the performance of such obligation.

For the avoidance of doubt, the Calculation Agent shall not be responsible to the Trustee, the Bank, the Certificateholders or to any third party (except in the event of wilful default, gross negligence or fraud of the Calculation Agent) as a result of the Calculation Agent having acted on any quotation, information or ratio provided to it by any bank for the purposes of making any determination hereunder and which subsequently may be found to be incorrect or inaccurate in any way or for any loss or damage arising in relation thereto.

(b) Calculation Agent

With effect from the First Call Date, and so long as any Certificates remain outstanding thereafter, the Trustee will maintain a Calculation Agent. The name of the initial Calculation Agent and its initial specified office is set out at the end of these Conditions.

The Trustee may, with the prior written approval of the Delegate (given in accordance with the Declaration of Trust and these Conditions), from time to time replace the Calculation Agent with another leading investment, merchant or commercial bank or financial institution in London. If the Calculation Agent is unable or unwilling to continue to act as the Calculation Agent or (without prejudice to Condition 7.4(c) (*Determinations of Calculation Agent or Trustee Binding*)) fails duly to determine the Profit Rate in respect of any Reset Period as provided in Condition 7.4(a) (*Periodic Distribution Rate*), the Trustee shall forthwith appoint another leading investment, merchant or commercial bank or financial institution in London approved in writing by the Delegate (in accordance with the Declaration of Trust and these Conditions) to act as such in its place. The Calculation Agent may not resign its duties or be removed without a successor having been appointed as aforesaid.

(c) Determinations of Calculation Agent or Trustee Binding

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 7 (*Periodic Distributions*), whether by the Calculation Agent or the Trustee (or its agent), shall (in the absence of manifest error) be binding on the Trustee, the Bank, the Calculation Agent, the Paying Agents, the Delegate and all Certificateholders and (in the absence of manifest error) no liability to the Trustee, the Bank, any Agent, the Delegate and the Certificateholders shall attach to the Calculation Agent, or the Trustee (or its agent) in connection with the exercise or non-exercise by them of any of their powers, duties and discretions.

8 Periodic Distribution Restrictions

8.1 Non-Payment Event

Notwithstanding Condition 7.4 (*Periodic Distributions*), if any of the following events occur (each, a **Non-Payment Event**), the Bank (as Mudareb) shall not pay Mudaraba Profit (and, as a result, Rab-al-Maal Mudaraba Profit) or Final Mudaraba Profit (and, as a result, Rab-al-Maal Final Mudaraba Profit) on any Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be), and as a result thereof the Trustee shall not pay Periodic Distribution Amounts on the corresponding Periodic Distribution Date:

(i) the amount equal to the then applicable Periodic Distribution Amount to be paid by the Bank out of the Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit, as applicable (the **Relevant Rab-al-Maal Mudaraba Profit Amount**), when aggregated with any distributions payable by the Bank (in its capacity as Mudareb or otherwise) in respect of any Pari Passu Obligations on the same date as payment of the Relevant Rab-al-Maal Mudaraba Profit Amount exceeds, on such date, Distributable Funds; or

(ii) the Bank (in its capacity as Mudareb or otherwise) is, on that Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be), in breach of the Applicable Regulatory Capital Requirements (including any applicable capital buffers imposed on the Bank by the Regulator) or such payment of the Relevant Rab-al-Maal Mudaraba Profit Amount would cause it to be in breach thereof; or

(iii) the Regulator requires (a) the Bank not to pay the Relevant Rab-al-Maal Mudaraba Profit Amount to the Trustee on that Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be) or (b) the Trustee not to pay the relevant Periodic Distribution Amount on that Periodic Distribution Date; or

(iv) the commencement of compulsory liquidation of the Bank (pursuant to Article 145 of the Financial Institutions Law) for the purposes of Article 156 of the Financial Institutions Law (as may be amended, superseded or replaced from time to time).

8.2 Non-Payment Election

Notwithstanding Condition 7.4 (*Periodic Distributions*), the Bank may in its sole discretion elect that Rab-al-Maal Mudaraba Profit (in whole or in part) will not be paid to the Trustee (in its capacity as Rab-al-Maal) on any Mudaraba Profit Distribution Date, and the Bank shall, in each case, instruct the Trustee not to make payment of a Periodic Distribution Amount (in whole or in part) to Certificateholders on such Periodic Distribution Date, provided that the foregoing in this Condition 8.2 (*Non-Payment Election*) shall not apply (i) in respect of Rab-al-Maal Final Mudaraba Profit payable on the Mudaraba End Date (any such election being a **Non-Payment Election**) or (ii) once the Trustee has given notice to Certificateholders that the Certificates will be redeemed in whole in accordance with Condition 10 (*Redemption and Variation*).

8.3 Effect of Non-Payment Event or Non-Payment Election

(i) If the Bank makes a Non-Payment Election or a Non-Payment Event occurs, then the Bank shall, in accordance with the Mudaraba Agreement (a) in the case of a Non-Payment Election, no later than 14 calendar days prior to such event, and (b) in the case of a Non-Payment Event, as soon as practicable thereafter but in any case, and only where possible, no later than one Business Day prior to the relevant Mudaraba Profit Distribution Date or Mudaraba End Date, as the case may be, give notice to the Trustee, the Principal Paying Agent and the Delegate, and the Trustee shall give such notice to the Certificateholders in accordance with Condition 17 (*Notices*), in each case providing details of the Non-Payment Election or Non-Payment Event, as the case may be.

(ii) Certificateholders shall have no claim in respect of any Periodic Distribution Amount (or any part thereof, as applicable) not paid as a result of either a Non-Payment Election or a Non-Payment Event and any such non-payment in whole or in part, as applicable, of Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit (in the case of a Non-Payment Event only) or a Periodic Distribution

Amount in such circumstance shall not constitute a Dissolution Event. The Bank shall not have any obligation to make any subsequent payment in respect of any such unpaid profit (or any part thereof, as applicable) (whether from its own cash resources, from the Mudaraba Reserve or otherwise) and the Trustee shall not have any obligation to make any subsequent payment in respect of any such Periodic Distribution Amounts (or any part thereof, as applicable).

8.4 Dividend and Redemption Restrictions

If any amount of Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit or Periodic Distribution Amount is not paid as a consequence of a Non-Payment Election or a Non-Payment Event pursuant to Condition 8.1 (*Non-Payment Event*) or 8.2 (*Non-Payment Election*) (as the case may be), then, from the date of such Non-Payment Election or Non-Payment Event (the **Dividend Stopper Date**), the Bank will not, so long as any of the Certificates are outstanding:

(i) declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, Ordinary Shares (other than to the extent that any such distribution, dividend or other payment is declared before such Dividend Stopper Date); or

(ii) pay profit or any other distribution on any of its securities ranking, as to the right of payment of dividend, distributions or similar payments, junior to or *pari passu* with the Relevant Obligations (excluding securities the terms of which do not at the relevant time enable the Bank to defer or otherwise not to make such payment), only to the extent such restrictions on payment or distribution are permitted under the Applicable Regulatory Capital Requirements; or

(iii) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire any Ordinary Shares; or

(iv) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire any securities issued by the Bank ranking, as to the right of repayment of capital, junior to or *pari passu* with the Relevant Obligations (excluding securities the terms of which stipulate a mandatory redemption or conversion into equity), only to the extent such restriction on redemption, purchase, cancellation, reduction or acquisition is permitted under the Applicable Regulatory Capital Requirements,

in each case unless or until (a) the next following payment of Rab-al-Maal Mudaraba Profit or (b) payment of the Rab-al-Maal Final Mudaraba Profit following the Dividend Stopper Date, as the case may be, has been made in full (or an amount equal to the same has been duly set aside or provided for in full for the benefit of the Trustee in accordance with the Mudaraba Agreement).

9 Payments

9.1 Payments in respect of the Certificates

Subject to Condition 9.2 (*Payments subject to applicable laws*), payment of the Dissolution Distribution Amount and any Periodic Distribution Amount will be made by or on behalf of the Trustee in U.S. dollars by wire transfer in same day funds to the Registered Account (as defined below) of the Certificateholder. Payments of the Dissolution Distribution Amount will only be made against presentation and surrender of the relevant Certificate at the specified office of any of the Paying Agents. The Dissolution Distribution Amount and each Periodic Distribution Amount will be paid to the Certificateholder shown on the Register at the close of business on the relevant Record Date.

For the purposes of this Condition 9 (*Payments*), a Certificateholder's **Registered Account** means the U.S. dollar account maintained by or on behalf of such Certificateholder with a bank that processes payments in U.S. dollars, details of which appear on the Register at the close of business on the relevant Record Date.

9.2 Payments subject to applicable laws

All payments are subject in all cases to any applicable laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 13 (*Taxation*). No commission or expenses shall be charged to the holders of the Certificates in respect of such payments.

9.3 No Commissions

No commissions or expenses shall be charged to the Certificateholders in respect of any payments made in accordance with this Condition 9 (*Payments*).

9.4 Payment only on a Payment Business Day

Where payment is to be made by transfer to a Registered Account, payment instructions (for value the due date or, if that is not a Payment Business Day (as defined below), for value the first following day which is a Payment Business Day) will be initiated by the Principal Paying Agent on the due date for payment or, in the case of a payment of the Dissolution Distribution Amount, if later, on the Payment Business Day on which the relevant Certificate is surrendered at the specified office of a Paying Agent for value as soon as practicable thereafter.

Certificateholders will not be entitled to any additional payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day or if the relevant Certificateholder is late in surrendering its Certificate (if required to do so).

If the amount of the Dissolution Distribution Amount or, subject to Conditions 8.1 (*Non-Payment Event*) and 8.2 (*Non-Payment Election*), any Periodic Distribution Amount is not paid in full when due, the Registrar will annotate the Register with a record of the amount in fact paid.

In these Conditions, **Payment Business Day** means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets in New York City and London settle payments and are open for general business and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

9.5 Agents

The names of the initial Agents and their initial specified offices are set out at the end of these Conditions. The Trustee reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that: (a) it will at all times maintain a Principal Paying Agent and a Registrar (which may be the same entity); and (b) so long as any Certificates are admitted to listing, trading and/or quotation on any listing authority, stock exchange and/or quotation system, it will at all times maintain a Paying Agent, Registrar and a Transfer Agent having its specified office in such place (if any) as may be required by the rules of such listing authority, stock exchange and/or quotation system. Notice of any termination or appointment and of any changes in specified offices will be given to Certificateholders promptly by the Trustee in accordance with Condition 17 (*Notices*).

10 Redemption and Variation

10.1 Redemption and Variation

(a) No Fixed Redemption Date and Conditions for Redemption and Variation

The Certificates are perpetual securities in respect of which there is no fixed redemption date and the Trustee shall (subject to the provisions of Condition 4.2 (*Subordination*), Condition 11 (*Write-down at the Point of Non-Viability*) and Condition 12.3 (*Winding-up, Dissolution or Liquidation*) and without prejudice to the provisions of Condition 14 (*Prescription*)) only have the right to redeem the Certificates or vary these Conditions in accordance with the following provisions of this Condition 10 (*Redemption and Variation*).

The redemption of the Certificates or variation of these Conditions, in each case pursuant to this Condition 10 (*Redemption and Variation*), is subject to the following conditions (in addition to those set out elsewhere in this Condition 10.1 (*Redemption and Variation*)):

(i) (except to the extent that the Regulator no longer so requires) the Bank having obtained the prior approval of the Regulator;

(ii) (except to the extent that the Regulator no longer so requires) the requirement that both at the time when the relevant notice of redemption or variation is given and immediately following any redemption or variation (as applicable), the Bank is or will be (as the case may be) in compliance with the Applicable Regulatory Capital Requirements; and

(iii) (in the case of a redemption or variation pursuant to Condition 10.1(c) (*Redemption or Variation due to Taxation*) or Condition 10.1(d) (*Redemption or Variation for Capital Event*) only) the requirement that the circumstance that entitles the Bank to instruct the Trustee to exercise its right of redemption or variation is a change in or amendment to the laws, published practices or regulations (including, in the case of Condition 10.1(d) (*Redemption or Variation for Capital Event)*, Applicable Regulatory Capital Requirements) of Bahrain or, in the case of Condition 10.1(c) (*Redemption or Variation due to Taxation*), of a Relevant Jurisdiction or a change in the application or interpretation of such laws, published practices or regulations by any court or authority entitled to do so which change or amendment becomes, or would become, effective (or, in the case of application or interpretation, is announced) on or after the Issue Date.

(b) Trustee's Call Option

Subject to Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*), the Bank may (acting in its sole and absolute discretion) instruct the Trustee to, whereupon the Trustee shall, by giving not less than 30 nor more than 60 days' prior notice to the Certificateholders in accordance with Condition 17 (*Notices*) and to the Delegate in accordance with clause 23 of the Declaration of Trust, which notice shall be irrevocable and shall specify the date fixed for redemption, redeem all, but not some only, of the Certificates at the Trustee Call Amount.

Redemption of the Certificates pursuant to this Condition 10.1(b) (*Trustee's Call Option*) may only occur on the First Call Date or any Periodic Distribution Date thereafter.

Prior to the publication of any notice of redemption pursuant to this Condition 10.1(b) (*Trustee's Call Option*), the Bank shall give to the Trustee and the Delegate a certificate signed by two Authorised Signatories stating that all conditions precedent to the redemption of the Certificates pursuant to this Condition 10.1(b) (*Trustee's Call Option*) (other than the notice to Certificateholders described in this Condition 10.1(b) (*Trustee's Call Option*)) have been satisfied (upon which the Delegate may rely without liability to any person), and the Delegate shall accept the certificate without any further enquiry as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Certificateholders.

(c) Redemption or Variation due to Taxation

(i) Subject to Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*) and the provisions of this Condition 10.1(c) (*Redemption or Variation due to Taxation*), if a Tax Event occurs, the Bank may (acting in its sole and absolute discretion) instruct the Trustee to, whereupon the Trustee shall, by giving not less than 30 nor more than 60 days' prior notice to the Certificateholders in accordance with Condition 17 (*Notices*) and to the Delegate in accordance with the Declaration of Trust, which notice shall be irrevocable and shall specify the date fixed for redemption or variation (as applicable) and applicable Record Date, (a) redeem all, but not some only, of the Certificates at the Tax Redemption Amount; or (b) vary the terms of the Mudaraba Agreement, subject to the approval of the Shari'a Supervisory Board of the Bank, and the Certificates such that the Certificates remain or become, as the case may be, Qualifying Tier 1 Instruments, in each case without any requirement for consent or approval of the Certificateholders, and in the case of (b) only provided that such modifications or any document giving effect to such modifications do not impose, in the Delegate's sole opinion, more onerous obligations or duties upon it or expose it to liabilities or reduce its protections, and that such modifications or any document giving effect to such modifications are approved by the Trustee and the Delegate. No such notice shall be given earlier than 90 days prior to the earliest date on which the Trustee or the Bank would be obliged to pay Additional Amounts or additional amounts under clause 5.11 of the Mudaraba Agreement. If the Bank does not instruct the Trustee to so redeem or vary in respect of such Tax

Event in accordance with this Condition 10.1(c)(i) (*Redemption or Variation due to Taxation*) then the Certificates shall continue to be perpetual securities in respect of which there is no fixed redemption date unless the Trustee shall otherwise (subject to the provisions of Condition 4.2 (*Subordination*), Condition 11 (*Write-down at the Point of Non-Viability*) and Condition 12.3 (*Winding-up, Dissolution or Liquidation*) and without prejudice to the provisions of Condition 14 (*Prescription*)) redeem the Certificates or vary the terms thereof in accordance with the provisions of this Condition 10 (*Redemption and Variation*).

(ii) Redemption of the Certificates, or variation of these Conditions and the terms of the Mudaraba Agreement, pursuant to this Condition 10.1(c) (*Redemption or Variation due to Taxation*) may occur on any date on or after the Issue Date (whether or not a Periodic Distribution Date).

(iii) Prior to the delivery of any notice of redemption or variation, as the case may be, pursuant to this Condition 10.1(c) (*Redemption or Variation due to Taxation*), the Bank shall give to the Trustee and the Delegate (i) a certificate signed by two Authorised Signatories (upon which the Delegate shall rely without liability to any person) stating that (A) the conditions set out in Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*) have been satisfied; (B) a Tax Event has occurred; and (C) in the case of a variation only, the Certificates, as so varied, are Qualifying Tier 1 Instruments and that the Regulator has confirmed that they satisfy limb (i) of the definition of Qualifying Tier 1 Instruments, and (ii) an opinion of independent legal advisers or independent tax advisers, as the case may be, in each case, of recognised standing (upon which the Delegate may rely without liability to any person) to the effect that a Tax Event has occurred. Such certificate and opinions shall be conclusive and binding evidence of the satisfaction of the conditions precedent set out above in this Condition 10.1(c)(iii) (*Redemption or Variation due to Taxation*) and the Delegate shall be entitled to accept and rely on such certificate and opinions as sufficient evidence of the satisfaction of such conditions precedent without liability to any person. Upon expiry of such notice, the Trustee shall redeem or vary the terms of the Certificates, as the case may be.

(d) Redemption or Variation for Capital Event

(i) Subject to Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*) and the provisions of this Condition 10.1(d) (*Redemption or Variation for Capital Event*), if a Capital Event occurs and is continuing, the Bank may (acting in its sole and absolute discretion) instruct the Trustee to, whereupon the Trustee shall, by giving not less than 30 nor more than 60 days' prior notice to the Certificateholders in accordance with Condition 17 (*Notices*) and to the Delegate in accordance with the Declaration of Trust, which notice shall be irrevocable and shall specify the date fixed for redemption or variation (as applicable) and the applicable Record Date, (a) redeem all, but not some only, of the Certificates at the Capital Event Amount; or (b) solely for the purpose of ensuring compliance with the Applicable Regulatory Capital Requirements, vary the terms of the Mudaraba Agreement, subject to the approval of the Shari'a Supervisory Board of the Bank, and the Certificates such that the Certificates remain or become, as the case may be, Qualifying Tier 1 Instruments without any requirement for consent or approval of the Certificateholders, and, in the case of (b) only, provided that such modifications or any document giving effect to such modifications do not impose, in the Delegate's sole opinion, more onerous obligations or duties upon it or expose it to liabilities or reduce its protections, and that such modifications or any document giving effect to such modifications are approved by the Trustee and the Delegate. If the Bank does not instruct the Trustee to so redeem or vary in respect of such Capital Event in accordance with this Condition 10.1(d)(i) (*Redemption or Variation for Capital Event*), then the Certificates shall continue to be perpetual securities in respect of which there is no fixed redemption date unless the Trustee shall otherwise (subject to the provisions of Condition 4.2 (*Subordination*), Condition 11 (*Write-down at the Point of Non-Viability*) and Condition 12.3 (*Winding-up, Dissolution or Liquidation*) and without prejudice to the provisions of Condition 14

(*Prescription*)) redeem the Certificates or vary the terms thereof in accordance with the provisions of this Condition 10 (*Redemption and Variation*).

(ii) Redemption of the Certificates, or variation of these Conditions and the terms of the Mudaraba Agreement, pursuant to this Condition 10.1(d) (*Redemption or Variation for Capital Event*) may occur on any date on or after the Issue Date (whether or not a Periodic Distribution Date).

(iii) Prior to the delivery of any notice of redemption or variation, as the case may be, pursuant to this Condition 10.1(d) (*Redemption or Variation for Capital Event*), the Bank shall give to the Trustee and the Delegate a certificate signed by two Authorised Signatories (upon which the Delegate shall rely without liability to any person) stating that (A) the conditions set out in Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*) have been satisfied; (B) a Capital Event has occurred and is continuing as at the date of the certificate; and (C), in the case of a variation only, the Certificates, as so varied, are Qualifying Tier 1 Instruments and the Regulator has confirmed that they satisfy limb (i) of the definition of Qualifying Tier 1 Instruments. Such certificate shall be conclusive and binding evidence of the satisfaction of the conditions precedent set out above in this Condition 10.1(d)(iii) (*Redemption or Variation for Capital Event*) and the Delegate shall be entitled to accept and rely on such certificate as sufficient evidence of the satisfaction of such conditions precedent without liability to any person. Upon expiry of such notice, the Trustee shall redeem or vary the terms of the Certificates, as the case may be.

(e) Taxes upon Variation

In the event of a variation in accordance with Condition 10.1(c) (*Redemption or Variation due to Taxation*) or 10.1(d) (*Redemption or Variation for Capital Event*), none of the Trustee, the Delegate or the Bank will be obliged to pay and the Trustee, the Delegate and the Bank will not pay any liability of any Certificateholder to corporation tax, corporate income tax or tax on profits or gains or any similar tax arising in respect of the variation of these Conditions or the Mudaraba Agreement, provided that (in the case of a Tax Event) or so that (in the case of a Capital Event) the Certificates remain or become, as the case may be, Qualifying Tier 1 Instruments, and further will not be liable for any stamp duty or similar other taxes arising on any subsequent transfer, disposal or deemed disposal of the Qualifying Tier 1 Instruments by such Certificateholder.

10.2 Purchase

Subject to the Bank (A) obtaining the prior approval of the Regulator (except to the extent that the Regulator no longer so requires), and (B) being in compliance with the Applicable Regulatory Capital Requirements, the Bank or any of its Subsidiaries may at any time purchase the Certificates at any price in the open market or otherwise. Such Certificates may be held, reissued, resold or, at the option of the Bank or, as the case may be, its Subsidiaries, surrendered to any Paying Agent for cancellation.

10.3 Cancellation

All Certificates that are redeemed, and all Certificates that are purchased pursuant to Condition 10.2 (*Purchase*) and which the Bank delivers for cancellation in accordance with Condition 10.2 (*Purchase*), will forthwith be cancelled and accordingly may not be held, reissued or resold. Upon such cancellation, the Mudaraba Capital shall be reduced by the face amount of the Certificates so cancelled.

11 Write-down at the Point of Non-Viability

11.1 Non-Viability Event

If a Non-Viability Event occurs, a Write-down (in whole or in part, as applicable) will take place in accordance with Condition 11.2 (*Non-Viability Notice*).

Any such Write-down shall not constitute a Dissolution Event. Certificateholders acknowledge that there shall be no recourse to the Regulator in respect of any determination made by it with respect to the occurrence of a Non-Viability Event.

It is the Mudareb's current intention to procure that a Write-down will take place: (1) after the Ordinary Shares absorb losses (if and to the extent such loss absorption is permitted at the relevant time under all relevant rules and regulations applicable to the Mudareb at such time) and the Regulator has not notified the Mudareb in writing that the relevant Non-Viability Event has been cured as a result of such loss absorption; (2) pro rata and pari passu with the write-down of any Loss Absorbing Instruments, and (3) prior to the write-down or write-off of any of the Mudareb's obligations in respect of Tier 2 Capital and any other trust certificates and other instruments related to the Mudareb's other obligations constituting Tier 2 Capital. However, the Mudareb may at any time depart from this policy at its sole discretion.

***Loss Absorbing Instruments** means at any time any instruments or trust certificates that are outstanding at the time of such Write-down (other than the Certificates and the Ordinary Shares) issued directly or indirectly by the Mudareb which at such time (a) are Pari Passu Obligations and qualify as Tier 1 Capital of the Bank; and (b) also provide for all or some of their principal amount to be written-down (in accordance with their conditions or otherwise) on the occurrence, or as a result, of a Non-Viability Event or substantially similar event; and*

***Tier 2 Capital** means capital qualifying as, and approved by the Regulator as, tier 2 capital in accordance with the Capital Regulations.*

11.2 Non-Viability Notice

On the third Business Day following the date on which such Non-Viability Event occurs, (a) the Mudareb will notify the Trustee and the Delegate thereof in accordance with the Mudaraba Agreement and the Declaration of Trust and (b) the Trustee will then notify the Certificateholders and the Principal Paying Agent thereof in accordance with Condition 17 (*Notices*) (a **Non-Viability Notice**). Upon the provision of such Non-Viability Notice, a Write-down will occur on the Non-Viability Event Write-down Date and, with effect from such date (i) in the case of a Write-down in whole only, the Mudaraba Agreement will be automatically terminated; and (ii) in the case of a Write-down in part only, the Mudaraba Capital shall be reduced in proportion to the face amount of the Certificates that are to be written-down and Periodic Distribution Amounts shall continue to accrue only in respect of the outstanding face amount of the Certificates that have not been written-down and references in these Conditions to "face amount" or "outstanding face amount" shall be construed accordingly. In the case of (i) above, the Trustee and Certificateholders shall not be entitled to claim for any amounts in connection with the Mudaraba Assets or the Certificates, respectively. In the case of (ii) above, the Trustee and Certificateholders shall not be entitled to claim for any amounts in connection with the Mudaraba Assets that relate to the proportion of the Mudaraba Capital that has been reduced or the Periodic Distribution Amounts that would have been payable on the face amount of the Certificates that has been written-down. Any amounts so written-down may not be restored.

11.3 Liability of Delegate and Agents

Neither the Delegate nor the Agents shall have any responsibility for, or liability or obligation in respect of, any loss, claim or demand incurred as a result of or in connection with a Non-Viability Event (or its disapplication, if applicable) or any consequent Write-down and/or cancellation of any Certificates or termination of the Mudaraba Agreement or any claims in respect thereof, and the Delegate and the Agents shall not be responsible for any calculation, determination or the verification of any calculation or determination in connection with the foregoing.

12 Dissolution Events and Winding-up

The Declaration of Trust contains provisions entitling the Delegate to claim from the Trustee and the Bank, inter alia, the fees, expenses and liabilities incurred by it in carrying out its duties under the Declaration of Trust. The restrictions on commencing proceedings described below will not apply to any such claim.

12.1 Bank Events

If a Bank Event occurs, the Delegate (provided it shall have been given notice in writing thereof by the Trustee or the Bank or otherwise upon having actual knowledge of the Bank Event) shall promptly give notice of the occurrence of such Bank Event to the Certificateholders in accordance with Condition 17 (*Notices*) with a request to such Certificateholders to indicate to the Trustee and the Delegate in writing if they wish the Certificates to be redeemed in whole and the Trust to be dissolved (a **Dissolution Request**). The Delegate may and, if so requested in writing by the holders of at least one-fifth of the aggregate face amount of the Certificates then outstanding or if so directed by an Extraordinary Resolution of Certificateholders, shall (but in each case subject to Condition 12.3(e)(i) (*Realisation of Trust Assets*)) give notice (a **Dissolution Notice**) to the Trustee that the Certificates are immediately due and payable at their aggregate outstanding face amount together with any Outstanding Payments, whereupon the aggregate face amount of the outstanding Certificates together with any Outstanding Payments shall become immediately due and payable without presentation, demand, protest or other notice of any kind. A Dissolution Notice may be given whether or not a Dissolution Request has been given to Certificateholders.

12.2 Trustee Events

(a) The Bank has undertaken in the Declaration of Trust that, as soon as practicable following the occurrence of a Trustee Event, it will procure, subject to such amendment of the Declaration of Trust and such other conditions as the Delegate may require and subject to the consent of the Regulator, without the consent of the Certificateholders, the substitution of any newly formed special purpose company in a form substantially the same as that of the Trustee, in place of the Trustee (the **Substituted Trustee**), or of any previous substituted company, as trustee and issuer under the Declaration of Trust and the Certificates provided that:

(i) a deed is executed or undertaking given by the Substituted Trustee to the Delegate, in form and manner satisfactory to the Delegate (acting in accordance with the Declaration of Trust and these Conditions), agreeing to be bound by the Declaration of Trust, the Certificates and the Transaction Documents (with consequential amendments as the Delegate may deem appropriate) as if the Substituted Trustee had been named in the Declaration of Trust, the Certificates and the other Transaction Documents as trustee and issuer in place of the Trustee;

(ii) if the Substituted Trustee is subject generally to the taxing jurisdiction of a territory or any political sub-division or authority thereof or therein with power to tax (the **Substituted Territory**) other than the territory of the taxing jurisdiction to which (or to any such authority of or in which) the Trustee is subject generally (the **Trustee's Territory**), the Substituted Trustee shall give to the Delegate an undertaking satisfactory to the Delegate in terms corresponding to Condition 13 (*Taxation*) with the substitution for or the addition to the references in that Condition to the Trustee's Territory of references to the Substituted Territory whereupon the Declaration of Trust and the Certificates shall be read accordingly (and the Bank shall also be required to give to the Delegate an undertaking satisfactory to the Delegate in terms corresponding to the last paragraph of Condition 13 (*Taxation*), extending its obligations thereunder to the Substituted Territory);

(iii) if any two directors of the Substituted Trustee certify that it will be solvent immediately after such substitution, the Delegate need not have regard to the Substituted Trustee's financial condition, profits or prospects or compare them with those of the Trustee;

(iv) the Trustee, the Substituted Trustee and the Bank comply with such other requirements as the Delegate may direct in the interests of the Certificateholders; and

(v) such substitution would not, in the sole opinion of the Delegate, be materially prejudicial to the interests of the Certificateholders.

(b) Subject to this Condition 12.2 (Trustee Events), the Delegate may agree to the substitution of the Substituted Trustee without obtaining the consent or approval of the Certificateholders (it being acknowledged that each Certificateholder has by virtue of the last paragraph of the preamble to these Conditions authorised each Substituted Trustee to act as Rab-al-Maal pursuant to the Mudaraba Agreement on its behalf).

(c) If the Bank fails to comply with the foregoing provisions of this Condition 12.2 (Trustee Events) within 60 days of the occurrence of the relevant Trustee Event, Conditions 12.1 (Bank Events) and 12.3 (Winding-up, Dissolution or Liquidation) shall apply to the relevant Trustee Event as if it was a Bank Event.

12.3 Winding-up, Dissolution or Liquidation

(a) Proceedings for Winding-up

If a Bank Event occurs and a Dissolution Notice is delivered pursuant to Condition 12.1 (*Bank Events*) the Mudaraba will be liquidated in accordance with the provisions of the Mudaraba Agreement and, to the extent that the amounts payable in respect of the Certificates have not been paid in full pursuant to Condition 12.1 (*Bank Events*), either the Trustee or the Delegate may at its discretion, and the Delegate shall, if it shall have been so requested by an Extraordinary Resolution of the Certificateholders or so requested in writing by the Certificateholders holding at least one-fifth of the then aggregate face amount of the Certificates outstanding, in each case subject to Condition 12.3(e)(i) (*Realisation of Trust Assets*), (i) institute any steps, actions or proceedings for the winding-up of the Bank and/or (ii) prove in the winding-up of the Bank and/or (iii) institute any steps, actions or proceedings for the bankruptcy of the Bank and/or (iv) claim in the liquidation of the Bank and/or (v) take such other steps, actions or proceedings which, under the laws of Bahrain, have an analogous effect to the actions referred to in (i) to (iv) above, in each case, for (subject as set out below) all amounts of Mudaraba Capital, Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit and/or other amounts due (if any) to the Trustee on termination of the Mudaraba Agreement in accordance with its terms and the terms of the other Transaction Documents, provided, however, that the Trustee or the Delegate may only take any such steps, actions or proceedings as described in this Condition 12.3(a) (*Proceedings for Winding-up*), but may take no further or other steps, actions or proceedings to enforce, prove or claim for any payment and provided further that neither the Trustee nor the Delegate may take any steps, actions or proceedings against the Bank with respect to any sum that the Bank has paid into the Transaction Account in accordance with the Transaction Documents in circumstances where the Trustee has failed to pay that amount to Certificateholders in accordance with these Conditions. No payment in respect of the Transaction Documents may be made by the Bank as a result of any steps, actions or proceedings taken pursuant to Condition 12.1 (*Bank Events*), nor will the Trustee or the Delegate accept the same, otherwise than during or after a winding-up (or analogous event) of the Bank, unless the Bank has given prior written notice (with a copy to the Trustee and the Delegate) to, and received no objection from, the Regulator (which the Bank shall confirm in writing to the Trustee and the Delegate).

(b) Enforcement

Without prejudice to Condition 12.1 (*Bank Events*) and the remaining provisions of this Condition 12.3 (*Winding-up, Dissolution or Liquidation*), the Trustee (or the Delegate) may at its discretion and the Delegate shall, if so requested in writing by the Certificateholders holding at least one-fifth of the then aggregate face amount of the Certificates outstanding and without further notice, in each case subject to Condition 12.3(e)(i) (*Realisation of Trust Assets*), institute such steps, actions or proceedings against the Bank or against the Trustee, as it may think fit to enforce any term or condition binding on the Bank or the Trustee (as the case may be) under the Transaction Documents (other than any payment obligation of the Bank under or arising from the Transaction Documents, including, without limitation, payment of any principal or premium or satisfaction of any payments in respect of the Transaction Documents, including any damages awarded for breach of any obligations), including, without limitation, any failure by the Bank to procure the substitution of the Trustee in the circumstances described in Condition 12.2 (*Trustee Events*). However, in no event shall the Bank, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it in accordance with the Transaction Documents. Nothing in this Condition 12.3 (*Winding-up, Dissolution or Liquidation*) shall, however, prevent the Trustee (or the Delegate) from taking such steps, actions or proceedings as described in Condition 12.3(a) (*Proceedings for Winding-up*) in respect of any payment obligations of the Bank arising from the Mudaraba Agreement or any other Transaction Document (including any damages awarded for breach of any obligations).

(c) Non-Viability

All claims by the Delegate and/or the Certificateholders against the Trustee under the Certificates and all claims by the Trustee (or the Delegate) against the Bank under the Transaction Documents (including, without limitation, any claim in relation to any unsatisfied payment obligation of the Trustee and/or the Bank under the Certificates or the Transaction Documents, as the case may be) shall be subject to, and shall be superseded by the provisions of Condition 11 (*Write-down at the Point of Non-Viability*), irrespective of whether the relevant Non-Viability Event occurs prior to or after the event which is the subject matter of the claim, provided that nothing in these Conditions shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Delegate or the rights and remedies of the Delegate in respect thereof, all of which shall accordingly remain unsubordinated.

(d) Extent of Certificateholder Remedy

No remedy against the Bank, other than as referred to in this Condition 12 (*Dissolution Events and Winding-up*), shall be available to the Delegate, the Trustee or the Certificateholders, whether for the recovery of amounts owing in respect of the Transaction Documents or in respect of any breach by the Bank of any of its other obligations under or in respect of the Transaction Documents.

(e) Realisation of Trust Assets

(i) Neither the Trustee nor the Delegate shall be bound to take any steps, actions or proceedings to enforce or to realise the Trust Assets or any of the actions, steps or proceedings referred to in these Conditions in respect of the Bank or, in the case of the Delegate only, the Trustee to enforce the terms of the Transaction Documents or give a Dissolution Notice (including, without limitation, pursuant to this Condition 12 (*Dissolution Events and Winding-up*)), unless (A) it shall have been so requested by an Extraordinary Resolution of the Certificateholders or in writing by Certificateholders holding at least one-fifth of the then aggregate face amount of the Certificates outstanding and (B) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.

(ii) No Certificateholder shall be entitled to proceed directly against the Trustee or the Bank or to take the actions, steps or proceedings referred to in Conditions 12.3(a) (*Proceedings for Winding-up*) and 12.3(b) (*Enforcement*), unless (i) the Trustee or the Delegate, having become bound so to proceed, fails to do so within a reasonable period and such failure is continuing and (ii) the relevant Certificateholder (or such Certificateholder together with the other Certificateholders who propose to proceed directly against any of the Trustee or the Bank, as the case may be) holds at least one-fifth of the then outstanding aggregate face amount of the Certificates, in which case the Certificateholders shall have only such rights against the Bank as those which the Trustee or the Delegate is entitled to exercise as set out in Condition 12.1 (*Bank Events*) and this Condition 12.3 (*Winding-up, Dissolution or Liquidation*).

(iii) Under no circumstances shall the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets (other than as expressly contemplated in the Transaction Documents) and the sole right of the Delegate and the Certificateholders against the Trustee and the Bank shall be to enforce their respective obligations under the Transaction Documents.

(iv) The foregoing paragraphs in this Condition 12.3(e) (*Realisation of Trust Assets*) are subject to this paragraph. After enforcing or realising the Trust Assets and distributing the net proceeds thereof in accordance with Condition 5.3, the obligations of the Trustee and the Delegate in respect of the Certificates shall be satisfied and no Certificateholder may take any further steps against the Trustee (or any steps against the Delegate) or any other person to recover any further sums in respect of the Certificates and the right to receive any such sums remaining unpaid shall be extinguished. In particular, no Certificateholder shall be entitled in respect thereof to petition or to take any other steps for the winding-up of the Trustee.

13 Taxation

All payments in respect of the Certificates by or on behalf of the Trustee shall be made free and clear of and without withholding or deduction for, or on account of, any present or future taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature, imposed, levied, collected, withheld or assessed by or on behalf of any Relevant Jurisdiction (**Taxes**), unless the withholding or deduction of the Taxes is required by law. In such event, the Trustee will pay additional amounts (**Additional Amounts**) so that the full amount which otherwise would have been due and payable under the Certificates in the absence of any such deduction or withholding is received by the parties entitled thereto, except that no such Additional Amount shall be payable in relation to any payment in respect of any Certificate:

(a) the holder of which is liable for such Taxes in respect of such Certificate by reason of having some connection with a Relevant Jurisdiction other than the mere holding of such Certificate; or

(b) presented for payment (where presentation is required) more than 30 days after the Relevant Date except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on such 30th day assuming that day to have been a Payment Business Day; or

(c) held by or on behalf of a holder who could lawfully avoid (but has not so avoided) such deduction or withholding by complying, or procuring that any third party complies with, any statutory requirements or by making, or procuring that any third party makes, a declaration of non-residence or other similar claim for exemption to any tax authority in the place where the relevant Certificate (or the definitive Certificate representing it) is presented for payment.

Notwithstanding any other provision of these Conditions, any amounts to be paid on the Certificates by or on behalf of the Trustee, will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the **Code**), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a **FATCA Withholding**). Neither the Trustee nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

In these Conditions, references to the Dissolution Distribution Amount or any Periodic Distribution Amounts (and related expressions including, without limitation, the **face amount** of the Certificates and **Outstanding Payments**) shall be deemed to include any Additional Amounts payable under this Condition 13 or any undertaking given in addition to or in substitution for it under the Declaration of Trust.

Neither the Delegate nor any Agent shall be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 13 or for determining whether such amounts are payable or the amount thereof, and none of them shall be responsible or liable for any failure by the Trustee, the Bank, any Certificateholder or any third party to pay such tax, duty, charges, withholding or other payment in any jurisdiction or to provide any notice or information to the Delegate or any Agent that would permit, enable or facilitate the payment of any principal, premium (if any), additional amount or other amount under or in respect of the Certificates without deduction or withholding for or on account of any tax, duty, charge, withholding or other payment imposed by or in any jurisdiction.

The Mudaraba Agreement provides that payments made thereunder by the Bank (in its capacity as the Mudareb) to the Trustee shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future Taxes, unless such withholding or deduction is required by law. In such event, and/or if Additional Amounts are payable by the Trustee in respect of the Certificates in accordance with this Condition 13, the Mudaraba Agreement provides for the payment by the Bank of such additional amounts by payment to the Transaction Account in U.S. dollars by wire transfer for same day value so that the net amounts received by the Certificateholders shall equal the respective amounts that would have *been received in the absence of such withholding or deduction and in the absence of the withholding or deduction to which this Condition 13 applies*.

14 Prescription

The right to receive any amount in respect of the Certificates will be forfeited unless claimed within a period of ten years (in the case of principal) and five years (in the case of distributions) from the Relevant Date in respect thereof.

15 Delegate

15.1 Delegation of Powers

(a) The Trustee will in the Declaration of Trust irrevocably and unconditionally appoint the Delegate to be its attorney and in its name, on its behalf and as its act and deed, to execute, deliver and perfect all documents, and to exercise all of the present and future duties, powers (including the power to sub-delegate), trusts, rights, authorities (including, but not limited to, the authority to request directions from any Certificateholders and the power to make any determinations to be made under the Transaction Documents) and discretions vested in the Trustee by the Declaration of Trust, that the Delegate may consider to be necessary or desirable in order to, upon the occurrence of a Dissolution Event or Potential Dissolution Event, and subject to its being indemnified and/or secured and/or pre-funded to its satisfaction, (i) exercise all of the rights of the Trustee under the Mudaraba Agreement and any of the other Transaction Documents and (ii) make such distributions from the Trust Assets as the Trustee is bound to make in accordance with the Declaration of Trust (together the **Delegation** of the **Relevant Powers**), provided that: (i) no obligations, duties, liabilities or covenants of the Trustee pursuant to the Declaration of Trust or any other Transaction Document shall be imposed on the Delegate by virtue of the Delegation; (ii) in no circumstances will such Delegation of the Relevant Powers result in the Delegate holding on trust the Trust Assets; and (iii) such Delegation of the Relevant Powers shall not include any duty, power, trust, right, authority or discretion to dissolve the trusts constituted by the Declaration of Trust following the occurrence of a Dissolution Event or Potential Dissolution Event or to determine the remuneration of the Delegate. The Trustee shall ratify and confirm all things done and all documents executed by the Delegate in the exercise of all or any of the Relevant Powers.

(b) In addition to the Delegation of the Relevant Powers under the Declaration of Trust, the Delegate also has certain powers which are vested solely in it from the date of the Declaration of Trust.

(c) The appointment of a delegate by the Trustee is intended to be in the interests of the Certificateholders and does not affect the Trustee's continuing role and obligations as sole trustee.

15.2 Indemnification

The Declaration of Trust contains provisions for the indemnification of the Delegate in certain circumstances and for its relief from responsibility, including provisions relieving it from taking any action, step or proceeding unless indemnified and/or secured and/or pre-funded to its satisfaction. In particular, but without limitation, in connection with the exercise of any of its rights in respect of the Trust Assets or any other right it may have pursuant to the Declaration of Trust or the other Transaction Documents, the Delegate shall in no circumstances be bound to take any action, step or proceeding unless directed to do so in accordance with Condition 12 (*Dissolution Events and Winding-up*), and then only if it shall also have been indemnified and/or secured and/or pre-funded to its satisfaction. The Declaration of Trust provides that, when determining whether an indemnity or any security or pre-funding is satisfactory to it, the Delegate shall be entitled (i) to evaluate its risk in any given circumstance by considering the worst-case scenario and (ii) to require that any indemnity or security given to it by the Certificateholders or any of them be given on a joint and several basis and be supported by evidence satisfactory to it as to the financial standing and creditworthiness of each counterparty and/or as to the value of the security and an opinion as to the capacity, power and authority of each counterparty and/or the validity and effectiveness of the security.

15.3 No Liability

(a) The Delegate makes no representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of the Bank or the Trustee under the Transaction Documents and shall not under any circumstances have any liability or be obliged to account to the Certificateholders in respect of any payments which should have been paid by the Bank or the Trustee but are not so paid and shall not in any circumstances have any liability arising from the Trust Assets other than as expressly provided in these Conditions or in the Declaration of Trust.

(b) Each of the Trustee and the Delegate is exempted from: (i) any liability in respect of any loss or theft of the Trust Assets or any cash; (ii) any obligation to monitor or insure the Trust Assets or any cash; and (iii) any claim arising from the fact that the Trust Assets or any cash are held by or on behalf of the Trustee or on deposit or in an account with any depositary or clearing system or are registered in the name of the Trustee or its nominee, unless such loss or theft arises as a result of fraud, wilful default or gross negligence by the Trustee or the Delegate, as the case may be.

15.4 Reliance on Opinions, Certificates, Reports and/or Information

The Delegate may rely on any opinion, certificate, report or information of the auditors or insolvency officials (as applicable) of the Trustee or the Bank or any other expert or other person called for by or provided to the Delegate (whether or not addressed to the Delegate) in accordance with or for the purposes of the Declaration of Trust or the other Transaction Documents and such opinion, certificate, report or information may be relied upon by the Delegate (without liability to any person) as sufficient evidence of the facts stated therein notwithstanding that such opinion, certificate, report, information and/or any engagement letter or other document contains a monetary or other limit on the liability of the auditors or insolvency officials of the Trustee or the Bank or such other expert or other person in respect thereof and notwithstanding that the scope and/or basis of such opinion, certificate, report or information may be limited by an engagement or similar letter or by the terms of the opinion, certificate, report or information itself and the Delegate shall not be bound in any such case to call for further evidence or be responsible for any liability, delay or inconvenience that may be occasioned by its failure to do so.

15.5 Proper Performance of Duties

Nothing shall, in the case of the Trustee (having regard to the provisions of the Declaration of Trust conferring on it any trusts, powers, authorities or discretions) or as donee and delegate, in the case of the Delegate (having regard to the powers, authorities and discretions conferred on it by the Declaration of Trust and to the Relevant Powers delegated to it), respectively exempt the Trustee or the Delegate from or indemnify either of them against any Liability for gross negligence, wilful default or fraud of which either of them may be guilty in relation to their duties under the Declaration of Trust.

15.6 Illegality

The Delegate may refrain from taking any action in any jurisdiction if the taking of such action in that jurisdiction would, in its opinion based upon legal advice in the relevant jurisdiction, be contrary to any law of that jurisdiction. Furthermore, the Delegate may also refrain from taking such action if it would otherwise render it liable to any person in that jurisdiction or if, in its opinion based upon such legal advice, it would not have the power to do the relevant thing in that jurisdiction by virtue of any applicable law in that jurisdiction or if it is determined by any court or other competent authority in that jurisdiction that it does not have such power.

15.7 Delegate not Precluded from Conducting Business with the Trustee and the Bank

The Delegate is entitled, *inter alia*, (i) to enter into business transactions with the Trustee, the Bank and/or any entity related to the Trustee and/or the Bank and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Trustee and/or any entity related to the Trustee and/or the Bank, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Certificateholders, and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

15.8 Notice of Events

The Delegate shall not be responsible for monitoring or ascertaining whether or not a Non-Payment Event, Capital Event, Tax Event, Non-Viability Event, Dissolution Event or Potential Dissolution Event has occurred or exists or is continuing or will occur or exist and, unless and until it shall have received express written notice to the contrary, it will be entitled to assume that no such event or circumstance exists or has occurred or is continuing (without any liability to the Certificateholders or any other person for so doing).

16 Replacement of Certificates

If a definitive Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar (and if the Certificates are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its specified office in the place required by such competent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Trustee, the Bank, the Registrar, the Paying Agent or the Transfer Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

17 Notices

Notices to Certificateholders will be deemed to be validly given if mailed to Certificateholders by pre-paid registered mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses in the Register. The Trustee shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any listing authority, stock exchange and/or quotation system (if any) on which the Certificates are for the time being admitted to listing, trading and/or quotation including publication on the website of the relevant stock exchange or relevant authority if required by those rules. Any notices shall be deemed to have been given on the day (being a day other than a Saturday or a Sunday) after being so mailed (or on the date of publication or, if so published more than once or on different dates, on the date of the first publication).

Notices to be given by any Certificateholder shall be in writing and given by lodging the same, together with evidence of entitlement to the relevant Certificates, with the Principal Paying Agent.

So long as the Certificates are represented by a Global Certificate and such Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg, or any other clearing system, notices to the Certificateholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication on such websites or for such mailing. Any such notice shall be deemed to have been given to the Certificateholders on the day on which such notice was given to Euroclear and/or Clearstream, Luxembourg and/or such other clearing system.

18 Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination

18.1 The Declaration of Trust contains provisions for convening meetings of Certificateholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Declaration of Trust. Such a meeting may be convened by Certificateholders holding not less than 10 per cent. in face amount of the Certificates for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be one or more Eligible Persons (as defined in the Declaration of Trust) present holding or representing in aggregate more than 50 per cent. in face amount of the Certificates for the time being outstanding, or at any adjourned such meeting one or more Eligible Persons whatever the face amount of the Certificates held or represented, except that any meeting the business of which includes consideration of proposals, *inter alia*, (i) to modify any date for payment in respect of the Certificates, (ii) to reduce or cancel or vary the method for calculating the amount of any payment due in respect of the Certificates, (iii) to change any of the Trustee's and the Bank's covenants set out in the Transaction Documents, (iv) to alter the currency of payment or denomination of the Certificates, (v) to modify the provisions concerning the quorum required at any meeting of Certificateholders or the majority required to pass an Extraordinary Resolution, (vi) to sanction any such scheme or proposal or substitution as is described in paragraphs 5.9(i) and 5.9(j) of Schedule 4 to the Declaration of Trust, or (vii) to amend the above list or the proviso to paragraph 4.6 of Schedule 4 to the Declaration of Trust, in which case the quorum shall be one or more Eligible Persons holding or representing in aggregate not less than 75 per cent., or at any adjourned such meeting not less than 25 per cent., in face amount of the Certificates for the time being outstanding. To be passed, an Extraordinary Resolution requires (i) a majority in favour consisting of not less than 75 per cent. of the votes cast, (ii) a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in aggregate face amount of the Certificates then outstanding (a **Written Resolution**) or (iii) where the Certificates are held by or on behalf of a clearing system or clearing systems, approval given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures (in a form satisfactory to the Delegate) by or on behalf of the holders of not less than 75 per cent. in aggregate face amount of the Certificates then outstanding (an **Electronic Consent**). Any Extraordinary Resolution, if duly passed, will be binding on all Certificateholders, whether or not they were present at the meeting at which such resolution was passed and whether or not they voted.

18.2 The Declaration of Trust provides that a Written Resolution or an Electronic Consent shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Certificateholders duly convened and held. Such a Written Resolution may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Certificateholders. Such a Written Resolution and/or Electronic Consent will be binding on all Certificateholders whether or not they participated in such Written Resolution or Electronic Consent.

18.3 The Delegate may (but shall not be obliged to), without the consent or approval of the Certificateholders: (i) agree to any modification to these Conditions, any provisions of the Transaction Documents or to the Trustee's memorandum and articles of association which, in the sole opinion of the Delegate, is of a formal, minor or technical nature or is made to correct a manifest error; (ii) agree to any modification (other than in respect of a Reserved Matter) of these Conditions, any provisions of the Transaction Documents or the Trustee's memorandum and articles of association, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Declaration of Trust or the other Transaction Documents; or (iii) determine that any Dissolution Event or Potential Dissolution Event shall not be treated as such, provided in the case of paragraphs (ii) and (iii) that such modification, waiver, authorisation or determination is not, in the sole opinion of the Delegate, materially prejudicial to the interests of Certificateholders and that such waiver, authorisation or determination is not in contravention of any express direction by Extraordinary Resolution or request in writing by the holders of at least one-fifth of the outstanding aggregate face amount of the Certificates.

18.4 In connection with the exercise by it of any of its powers, authorities and discretions (including, without limitation, those referred to in this Condition 18 (*Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination*), the Delegate shall have regard to the interests of the Certificateholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Certificateholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Certificateholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof) and the Delegate shall not be entitled to require, nor shall any Certificateholder be entitled to claim from the Delegate or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Certificateholders except to the extent provided in Condition 13 (*Taxation*).

18.5 Any modification, waiver, authorisation or determination shall be binding on all of the Certificateholders and shall be notified by the Trustee to the Certificateholders as soon as practicable thereafter in accordance with Condition 17 (*Notices*).

This Condition 18 (*Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination*) is without prejudice to Condition 10.1(c) (*Redemption or Variation due to Taxation*) and Condition 10.1(d) (*Redemption or Variation for Capital Event*).

19 Currency Indemnity

If any sum due from the Trustee in respect of the Certificates or any order or judgment given or made in relation thereto has to be converted from the currency (the **first currency**) in which the same is payable under these Conditions or such order or judgment into another currency (the **second currency**) for the purpose of: (a) making or filing a claim or proof against the Trustee; (b) obtaining an order or judgment in any court or other tribunal; or (c) enforcing any order or judgment given or made in relation to the Certificates, the Trustee shall indemnify each Certificateholder, on the written demand of such Certificateholder addressed to the Trustee and delivered to the Trustee or to the specified office of the Principal Paying Agent, against any loss suffered as a result of any discrepancy between: (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency; and (ii) the rate or rates of exchange at which such Certificateholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof. This indemnity constitutes a separate and independent obligation of the Trustee and shall give rise to a separate and independent cause of action. In no circumstances will the Delegate incur any liability by virtue of this Condition 19 (*Currency Indemnity*).

20 Contracts (Rights of Third Parties) Act 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of these Conditions, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

21 Governing Law and Dispute Resolution

21.1 Governing Law

The Declaration of Trust (including these Conditions), the Agency Agreement, the Mudaraba Agreement (except for clause 2.4 thereof) and the Certificates (except for Condition 4.2 (*Subordination*)), and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law. Each of Condition 4.2 (*Subordination*) and clause 2.4 of the Mudaraba Agreement is governed by, and shall be construed in accordance with, the laws of Bahrain.

21.2 Arbitration

Subject to Condition 21.3 (*Option to Litigate*), any dispute, claim, difference or controversy arising out of, relating to or having any connection with the Declaration of Trust (including these Conditions) and the Certificates (including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity of any of them or a dispute relating to any non-contractual obligations arising out of or in connection with them) (a **Dispute**) shall be referred to and finally resolved by arbitration in accordance with the Arbitration Rules of the LCIA (the **Rules**), which Rules (as amended from time to time) are deemed to be incorporated by reference into this Condition 21.2 (*Arbitration*). For these purposes:

(a) the seat of arbitration shall be London, England;

(b) there shall be three arbitrators, each of whom shall be an attorney experienced in international securities transactions. The parties to the Dispute shall each nominate one arbitrator and both arbitrators in turn shall appoint a further arbitrator who shall be the chairman of the tribunal. In cases where there are multiple claimants and/or multiple respondents, the class of claimants jointly, and the class of respondents jointly, shall each nominate one arbitrator. If one party or both parties fail to nominate an arbitrator within the time limits specified by the Rules, such arbitrator(s) shall be appointed by the LCIA. If the party nominated arbitrators fail to nominate the third arbitrator within 15 days of the appointment of the second arbitrator, such arbitrator shall be appointed by the LCIA; and

(c) the language of the arbitration shall be English.

21.3 Option to Litigate

Notwithstanding Condition 21.2 (*Arbitration*) above, the Delegate or (only where permitted to take action in accordance with the terms of the Declaration of Trust) any Certificateholder may in the alternative, and at its sole discretion, by notice in writing to the Trustee and the Bank (as applicable):

(a) within 60 days of service of a Request for Arbitration (as defined in the Rules); or

(b) if no arbitration has commenced,

require that a Dispute be heard by a court of law. If such notice is given, the Dispute to which such notice refers shall be determined in accordance with Condition 21.5 (*Submission to Jurisdiction*) and any arbitration commenced under Condition 21.2 (*Arbitration*) in respect of that Dispute will be terminated. With the exception of the Delegate and any Agent (whose costs will be borne by the Trustee, failing which the Bank), each of the parties to the terminated arbitration will bear its own costs in relation thereto.

21.4 Notice to Terminate

If any notice to terminate is given after service of any Request for Arbitration in respect of any Dispute, the Delegate or (but only where it is permitted to take action in accordance with the terms of the Declaration of Trust) any Certificateholder must promptly give notice to the LCIA and to any Tribunal (each as defined in the Rules) already appointed in relation to the Dispute that such Dispute will be settled by the courts. Upon receipt of such notice by the LCIA, the arbitration and any appointment of any arbitrator in relation to such Dispute will immediately terminate. Any such arbitrator will be deemed to be *functus officio*. The termination is without prejudice to:

(a) the validity of any act done or order made by that arbitrator or by the court in support of that arbitration before his appointment is terminated;

(b) his entitlement to be paid his proper fees and disbursements; and

(c) the date when any claim or defence was raised for the purpose of applying any limitation bar or any similar rule or provision.

21.5 Submission to Jurisdiction

If a notice is issued pursuant to Condition 21.3 (*Option to Litigate*), the following provisions shall apply:

(a) subject to paragraph (c) below, the courts of England shall have exclusive jurisdiction to settle any Dispute and each of the Trustee and the Bank submits to the exclusive jurisdiction of such courts;

(b) each of the Trustee and the Bank agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary; and

(c) this Condition 21.5 (*Submission to Jurisdiction*) is for the benefit of the Delegate and the Certificateholders only. As a result, and notwithstanding paragraph (a) above, the Delegate and the Certificateholders may take proceedings relating to a Dispute (**Proceedings**) in any other courts with jurisdiction. To the extent allowed by law, the Delegate and the Certificateholders may take concurrent Proceedings in any number of jurisdictions.

21.6 Appointment of Process Agent

Each of the Trustee and the Bank has, in the Declaration of Trust, appointed Maples and Calder at its registered office at 11th Floor, 200 Aldersgate Street, London, EC1A 4HD, United Kingdom as its agent for service of process and has undertaken that, in the event of Maples and Calder ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings or Disputes and notify the Delegate and the Certificateholders of such appointment in accordance with this Condition 21.6 (*Appointment of Process Agent*). Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

21.7 Waiver of Interest

(a) Each of the Trustee, the Delegate and the Bank has irrevocably agreed in the Declaration of Trust that if any arbitration is commenced in relation to a Dispute and/or any Proceedings are brought by or on behalf of a party under the Declaration of Trust, it will (i) not claim interest under, or in connection with, such arbitration and/or Proceedings; and (ii) to the fullest extent permitted by law, waive all and any entitlement it may have to interest awarded in its favour by an arbitrator as a result of such arbitration and/or by a court as a result of such Proceedings.

(b) For the avoidance of doubt, nothing in this Condition 21.7 (*Waiver of Interest*) shall be construed as a waiver of rights in respect of Mudaraba Profit, Final Mudaraba Profit, Periodic Distribution Amounts, Outstanding Payments or profit of any kind howsoever described payable by the Bank or the Trustee pursuant to the Transaction Documents and/ or these Conditions, howsoever such amounts may be described or re-characterised by any court or arbitral tribunal.

GLOBAL CERTIFICATE

The Global Certificate contains the following provisions which apply to the Certificates whilst they are represented by the Global Certificate, some of which modify the effect of the Conditions. Unless otherwise defined, terms defined in the Conditions have the same meaning below.

Form of the Certificates

The Certificates will be in registered form and will be issued outside the United States to persons who are not U.S. persons in reliance on Regulation S.

The Certificates will be represented by a global certificate in registered form (the **Global Certificate**). The Global Certificate will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg and will be registered in the name of a nominee for the common depositary. Persons holding ownership interests in the Global Certificate will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of Definitive Certificates in fully registered form.

Holders

For so long as the Certificates are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, the registered holder of the Global Certificate shall, except as ordered by a court of competent jurisdiction or as required by law, be treated as the owner thereof (the **Registered Holder**). Each of the persons (other than another clearing system) who is for the time being shown in the records of either such clearing system as the holder of a particular aggregate face amount of such Certificates (the **Accountholders**) (in which regard any certificate or other document issued by a clearing system as to the aggregate face amount of such Certificates standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be deemed to be the Certificateholder in respect of the aggregate face amount of such Certificates standing to its account in the records of Euroclear or Clearstream, Luxembourg, as the case may be, other than for the purpose of payments in respect thereof, the right to which shall be vested solely in the Registered Holder, as against the Trustee and an Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Registered Holder, and the expressions **Certificateholder** and **holder of Certificates** and related expressions shall be construed accordingly. In addition, holders of ownership interests in the Global Certificate will not have a direct right to vote in respect of the relevant Certificates. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Cancellation

Cancellation of any Certificate represented by the Global Certificate will be effected by reduction in the aggregate face amount of the Certificates in the Register.

Payments

Payments of any amount in respect of the Global Certificate will, in the absence of any provision to the contrary, be made to or to the order of the person shown on the Register as the registered holder of the Global Certificate at the close of business on the record date which shall be the Clearing System Business Day immediately prior to the due date for payment (where **Clearing System Business Day** means Monday to Friday inclusive except 25 December and 1 January). Upon payment of any amount in respect of the Certificates represented by the Global Certificate, the details of such payment shall be entered by the Registrar in the Register.

None of the Bank, the Trustee, the Delegate, any Paying Agent or the Registrar will have any responsibility or liability for any aspects of the clearing system records relating to or payments made on account of ownership interests in the Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Payments of the Dissolution Distribution Amount in respect of Certificates represented by the Global Certificate will be made upon presentation and surrender of the Global Certificate at the specified office of the Registrar or such other office as may be specified by the Registrar subject to and in accordance with the Conditions and the

Declaration of Trust. Distributions of amounts with respect to book-entry interests in the Certificates held through Euroclear or Clearstream, Luxembourg will be credited to the cash accounts of participants in the relevant clearing system in accordance with the relevant clearing system's rules and procedures. A record of each payment made in respect of the Certificates will be entered into the Register by or on behalf of the Registrar and shall be prima facie evidence that payment has been made.

Notices

So long as all the Certificates are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, notices may be given by delivery of the relevant notice to those clearing systems for communication to their Accountholders rather than by publication and delivery as required by the Conditions except that, so long as the Certificates are listed on any stock exchange, notices shall also be published in accordance with the rules of such stock exchange. Any such notice shall be deemed to have been given on the day on which such notice is delivered to the relevant clearing systems.

Whilst any of the Certificates held by a Certificateholder are represented by the Global Certificate, notices to be given by such Certificateholder may be given (where applicable) through Euroclear and/ or Clearstream, Luxembourg and otherwise in such manner as the Registrar and Euroclear and Clearstream, Luxembourg may approve for this purpose.

Registration of Title

The Registrar will not register title to the Certificates in a name other than that of a nominee for the Common Depositary for a period of seven calendar days preceding the due date for any payment of any Periodic Distribution Amount or the Dissolution Distribution Amount in respect of the Certificates.

Record dates will be determined in accordance with the standard practices of Euroclear and Clearstream, Luxembourg.

Transfers

Transfers of book-entry interests in the Certificates will be effected through the records of Euroclear or Clearstream, Luxembourg and their respective direct and indirect participants in accordance with their respective rules and procedures.

Exchange for Definitive Certificates

Interests in the Global Certificate will be exchangeable (free of charge), in whole but not in part, for Definitive Certificates only upon the occurrence of an Exchange Event. The Trustee will promptly give notice to Certificateholders in accordance with Condition 17 (*Notices*) if an Exchange Event occurs. For these purposes, **Exchange Event** means that: (i) a Bank Event (as defined in the Conditions) has occurred; or (ii) the Certificates represented by the Global Certificate are held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system, and any such clearing system has been closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or has announced an intention permanently to cease business or has in fact done so. In the event of the occurrence of an Exchange Event, any of the Trustee or Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in the Global Certificate) may give notice to the Registrar requesting exchange.

In such circumstances, the Global Certificate shall be exchanged in full for Definitive Certificates and the Trustee will, at the cost of the Trustee (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Certificates to be executed and delivered to the Registrar within ten days following the request for exchange for completion and dispatch to the Certificateholders. A person having an interest in the Global Certificate must provide the Registrar with a written order containing instructions (and such other information as the Trustee and the Registrar may require) to complete, execute and deliver such Definitive Certificates.

In this Prospectus, **Definitive Certificate** means a trust certificate in definitive registered form issued by the Trustee in accordance with the provisions of the Declaration of Trust in exchange for the Global Certificate, and substantially in the form set out in Part 2 of Schedule 1 to the Declaration of Trust.

USE OF PROCEEDS

The net proceeds of the Certificates will be paid by the Trustee (as Rab-al-Maal) to the Bank (as Mudareb) as contribution of the Mudaraba Capital pursuant to the terms of the Mudaraba Agreement.

DESCRIPTION OF THE TRUSTEE

General

ABG Sukuk Limited, a Cayman Islands exempted company with limited liability, was incorporated on 6 March 2017 under the Companies Law (2016 Revision) of the Cayman Islands with company registration number 320576. The Trustee has been established as a special purpose vehicle for the sole purpose of issuing the Certificates and entering into the transactions contemplated by the Transaction Documents. The registered office of the Trustee is at MaplesFS Limited, P.O. Box 1093, Queensgate House, Grand Cayman KY1-1102, Cayman Islands and its telephone number is +1 345 945 7099.

The authorised share capital of the Trustee is U.S.$250 divided into 250 ordinary shares of U.S.$1.00 par value each. All of the issued shares (the **Shares**) are fully-paid and are held by MaplesFS Limited as share trustee (the **Share Trustee**) under the terms of a trust deed (the **Share Trust Deed**) dated 11 May 2017 under which the Share Trustee holds the Shares in trust until the termination of the period commencing on 11 May 2017 and ending 149 years from such date or such earlier date as the trustees of the Share Trust Deed may determine (the **Termination Date**). Prior to the Termination Date, the trust is an accumulation trust, but the Share Trustee has the power to benefit Qualified Charities (as defined in the Share Trust Deed). It is not anticipated that any distribution will be made whilst any Certificate is outstanding. Following the Termination Date, the Share Trustee will wind up the trust and make a final distribution to charity. The Share Trustee has no beneficial interest in, and derives no benefit (other than its fee for acting as Share Trustee) from, its holding of the Shares.

Business of the Trustee

The Trustee has no prior operating history or prior business and will not have any substantial liabilities other than in connection with the Certificates to be issued. The Certificates are the obligations of the Trustee alone and not the Share Trustee.

The objects for which the Trustee is established are set out in clause 3 of its Memorandum of Association (the **Memorandum**) as registered or adopted on 6 March 2017.

Financial Statements

Since the date of its incorporation, no financial statements of the Trustee have been prepared. The Trustee is not required by Cayman Islands law, and does not intend, to publish audited financial statements.

Directors of the Trustee

The Directors of the Trustee are as follows:

Name:	Principal Occupation:
Andrew Millar	Regional Head of Fiduciary of Maples Fund Services (Middle East) Limited
Cleveland Stewart..............	Senior Vice President of MaplesFS Limited

The business address of Andrew Millar is c/o Maples Fund Services (Middle East) Limited, Office 616, 6th Floor, Liberty House, Dubai International Financial Centre, P.O. Box 506734, Dubai, United Arab Emirates. The business address of Cleveland Stewart is c/o MaplesFS Limited, P.O. Box 1093, Boundary Hall, Cricket Square, Grand Cayman KY1-1102, Cayman Islands.

There are no potential conflicts of interest between the private interests or other duties of the Directors listed above and their duties to the Trustee.

The Administrator

MaplesFS Limited acts as the administrator of the Trustee (in such capacity, the **Trustee Administrator**). The office of the Trustee Administrator serves as the general business office of the Trustee. Through the office, and pursuant to the terms of the Corporate Services Agreement, the Trustee Administrator has agreed to perform in the Cayman Islands or such other jurisdiction as may be agreed by the parties from time to time various management functions on behalf of the Trustee and the provision of certain clerical, administrative and other services until termination of the Corporate Services Agreement. The Trustee Administrator will also provide registered office facilities to the Trustee in accordance with its standard terms and conditions for the provision of registered office services as published at http://www.maplesfiduciaryservices.com/terms (the **Registered Office Terms**). In consideration of the foregoing, the Trustee Administrator receives various fees payable by the Trustee at rates agreed upon from time to time, plus expenses. The terms of the Corporate Services Agreement and the Registered Office Terms provide that either the Trustee or the Trustee Administrator may terminate such agreements upon the occurrence of certain stated events, including any breach by the other party of its obligations under such agreements. In addition, the Corporate Services Agreement and the Registered Office Terms provide that either party shall be entitled to terminate such agreements by giving at least three months' notice in writing to the other party with a copy to any applicable rating agency.

The Trustee Administrator is subject to the overview of the Trustee's Board of Directors.

The Trustee Administrator's principal office is P.O. Box 1093, Boundary Hall, Cricket Square, Grand Cayman KY1-1102, Cayman Islands.

The Directors of the Trustee are all employees or officers of the Trustee Administrator (or an affiliate thereof). The Trustee has no employees and is not expected to have any employees in the future.

Summary of Memorandum and Articles of Association

Memorandum of Association

The Memorandum comprises the constitution of the Trustee and provides that the Trustee's objects are unrestricted. The objects of the Trustee are set out in full in clause 3 of the Memorandum.

The Memorandum also describes the authorised share capital of the Trustee, being US$50,000 made up of 50,000 ordinary shares of US$1.00 par value each (the **Shares**). 250 Shares have been allotted and issued to the Share Trustee at par and are fully paid.

Articles of Association

The Articles of Association of the Trustee (the **Articles**) provide, *inter alia*, as follows:

Share Capital

The Trustee may by Ordinary Resolution (as defined below) increase its share capital, consolidate its Shares or subdivide any of them into Shares of a smaller amount or cancel authorised but unissued Shares.

Subject to the provisions of Cayman Islands law and the rights of any holders of any class of Shares, the Trustee may by Special Resolution (as defined below) reduce its share capital or any capital redemption reserve or share premium account.

The Articles provide that any unissued Shares are at the disposal of the directors of the Trustee (the **Directors**) who may offer, allot, issue, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as the Directors think fit.

Winding up

The Trustee may be wound up by Special Resolution. On a winding up, the Shares carry a right to share, *pari passu inter se*, in any surplus assets remaining after payment of any and all creditors' claims.

Quorum and Voting Rights

The Shares carry the right to vote at all general meetings of the Trustee. As the Trustee has only one shareholder, the quorum for all general meetings shall be that one shareholder present in person or by proxy or (in the case of a corporation or other non-natural person) by a duly authorised representative.

At any general meeting on a show of hands every holder of a share who is present in person shall have one vote and on a poll every member who is present in person or by proxy shall have one vote for every share held by him.

Dividends

Dividends shall only be payable to the holders of Shares out of the funds of the Trustee lawfully available therefor including the share premium account. The Directors may resolve that any dividend or other distribution be paid in whole or in part by the distribution of specific assets of the Trustee. Any dividend unclaimed after a period of six years from the date of declaration of such dividend shall be forfeited and shall revert to the Trustee.

Directors

The Trustee may by Ordinary Resolution appoint any person to be a Director or may by Ordinary Resolution remove any Director.

The Directors may appoint any person to be a Director, either to fill a vacancy or as an additional Director provided that the appointment does not cause the number of Directors to exceed any number fixed by or in accordance with the Articles as the maximum number of Directors.

Subject to the provisions of Cayman Islands law, the Memorandum and the Articles and to any directions given by Special Resolution, the business of the Trustee shall be managed by the Directors who may exercise all the powers of the Trustee. No alteration of the Memorandum or Articles and no such direction shall invalidate any prior act of the Directors which would have been valid if that alteration had not been made or that direction had not been given. A duly convened meeting of Directors at which a quorum is present may exercise all powers exercisable by the Directors.

The chairman of a Directors' meeting shall have a casting vote at any meetings of the Directors.

The Directors may exercise the Trustee's powers to borrow and to charge its assets.

Transfer of Shares

Shares are transferable subject to the approval of the Directors by resolution who may, in their absolute discretion, decline to register any transfer of Shares without giving any reason. The instrument of transfer of any Share shall be in writing and shall be executed by or on behalf of the transferor (and if the Directors so require, signed by or on behalf of the transferee). The transferor shall be deemed to remain the holder of a Share until the name of the transferee is entered in the Register of Members of the Trustee.

Alteration of the Memorandum and Articles

The Memorandum and Articles may at any time be altered or added to by Special Resolution of the Trustee, subject to variation of class rights.

Redemption and Repurchase of Shares

Subject to the provisions of the Cayman Islands' Companies Law:

(a) the Trustee may issue Shares that are to be redeemed or are liable to be redeemed at the option of the shareholder or of the Trustee. The redemption of such Shares shall be effected in such manner and upon such other terms as the Trustee may, by Special Resolution, determine before the issue of the Shares; and

(b) the Trustee may purchase its own Shares (including any redeemable Shares) in such manner and on such other terms as the Directors may agree with the relevant shareholder.

Definitions

For these purposes:

Ordinary Resolution means a resolution passed by a simple majority of the shareholders of the Trustee as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting, and includes a unanimous written resolution. In computing the majority when a poll is demanded regard shall be had to the number of votes to which each shareholder is entitled by the Articles; and

Special Resolution has the same meaning as in the Cayman Islands' Companies Law (being, essentially, a resolution passed by a majority of at last two-thirds of such shareholders as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, and includes a unanimous written resolution).

KEY FINANCIAL INFORMATION

Summary Consolidated Audited Financial Information

The following tables set forth summary consolidated financial information relating to the Group, as at and for the financial years ended 31 December 2016, 2015 and 2014. All financial information included in this section has been extracted from the Consolidated Financial Statements without adjustment and should be read in conjunction with the Consolidated Financial Statements included in this Prospectus.

This summary information is derived from, and should be read in conjunction with, the Consolidated Financial Statements, including the accompanying notes, prepared in accordance with AAOIFI, which are included elsewhere in this Prospectus. The following information should also be read in conjunction with "*Financial Review*" in the next section of this Prospectus.

Selected Financial Data

Consolidated Statement of Financial Position Data

	2014	2015	2016	CAGR[1] 2014-2016	
		(*US$'000*)			
ASSETS					
Cash and balances with banks	5,011,262	5,373,409	5,073,418	0.6	%
Receivables	11,999,547	11,959,052	11,423,448	(2.4)	%
Mudaraba and Musharaka financing	1,549,786	1,558,593	1,582,396	1.0	%
Investments	2,580,034	3,105,750	2,629,131	0.9	%
Ijarah Muntahia Bittamleek	1,494,799	1,734,457	1,830,339	10.7	%
Property and equipment	379,323	444,608	417,295	4.9	%
Other assets	448,838	442,332	469,238	2.2	%
Total assets	**23,463,589**	**24,618,201**	**23,425,265**	**(0.1)**	**%**
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY					
LIABILITIES					
Customer current and other accounts	4,509,312	4,841,099	4,983,772	5.1	%
Due to banks	1,211,493	808,268	918,395	(12.9)	%
Long term financing	655,669	1,497,208	1,381,256	45.1	%
Other liabilities	872,700	862,444	856,467	(0.9)	%
Total liabilities	**7,249,174**	**8,009,019**	**8,139,890**	**6.0**	**%**
EQUITY OF INVESTMENT ACCOUNTHOLDERS	14,139,792	14,514,599	13,276,794	(3.1)	%
OWNERS' EQUITY					
Share capital	1,093,869	1,115,746	1,149,218	2.5	%
Treasury shares	(8,261)	(8,464)	(9,588)	7.7	%
Share premium	17,288	17,662	18,574	3.7	%
Reserves	147,621	165,459	181,971	11.0	%
Cumulative changes in fair values	3,073	38,529	41,271	266.5	%
Foreign currency translations	(313,602)	(461,948)	(666,719)	45.8	%

	2014	2015	2016	CAGR[1] 2014-2016
		(*US$'000*)		
Retained earnings	343,398	433,631	497,374	20.3 %
Proposed appropriations	54,693	55,787	68,857	12.2 %
Equity attributable to parent's shareholders	1,338,079	1,356,402	1,280,958	(2.2) %
Non-controlling interest	736,544	738,181	727,623	(0.6) %
Total owners' equity	**2,074,623**	**2,094,583**	**2,008,581**	**(1.6) %**
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY	**23,463,589**	**24,618,201**	**23,425,265**	**(0.1) %**

Note:

(1) CAGR refers to compound annual growth rate on the base year 2014.

Source: Consolidated Financial Statements

Consolidated Statement of Income Data

	2014	2015	2016
		(*US$'000*)	
Net income from jointly financed contracts and investments	1,166,772	1,223,215	1,336,569
Return on equity of investment accountholders before Group's share as a Mudarib	(1,018,827)	(1,026,367)	(1,114,019)
Group's share as a Mudarib	328,871	345,415	396,762
Return on equity of investment accountholders	(689,956)	(680,952)	(717,257)
Group's share of income from equity of investment accountholders (as a Mudarib and Rabalmal)	476,816	542,263	619,312
Mudarib share for managing off-balance sheet equity of investment accountholders	13,886	5,583	5,022
Net income from self-financed contracts and investments	236,420	272,941	285,499
Other fees and commission income	187,144	200,513	176,837
Other operating income	41,413	34,794	78,859
	955,679	1,056,094	1,165,529
Profit paid on long term financing	(38,117)	(56,541)	(91,370)
TOTAL OPERATING INCOME	**917,562**	**999,553**	**1,074,159**
OPERATING EXPENSES			
Staff expenses	301,308	298,927	325,501
Depreciation and amortisation	45,575	50,054	44,579
Other operating expenses	174,477	186,890	197,136
TOTAL OPERATING EXPENSES	**521,360**	**535,871**	**567,216**
NET OPERATING INCOME FOR THE YEAR BEFORE PROVISIONS AND IMPAIRMENT AND TAXATION	396,202	463,682	506,943
Provisions and impairment	(21,163)	(58,371)	(122,154)
NET INCOME BEFORE TAXATION	375,039	405,311	384,789
Taxation	(100,272)	(119,125)	(117,153)
NET INCOME FOR THE YEAR	274,767	286,186	267,636
Attributable to:			
Equity holders of the parent	151,731	162,741	151,545

	2014	2015	2016
		(*US$'000*)	
Non-controlling interest	123,036	123,445	116,091
	274,767	286,186	267,636
Basic and diluted earnings per share - US cents[(1)]	13.30	14.27	13.29

Note:

(1) Adjusted for bonus and treasury shares. Following the issuance of bonus shares by the Group to its shareholders in 2015 and 2016, the Group's earnings per share was restated in respect of the years 2015 and 2014 to reflect adjustments for bonus shares, for comparison purposes. The number of treasury shares held by the Group is subtracted from total number of shares issued and paid-up by the Group for the purpose of calculating the earnings per share.

Consolidated Statement of Cash Flow Data

	2014	2015	2016
		(*US$'000*)	
OPERATING ACTIVITIES			
Net income before taxation	375,039	405,311	384,789
Adjustments for:			
Depreciation and amortisation	45,575	50,054	44,579
Depreciation on Ijarah Muntahia Bittamleek	91,505	191,729	238,315
Unrealised gain on equity and debt-type instruments at fair value through statement of income	(495)	(145)	(152)
Gain on sale of property and equipment	(6,262)	(10,502)	(14,804)
Gain/loss on sale of investment in real estate	(693)	1,332	(5,502)
Gain on sale of equity type instruments at fair value through equity	(1,489)	(1,509)	(3,585)
Gain on sale of equity and debt-type instruments at fair value through statement of income	(927)	(1,636)	(667)
Gain/(loss) from associates	294	(652)	(2,059)
Provisions and impairment	21,163	58,371	122,154
Operating profit before changes in operating assets and liabilities	523,710	692,353	763,068
Net changes in operating assets and liabilities:			
Reserves with central banks	216,593	(804,579)	859,261
Receivables	(1,217,961)	(18,818)	443,093
Mudaraba and Musharaka financing	(354,519)	(10,608)	(40,793)
Ijarah Muntahia Bittamleek	(644,257)	(431,386)	(334,197)
Other assets	(45,859)	3,510	(24,167)
Customer current and other accounts	260,131	331,783	142,675
Due to banks	115,625	(403,225)	110,126
Other liabilities	171,713	(25,342)	10,143
Equity of investment accountholders	1,732,269	378,244	(1,238,504)
Taxation paid	(81,313)	(104,730)	(147,598)
Net cash from (used in) operating activities	676,132	(392,798)	543,107
INVESTING ACTIVITIES			
Net purchase of investments	(142,578)	(514,289)	495,992
Net purchase of property and equipment	(5,067)	(57,424)	2,890
Dividends received from associates	654	2,068	2,329

	2014	2015	2016
		(US$'000)	
(Purchase) disposal of investment in associate	(21,484)	3,556	(14,587)
Net cash from (used in) investing activities	(168,475)	(566,089)	486,624
FINANCING ACTIVITIES			
Long term financing	114,989	841,539	(115,952)
Dividends paid to equity holders of the parent	(36,690)	(32,816)	(22,143)
Net movement in treasury shares	397	171	(212)
Net changes in non-controlling interest	(19,607)	(33,494)	(9,018)
Net cash (used in) from financing activities	59,089	775,400	(147,325)
Foreign currency translation adjustments	(136,378)	(258,945)	(323,137)
NET CHANGES IN CASH AND CASH EQUIVALENTS	430,368	(442,432)	559,269
Cash and cash equivalents at 1 January	2,304,753	2,735,121	2,292,689
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	2,735,121	2,292,689	2,851,958

Key Performance Indicators

	2014	2015	2016
Earnings (US$ Millions)			
Total Operating Income	918	1,000	1,074
Net Operating Income	396	464	507
Net Income	275	286	268
Net Income attributable to Equity holders of the Parent	152	163	152
Basic and Diluted Earnings per Share – U.S. cents	13.30	14.27	13.29
Financial Position (US$ Millions)			
Total Assets	23,464	24,618	23,425
Total Financing and Investments	17,624	18,358	17,465
Total Customer Deposits	19,861	20,164	19,179
Total Owners' Equity	2,075	2,095	2,009
Equity Attributable to Parent's Shareholders	1,338	1,356	1,281
Capital (US$ Millions)			
Authorised	1,500	1,500	1,500
Subscribed and Fully Paid-up	1,093.9	1,115.7	1,149.2
Profitability Ratios			
Return on Average Owners' Equity	13.5 %	13.7 %	13.0 %
Return on Average Parent's Shareholders' Equity	11.5 %	12.1 %	11.5 %
Return on Average Assets	1.2 %	1.2 %	1.1 %
Operating Expenses to Operating Income	56.8 %	53.6 %	52.8 %
Financial Position Ratios			
Owners' Equity to Total Assets	8.8 %	8.5 %	8.6 %
Total Financing and Investment as a Multiple of Equity (times)	8.5	8.8	8.7
Liquid Assets to Total Assets	25.5 %	24.2 %	24.4 %
Net Book Value per Share (US$)[(1)]	1.17	1.19	1.12
Assets to deposits ratio	118.1 %	122.1 %	122.1 %
Capital adequacy ratio[(2)]	16.0 %	14.6 %	15.5 %

	2014		2015		2016	
Tier 1 ratio(2)	14.1	%	13.8	%	14.3	%
Gross non-performing assets ratio	3.0	%	2.8	%	3.9	%
Net profit spread ratio	4.8	%	4.9	%	5.4	%
Other Information						
Total Number of Employees	10,853		11,458		12,644	
Total Number of Branches	549		586		697	

Note:

(1) Adjusted for bonus and treasury shares. Following the issuance of bonus shares by the Group to its shareholders in 2015 and 2016, the Group's net book value per share was restated in respect of the years 2015 and 2014 to reflect adjustments for bonus shares, for comparison purposes. The number of treasury shares held by the Group is subtracted from total number of shares issued and paid-up by the Group for the purpose of calculating the net book value per share.

(2) Based on CBB requirement which until 2014 was based on Basel II and from 2015 onwards was based on Basel III regulations.

FINANCIAL REVIEW

The financial information in this section for the financial years ended 31 December 2016, 2015 and 2014 is extracted from the financial statements contained in the section of this Prospectus entitled "*Key Financial Information*". The financial information for the three months ended 31 March 2017 and 31 March 2016 has been extracted from the Interim Financial Information.

The Consolidated Financial Statements are prepared in accordance with FAS, issued by AAOIFI and, for matters where no AAOIFI standard exists and, given it does not conflict with Shari'a rules and principles, IFRS as issued by the IASB and in conformity with the Bahrain Commercial Companies Law and the Financial Institutions Law. The Interim Financial Information is prepared in accordance with guidance given by the International Accounting Standard 34 – "Interim Financial Reporting" and using accounting policies which are consistent with those used in the preparation of the 2016 Financial Statements.

Critical Accounting Judgments

In preparing the Group's financial statements, management is required to make certain estimates, judgments and assumptions. These affect the reported amounts of the Group's assets and liabilities, including disclosure of contingent assets and liabilities, at the date of the financial statements as well as the reported amounts of its revenue and expenses during the years presented. Management bases its estimates and assumptions on historical experience and other factors that it believes to be reasonable at the time the estimates and assumptions are made and evaluates the estimates and assumptions on an ongoing basis. However, future events and their effects cannot be predicted with certainty and the determination of appropriate estimates and assumptions requires the use of judgment. Actual outcomes may differ from any estimates or assumptions made and such differences may be material to the financial statements.

For a discussion of the most significant accounting estimates, judgments and assumptions made in the preparation of the Group's financial statements, see "*Use of estimates in preparation of the consolidated financial statements*" in note 2 to each of the 2016 Financial Statements and the 2015 Financial Statements.

Recent Developments

On 10 May 2017, the Bank published the Interim Financial Information. Set out below is a brief summary of the Bank's financial position and results of operations as at and for the three months ended 31 March 2017 compared to its financial position as at 31 December 2016 and its results of operations for the corresponding period in 2016. This summary should be read in conjunction with the Interim Financial Information which is set out elsewhere in this Prospectus. Potential investors should note that the Interim Financial Information is not necessarily indicative of results for the full year.

Total assets

The Group's consolidated total assets decreased marginally by US$62 million or 0.3 per cent. to US$23.4 billion as at 31 March 2017 from US$23.4 billion as at 31 December 2016. This was, in large part, attributable to the declines in TRY (which fell by 3 per cent. against the US dollar), which adversely impacted the growth of assets in US dollar terms due to the translation effect of US dollar appreciation. However, on a constant currency basis, the total assets of the Group increased by 0.3 per cent. The Group's overall financing and investments increased by US$207 million, or 1 per cent., from US$17.5 billion as at 31 December 2016 to US$17.7 billion as at 31 March 2017, which mainly resulted from increases in financing and investments of ABE, Banque Al Baraka D'Algerie S.P.A. (**BAA**), Al Baraka Bank (Pakistan) Limited (**ABP**), Al Baraka Bank Limited, South Africa (**ABL**), Al Baraka Islamic Bank B.S.C. (c) - Bahrain (**AIB**), Al Baraka Bank Sudan (**ABS**) and Jordan Islamic Bank (**JIB**). Cash and balances with banks decreased by US$265 million, or 5.2 per cent., from US$5.1 billion as at 31 December 2016 to US$4.8 billion as at 31 March 2017. The decrease was due to the utilisation of cash and balances with banks for financing and investment purposes. Investments held by the Group increased by

US$278 million, or 10.6 per cent., from US$2.6 billion as at 31 December 2016 to US$2.9 billion as at 31 March 2017 which was mainly attributable to an increase in investments in respect of ABTPB. *Mudaraba* financing decreased by US$206 million, or 25 per cent., from US$822 million as at 31 December 2016 to US$616 million as at 31 March 2017 which was mainly attributable to decreases in *Mudaraba* financing of Al Baraka Bank Syria S.A. (**ABBS**), AIB and Al Baraka Bank Tunisia (**ABT**). The Group's receivables increased by US$106 million, or 0.9 per cent., from US$11.4 billion as at 31 December 2016 to US$11.5 billion as at 31 March 2017 which was largely attributable to the increase in Murabaha receivables in each of the Units, save for JIB, ABTPB, ABP and ABBS.

Total liabilities

The Group's total liabilities decreased by 3.0 per cent. from US$8.1 billion as at 31 December 2016 to US$7.9 billion as at 31 March 2017, while equity of investment accountholders increased by 1.3 per cent. from US$13.3 billion as at 31 December 2016 to US$13.4 billion as at 31 March 2017. The Group's total customer deposits (which includes equity of investment accountholders, customer current and other accounts and due to banks), in US dollar terms, declined slightly by 0.4 per cent. from US$19.2 billion as at 31 December 2016 to US$19.1 billion as at 31 March 2017. The decline was principally attributable to a decline in customer deposits of ABTPB and ABP. The Group's customer current and other accounts declined by 2.9 per cent. from US$5.0 billion as at 31 December 2016 to US$4.8 billion as at 31 March 2017 which mainly reflected corresponding decreases in customer current and other accounts of JIB, ABT, BAA, ABP and ABTPB. Due to banks decreased by US$104 million, or 11.3 per cent., from 31 December 2016 to 31 March 2017 which was largely attributable to a decrease in due to banks of ABTPB. Long-term financing (which largely comprised long-term financing of ABTPB) declined marginally by 0.4 per cent. from 31 December 2016 to US$1.4 billion as at 31 March 2017.

Consolidated total operating income

The Group's consolidated total operating income decreased by US$26.8 million, or 9.7 per cent., to US$248.9 million for the three months ended 31 March 2017 from US$275.6 million for the corresponding period in 2016. The translation into US dollars of the results of the Units reporting in EGP, TRY, SDG, DZD and TND (which currencies depreciated by 53.7 per cent., 19.7 per cent., 7.5 per cent., 3.0 per cent. and 11.5 per cent., respectively, against the US dollar during the three months ended 31 March 2017 as compared to the corresponding period in 2016) adversely affected the US dollar performance of the Group. On a constant currency basis, the total operating income of the Group grew by 10.0 per cent. during the three months ended 31 March 2017 as compared to the corresponding period in 2016 and the total operating income of each of the Units (save for JIB, BAA and ABBS) also increased.

In US dollar terms, net income from self-financed accounts and investments increased by US$13.3 million, or 17.8 per cent., to US$88.0 million during the three months ended 31 March 2017 from US$74.7 million during the corresponding period in 2016. However, the Group experienced a decrease in the Group's share of total income from equity of investment accountholders (as a Mudarib and Rabalmal) of US$12.6 million to US$137.6 million during the three months ended 31 March 2017 from US$150.2 million for the corresponding period in 2016.

Although, in US dollar terms, the Group's fees and commission income declined by 16.2 per cent. to US$40.0 million during the three months ended 31 March 2017 from US$47.4 million during the corresponding period in 2016, on a constant currency basis, the Group's fees and commission income increased by 1.4 per cent. The Group's other operating income decreased by US$18.8 million, or 83.3 per cent., to US$3.8 million during the three months ended 31 March 2017 from US$22.6 million during the corresponding period in 2016. This was primarily due to a US$19.5 million, or 94.6 per cent., decrease in foreign exchange gain, principally in ABTPB and ABS.

Consolidated net operating income

Net operating income for the three-month period before provisions and impairment and taxation

Reflecting all of the factors described above, the Group's net operating income before provisions and impairment and taxation decreased by US$13.1 million, or 11.5 per cent., to US$101.1 million during the three months ended 31 March 2017 from US$114.3 million during the corresponding period in 2016. This decline was notwithstanding a decrease of 8.5 per cent. in US dollar terms in the Group's total operating expenses to US$147.7 million during the three months ended 31 March 2017 from US$161.4 million during the corresponding period in 2016. The Group's staff expenses and other operating expenses (including general and administrative expenses, professional and business expenses and premises related expenses), respectively, decreased by 9.5 per cent. and 0.9 per cent. during the three months ended 31 March 2017 as compared to the corresponding period in 2016. On a constant currency basis, the Group's expenses increased in line with the expansion of the Group's operations (in particular, the merger of Burj Bank in November 2016 with ABP and the expansion of the Group's branch network in other Units) during the past year, particularly in respect of ABP, AIB, BAA, ABE and ABS. Depreciation and amortisation decreased by US$4.2 million, or 26.6 per cent., to US$11.6 million during the three months ended 31 March 2017 from US$15.7 million during the corresponding period in 2016 which was mainly due to the respective decreases in depreciation in ABTPB and JIB.

Net income for the three-month period

Following a significant increase in allocations in respect of provisions and impairments by US$12.9 million to US$28.9 million, or 80.0 per cent., during the three months ended 31 March 2017 from US$16.1 million during the corresponding period in 2016, the Group's net income for the year decreased by US$17.3 million, or 25.2 per cent., to US$51.5 million during the three months ended 31 March 2017 from US$68.8 million during the corresponding period in 2016 (although, on a constant currency basis, the Group's net income decreased by 14.1 per cent.). The increase in provisions principally related to an increase in non-performing assets of ABTPB in respect of which provisions increased by US$14.1 million during the three months ended 31 March 2017 as compared to the corresponding period in 2016.

The Group's taxation charge amounted to US$20.7 million for the three months ended 31 March 2017 compared to US$29.4 million for the corresponding period in 2016. The decrease of US$8.7 million, or 29.5 per cent., was on account of lower net income for the period before taxation.

Net income for the period attributable to the equity holders of the parent, in US dollar terms, decreased by US$3.8 million, or 10.0 per cent., to US$34.0 million during the three months ended 31 March 2017 from US$37.8 million during the corresponding period in 2016 and, on a constant currency basis, increased by 3.6 per cent.

Key financial ratios

Capital adequacy ratio

The Group's capital adequacy ratio (as per CBB regulations which largely follow Basel III standards) was 14.5 per cent. as at 31 March 2017 compared to 15.49 per cent. as at 31 December 2016. The decrease in the Group's capital adequacy ratio was due to an increase in risk weighted assets as at 31 March 2017.

Return on average owners' equity

The return on average owners' equity for the three months ended 31 March 2017 decreased to 10.2 per cent. from 13.1 per cent. for the three months ended 31 March 2016. This was largely attributable to lower net income for the three-month period as a result of the translation effect of US dollar appreciation against the depreciation in the reporting currencies of certain of the Units and due to decreases in foreign exchange gain, principally in respect of ABTPB and ABS.

Return on average parent's shareholders' equity

The return on average parent's shareholders' equity for the three months ended 31 March 2017 decreased to 10.6 per cent. from 11.1 per cent. for the three months ended 31 March 2016. This was attributable largely to lower net income for the period attributable to equity holders of the parent as a result of the translation effect of US dollar appreciation against the depreciation in the reporting currencies of certain of the Units and due to decreases in foreign exchange gain, principally in respect of ABTPB and ABS.

Cost to income ratio

Total operating expenses as a proportion of total operating income increased marginally to 59.4 per cent. for the three months ended 31 March 2017 from 58.5 per cent. for the three months ended 31 March 2016. This was largely attributable to the lower total operating income of the Group.

Return on average assets

The return on average assets for the three months ended 31 March 2017 decreased to 0.9 per cent. from 1.1 per cent. for the three months ended 31 March 2016, which was largely attributable to lower net income for the three months ended 31 March 2017.

The table below shows certain key financial ratios of the Group as at and for the three months ended 31 March in each of 2017 and 2016.

	31 March 2017	**31 March 2016**
Key Financial Ratios (%)		
Capital adequacy ratio	14.5	14.0
Tier 1 ratio	13.4	13.3
Net profit spread ratio	5.4	5.1
Cost to income ratio	59.4	58.5

Year ended and as at 31 December 2016 compared with year ended and as at 31 December 2015

Consolidated financial position

Total assets

The Group's consolidated total assets decreased by US$1.2 billion or 4.8 per cent. to US$23.4 billion as at 31 December 2016 from US$24.6 billion as at 31 December 2015. This was, in large part, attributable to the declines in EGP (which fell by 59 per cent.), DZD (which fell by 7 per cent.), TRY (which fell by 17 per cent.), SDG (which fell by 9 per cent.) and SYP (which fell by 35 per cent.) which adversely impacted the growth of assets in US dollar terms due to the translation effect of dollar appreciation. On a constant currency basis (whereby operating performance is measured and calculated using the same exchange rates for the translation of the financial position or the income performance, as applicable, for the current period as were used for the translation of the financial position or income performance, as applicable, for the comparative previous period), the Group's total assets in fact grew by 17.8 per cent. as at 31 December 2016. The largest contribution to the growth in total assets came from JIB, AIB and ABP, particularly, in the case of ABP, as a result of the merger with Burj Bank, while there was decrease in assets of ABT and ABBL in local currency terms. In addition, in US dollar terms, the Group's investments decreased by 15.3 per cent. from US$3.1 billion as at 31 December 2015 to US$2.6 billion as at 31 December 2016, which in turn reflected a decline of 18 per cent. in the amortised cost of the Group's debt-type instruments (which was largely due to the translation effect of EGP devaluation). In local currency terms, all of the Units showed positive growth in debt-type investments.

There was a 5.6 per cent. decline in cash and balances with banks from US$5.4 billion as at 31 December 2015 to US$5.1 billion as at 31 December 2016 as the cash was used to fund the 5.5 per cent. increase in *Ijarah Muntahia Bittamleek* financing (from US$1.7 billion as at 31 December 2015 to US$1.8 billion as at 31 December 2016) and 1.5 per cent. increase in *Mudaraba and Musharaka* financings. There was also a 4.5 per cent. drop in receivables in US dollar terms from US$12 billion as at 31 December 2015 to US$11.4 billion as at 31 December 2016 (which reflected a 5.2 per cent. drop in *Murabaha* receivables which was largely attributable to the translation effect of EGP and TRY depreciation). In local currency terms, ABTPB and ABE both witnessed a growth, while JIB, ABT, ABBS and ABP witnessed a decrease, in *Murabaha* receivables which was largely due to JIB, ABT, ABBS and ABP focusing on alternative financing products (including *Musharaka* and *Ijarah Muntahia Bittamleek*). The above results reflect the Group's ability to sustain its growth while remaining cautious and conservative in the current challenging markets and the translation effect of a strong US dollar.

Total liabilities

The Group's total liabilities increased by 1.63 per cent. from US$8.0 billion as at 31 December 2015 to US$8.1 billion as at 31 December 2016, while total equity of investment accountholders fell by 8.5 per cent. from US$14.5 billion as at 31 December 2015 to US$13.3 billion as at 31 December 2016. The Group's total customer deposits (which includes equity of investment accountholders, customer current and other accounts and due to banks), in US dollar terms, declined by 5 per cent. from US$20.2 billion as at 31 December 2015 to US$19.2 billion as at 31 December 2016 and, on a constant currency basis, grew by 18 per cent. In US dollar terms, the decline was principally attributable to a decline in customer deposits of ABE, ABTPB, ABT and ABS. In local currency terms, however, ABE, ABTPB, ABP and AIB each witnessed significant growth (and in fact no Unit witnessed any decline) in customer deposits. The decrease, in US dollar terms, of total equity of investment accountholders was largely attributable to decreases of the same line items in ABE and ABTPB (which was mainly due to the translation effect of US dollar appreciation). Customer current and other accounts grew by 2.9 per cent. from US$4.8 billion as at 31 December 2015 to US$5 billion as at 31 December 2016.

Due to banks increased by US$110 million or 14 per cent., which was largely attributable to growth of the same line item in ABTPB, AIB and ABBS. Long-term financing (which largely comprised long-term financing of ABTPB) decreased by US$116 million or 8 per cent., which reflected a reduction in long-term *Murabaha* funding. While most of the Units witnessed growth in other liabilities in line with the usual expansion of operations, the Group's other liabilities decreased by US$6 million as a result of the effect of foreign currency translations.

Consolidated total operating income

The Group's consolidated total operating income increased by US$74.6 million (7.5 per cent.) to US$1.1 billion for the year ended 31 December 2016 from US$1.0 billion for the year ended 31 December 2015. The translation into US dollar of the results of the Units reporting in EGP, TRY and DZD (which currencies depreciated by 18 per cent., 9 per cent. and 9 per cent., respectively, during 2016 as compared to 2015) adversely affected the US dollar performance of the Group. On a constant currency basis, the total operating income of the Group grew by 16 per cent. in 2016 and the total operating income of most of the Units (other than ABBL) also increased. The largest contribution to the Group's total operating income for the year ended 31 December 2016 came from ABE (14 per cent.), JIB (20 per cent.), ABS (4 per cent.), BAA (8 per cent.) and ABTPB (39 per cent.).

The increase in total operating income was principally due to a 14 per cent. increase in the Group's share of total income from equity of investment accountholders (as a Mudarib and Rabalmal) from US$542 million for the year ended 31 December 2015 to US$619 million for the year ended 31 December 2016. This was largely attributable to a 9.3 per cent. increase in net income from jointly financed contracts and investments from US$1.2 billion for the year ended 31 December 2015 to US$1.3 billion for the year ended 31 December 2016. Net income from self-financed accounts and investments also increased by 4.6 per cent. These increases reflected a growth in income from *Murabaha* receivables, *Mudaraba* and *Musharaka* financing, *Ijarah*

Muntahia Bittamleek financing and gains made on the sale of investments, which in turn reflected prudent growth in the Group's corporate and retail banking financing portfolio in line with the Group's strategy.

The Group's other fees and commission income declined by 12 per cent. to US$176.8 million for the year ended 31 December 2016 from US$200.5 million for the year ended 31 December 2015 and its *Mudarib* share from managing off-balance sheet equity of investment accountholders declined to US$5.0 million for the year ended 31 December 2016 from US$5.6 million for the year ended 31 December 2015 (a decline of 10 per cent.) which decreases were principally attributable to lower returns of ABT and ABS (despite an increase in JIB's *Mudarib* share from managing off-balance sheet equity of investment accountholders). These declines were offset by a 126.6 per cent. increase in other operating income from US$34.8 million for the year ended 31 December 2015 to US$78.9 million for the year ended 31 December 2016. This was primarily due to a US$40.6 million or 222 per cent. increase in foreign exchange gain, principally as a result of an increased focus on cross-selling particularly by ABTPB, ABE and ABS.

The Group's total profit paid on long term financing (which principally represents funding of ABTPB) increased by 62 per cent. from US$57 million for the year ended 31 December 2015 to US$91 million for the year ended 31 December 2016. This increase was principally attributable to the issuance by ABTPB of subordinated *sukuk* in December 2015 for US$225 million with a profit rate of 10.5 per cent. as well as the increase in the Group's average long-term financing balance during 2016 as compared to 2015.

Consolidated net operating income

Net operating income for the year before provisions and impairment and taxation

Reflecting all of the factors described above, the Group's net operating income before provisions and impairment and taxation increased by US$43.3 million, or 9.3 per cent. from US$463.7 million for the year ended 31 December 2015 to US$506.9 million for the year ended 31 December 2016. This reflected increases of 8.9 per cent. and 5.5 per cent. in the Group's staff expenses and other operating expenses (including general and administrative expenses, professional and business expenses and premises related expenses), respectively. The increase in expenses was in line with (and supported) the expansion of the Group's operations (including expansion of its branch network) in 2016, particularly in Turkey, Jordan, Pakistan, Bahrain and the Head Office (as defined under "*Description of Al Baraka Banking Group B.S.C – Head Office Function*"), with significant increases in staff expenses (mainly in ABTPB, JIB, ABT, ABBS and the Head Office), business and promotion expenses and premises related expenses. Despite an increase in depreciation expense as a result of moving into a new Group headquarters and introducing new IT core banking systems in Turkey, the Group's overall depreciation expense decreased due to reduction in depreciation on intangible assets.

Net income for the year

Following a significant increase in allocations in respect of provisions and impairments (109.3 per cent.) from US$58.4 million in 2015 to US$122.2 million in 2016, the Group's net income for the year decreased by US$18.6 million or 6.5 per cent. from US$286.2 million for the year ended 31 December 2015 to US$267.6 million for the year ended 31 December 2016 (although, on a constant currency basis, the Group's net income increased by 1.9 per cent.). The increase in provisions and impairments in 2016 principally related to an increase in non-performing assets in some Units including ABTPB, ABT and BAA, an increase in provisions of ABTPB (which increased by US$66 million in 2016) and JIB (which increased by US$2.2 million in 2016), a write-back of US$8 million by BAA in 2015 (as compared to a write-back of US$103 thousand in 2016) and a goodwill impairment loss of US$9.1 million of Itqan Capital (compared to a goodwill impairment loss of only US$4 million in 2015).

Net income for the year attributable to the owners of the Group, in US dollar terms, decreased by US$11.2 million or 6.9 per cent. from US$162.7 million for the year ended 31 December 2015 to US$151.5 million for the year ended 31 December 2016 and, on a constant currency basis, grew by 2.7 per cent.

Other key financial ratios

Capital adequacy ratio

The Group's capital adequacy ratio (as per CBB regulations which largely follow Basel III standards) was 15.49 per cent. as at 31 December 2016 compared to 14.55 per cent. as at 31 December 2015. The increase in the Group's capital adequacy ratio was primarily driven by lower risk weighted assets in the year ended 31 December 2016.

Return on average owners' equity

Return on average owners' equity for the year ended 31 December 2016 decreased to 13.0 per cent. from 13.7 per cent. for the year ended 31 December 2015. This was attributable largely to decreased net income as a result of the translation effect of dollar appreciation against the depreciation in the reporting currencies of some of the Units.

Return on average parent's shareholders' equity

Return on average parent's shareholders' equity for the year ended 31 December 2016 decreased to 11.5 per cent. from 12.1 per cent. for the year ended 31 December 2015.

Cost to income ratio

Operating expenses as a proportion of operating income decreased marginally to 52.8 per cent. for the year ended 31 December 2016 from 53.6 per cent. for the year ended 31 December 2015, as a result of increased operational efficiency of the Group.

Return on average assets

Return on average assets for the year ended 31 December 2016 decreased to 1.1 per cent. from 1.2 per cent. for the year ended 31 December 2015, which was largely attributable to decreased net income as a result of higher provisioning and the translation effect of dollar appreciation against the depreciation in the reporting currencies of some of the Units.

Year ended and as at 31 December 2015 compared with year ended and as at 31 December 2014

Consolidated financial position

Total assets

The Group's consolidated total assets increased by US$1.15 billion or 4.9 per cent. to US$24.6 billion as at 31 December 2015 from US$23.5 billion as at 31 December 2014. This was, in large part, attributable to the declines in TRY (which fell by 20 per cent.), DZD (which fell by 15 per cent.), EGP (which fell by 9 per cent.), ZAR (which fell by 26 per cent.) and SYP (which fell by 41 per cent.), which adversely impacted the growth of assets in US dollar terms due to the translation effect of dollar appreciation. On a constant currency basis, the Group's total assets grew by 21 per cent. from 31 December 2014 to 31 December 2015. The growth is in large part attributable to a US$240 million or 16 per cent. growth in *Ijarah Muntahia Bittamleek* financings during 2015 mainly from JIB, AIB and BAA due to their aggressive marketing of *Ijarah Muntahia Bittamleek* products. The Group also benefitted from higher values of a number of its investments, which in aggregate rose by 20 per cent. or US$526 million during 2015 from US$2.6 billion as at 31 December 2014 to US$3.1 billion as at 31 December 2015. In particular, the growth in investments was principally due to an increase of US$506 million or 22.6 per cent. in the value of its debt-type instruments at amortised cost (which largely represented increases in the same in ABE and ABTPB, largely through their investments in sovereign *sukuk* which provided good returns with minimal risks). There were also increases, albeit smaller, in the values of the Group's *Istisna'a* receivables and *Mudaraba* financings.

Total liabilities

The Group's total liabilities increased by 10.4 per cent. from US$7.2 billion as at 31 December 2014 to US$8.0 billion as at 31 December 2015 and total equity of investment accountholders increased by 2.7 per cent. from US$14.1 billion as at 31 December 2014 to US$14.5 billion as at 31 December 2015. The increase of 2.7 per cent. in equity of investment accountholders was attributable to the growth of the majority of the Units. The increase in total liabilities was in large part attributable to a 128.3 per cent. increase in long term financing from US$0.6 billion as at 31 December 2014 to US$1.5 billion as at 31 December 2015, which was mainly due to a US$715 million *Murabaha* financing and a US$225 million subordinated financing, in each case obtained by ABTPB in 2015. In addition, customer current and other accounts grew by 7.4 per cent. from US$4.5 billion as at 31 December 2014 to US$4.8 billion as at 31 December 2015.

Due to banks decreased by US$403million or by 33.3 per cent., which was largely attributable to ABTPB and its transition from short-term inter-bank funding to longer-term forms of funding and each of ABT, ABS, ABL and ABBL experienced a decrease in their respective total liabilities. The Group's total customer deposits increased by 1.5 per cent. to US$20.2 billion, which mainly reflected growth in the same among JIB, BAA, AIB and ABE.

Consolidated total operating income

The Group's total operating income increased by US$82 million (8.9 per cent.) to US$999.6 million for the year ended 31 December 2015 from US$917.6 million for the year ended 31 December 2014. This was largely attributable to a solid growth in income from *Ijarah Muntahia Bittamleek* and investments, as more particularly set out below. The translation into US$ of the results of Units reporting in TRY, EGP, DZD, ZAR and TND (which currencies fell by 19 per cent., 8 per cent., 19 per cent., 16 per cent. and 13 per cent. respectively) adversely affected the US$ performance of the Group. But for the negative impact of the currency translations, the Group's total operating income (before profit paid on long-term funding), on a constant currency basis, would have grown by 26 per cent. for the year ended 31 December 2015.

The increase in total operating income was principally due to a 14 per cent. rise in the Group's share of income from equity of investment accountholders (as *Mudarib* and *Rabalmal*) from US$476.8 million for the year ended 31 December 2014 to US$542.3 million for the year ended 31 December 2015. This was largely attributable to a 4.8 per cent. increase in net income from jointly financed contracts and investments in 2015. Net income from self-financed accounts and investments also increased by 15.4 per cent. from US$236.4 million for the year ended 31 December 2014 to US$272.9 million for the year ended 31 December 2015.

The Group's other fees and commission income increased by 7.1 per cent. to US$200.5 million for the year ended 31 December 2015, from US$187.1 million for the year ended 31 December 2014. This rise was principally attributable to an increase in banking fees and commissions of 21.3 per cent. as against the year ended 31 December 2014 and such growth is mainly a reflection of the strong performance by ABTPB, JIB, AIB and ABE during 2015.

The Group's *Mudarib* share for managing off-balance sheet equity of investment account holders declined considerably to US$5.6 million for the year ended 31 December 2015 from US$13.9 million for the year ended 31 December 2014 (a decline of 60 per cent.). This decline, however, was offset by the rise in net income from jointly and self-financed contracts and investments and other fees and commission income (as described above).

The Group's total profit paid on long term financing increased by 48 per cent. from US$38 million for the year ended 31 December 2014 to US$57 million for the year ended 31 December 2015. This increase was principally attributable to the 128 per cent. rise in long-term funding balances from US$656 million as at 31 December 2014 to US$1.5 billion as at 31 December 2015.

Consolidated net operating income

Net operating income for the year before provisions and impairment and taxation

Reflecting all of the factors described above, the Group's net operating income before provisions and impairment and taxation increased by US$67.5 million, or 17.0 per cent., to US$463.7 million for the year ended 31 December 2015 from US$396.2 million for the year ended 31 December 2014. The Group's strong operating performance was achieved in spite of an increase in its total operating expenses of US$14.5 million, or 2.8 per cent., to US$535.9 million as at 31 December 2015 compared to US$521.4 million as at 31 December 2014. The marginal increase in the Group's total operating expenses reflected an increase in the amortisation charge of the Group's intangible assets, an increase in depreciation on property and equipment and a 7.1 per cent. increase in the Group's other operating expenses (including general and administrative expenses, professional and business expenses and premises related expenses). The increase in expenses in 2015 mainly supported the growth in operations (including expansion of its branch network, particularly in relation to ABTPB and JIB), with significant increases in Board remuneration and management compensation and premises and administrative-related costs.

Net income for the year

Notwithstanding a significant increase (175 per cent.) in allocations in respect of provisions and impairments in 2015 from US$21.2 million in 2014 to US$58.4 million in 2015, the Group's net income for the year increased by US$11.4 million or 4.1 per cent. from US$274.8 million for the year ended 31 December 2014 to US$286.2 million for the year ended 31 December 2015. The increase in provisions and impairments in 2015 principally related to an increase in provisions in respect of ABTPB and ABE to reflect an increase in non-performing assets (which, in the case of ABE allows for provision coverage in respect of its non-performing assets of more than 100 per cent.). The Group's total taxation increased by 19 per cent. to US$119 million in 2015 from US$100 million in 2014 which was mainly attributable to the increase in the Group's total income and respective increases in rates of taxation in Jordan and Algeria.

Net income for the year attributable to the owners of the Group, in US dollar terms, increased by US$11 million or 7.3 per cent. to US$162.7 million for the year ended 31 December 2015 from US$151.7 million for the year ended 31 December 2014 and, on a constant currency basis, grew by 24 per cent.

Other key financial ratios

Capital adequacy ratio

The Group's capital adequacy ratio (as per CBB regulations which largely follow Basel III standards) was 14.55 per cent. as at 31 December 2015 compared to 16.01 per cent. (as per CBB regulations at the time which largely followed Basel II standards) as at 31 December 2014. The decrease in the Group's capital adequacy ratio was due to the change in regulations used to calculate the capital adequacy ratio. Prior to January 2015, the methodology was based on Basel II standards and since January 2015 the methodology has largely followed Basel III standards.

Return on average owners' equity

Return on average owners' equity for the year ended 31 December 2015 remained stable at 14 per cent.

Return on average parent's shareholders' equity

Return on average parent's shareholders' equity for the year ended 31 December 2015 remained stable at 12 per cent.

Cost to income ratio

Operating expenses as a proportion of operating income decreased marginally to 54 per cent. for the year ended 31 December 2015 from 57 per cent. for the year ended 31 December 2014, as a result of increased operational efficiency of the Group.

Return on average assets

Return on average assets for the year ended 31 December 2015 remained at 1.2 per cent.

Segmental Analysis

The Group's segmental analysis is presented on the basis of its geographical segments which is based on the geographical locations of its Units. For reporting purposes, the Group has the following four geographic segments:

- Middle East;
- North Africa;
- Europe; and
- Others.

The table below shows certain income statement and statement of financial position line items of the Group's reporting segments as at, and for the years ended, 31 December in each of 2016, 2015 and 2014.

	Middle East	North Africa	Europe	Others	Total
			(US$'000s)		
2016					
Total operating income	446,026	103,411	425,986	98,736	**1,074,159**
Net operating income	223,014	48,527	203,709	31,693	**506,943**
Net income	119,332	34,413	90,022	23,869	**267,636**
Assets	9,710,447	2,419,901	9,304,781	1,990,136	**23,425,265**
Liabilities	2,782,561	1,171,716	3,546,164	639,449	**8,139,890**
Equity of Investment Accountholders	6,057,888	974,704	5,103,850	1,140,352	**13,276,794**
2015					
Total operating income	407,929	101,996	407,121	82,507	**999,553**
Net operating income	207,450	48,886	184,264	23,082	**463,682**
Net income	103,137	42,101	124,478	16,470	**286,186**
Assets	10,589,649	2,489,812	10,035,619	1,503,121	**24,618,201**
Liabilities	2,659,913	1,113,612	3,733,314	502,180	**8,009,019**
Equity of Investment Accountholders	6,984,027	1,084,982	5,586,129	859,461	**14,514,599**
2014					
Total operating income	337,724	108,903	396,754	74,181	**917,562**
Net operating income	144,880	56,727	174,695	19,900	**396,202**
Net income	90,292	49,093	120,934	14,448	**274,767**
Assets	9,668,236	2,448,620	9,665,187	1,681,546	**23,463,589**
Liabilities	2,630,783	1,023,181	3,127,066	468,144	**7,249,174**
Equity of Investment Accountholders	6,157,725	1,106,558	5,801,091	1,074,418	**14,139,792**

Middle East

The Middle East reporting segment recorded total operating income of US$446.0 million in 2016 compared to US$407.9 million in 2015 and US$337.7 million in 2014. The increase of US$38.1 million, or 9.3 per cent., in total operating income in 2016 compared to 2015 principally reflected increases in total operating income of each of JIB, AIB, ABE and ABBS. The increase of US$70.2 million, or 20.8 per cent., in total operating income in 2015 compared to 2014 principally reflected increases in total operating income of each of JIB, AIB, ABE, ABBL and ABBS. The Middle East segment's net operating income was US$223.0 million in 2016 compared to US$207.5 million in 2015 and US$144.9 million in 2014. The increase of US$15.5 million, or 7.5 per cent., in 2016 as compared to 2015 principally reflected increases in net operating income of each of JIB, AIB, ABE and ABBS. The increase of US$62.6 million, or 43.2 per cent., in net operating income in 2015 as compared to 2014 principally reflected increases in net operating income of each of JIB, AIB, ABE, ABBS, ABBL and the Head Office. The Middle East segment's net income was US$119.3 million in 2016 compared to US$103.1 million in 2015 and US$90.3 million in 2014. The increase of US$16.2 million, or 15.7 per cent., in 2016 as compared to 2015 principally reflected increases in net income of each of JIB, AIB, ABE and ABBS. The increase of US$12.8 million, or 14.2 per cent., in net income in 2015 as compared to 2014 principally reflected increases in net income of each of JIB and Head Office.

North Africa

The North Africa reporting segment recorded total operating income of US$103.4 million in 2016 compared to US$102.0 million in 2015, and US$108.9 million in 2014. The increase of US$1.4 million, or 1.4 per cent., in total operating income in 2016 compared to 2015 principally reflected an increase in total operating income of BAA. The fall of US$7 million, or 6.3 per cent., in total operating income in 2015 compared to 2014 principally reflected a decrease in total operating income of each of BAA and ABT. The North Africa segment's net operating income was US$48.5 million in 2016 compared to US$48.9 million in 2015 and US$56.7 million in 2014. The fall of US$7.8 million, or 13.8 per cent., in net operating income in 2015 as compared to 2014 principally reflected a decrease in net operating income of each of BAA and ABT. The North Africa segment's net income was US$34.4 million in 2016 compared to US$42.1 million in 2015 and US$49.1 million in 2014. The fall of US$7.7 million, or 18.3 per cent., in 2016 as compared to 2015 principally reflected a decrease in net income of each of BAA and ABT. The fall of US$7 million, or 14.2 per cent., in net income in 2015 as compared to 2014 principally reflected a decrease in net income of ABT.

Europe

The Europe reporting segment largely reflects the Group's operations in Turkey through ABTPB. The Europe segment recorded total operating income of US$426 million in 2016 compared to US$407.1 million in 2015 and US$396.8 million in 2014. The increase of US$18.9 million, or 4.6 per cent., in total operating income in 2016 compared to 2015 principally reflected a strong operating performance by ABTPB as the Unit experienced solid growth in its income from financing and investments, as well as in other operating income. The increase of US$10.4 million, or 2.6 per cent., in total operating income in 2015 compared to 2014 principally reflected an increase in total operating income of ABTPB which was largely driven by a rise in both its financing and investments income and fees and commission income. The Europe segment's net operating income was US$203.7 million in 2016 compared to US$184.3 million in 2015 and US$174.7 million in 2014. The increase of US$19.4 million, or 10.5 per cent., in 2016 as compared to 2015 principally reflected the improved operating performance by ABTPB. The increase of US$9.6 million, or 5.5 per cent., in net operating income in 2015 as compared to 2014 also principally reflected the increased income reported by ABTPB. The Europe segment's net income was US$90 million in 2016 compared to US$124.5 million in 2015 and US$121 million in 2014. The decrease of US$34.5 million, or 27.7 per cent., in 2016 as compared to 2015 principally resulted from an increase in provisions reported by ABTPB. The increase of US$3.5 million, or 2.9 per cent., in net income in 2015 as compared to 2014 principally reflected the increase in income of ABTPB.

Others

The Others reporting segment recorded total operating income of US$98.7 million in 2016 compared to US$82.5 million in 2015 and US$74.2 million in 2014. The increase of US$16.2 million, or 19.6 per cent., in total operating income in 2016 compared to 2015 principally reflected an increase in total operating income of each of ABP and ABS. The increase of US$8.3 million, or 11.2 per cent., in total operating income in 2015 compared to 2014 principally reflected an increase in total operating income of each of ABL, ABP and ABS. The Others segment's net operating income was US$31.7 million in 2016 compared to US$23.1 million in 2015 and US$19.9 million in 2014. The increase of US$8.6 million, or 37.3 per cent., in 2016 as compared to 2015 principally reflected an increase in net operating income of ABS. The increase of US$3.2 million, or 16 per cent., in net operating income in 2015 as compared to 2014 principally reflected an increase in net operating income of each of ABS and ABL. The Others segment's net income was US$23.9 million in 2016 compared to US$16.5 million in 2015 and US$14.4 million in 2014. The increase of US$7.4 million, or 45 per cent., in 2016 as compared to 2015 principally reflected an increase in net income of ABS. The increase of US$2.0 million, or 14.0 per cent., in net income in 2015 as compared to 2014 principally reflected an increase in net income of each of ABL, ABP and ABS.

Liquidity and Funding

Overview

The Group's liquidity needs arise primarily from making financings to customers, the payment of expenses and investments in securities. To date, the Group's liquidity needs have been funded principally through deposits and operating cash flow, including profits received from its operating activities and its investing activities. See "—*Funding*".

Liquidity

The table below shows the Group's cash flow from operating activities, investing activities and financing activities for each of 2016, 2015 and 2014.

	2016	**2015**	**2014**
		(US$'000s)	
Net cash from (used in) operating activities	543,107	(392,798)	676,132
Net cash from (used in) investing activities	486,624	(566,089)	(168,475)
Net cash (used in) from financing activities	(147,325)	775,400	59,089
Foreign currency translation adjustments	(323,137)	(258,945)	(136,378)
Cash and cash equivalents at 1 January	2,292,689	2,735,121	2,304,753
Cash and cash equivalents at 31 December	2,851,958	2,292,689	2,735,121

Operating activities

The Group's net cash flow from operating activities in 2016 was US$543.1 million compared to a net cash flow used in operating activities of US$392.8 million in 2015 and a net cash flow from operating activities of US$676.1 million in 2014. The increase in net cash flow in 2016 was primarily due to an increase in the Group's operating profit and a reduction in reserves with central bank. The Group's net cash flow in 2016 was reduced to some extent by a decrease in equity of investment accountholders and an increase *in Ijarah Muntahia Bittamleek* financing. Conversely, the decrease in net cash flow in 2015 was primarily due to increases in reserves with the central banks and in *Ijarah Muntahia Bittamleek* financing and a decrease in due to banks. However, the Group's net cash flow in 2015 was improved by the combined increases in the Group's total operating profit, customer current and other accounts and the equity of investment accountholders. The Group's net cash flow from operating activities before changes in operating assets and liabilities principally reflects its cash profit for the year from its operations after adjustment of non-cash items such as depreciation, unrealised gains and its provisions and impairment losses.

Investing activities

The Group's net cash flow from investing activities was US$486.6 million in 2016 and its net cash flow used in investing activities was US$566.1 million in 2015 and US$168.5 million in 2014. The increase in net cash flow in 2016 was primarily due to a reduction in debt-type instruments valued at amortised cost. The decrease in cash flow from 2014 to 2015 reflected an increase in investment in debt-type instruments valued at amortised cost.

Financing activities

The Group's net cash flow used in financing activities in 2016 was US$147.3 million compared to a net cash flow from financing activities of US$775.4 million in 2015 and US$59.1 million in 2014. The net cash flow used in financing activities in 2016 as compared to the net cash flow from financing activities in 2015 reflected a decrease in long-term financing and the payment of dividend distributions to the Group's shareholders in an amount equal to 2 per cent. of the Group's share capital. The increase in net cash flow from financing activities in 2015 as compared to 2014 principally reflected an increase in long-term financing, of which the majority was contributed by ABTPB.

Foreign currency translation adjustments

The Group's negative foreign currency translation adjustments were US$323.1 million in 2016, US$258.9 million in 2015 and US$136.4 million in 2014. The negative foreign currency translation adjustments reflect the translation effect on the Group's cash flow of the conversion from the Units' local currency to US dollars.

Funding

The Group's principal sources of funding are its customer deposits and, to a lesser extent, interbank deposits, long-term Sukuk financing and other liabilities.

Customer deposits (including customer current accounts, equity of investment accountholders, other accounts and due to banks)

The majority of the Group's funding base is characterised by stable deposits from customers while less than 5 per cent. is provided by interbank deposits. The Group's deposit base originating from customers is highly granular with the Group's 25 largest customer deposits accounting for 10 per cent. of total customer deposits as at 31 December 2016. The maturity of deposits is short-term and, as at 31 December 2016, 78.5 per cent. of total deposits had a maturity profile of up to one year which reflects the short-term average maturity of a bank's funding base.

Long-term financing

During 2015, ABTPB raised and received US$225 million subordinated financing with an annual profit rate of 10.5 per cent. for a period of 10 years. In addition, ABTPB raised US$200 million in long-term debt during 2013 with an annual profit rate of 7.75 per cent. with a maturity of ten years.

During 2014, ABTPB issued Sukuk listed on the Irish Stock Exchange for a tenure of five years with an expected profit rate of 6.25 per cent. through its fully owned subsidiary Bereket Varlık Kiralama A.Ş., amounting to US$350 million.

The table below shows the Group's funding in the form of customer current and other accounts, amounts due to banks and other financial institutions, long-term financing and other liabilities as at 31 December in each of 2016, 2015 and 2014.

	As at 31 December					
	2016		2015		2014	
	(US$'000s)	*(% of total)*	*(US$'000s)*	*(% of total)*	*(US$'000s)*	*(% of total)*
Equity of investment accountholders	13,276,794	62.0	14,514,599	64.4	14,139,792	66.1
Customer current and other accounts	4,983,772	23.3	4,841,099	21.5	4,509,312	21.1
Due to banks	918,395	4.3	808,268	3.6	1,211,493	5.7
Long-term financing	1,381,256	6.4	1,497,208	6.6	655,669	3.1
Other liabilities	856,467	4.0	862,444	3.8	872,700	4.1
Total funding	**21,416,684**	**100.0**	**22,523,618**	**100.0**	**21,388,966**	**100.0**

The Group's customer deposits comprise equity of investment accountholders (including savings and time deposits), customer current and other accounts and due to banks.

As at 31 December 2016, the Group's current and demand accounts accounted for 23.3 per cent. of the Group's total funding (which represented an increase from 21.5 per cent. in 2015 and 21.1 per cent. in 2014). As at 31 December 2016, the Group's equity of investment accountholders accounted for 62.0 per cent. of the Group's total funding (which represented a decrease from 64.4 per cent. in 2015 and 66.1 per cent. in 2014). The decrease was due to the respective increases in the funding contributed by long-term financing, customer current and other accounts and amounts due to banks.

The Group believes that its current, demand and savings accounts are diversified and constitute a stable and secure source of low cost funding. The Group's current, demand and savings accounts form a significant proportion of its total customer deposits.

The Group accepts time deposits for a range of periods in excess of 10 years.

Maturity profile

The table below shows the maturity profile of the Group's total customer deposits, long-term financing and other liabilities as at 31 December in each of 2016, 2015 and 2014.

	Up to one month	One month to one year	One year and above	Total
		(US$'000s)		
31 December 2016				
Equity of investment accountholders	5,330,813	4,085,798	3,860,183	**13,276,794**
Customer current and other accounts	4,983,772	0	0	**4,983,772**
Due to banks	324,835	339,000	254,560	**918,395**
Long-term financing	-	527,841	853,415	**1,381,256**
Other liabilities	296,977	205,322	354,168	**856,467**
Total	**10,936,397**	**5,157,961**	**5,322,326**	**21,416,684**
31 December 2015				
Equity of investment accountholders	5,582,600	4,486,720	4,445,279	**14,514,599**
Customer current and other accounts	4,841,099	-	-	**4,841,099**
Due to banks	428,917	288,253	91,098	**808,268**
Long-term financing	-	223,381	1,273,827	**1,497,208**
Other liabilities	315,516	143,183	403,745	**862,444**
Total	**11,168,132**	**5,141,537**	**6,213,949**	**22,523,618**
31 December 2014				

	Up to one month	One month to one year	One year and above	Total
		(US$'000s)		
Equity of investment accountholders	5,865,872	3,994,982	4,278,938	**14,139,792**
Customer current and other accounts	4,509,312	-	-	**4,509,312**
Due to banks	540,291	588,328	82,874	**1,211,493**
Long-term financing	-	285,636	370,033	**655,669**
Other liabilities	326,805	214,465	331,430	**872,700**
Total	**11,242,280**	**5,083,411**	**5,063,275**	**21,388,966**

A significant proportion of the Group's funding disclosed in the table above as at 31 December 2016 is short term in nature, with 51.1 per cent. of such funding being repayable within one month. Where the maturity profile of the Group's funding is based on the contractual maturity obligations, deposits tend to be maintained with the Group and are renewed on maturity.

Lending

The Group's financing portfolio largely comprises *Murabaha* financing for SMEs. At the Unit level, as at 31 December 2016, the financing portfolios of ABTPT, JIB and ABE accounted for more than two-thirds of the Group's total financings. The financing portfolio (other than in respect of exposure to the government segment, for which see "*Financial Review – Distribution of the Group's total assets by geography and sector")* is highly diversified with the 25 largest customer financings accounting for 17 per cent. of the total financing portfolio. Most of the Group's financings are secured by collateral and 46 per cent. and 71 per cent. of the total financings mature within one year and three years, respectively. The Group's non-performing financing to total financing portfolio ratio as at 31 December 2016 was (before provisions) 4.4 per cent. and (after provisions) 0.6 per cent, whilst the Group's gross non-performing assets ratio was (before provisions) 3.9 per cent. and (after provisions) 0.4 per cent.

Credit risk exposure by counterparty type

The table below shows the breakdown of the Group's total financing portfolio as at 31 December in each of 2016, 2015 and 2014.

	As at 31 December		
	2016	**2015**	**2014**
		(US$'000s)	
Sovereign	1,065,787	1,246,731	951,447
Bank	694,570	865,836	974,092
Investment firms	24,209	47,736	41,132
Corporates	8,930,117	9,202,823	9,234,560
Retail	4,770,240	4,507,277	4,498,264
Total	**15,484,923**	**15,870,403**	**15,699,495**

Credit risk exposure by credit quality of financial assets

The table below shows the Group's credit risk exposure by credit quality of financial assets by status as at 31 December 2016.

	Neither past due nor non-performing	Past due but performing	Non-performing financing contracts	Total
		(US$'000s)		
Receivables	10,563,395	590,576	644,720	**11,798,691**
Mudaraba and Musharaka financing	1,542,585	25,855	32,505	**1,600,945**
Ijarah Muntahia Bittamleek	1,830,339	-	-	**1,830,339**
Other assets	244,934	311	9,703	**254,948**
Total	**14,181,253**	**616,742**	**686,928**	**15,484,923**

As at 31 December 2016, the Group's gross maximum exposure to credit risk was US$15.5 billion, of which receivables (comprising sales (*Murabaha*), *Salam* and *Istisna'a* receivables) comprised 76.2 per cent. The Group's non-performing financings constituted 4.4 per cent. of its total financing portfolio. The Group's past due but performing financing assets constituted 4.0 per cent. of its total financing portfolio. Of the Group's US$616.7 million in past due but performing financing assets, US$256.2 million comprised financings with less than one month past due. The Group made a specific provision of US$408.6 million against US$686.9 million in non-performing assets. The Group's non-performing assets were further covered by collateral held and general provisioning.

The table below shows the Group's credit risk exposure by credit quality of financial assets by status as at 31 December 2015.

	Neither past due nor non-performing	Past due but performing	Non-performing financing contracts	Total
			(US$'000s)	
Receivables	11,067,995	788,840	644,720	**12,354,430**
Mudaraba and Musharaka financing	1,505,150	51,193	32,505	**1,574,092**
Ijarah Muntahia Bittamleek	1,734,457	-	-	**1,734,457**
Other assets	195,303	2,149	9,703	**207,424**
Total	**14,502,905**	**842,182**	**525,316**	**15,870,403**

As at 31 December 2015, the Group's gross maximum exposure to credit risk was US$15.9 billion of which receivables comprised 77.8 per cent. The Group's non-performing financings constituted 3.3 per cent. of its total financing portfolio. The Group's past due but performing financing assets constituted 5.3 per cent. of its total financing portfolio. Of the Group's US$842 million in past due but performing financing assets, US$589 million comprised financings with less than one month past due. The Group made a specific provision of US$423 million against US$525 million in non-performing assets. The Group's non-performing assets were further covered by collateral held and general provisioning.

Distribution of financing by maturity

The table below shows the distribution of the Group's total financing portfolio by maturity as at 31 December in each of 2016, 2015 and 2014.

	Up to one month	One month to one year	One year and above	Total
		(US$'000s)		
31 December 2016				
Receivables	1,504,074	4,276,723	5,642,651	**11,423,448**
Mudaraba and *Musharaka* financing	691,754	57,072	833,570	**1,582,396**
Ijarah Muntahia Bittamleek	96,173	200,248	1,533,918	**1,830,339**

	Up to one month	One month to one year	One year and above	Total
		(US$'000s)		
Total	**2,292,001**	**4,534,043**	**8,010,139**	**14,836,183**
31 December 2015				
Receivables	1,429,128	5,125,167	5,404,757	**11,959,052**
Mudaraba and *Musharaka* financing	840,924	42,697	674,972	**1,558,593**
Ijarah Muntahia Bittamleek	58,860	258,729	1,416,868	**1,734,457**
Total	**2,328,912**	**5,426,593**	**7,496,597**	**15,252,102**
31 December 2014				
Receivables	1,719,630	5,076,008	5,203,909	**11,999,547**
Mudaraba and *Musharaka* financing	813,313	42,513	693,960	**1,549,786**
Ijarah Muntahia Bittamleek	20,723	177,240	1,296,836	**1,494,799**
Total	**2,553,666**	**5,295,761**	**7,194,705**	**15,044,132**

Distribution of the Group's total assets by geography and sector

The Group does not disclose the geographical or sectoral split of its financing portfolio in its financial statements, although it does disclose the geographical and sectoral split of its total assets. The tables below show the breakdown by geography and by industry sector of the Group's total assets.

	As at 31 December		
	2016	**2015**	**2014**
Geographic segment		Assets *(US$'000s)*	
Middle East	9,710,447	10,589,649	9,668,236
North Africa	2,419,901	2,489,812	2,448,620
Europe	9,304,781	10,035,619	9,665,187
Others	1,990,136	1,503,121	1,681,546
Total assets	**23,425,265**	**24,618,201**	**23,463,589**

	As at 31 December		
	2016	**2015**	**2014**
Industry sector		*Assets (US$'000s)*	
Manufacturing	3,922,073	4,048,955	4,345,866
Mining and quarrying	169,465	106,609	131,400
Agriculture	149,542	124,537	106,714
Construction and real estate	3,211,074	2,826,010	3,009,413
Financial	2,377,485	3,091,392	3,376,998
Trade	1,451,128	1,686,693	1,646,955
Personal and consumer finance	2,620,213	2,507,063	2,070,163
Government	6,592,359	7,050,655	6,157,519
Other Services	2,931,926	3,176,287	2,618,561
Total assets	**23,425,265**	**24,618,201**	**23,463,589**

The Group carefully controls its geographic cross-border exposure through Board-approved country limits which are centrally managed at Head Office level and implemented by the Units. The exposure limits followed by each of the Units also apply to the equity investments held by ABG in the Units. Similarly, industry sector limits are maintained by each Unit, reflecting the different sector risks that exist in each country in which the Group operates.

The Group's largest sector of credit exposure is the government segment, which accounted for 28.1 per cent. of the Group's total assets as at 31 December 2016 compared to 28.6 per cent. as at 31 December 2015 and 26.2 per cent. as at 31 December 2014. The Group considers that this segment comprises a relatively low risk component of its financing portfolio, reflecting the sovereign nature of the exposure.

The Group's second largest sector of credit exposure is the manufacturing segment and the construction and real estate segment, which accounted for 16.7 per cent. and 13.7 per cent., respectively, of the Group's total assets as at 31 December 2016 compared to 16.4 per cent. and 11.5 per cent., respectively, as at 31 December 2015 and 18.5 per cent. and 12.8 per cent., respectively, as at 31 December 2014. The Group's exposure to these sectors is primarily in Turkey.

Investments

The Group's investments comprise equity and debt-type instruments at fair value through statement of income, equity-type instruments at fair value through equity, debt-type instruments at amortised cost, investment in real estate and investment in associates.

The table below summarises the Group's combined investment portfolio as at 31 December in each of 2016, 2015 and 2014.

	As at 31 December		
	2016	**2015**	**2014**
		(US$'000s)	
Investments portfolio			
Equity and debt-type instruments at fair value through statement of income	27,842	20,652	17,510
Equity-type instruments at fair value through equity	107,225	102,810	104,919
Debt-type instruments at amortised cost	2,250,764	2,748,405	2,242,616
Investment in real estate	191,565	187,412	159,549
Investment in associates	51,735	46,471	55,440
Total investments	**2,629,131**	**3,105,750**	**2,580,034**

The Group's investment policy is to emphasise conservative investments and Units are requested to primarily invest in *Shari'a*-approved *Sukuk* or other debt-like securities issued by their respective local governments mostly in local currencies. In addition, non-sovereign risk investments are mostly restricted to high quality (investment grade) *Sukuk* issued by corporates. A significant proportion of the government *Sukuk* are highly liquid and re-purchasable by the respective central banks.

For further information on the manner in which the Group's investments are valued, see note 2d to the 2016 Financial Statements.

Contingent Liabilities

The Group has contingent liabilities which arise in the normal course of its banking operations in respect of funding commitments it has made as well as in relation to acceptances, letters of credit and guarantees issued by it. The table below shows these contingent liabilities as at 31 December in each of 2016, 2015 and 2014.

	As at 31 December		
	2016	**2015**	**2014**
		(US$'000s)	
Letters of credit	704,307	810,168	877,685
Guarantees	2,680,992	3,105,059	3,639,789
Acceptances	53,791	52,315	142,917
Undrawn commitments	834,915	654,138	560,596

Shari'a compliant promise contracts	323,915	-	-
Others	321	249	198
Total contingent liabilities	**4,598,241**	**4,621,929**	**5,221,185**

Related Party Transactions

Related parties comprise major shareholders, directors of the Group, entities owned or controlled, jointly controlled or significantly influenced by the Group, companies affiliated with the Group by virtue of having shareholding in common with that of the Group and *Shari'a* Supervisory Board members. FAS require the disclosure of shareholder related parties only in cases where those related parties exercise significant influence. In addition to the Group's associated companies, certain related parties are customers of the Group in the ordinary course of business, major shareholders and directors and key management personnel. The Group treats all such transactions at arm's length and requires that they have the specific approval of the Board. If a director is an interested party, he is required to abstain from voting on the matter.

All related party transactions are governed by the Group's corporate governance policy and individual Units' local rules and regulations.

Further information on the Group's related party transactions in 2016, 2015 and 2014 is set out in note 24 to the 2016 Financial Statements and note 23 to the 2015 Financial Statements.

Capital requirement for different types of risks

The following table summarises the capital requirements for credit risk, market risk and operational risk as at 31 December 2016.

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

DESCRIPTION OF AL BARAKA BANKING GROUP B.S.C.

History and Background

Al Baraka Banking Group B.S.C. (**ABG**) was incorporated in Bahrain on 27 June 2002 as a closed joint stock company under Commercial Registration number 48915 pursuant to the Bahrain Commercial Companies Law No. 21 of 2001 (as amended) and its implementing regulations (issued by Ministerial Order No. 6 of 2002 (as amended)). It was initially incorporated for the purpose of holding the interests of its two shareholders in, at the time, ten Islamic banks operating in geographically diverse markets (being Algeria, Bahrain, Egypt, Jordan, Lebanon, South Africa, Tunisia, Sudan and Turkey). The initial subsidiaries of ABG, which were independently established Islamic institutions in their respective markets (the oldest having been set up in Jordan in 1978), were successfully integrated by ABG and a framework was established to achieve effective consolidation in certain key areas. Through the consolidation of these pre-existing banks, with operations spanning the Middle East, Africa, Turkey and Pakistan, the shareholders of ABG sought to create an Islamic banking conglomerate capable of providing customers worldwide with a growing range of products and services strictly in conformity with the principles of *Shari'a*. As at the date of this Prospectus, ABG is one of the largest Islamic banking groups in the world.

Following the passing of a resolution at the Extraordinary General Meeting of ABG on 16 November 2005 to authorise its conversion into a Bahrain public joint stock company, ABG undertook an initial public offering (**IPO**) of its shares on the Bahrain Bourse and Nasdaq Dubai on 4 September 2006, which represented the first dual listing for both securities markets. The success of the IPO and resulting increase in ABG's paid up capital from US$510 million to US$630 million made it possible for ABG to expand its operations in regional and international markets, both through expansion of the existing subsidiaries' branch networks and by expansion into new markets (including Syria).

Since its IPO in 2006, ABG has completed two successful IPOs of its subsidiaries, ABTPB (which was 32 times oversubscribed) and ABBS in 2009 (which was four times oversubscribed). In 2007, ABG consolidated its operations in Bahrain by merging Al Amin Bank, Bahrain with Al Baraka Islamic Bank Bahrain, and the newly-merged entity (operating under the name Al Baraka Islamic Bank B.S.C. (c) – Bahrain) acquired Emirates Global Islamic Bank, Pakistan in 2010 through its subsidiary in Pakistan, ABP. In 2012, ABG acquired Itqan Capital, an investment company regulated by the Saudi Capital Markets Authority. ABG also established representative offices in Indonesia in 2008 and in Libya in 2011 and an Iraqi branch of Al Baraka Türk Participation Bank in 2011. ABG's most recent expansion took place in October 2016 in Pakistan whereby ABP was merged with Burj Bank Limited (**Burj Bank**), another Islamic bank, to create a new entity with 224 branches across 100 cities.

ABG is now the parent company of a group (the **Group**) that consists of 11 Islamic banks and one Islamic investment company (each, a **Unit**) and two representative offices, which are spread throughout 15 countries: Algeria, Turkey, Jordan, Egypt, Pakistan, Bahrain, Tunisia, Saudi Arabia, Indonesia, Syria, Libya, Iraq, South Africa, Lebanon and Sudan. The Group conducts business through its 697 branches and offices (as at 31 December 2016) by providing *Shari'a*-compliant banking services to retail customers, small and medium-sized enterprises (**SMEs**), mid-cap corporations and government clients. In January 2017, the Group announced that it had obtained approval from Bank Al-Maghrib (the Central Bank of Morocco) to establish a new Islamic bank in Morocco. The new bank will be called Bank alTamweel wa alInma and it will operate in partnership with BMCE Bank of Africa Group, one of the oldest and largest private Moroccan banks which was formed in 1959 and is located in 22 countries.

As at 31 December 2016, the Group has an authorised share capital of US$1,500,000,000 divided into 1,500,000,000 shares, each with a nominal value of US$1.00. As at 31 December 2016, the Group had a total of US$23.4 billion of assets spread across 15 different countries. The Group has maintained its credit rating of BB+ (long-term) with a negative outlook and B (short-term) from S&P, BBB+ (long term) and A3 (short term) by Dagong Global Credit Company Limited and A+ (bh) (long-term) and A2 (bh) (short-term) by Islamic International Rating Agency.

Shareholders and Share Ownership

As at 31 December 2016, the Group's issued share capital was US$1,149,218,452 made up of 1,149,218,452 shares of US$1 each.

The table below shows all shareholders of the Group which owned 5 per cent. or more of the Group's share capital as at 31 December 2016. The Kamel family's total direct and indirect shareholding in the Group was 74.07 per cent. as at 31 December 2016, of which 30.11 per cent. was held directly and 24.64 per cent. and 19.32 per cent. was held indirectly through a 100 per cent. shareholding in each of Dallah AlBaraka Holding Company E.C. and Altawfeek Company for Investment Funds, respectively, in each case as at 31 December 2016.

Names	Nationality/Incorporation	Percentage holding (%)
Saleh Abdullah Kamel	Saudi Arabia	30.11
Dallah AlBaraka Holding Company E.C.	Bahrain	24.64
Altawfeek Company for Investment Funds	Cayman Islands	19.32
Abdulla Abdul Aziz Al Rajhi	Saudi Arabia	7.03

Dividend levels are proposed by the Group's Board of Directors (the **Board**) based on the Group's liquidity position, profits, future capital requirements and market trends. Dividends are subsequently approved by the Group's shareholders. The Group's dividend policy provides for the payment of dividends to shareholders at optimum levels whilst retaining profits for compliance with regulatory capital requirements and for maintaining sufficient liquidity within the Group. Furthermore, "bonus" dividends are paid to the Group's shareholders when appropriate. Total cash dividends paid to the Group's shareholders for the years 2006 to 2016 amounted to US$352 million and total bonus dividends distributed to shareholders during the same period amounted to US$577 million.

Vision, Mission and Strategy

Vision and mission

The Group believes that society needs a fair and equitable system: one which rewards effort and contributes to the development of the community. The Group's mission is to meet the financial needs of communities across the world by conducting business ethically in accordance with the Group's beliefs, practicing the highest professional standards and sharing the mutual benefits with the customers, staff and shareholders who participate in the Group's business success.

Strategy

The Group's strategy is critical to the implementation of its mission and values. The Group has identified seven key strategic themes: (1) growth; (2) retail finance penetration; (3) investment in technology; (4) asset management; (5) intra-Group business; (6) funding; and (7) employees.

Growth

The Group intends to grow its revenues and profit both organically and by opportunistic expansion into new markets. Organic growth is to be achieved by deploying more capital resources, mainly in the Group's Turkish, Egyptian, Bahraini and Jordanian Units. This is to be accompanied by a rapid expansion of the branch network to broaden the Group's customer and deposit base. Cautious external expansion is also key to the Group's strategy. The Group believes its present platform is sufficiently stable and scalable to integrate further businesses, and acquisitions and joint ventures will be considered when favourable opportunities in promising Asian and African markets arise. For instance, in September 2016, ABP merged with Burj Bank, and in January 2017 the Group announced the creation of a new Islamic Bank in Morocco. Given the restraints on liquidity in the Islamic finance industry, management intends to steer a course of balanced liquidity management in line with sustainable business growth. The Group also plans to expand its suite of products through *musharaka, mudaraba* and *ijarah muntahia bittamleek* financings and to reduce its reliance on *murabaha*.

Retail finance penetration

The Group believes that the market segment for retail customers is under-banked even in countries with large Muslim populations and *Shari'a*-compliant banking systems. The Group intends to grow its product offering to retail customers across all geographies. Underpinning this strategic objective will be the Group's focus on improved technology and the digitalisation of its business in order to provide the most technologically advanced and customer-friendly distribution channels (see "*Strategy – Investment in technology*" for further details on this strategy).

Investment in technology

Technology and "digitalisation" is at the core of the Group's strategy. The Group has noted the significance of electronic banking for younger demographics and the need to keep pace with technological developments in order to maintain its current customer base and to attract new customers. In addition, technology is critical to improving operational efficiency and rationalising internal processes and control of expenses. Accordingly, the Group intends to prioritise technological improvement and to devote significant resources towards developing the digitalisation of its business with the objective of competing more effectively with specialist financial technology businesses (which specialise in areas such as online payments, peer-to-peer financing, mobile wallets and the use of blockchain technology), improving customer experience, efficiency and product delivery and reducing its operating costs while increasing the productivity of its resources and processes.

Asset management

The Group intends to take advantage of its wide and diverse customer base across its various geographies to enhance its capabilities in asset management and private banking by identifying high and ultra-high net-worth customers in each market and targeting them for specific product and service offerings. The Group intends to strengthen its relationship-based approach towards customers by offering a complete suite of *Shari'a*-compliant products and services which complement Islamic banking products.

Intra-Group business

The Group intends to capitalise on its substantial customer base across 15 growing economies by increasing inter-Unit business volumes in trade finance, with the objective of expanding its market share, fee income and profitability.

Funding

The Group intends to diversify its funding sources (including its customer base) and decrease the cost of its funding. Each Unit will be encouraged to develop its own sources of funding through *sukuk* issuance and other means that will provide such Unit with the additional required resources to grow its business, and to increase low-cost deposits and current accounts.

Employees

In addition to the hiring of employees to lead the Group's technological advances over the coming years, the Group is determined to invest in improving the calibre of its employees. The Group intends to employ new, and improve the training of its existing, employees to deliver faster response times to customer requests, enhance understanding by all employees of the Group's services and the latest technology being introduced by the Units. The Group is also focused on being an employer of choice and improving employee satisfaction.

Competitive Advantages

Unique geographic footprint and diversification

Through its 12 Units and three representative and branch offices, the Group covers 15 jurisdictions which account for over 40 per cent. of the world's Muslim population. Currently the Group is present in five of the 10 largest Muslim countries (by population) and in eight of the 20 largest Islamic banking markets (by amount of *Shari'a*-compliant assets)[2]. The Group believes that this multi-jurisdictional reach is unique in the Islamic finance industry and gives the Group access to high growth markets with favourable demographics, relatively high barriers to entry and a relatively low penetration of Islamic financial services.

Proven entry strategy in new markets

The Group has considerable experience in identifying, acquiring and integrating existing financial services platforms in markets it intends to enter. Management has been able to turn around small scale businesses with low profitability into fast growing and highly profitable operations, for example in Algeria, Egypt, Jordan and Turkey. The net income of BAA, ABE, JIB and ABTPB increased from US$3.4 million, US$0.2 million, US$4.5 million and a loss of US$0.9 million, respectively, in 2003 to US$37 million, US$55 million, US$76 million and US$78 million respectively in 2016. By enhancing each Unit's attractiveness to depositors, introducing tight risk and credit management, product innovation and increased efficiency, the Group has been able to achieve a significant turnaround in several Units. The Group believes that this constitutes a successful entry strategy for other relevant markets and that its experience with past turnarounds has given the Group a key advantage over its competition in developing new markets.

Experienced management team

The Group's executive management team combines professionals from various regional and professional backgrounds who each have between 23 and 42 years of experience in banking and finance. A large part of the management team has been with the Group since its inception and is therefore highly familiar with the integration process that has led to the formation of the Group and with its growth strategy. The Group believes that a stable and diversified management team, with experience in successfully turning around small scale and low profit Islamic finance businesses into fast growing and highly profitable operations, gives the Group a major competitive advantage.

Diversified credit portfolio

The Group has developed a highly diversified credit and investment portfolio of US$17.5 billion (as at 31 December 2016). Assets are spread over 15 jurisdictions with concentrations in Turkey and Jordan (40 per cent. and 25 per cent., respectively, as at 31 December 2016). Due to the broad product offering and focus on retail customers, SMEs, larger institutional clients as well as some sovereign financing, the Group does not have a significant concentration in respect of any individual customer segment. The Group believes that its diversified portfolio avoids risk concentration and protects it from external shocks in its markets. Management of ABG sees this as a major reason for the Group having performed well during both the financial crises and the period of regional uncertainty following the "Arab Spring".

Healthy capital base and good access to customer deposits

Each Unit maintains healthy regulatory capital levels which, in the case of all Units, are above the required regulatory capital levels. The overall consolidated tier 1 capital ratio and total capital ratio for the Group were 14.35 per cent. and 15.49 per cent., respectively, as at 31 December 2016. The Group believes that due to its

[2] Source: PEW Research Center, The Banker Islamic Financial Institutions report.

strong capital base it is considered a safe haven in many of its markets and is consequently able to attract more customer deposits on favourable conditions. Customer deposits have grown at a compounded annual growth rate of 14 per cent. between 2003 and 2016. The Group's access to low cost funding through customer deposits puts it at a competitive advantage especially in comparison to conventional financial institutions.

Pioneers in Islamic banking markets

The Group was the first to establish Islamic finance institutions in many of its markets, namely Turkey, Jordan, Algeria, South Africa and Lebanon. The Group has identified the trends emerging, and the opportunities arising, from the increased awareness of, interest in and demand for, *Shari'a*-compliant banking products amongst both Muslims and non-Muslims and believes that its relatively long history in its markets, first-mover profile and brand recognition in the Islamic finance market leave it well positioned to exploit this growing interest and demand.

Broad and innovative product range

The Group offers a broad range of financial services to its corporate, SME, retail and investment customers, using diverse modes of typical Islamic financing techniques. The Group has access to in-depth knowledge of local markets through its Units and, when combined with the central strategic planning of the Head Office, the Group is able to select suitable products for each market, test-run products in specific markets and move product experts within the Group to introduce successful product innovations in other markets.

Strong unified brand

In 2009 and 2010, the Group defined and implemented a unified branding strategy for the entire Group, as a result of which all Units (other than JIB, where the brand recognition associated with its historic name is very strong in the local market) now carry the Al Baraka name and logo. The Group believes that its strong competitive position is also due to the fact that the Al Baraka brand has been established as a household name for *Shari'a*-compliant financial services in Turkey, North Africa and the entire Middle East.

Conservative policies and robust corporate governance and risk management framework

Since the coming together of the Units as a Group, the Group's management has consistently introduced policies that are conservative and that have served to promote cautious growth and expansion. The Group was one of the first financial institutions in the region to adopt robust corporate governance practices involving board and management structures and transparent practices, as more fully described under "*Corporate Governance*". The Group has also implemented comprehensive and prudent risk management policies in accordance with local requirements and global best practices, as more fully described under "*Risk Management*".

Risk Management is a key function in all Units with guidance and direction provided by the Head Office credit and risk management department. Group policies for credit and other risks are incorporated as the minimum requirements in each Unit's own credit and risk manuals. The Board-level risk committees and credit and risk management functions in the Units are all based on the Head Office template, with the head of risk reporting to the chief executive officer of the relevant Unit.

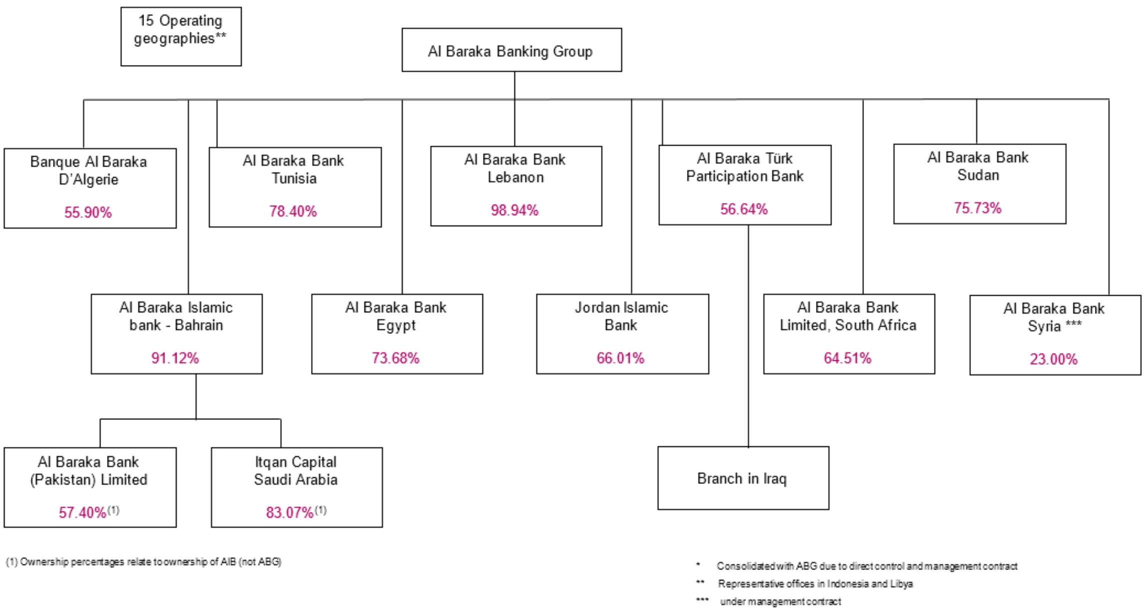
Ratings and limits for banks, financial institutions and countries are established, controlled and monitored centrally by the Head Office credit and risk management department. Corporate financings and investments are approved at the Unit level and, if they exceed certain limits, are reviewed by the Head Office credit and risk management department. The Units regularly stress test and monitor their credit, liquidity and market risk. Liquidity risk and market risk are managed by each Unit's assets and liability committee with regular reporting to Head Office. Units have established operational risk frameworks and installed operational risk management systems which produce regular reports to management.

The Group believes that its corporate governance and risk management policies are a significant contributor to its success.

No cross-border lending

All cross-border exposure and country risk is managed under global country limits which are approved by the Board, with sub-limits allocated to each Unit to meet their requirements. Country risk is therefore tightly controlled and no Unit is permitted to engage in any business in a new country without first obtaining allocation of a country sub-limit from the Head Office. In addition, any corporate credit which is proposed at the Unit level but involves cross-border risk must be submitted to the Head Office for approval. The Group's tight management of its cross-border exposure is a key contributor to its success.

Group Organisational Structure (as at 31 December 2016)



Head Office Function

The Group has a unique model whereby ABG acts as the head office (the **Head Office**) of the Group, responsible for controlling, monitoring and directing the overall business of the Group, and each Unit is managed locally by its respective board of directors and, as such, maintains a degree of independence in relation to its respective business.

Functional control over all Units is achieved through a common integrated Group strategy and standardised approach to product and technological innovation (in particular, through the digitalisation of a number of the Group's services), corporate governance standards, financial reporting and compliance and credit and risk management policies as well as through an efficient management information system, budget monitoring and internal audit oversight. ABG provides a number of central services to the various Units including credit and risk management support and guidelines and central budgeting oversight, and also ensures a uniform branding policy which is implemented throughout the Group. The activities of the local *Shari'a* boards are coordinated and monitored by a unified *Shari'a* board at the ABG level which ensures a consistent application of *Shari'a* principles within the Group.

While the Group has identified the above core areas as being more effectively conducted on a group-wide basis, the Head Office maintains a decentralised management style so as to take advantage of the local knowledge and expertise of the Units and to account for the differences between the various markets in which the Units operate.

Products and Product Development

The Group offers a broad range of financial services, using diverse Islamic financing techniques, including: *Murabaha, Mudaraba, Musharaka, Ijarah, Ijarah Muntahia Bittamleek, Wakala, Salam* and *Istisna'a*. Each of these products has been developed in conjunction with the respective Unit's local *Shari'a* board and the Group level unified *Shari'a* board, in response to local markets' demands and preferences.

Summary of product range

The table below sets out a summary of the Group's current product ranges across its distinct business segments.

Corporate and SME	Retail	Investments	Other Services
• Accounts, current and Investment Accounts (*Mudaraba deposits*) • Foreign exchange accounts • Restricted Investment Accounts (**RIA**) • Trade finance • Letters of guarantee • Letters of credit • Treasury support • Corporate card • *Sukuk* • Payroll transactions • SME finance through World Bank	• Accounts – current, saving and Equity of Investment Accountholders (EIAH) • RIA • Home financing • Auto financing • Consumer financing • Marriage financing • Hajj card/ savings • Taqseet card • Education financing • Medical financing • Home finance for overseas citizens	• Investment funds • RIA • Insurance fund • *Sukuk* for retail clients • Stock brokerage • Gold participating accounts • *Sukuk* fund for trade finance	• Point of Sale services • ATMs • Contact centre • Debit cards • Credit cards • E-remittance • Western Union • Utility bill payments • Secure net services • SMS/mobile banking • Safe deposit boxes • Purchase and sale of foreign exchange • Payment through mobile phones

As at 31 December 2016, the ratio of customer current and other accounts (low cost deposits) to total customer deposits was at 26 per cent., which shows growth from 21 per cent. in 2010. As at 31 December 2016, *Murabaha* receivables accounted for 63.7 per cent., while *Ijarah, Salam* and *Istisna'a* receivables accounted, in aggregate, for 1.7 per cent., in each case, of the Group's financing and investment portfolio.

The role of the Group's product development and innovation department is to set standards and policies for the Units for the purposes of developing products and services that are tailored to their respective markets.

Funding

Funding is sourced predominantly from customer accounts and equity of investment account holders which, as at 31 December 2016, amounted in aggregate to US$18.3 billion, whilst financing from other banks amounted to only US$918.4 million, in each case, on a consolidated basis. The Group has a well-diversified deposit base comprising mostly retail deposits followed by corporate deposits and, to a much smaller extent, deposits from banks and financial institutions. Equity of investment accountholders, which amounted to US$13.3 billion as at 31 December 2016, was comprised of mostly retail depositors (72 per cent.) as well as financial institutions (13 per cent.), corporate depositors (9 per cent.) and sovereigns (6 per cent.). The top 25 depositors comprised only

10 per cent. of the Group's total deposits as at 31 December 2016. During the period 2006 to 2016, US$239 million was used to provide capital to Units and to increase ABG's ownership therein.

Sources of Funding

The following table shows the sources of the Group's funding as at 31 December 2016, as at 31 December 2015 and as at 31 December 2014:

	31 December		
	2016	**2015**	**2014**
	(*US$'000*)	**(*US$'000*)**	**(*US$'000*)**
Equity of investment accountholders	13,276,794	14,514,599	14,139,792
Customer current and other accounts	4,983,772	4,841,099	4,509,312
Due to banks	918,395	808,268	1,211,493
Long term financing	1,381,256	1,497,208	655,669
Other liabilities	856,467	862,444	872,700
Total	**21,416,684**	**22,523,618**	**21,388,966**

Customers

The Group provides financial products to a diversified customer base of over 2.2 million customers consisting mainly of retail customers, SMEs, corporations and governments. Corporate customers are the single largest group of customers, followed by retail customers, each constituting 58 per cent. and 31 per cent., respectively, of the Group's total financing portfolio as at 31 December 2016. The top 25 financing customers accounted collectively for 17 per cent. of the total financing portfolio as at 31 December 2016.

With respect to the breakdown of the Group's financing portfolio by industry sector, as at 31 December 2016, manufacturing, construction and real estate and trade constituted the largest segments (which breakdown has remained largely unchanged over the past three years). For a more detailed breakdown, see *Distribution of the Group's total assets by geography and sector*".

Information Technology

The Group supports IT strategies, projects and initiatives across all Units through a unified IT strategy, which has been developed with the assistance of a leading IT advisory firm. As a result of different regulatory and operational requirements, the Group has decided that a single core banking system would not meet the needs of all Units. Accordingly, the Group has assisted the Units in selecting their own core banking systems. Besides meeting the individual requirements of each Unit, the core banking systems have been selected to provide timely, accurate and comparable data to ABG to assist it in discharging its Head Office functions.

The Head Office IT Steering Committee governs and supports IT strategies, policies, projects and initiatives across all Units, and ensures that they are consistent with the Group's strategic aims as well as each Unit's local strategy. The Group's short, medium and long-term IT strategies are now well established and standardised around carefully selected core banking solutions that have been successfully implemented across all Units. The Head Office IT Steering Committee monitors the Group's IT strategy, updating it periodically to ensure that it continues to enable ABG to achieve its strategic objectives.

ABG's web-based financial consolidation and reporting system measures corporate performance against key performance indicators based on the Group's strategic objectives. It is used to set benchmarks for each Unit and to monitor their performances continuously. Data is captured from each Unit in its local currency and monthly, quarterly and annual consolidations are performed in U.S. dollars. In this way, the system enables the collection, processing, reporting and analysing of data from across the various Units.

All of the Units have implemented core banking systems selected from a list approved by the Head Office, therefore meeting central bank requirements for greater automation. The Units are now introducing satellite systems in areas such as risk management, cyber security, internet and mobile banking as well as many other areas. Following the merger of ABP and Burj Bank, the two banks have commenced the process of adopting one banking system as part of their integration. Broadly speaking, the new core banking systems implemented across the Units reduce the time which is typically required to bring retail products and campaigns to market. They also increase automation, leading to greater effectiveness and efficiency.

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

Each Unit has a disaster recovery centre, which is tested and audited at least once a year. The Group has adopted a unified standard of business continuity and disaster recovery, helping all Units to adopt best practices. In addition, a Group-level cyber security committee was set up in 2016 to ensure that the Group and its Units have the appropriate personnel, technology and policies to guard against cyber frauds or attacks.

Description of the Units

Key Unit Data

The table below sets out key operational and financial performance data for each of the Units as at 31 December 2016.

Unit	**Country of incorporation**	**ABG's effective ownership (%)**	**Number of staff**	**Number of branches / offices**	**Total assets (US$m)**	**Shareholder equity (US$m)**	**Total net income (US$m)**
Al Baraka Türk Participation Bank	Turkey	56.64	3,796	213	9,373	660	78
Jordan Islamic Bank	Jordan	66.01	2,236	97	5,782	483	76
Al Baraka Bank Egypt	Egypt	73.68	942	31	2,227	122	55
Banque Al Baraka D'Algerie S.P.A.	Algeria	55.90	925	30	1,880	207	37
Al Baraka Bank (Pakistan) Limited	Pakistan	52.30	2,745	224	1,206	102	(1)
Al Baraka Islamic Bank B.S.C. (c) – Bahrain	Bahrain	91.12	174	8	1,245	170	3
Al Baraka Bank Tunisia	Tunisia	78.40	481	34	552	68	2
Al Baraka Bank Syria S.A.[2]	Syria	23.00	245	13	478	55	25
Al Baraka Bank Limited – South	South Africa	64.51	331	12	387	45	3

Unit	Country of incorporation	ABG's effective ownership (%)	Number of staff	Number of branches / offices	Total assets (US$m)	Shareholder equity (US$m)	Total net income (US$m)
Africa.................							
Al Baraka Bank Lebanon S.A.L. .	Lebanon	98.94	142	7	316	22	(2)
Al Baraka Bank Sudan	Sudan	75.73	532	27	391	56	22
Itqan Capital	Saudi Arabia	75.69	24	1	32	30	(2)

Note:

(1) Total net income and shareholders' equity

(2) Consolidation with ABG due to management contract

Information on each Unit

The following section provides an overview of each Unit, its background, recent performance, products and services and key financial information. Financial data is stated in both the relevant local currency and its U.S. dollar equivalent. Each Unit is managed by its respective board of directors, who ultimately report to ABG, but whose decision-making is decentralised within an overall strategic direction provided by Head Office.

Except where local currency figures are explicitly mentioned, all financial data relating to the Units appearing in this section is stated in the U.S. dollar equivalent of the audited local currency-based balance sheets and income statements of such Units, prepared (for consolidation purposes) in accordance with FAS, issued by the AAOIFI (and IFRS where FAS is silent) and without any Group level adjustments or eliminations.

Al Baraka Türk Participation Bank (ABTPB) and Iraq branch office

History and background

ABTPB was the first bank in Turkey to operate on a 'participation' basis (which allows it to collect and utilise funds on an interest-free basis in a *Shari'a*-compliant manner). ABTPB was incorporated in 1984 and was granted its licence by the Turkish Central Bank in January 1985.

In 2007, ABTPB successfully listed on the Istanbul Stock Exchange and, as at 31 December 2016, its market capitalisation was TRY 1.1 billion (US$308 million).

Of the 'participation banks' operating in Turkey as at 31 December 2016, ABTPB's market share represented 24.7 per cent. and 27.3 per cent. of total assets and total deposits, respectively, making it the third largest participation bank operating in Turkey. As at 31 December 2016, ABTPB employed 3,796 staff, had 213 branches and was 56.6 per cent. owned by ABG.

Key recent developments

Turkey's slowing economy, the failed coup d'etat, the 16 April 2017 referendum to amend the Turkish constitution (which approved 18 changes to the constitution, including the removal of the office of Prime Minister) and the Turkish Lira's sharp depreciation resulted in challenging conditions for Turkey's banks. In 2016, provisions rose significantly across the banking sector, and foreign currency depreciation impacted the profits of banks reporting in U.S. dollars.

As a consequence of these challenging conditions, and after more than a decade of strong organic growth, ABTPB's expansion decelerated during 2016. In 2016, total assets increased in local currency terms to TRY

32.9 billion compared to TRY 29.6 billion as at 31 December 2015. However, in U.S. dollar terms, total assets fell by 7.5 per cent. to US$9.4 billion as at 31 December 2016 compared to US$10.1 billion as at 31 December 2015, following the sharp depreciation in the Turkish Lira against the U.S. dollar.

Total operating income in 2016 rose by 15 per cent. to TRY 1.2 billion compared to TRY 1.08 billion for the year ended 31 December 2015, reflecting a strong performance from jointly financed accounts and investments. In US dollars total operating income was 4.6 per cent. higher at US$416 million for the year ended 31 December 2016 (compared to US$398 million for the year ended 31 December 2015). Significantly higher provisions in 2016 also impacted net income and, for the year ended 31 December 2016, net income was US$78.2 million, which represented a 30 per cent. decrease from US$112 million for the year ended 31 December 2015. In local currency terms, net income in 2016 was TRY 233 million, which represented a decrease of 23 per cent. from TRY 303 million in 2015.

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

Products and Services

ABTPB's range of products and services continues to expand as it seeks to meet changing customer needs. Participation accounts (denominated in Turkish Lira, U.S. dollars and Euros) are offered with a variety of different profit rates in relation to different maturities. Its current accounts enable easy utility payment either in branch or via its internet and telephone banking services (to which it has recently added a mobile banking service). Its "Albaraka WorldCard" *Shari'a*-compliant credit cards span a variety of classes, including a card especially for the use of Hajj and Umrah pilgrims, providing electronic access to their bank accounts whilst on pilgrimage. Similarly, its ATM range addresses the needs of different customer types (personal, professional and business). Other products include export credit agency programmes and precious metals credits and trading accounts. As an authorised agent and member of the Turkish private pension system, it offers customers a variety of non-interest bearing pension funds as well as *Shari'a*-compliant life insurance.

ABTPB currently provides its services through a network of branches in Turkey and a branch in Iraq. As at 31 December 2016, the bank had a total network of 213 branches and cash offices and 275 ATMs.

Key Financial Information

The table below sets out a summary of ABTPB's key financial data as at 31 December 2016, 31 December 2015 and 31 December 2014, respectively.

All figures are stated in US$'000 unless otherwise indicated.

	2016	**2015**	**2014**
Total assets	9,372,738	10,127,929	9,748,896
Financing and investments	7,095,117	7,313,160	7,408,893
Customer deposits	7,071,860	7,537,407	7,958,153
Equity	659,702	720,236	784,814
Total operating income	415,927	397,593	393,300
Net income	78,182	111,725	112,747

Jordan Islamic Bank

History and background

JIB was the first Islamic bank in Jordan and was established in 1978 with a licence to carry out all types of financing, banking and investment activities in compliance with the provisions of Islamic *Shari'a*.

JIB is listed on the Amman Stock Exchange with a market capitalisation as at 31 December 2016 of JOD 579 million (US$817 million).

JIB's market share of total financings and customer deposits in Jordan for both the conventional and Islamic banking sectors is 14.2 per cent. and 12.2 per cent., respectively, as at 31 December 2016. As at 31 December 2016, JIB had 97 branches and cash offices distributed throughout Jordan and employed approximately 2,236 staff and is 66.01 per cent. owned by ABG.

Key recent developments

Against a background of ongoing conflict in neighbouring countries, 2016 was a difficult year for Jordan's banks. The increasing national budget deficit, depressed trade volumes and slowing sales volumes all suppressed banking activity.

Despite these challenges, JIB's total assets grew by 8 per cent. to US$5.8 billion as at 31 December 2016 compared to US$5.4 billion as at 31 December 2015, supported by an 8 per cent. growth in customer accounts.

Total operating income also grew, rising by 11.2 per cent. to US$211 million as at 31 December 2016 compared to US$190 million as at 31 December 2015. This reflected strong growth in the bank's share of income from joint accounts. After a rise of 7.6 per cent. in operating expenses to US$90 million (compared to US$84 million in 2015), net income rose by 10.9 per cent. to US$76.2 million for the year ended 31 December 2016 compared to US$68.7 million for the year ended 31 December 2015.

Reflecting the bank's leading market position, The Banker, Global Finance and World Finance magazines named JIB the country's best Islamic bank in 2016.

Products and Services

As JIB continues to enhance its range of products and services, it plans to introduce new financing and investment products, including accounts for financing tuition fees for schools, colleges and universities, Hajj or Umrah travel costs and medical treatment and surgical operations. Internally, it is currently centralising its risk and credit management processes, while working on implementing operational risk, anti-money laundering and new scoring and rating systems and finalising the implementation of its new core banking systems.

JIB continues to expand organically with the objective of expanding its network to 121 branches and cash offices and 290 ATMs, in each case by 2021. In 2016, the bank opened five new branches and cash offices and installed 20 new ATMs, thereby expanding its total network to 97 branches and cash offices and 190 ATMs as at 31 December 2016.

Key Financial Information

The table below sets out a summary of JIB's key financial data as at 31 December 2016, 31 December 2015 and 31 December 2014, respectively.

All figures are stated in US$'000 unless otherwise indicated.

	2016	2015	2014
Total assets	5,782,115	5,358,239	5,013,737
Financing and investments	4,071,822	3,939,114	3,370,257
Customer deposits	5,162,221	4,786,175	4,508,779
Equity	483,385	438,864	398,043
Total operating income	210,989	189,673	163,229
Net income	76,191	68,717	63,652

Al Baraka Bank Egypt

History and background

ABE was incorporated, and commenced its activities in accordance with *Shari'a* principles, in 1980 and has grown as an Islamic financing institution to become one of the leading banks in the Egyptian market. It provides a variety of services, products, savings deposit options and financing programmes to meet the requirements of various sectors of the Egyptian market, as well as credit facilities for companies and joint financings for large and significant national projects.

ABE is listed on the Cairo Stock Exchange with a market capitalisation as at 31 December 2016 of EGP 1.6 billion (US$82.4 million).

ABE's market share in Egypt across the Islamic banking sector is 18.1 per cent. of total assets and 18.1 per cent. of total customer deposits (in each case, as at 31 December 2015). As at 31 December 2016, ABE had 31 branches and foreign exchange offices spread across the major Egyptian cities, employed approximately 942 staff and was 73.7 per cent. owned by ABG.

Key recent developments

Following the devaluation of the Egyptian pound in October 2016, the International Monetary Fund granted a US$12 billion 3-year loan to Egypt in support of the Egyptian government's economic reform programme and to help restore macroeconomic stability and promote inclusive growth in the country. Egypt's structural economic reforms have also included the Central Bank of Egypt agreeing to guarantee the funds of depositors in the Egyptian banking system in all currencies. The reforms also remove any restrictions on the deposit and withdrawal of foreign currency by individuals and businesses, other than companies involved in the import of non-basic commodities (in respect of which a restriction of US$50,000 per month for deposits and US$30,000 per day for withdrawals will apply).

Due to the devaluation of the Egyptian pound as against the U.S. dollar, the growth of ABE's assets appears, *prima facie*, to have stalled when viewed in US dollar terms. Total assets in US dollars fell by 39.7 per cent. to US$2.2 billion as at 31 December 2016 compared to US$3.7 billion as at 31 December 2015. In local currency, total assets grew by 47 per cent. to EGP 42.5 billion as at 31 December 2016 compared to EGP 28.9 billion as at 31 December 2015. There was particularly strong growth in non-trading investments and sales receivables.

Total operating income grew by 2.3 per cent. to US$150 million as at 31 December 2016 compared to US$147 million as at 31 December 2015. In local currency terms, total operating income increased by 24 per cent. to EGP 1.4 billion for the year ended 31 December 2016 compared to EGP 1.1 billion for the year ended 31 December 2015. This was mainly the result of a large increase in the bank's share of income from joint accounts. Revenue from banking services also grew. Net operating income rose by 30 per cent. to EGP 941 million for the year ended 31 December 2016 compared to EGP 724 million for the year ended 31 December 2015, as efficiency gains meant that expenses did not rise as fast as income. Net income grew by a far larger 93 per cent. to EGP 512 million (US$55 million) for the year ended 31 December 2016, compared to EGP 265 million (US$34.5 million) for the year ended 31 December 2015, due to a lower level of provisions in 2016 than in 2015.

ABE has continued to diversify and it has adjusted its continued expansion to the prevailing economic environment. ABE has experienced a significant increase in customer financing and deposits, despite strong competition. In particular, in 2016 ABE entered into a contract with the Egyptian Social Fund for Development for a new EGP 50 million facility to finance SMEs and participated in a syndicated financing to a government-associated company which was guaranteed by the Egyptian Ministry of Finance and pursuant to which ABE agreed to provide EGP 500 million in funding.

Products and Services

ABE has continued to enhance its product range that includes asset and liability products catering to corporate, SME and retail customers, as applicable, for current and savings accounts, deposit certificates of varying maturities, documentary credits, retail financing for the purchase of durable or household goods, auto-finance and finance for education, travel and housing.

In 2016, ABE opened two new branches, expanding the bank's geographic footprint and bringing the total number of branches to 31 across Egypt. As part of ABE's commitment to investing in its expansion and modernisation, a new branch was opened in New Cairo in early 2017 which is dedicated exclusively to retail banking. In addition, ABE opened its new headquarters in New Cairo at the beginning of 2017 which has been designed to accommodate the latest technology.

Key Financial Information

The table below sets out a summary of ABE's key financial data as at 31 December 2016, 31 December 2015 and 31 December 2014, respectively.

All figures are stated in US$'000 unless otherwise indicated.

	2016	2015	2014
Total assets	2,227,462	3,691,078	3,112,529
Financing and investments	1,902,342	3,193,640	2,713,593
Customer deposits	2,025,822	3,363,298	2,777,246
Equity	122,381	209,879	205,236
Total operating income	150,086	146,723	120,825
Net income	54,991	34,473	31,782

Banque Al Baraka D'Algerie S.P.A.

History and background

BAA was incorporated in May 1991 and operates under a commercial banking licence issued by the Bank of Algeria. The main activities of BAA are retail and commercial banking.

BAA's market share of the local private banking market in Algeria is 18.5 per cent. (as at 31 December 2016). As at 31 December 2016, BAA had 30 branches, employed 925 staff and was 55.9 per cent. owned by ABG.

Key recent developments

Low oil prices continue to impact Algeria's economy, reducing economic activity and government project expenditure. Although the devaluation of the Algerian dinar against the U.S. dollar slowed during 2016, BAA's results were still adversely impacted.

Total assets rose marginally in 2016 by 0.7 per cent. to US$1.9 billion as at 31 December 2016 compared to US$1.9 billion as at 31 December 2015. Rises in *Murabaha* financing, the *Ijarah Muntahia Bittamleek* portfolio and *Salam* financing all contributed to BAA's asset growth.

In spite of the Algerian dinar's devaluation in 2016, total operating income fell marginally to US$82.3 million for the year ended 31 December 2016 compared to US$82.5 million for the year ended 31 December 2015. A rise in BAA's share of income from joint accounts was partly offset by a decline in revenue from banking services. Net operating income rose by 3 per cent. to US$50 million for the year ended 31 December 2016, after a fall in operating expenses, compared to US$48.4 million for the year ended 31 December 2015. However, net income fell by 8 per cent. to US$37.2 million for the year ended 31 December 2016, compared to US$40.6 million for the year ended 31 December 2015, reflecting the fact that the result for the year ended 31 December 2015 was boosted by a write-back of provisions.

Following the relaxation of a ban on consumer credit to finance purchases of goods at least partly made in Algeria, BAA has witnessed consumer finance growth. Notably, BAA entered into consumer finance agreements with two government organisations: the General Management of National Safety and the Ministry of Interior.

As part of its drive to diversify, in 2016, BAA reached a DZD 2 billion (US$18.3 million) co-financing agreement with Banque de Développement Local for the development of 25,000 hectares of land for agricultural production which will assist the financing of a DZD 16 billion (US$146 million) project. In particular, in 2016, BAA conducted a feasibility study for creating a Takaful insurance company.

Recognising its strong position, in 2016 BAA was named "Best Islamic institution in Algeria" by Global Finance magazine and ranked in the "Top 50" North African banks by Jeune Afrique magazine.

Products and Services

The bank's focus in 2016 was on expanding its digital platform including successfully introducing a new e-payment service, allowing customers to pay bills via ATMs and through online banking.

Key Financial Information

The table below sets out a summary of BAA's key financial data as at 31 December 2016, 31 December 2015 and 31 December 2014, respectively.

All figures are stated in US$'000 unless otherwise indicated.

	2016	**2015**	**2014**
Total assets	1,880,317	1,866,737	1,843,547
Financing and investments	1,006,621	943,916	932,888
Customer deposits	1,537,702	1,508,603	1,441,002
Equity	206,886	213,131	253,264
Total operating income	82,267	82,516	92,789
Net income	37,195	40,646	53,337

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

History and background

AIB was incorporated in Bahrain in February 1984 and operates as a retail Islamic bank. AIB was one of the first Islamic banks to be established in Bahrain. As at 31 December 2016, AIB had eight branches in Bahrain, employed 174 staff and was 91.1 per cent. owned by ABG.

Key recent developments

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

Although AIB's growth slowed in 2016, total assets expanded by 13.5 per cent. to end the year at US$1.2 billion, compared to US$1.1 billion as at 31 December 2015.

AIB's total operating income rose by 44.7 per cent. to US$39 million for the year ended 31 December 2016 compared to US$27 million for the year ended 31 December 2015, lifted by a substantial rise in the bank's share of income from joint accounts and from banking services. After a relatively small rise in operating expenses, AIB's net operating income rose significantly to US$13.2 million for the year ended 31 December 2016 compared to US$3.2 million for the year ended 31 December 2015. Due to a rise in provisions on some legacy non-performing assets, net income fell by 5 per cent. to US$2.9 million for the year ended 31 December 2016, as compared to US$3.04 million for the year ended 31 December 2015.

The new "Al Barakat" savings account with prize incentives performed strongly for the year ended 31 December 2016, reaching US$123 million in deposits and 15 thousand accounts since it was launched in July 2014. AIB's new Tamkeen product, the SME focused financing scheme in association with the Government of Bahrain, reached US$30 million in financings as at 31 December 2016, surpassing the annual budget target for 2016 of US$26.7 million. The bank's mortgage financing business also exceeded expectations as it reached US$179 million as at 31 December 2016.

Products and Services

AIB had a network of 8 branches and 28 ATMs spread across Bahrain as at 31 December 2016. In addition to its existing product range of personal, housing and auto finance products and its *Taqseet* (repayment by instalments) card offering multiple *Murabaha* finance transactions through a single card, AIB has launched online and mobile banking services and intends to launch a prepaid travel card, Takaful insurance products, a *Shari'a*-compliant credit card and new wealth management services for high net-worth individuals to diversify its funding base in the near future.

Key Financial Information

The table below sets out a summary of AIB's key financial data as at 31 December 2016, 31 December 2015 and 31 December 2014, respectively.

All figures are stated in US$'000 unless otherwise indicated.

	2016	**2015**	**2014**
Total assets	1,244,788	1,096,729	958,411
Financing and investments	1,158,085	975,849	827,662
Customer deposits	1,002,301	888,304	775,071
Equity	169,615	166,724	162,487
Total operating income	39,038	26,976	21,079
Net income	2,891	3,044	24

Al Baraka Bank (Pakistan) Limited

History and background

ABP was established in 1991 by AIB as a foreign bank under a commercial banking licence granted by the State Bank of Pakistan. In 2009, AIB received the approval of the State Bank of Pakistan for its Pakistan arm to be licensed as a separate bank. In October 2010, AIB acquired Emirates Global Islamic Bank, and the merged entity became a Unit of AIB and the second largest Islamic bank in Pakistan. In October 2016, ABP merged with Burj Bank, another Pakistani Islamic bank.

As at 31 December 2016, ABP had 224 branches across 100 cities in Pakistan, employed 2,745 staff and was 52.3 per cent. owned by ABG.

Key recent developments

Pakistan provided a broadly positive economic backdrop in 2016, with robust growth, a falling inflation rate and a narrowing fiscal deficit. However, in May 2016, the Central Bank of Pakistan cut the discount rate to 5.7 per cent. from 10 per cent., putting pressure on bank profitability.

The merger between ABP and Burj Bank was completed on 31 October 2016 with the intention that the merger of the two entities would increase market share and total capitalisation. The merger has transformed ABP's growth prospects through a subsequent reduction in its cost of funds and the enhancement of the new entity's capital. Post-merger, capital exceeded the regulator's minimum capital requirement (**MCR**), removing the bank's previous cap on assets.

Following the merger, ABP's total assets reached US$1.2 billion as at 31 December 2016, an increase of 46.6 per cent. from the 2015 year-end level of US$823 million with ABP's market share of the Islamic banking sector in Pakistan standing at 11 per cent. of total financing assets and 9 per cent. of total customer deposits, in each case, as at 31 December 2016.

As it was only in place for the final two months of the year, the merger did not have a substantial effect on ABP's full year financial results for 2016. Total operating income in 2016 increased by 2.5 per cent. to US$31.2 million for the year ended 31 December 2016 compared to US$30.4 million for the year ended 31 December 2015, after the bank was obliged to dispose of certain assets to meet the MCR. There was a 21 per cent. rise in income from banking services, though this was offset by a 13 per cent. fall in other operating income (in each case, for the year ended 31 December 2016). At the net operating income level, ABP reported a loss of US$878 thousand for the year ended 31 December 2016 compared to the year ended 31 December 2015 in which ABP realised a profit of US$3.4 million. Provisions increased the loss to US$588 thousand at the net income level, in contrast to the year ended 31 December 2015 in which ABP realised a profit of US$3.0 million.

ABP's new *Banca Takaful* product demonstrated impressive progress as it achieved US$2.0 million in operating income for the year ended 31 December 2016, with net income of US$510 thousand. In addition, ABP was instructed on fresh investment banking mandates worth US$12 million in fees in the period up to 31 October 2016 and it arranged the bilateral financing of US$45 million to Pakistan International Airlines, earning US$330 thousand in advisory fees.

In addition to the merger, ABP continued its strategy of cautious expansion. Several branches were earmarked as commercial (as distinct from retail), enabling them to offer a specialist range of services. The bank also managed to reach the target set by the central bank for its SME and agricultural portfolios.

Products and Services

ABP opened 15 new branches and acquired 74 branches following the merger with Burj Bank in 2016, expanding its total network from 135 to 224 branches. It also provided an additional 96 ATMs in 2016, increasing the total number to 208 (prior to the merger with Burj Bank). This is in keeping with its ambitious strategic plan to increase its network to around 255 branches by 2021.

Key Financial Information

The table below sets out a summary of ABP's key financial data as at 31 December 2016, 31 December 2015 and 31 December 2014, respectively.

All figures are stated in US$'000 unless otherwise indicated.

	2016	**2015**	**2014**
Total assets	1,205,714	822,872	932,390
Financing and investments	866,122	634,326	753,654
Customer deposits	1,052,230	717,720	837,359
Equity	102,321	51,840	51,219
Total operating income	31,172	30,421	28,641
Net income	(588)	2,977	2,045

Al Baraka Bank Tunisia

History and background

ABT was established in 1983. ABT has both offshore and local retail activities, which are conducted in accordance with *Shari'a* principles.

As at 31 December 2016, ABT had 34 branches in Tunisia, employed 481 staff and was 78.4 per cent. owned by ABG.

Key recent developments

Following subdued activity in tourism and services in light of the terror attacks in Sousse in 2015, Tunisia's economic growth continued to be weak in 2016. In 2016, the Central Bank of Tunisia cut interest rates to stimulate economic activity. New banking regulations were introduced, implementing new capital requirements and, importantly, establishing a framework for *Shari'a*-compliant banking.

The combination of constrained economic conditions and new restrictions on banking activity restricted ABT's expansion in 2016. Total assets declined by 13.6 per cent. to US$552.4 million as at 31 December 2016 compared to US$639.0 million as at 31 December 2015. In local currency terms, due to exchange rate volatility, ABT's total assets remained stable in 2016 as compared to 2015.

Total operating income increased by 6 per cent. in 2016 to US$21.6 million for the year ended 31 December 2016 compared to US$20.4 million for the year ended 31 December 2015, whilst net operating income fell sharply to US$2.9 million for the year ended 31 December 2016 compared to US$5.4 million for the year ended 31 December 2015 and net income fell considerably by 65 per cent. to US$1.6 million for the year ended 31 December 2016 from US$4.5 million for the year ended 31 December 2015. For the year ended 31 December 2016, in TND, total operating income increased by 10 per cent. to TND 44.3 million compared to TND 40.1 million for the year ended 31 December 2015, with a rise in the contribution from its own self-financing and investments offset by a fall in its *Mudarib* share on off-balance sheet equity of investment account holders. After a rise in operating expenses, however, net operating income fell by 44 per cent. to TND 5.9 million for the year ended 31 December 2016 compared to TND 10.5 million for the year ended 31 December 2015, and an increase in provisions caused net income to drop 63 per cent. to TND 3.3 million for the year ended 31 December 2016 compared to TND 8.9 million for the year ended 31 December 2015.

ABT continued its geographical expansion in 2016, opening twelve new branches to bring its total network to 34, in addition to four foreign exchange offices.

Global Finance magazine recognised ABT's leading market position, naming it "Best Islamic Financial Institution – Tunisia".

Products and Services

Following the full implementation of its new core banking systems, ABT now provides full digital banking services to its customers. At the end of 2013, ABT received a resident banking licence from the authorities and converted from an offshore bank to an onshore bank. This has allowed it to expand its customer base and overall business activities. In 2016 ABT launched new retail products for financing the purchase of home appliances and furniture. New products under development include credit cards and products for financing *Umrah* education and travel.

Key Financial Information

The table below sets out a summary of ABT's key financial data as at 31 December 2016, 31 December 2015 and 31 December 2014, respectively.

All figures are stated in US$'000 unless otherwise indicated.

	2016	**2015**	**2014**
Total assets	552,363	639,023	643,019
Financing and investments	489,662	576,530	598,834
Customer deposits..	415,662	477,076	476,084
Equity	68,124	79,597	84,441
Total operating income....................................	21,622	20,449	24,118
Net income..	1,598	4,523	5,465

Al Baraka Bank Syria S.A.

History and background

ABBS was established in 2009 and commenced its operations in accordance with *Shari'a* principles during 2010, and has grown as an Islamic institution offering a variety of financing products and services that suit different market segments and address their financial needs.

ABBS completed an IPO on the Damascus Securities Exchange in November 2009 of US$37 million.

As at 31 December 2016, ABBS had 13 branches in Syria, employed 245 staff and was 23 per cent. owned by ABG.

Key recent developments

Syria's enduring civil war and socio-political crisis continued in 2016, although Damascus and its coastal cities were more stable. In recent years, Syria has witnessed a vast decline in economic activity. According to the U.S. Central Intelligence Agency, in 2015 national unemployment was estimated at 50 per cent., inflation was estimated to have soared to just below 50 per cent. and the Syrian pound depreciated significantly. The Syrian

Central Bank's foreign currency reserves have also reached record lows as the national crisis gripping the country has continued.

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

Total assets grew by 50 per cent. to SYP 247 billion as at 31 December 2016 compared to SYP 164.5 billion as at 31 December 2015. This was supported by a 54 per cent. increase in cash and balances with the Syrian Central Bank and other banks. There was also a 58 per cent. rise in *Mudaraba* financing as at 31 December 2016. However, in US dollar terms, ABBS experienced a fall of 2.3 per cent. in total assets to US$477.5 million as at 31 December 2016 from US$488.5 million as at 31 December 2015.

Total operating income rose by 46.8 per cent. to SYP 15.4 billion (US$35.6 million) for the year ended 31 December 2016 compared to SYP 10.5 billion (US$31.2 million) for the year ended 31 December 2015, with substantial increases in ABBS's share of income from joint accounts as well as its income from self-financing and investments. Rising revenue from banking services also contributed to this increase. Net operating income climbed by 45 per cent. to SYP 12.7 billion and net income rose by 45 per cent. to SYP 10.7 billion (US$24.7 million) (in each case, for the year ended 31 December 2016) compared to SYP 8.8 billion and SYP 7.4 billion (US$22 million), respectively, for the year ended 31 December 2015.

Despite the turbulent and highly volatile security situation, ABBS is continuing to expand. In 2016, one new branch was opened in Damascus and work continued on the new head office, also in Damascus. ABBS was acquired by the Group prior to the international sanctions currently imposed against Syria coming into effect. ABBS' strategy in its dealings in Syria is, among other things, to not deal with government organisations or with any persons listed on any sanctions list. ABG is expecting that, once the political issues in the country are resolved, ABG will be well positioned to take advantage of the business opportunities arising therefrom given its current established presence.

From an operational perspective, ABBS became Syria's first organisation to be awarded ISO 9001:2015 by the International Organization for Standardization.

The Global Finance magazine recognised ABBS's leading market position, naming it "Best Islamic Financial Institution - Syria".

Products and Services

In response to local market conditions, ABBS will continue to develop new products and services to add to its existing range of corporate and retail facilities, treasury products and investment and deposit accounts, trade finance and electronic money transfer services and a spread of digital services including internet banking and electronic debit cards. In 2017 it plans to open one more branch and install one additional ATM.

Key Financial Information

The table below sets out a summary of ABBS's key financial data as at 31 December 2016, 31 December 2015 and 31 December 2014, respectively.

All figures are stated in US$'000 unless otherwise indicated.

	2016	**2015**	**2014**
Total assets	477,517	488,543	448,109
Financing and investments	263,325	278,966	251,721
Customer deposits...	320,605	305,886	290,748

	2016	2015	2014
Equity	55,022	53,484	53,541
Total operating income	35,596	31,246	25,267
Net income	24,710	21,978	15,205

Al Baraka Bank Limited, South Africa

History and background

ABL was established in 1989 and operates as a commercial Islamic bank. As at 31 December 2016, ABL had 12 branches in South Africa, employed 331 staff and was 64.5 per cent. owned by ABG.

Key recent developments

In recent years, South Africa has experienced slow economic growth, political instability and currency volatility. This unfavourable backdrop has impacted demand for credit from the banking system.

As a result, ABL's strong recent growth decelerated during 2016. In U.S. dollar terms, total assets rose 19 per cent. to US$387.1 million as at 31 December 2016 compared to US$325 million as at 31 December 2015. However, in local currency terms, which is more reflective of the true growth rate, total assets grew by 5 per cent. to ZAR 5.3 billion as at 31 December 2016 compared to ZAR 5.06 billion as at 31 December 2015. Modest growth in *Musharaka* financing contributed to this increase.

In US dollar terms, total operating income declined by 10 per cent. to US$17.4 million for the year ended 31 December 2016 compared to US$19.3 million for the year ended 31 December 2015. In local currency terms, total operating income increased marginally by 3.2 per cent. with an increase of ZAR 8 million to ZAR 256 million for the year ended 31 December 2016 compared to ZAR 248 million for the year ended 31 December 2015. A rise in ABL's share of income from joint accounts was offset by a fall in the revenue from banking services. After a rise in expenses, net operating income decreased by 22 per cent. to ZAR 63.9 million for the year ended 31 December 2016 compared to ZAR 82.2 million for the year ended 31 December 2015 and net income fell by 23.8 per cent. to ZAR 41.9 million (US$2.8 million) for the year ended 31 December 2016 compared to ZAR 55 million (US$4.3 million) for the year ended 31 December 2015.

A ZAR 30.5 million *Sukuk* issued in 2016 served to diversify funding for ABL.

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

Products and Services

To expand distribution and improve service, a user-friendly internet banking interface was launched in 2016. ABL offers a wide range of investment and financing products including its Hajj Investment Scheme (which is an investment scheme designed to help customers finance their Hajj pilgrimage), regular savings products, automobile finance, commercial and residential property finance, asset finance and trade finance.

Key Financial Information

The table below sets out a summary of ABL's key financial data as at 31 December 2016, 31 December 2015 and 31 December 2014, respectively.

All figures are stated in US$'000 unless otherwise indicated.

	2016	2015	2014
Total assets	387,107	325,208	415,605
Financing and investments	337,178	288,629	368,624
Customer deposits	338,860	284,560	365,836
Equity	45,478	38,668	48,412
Total operating income	17,375	19,321	18,842
Net income	2,803	4,285	3,642

Al Baraka Bank Lebanon S.A.L.

History and background

ABBL was founded in 1991 and operated under a commercial banking licence until 2004 when an Islamic Banking Law was instituted and ABBL obtained an Islamic banking licence. Its activities comprise retail and commercial banking in accordance with Islamic *Shari'a* principles. As at 31 December 2016, ABBL had seven branches and nine ATMs across Lebanon, employed 142 staff and was 98.9 per cent. owned by ABG.

Key recent developments

Following a modest improvement in Lebanon's economy, activity picked up in the banking sector in 2016. Illustrating this trend, private sector deposits expanded briskly.

However, ABBL was not able to exploit this growth as it closed two branches to improve efficiency, which will be replaced with branches at more strategically-focused locations in Lebanon. Total assets declined slightly by 1.4 per cent. to US$316.4 million as at 31 December 2016 compared to US$320.8 million as at 31 December 2015.

Total operating income fell by 35 per cent. to US$8.2 million for the year ended 31 December 2016 compared to US$12.6 million for the year ended 31 December 2015 mainly due to lower profit rates in the market and lower other income in 2016. At the net operating income and net income levels, ABBL had losses of US$2.8 million and US$2.3 million, respectively, in each case, for the year ended 31 December 2016, compared to income of US$2 million and US$259 thousand, respectively, in each case, for the year ended 31 December 2015.

Global Finance magazine recognised ABBL's market position, naming it "Best Islamic Financial Institution – Lebanon" for 2016.

Products and Services

ABBL introduced a number of new products during 2016. These included the 'alBaraka Amanat Safe Box', a secure, in-branch safe deposit box allowing customers to store their valuables for an affordable fee, 'alBaraka Green', a financing product which enables customers to purchase green energy products and solar energy heating systems at competitive rates, 'alBaraka Hybrid Cars', a special car financing initiative which offers preferential rates to customers willing to buy hybrid cars in order to promote preservation of the environment and 'alBaraka Abnaii', a new savings account which permits parents to contribute a small amount per month for the purpose of withdrawal once their child reaches 18 years of age. These new products and services were added to the existing range of facilities to finance residential housing and car purchases, school and university fees, Hajj and Umrah travel costs, a wide variety of current and investment accounts and several different credit, debit and charge cards. While ABBL's expansion was slowed by the two branch closures in 2016, it has since opened another branch and an ATM in 2016. Furthermore, a call centre was opened in 2016 to enhance client service.

In 2017 ABBL plans to introduce mobile banking and new ATM and online banking services.

Key Financial Information

The table below sets out a summary of ABBL's key financial data as at 31 December 2016, 31 December 2015 and 31 December 2014, respectively.

All figures are stated in US$'000 unless otherwise indicated.

	2016	2015	2014
Total assets	316,430	320,840	365,408
Financing and investments	199,128	208,791	231,386
Customer deposits	283,136	283,065	325,065
Equity	22,161	24,391	23,740
Total operating income	8,160	12,592	10,390
Net income	(2,258)	259	454

Al Baraka Bank Sudan

History and background

ABS was established in 1984 and its activities comprise retail, corporate, commercial and investment banking. As at 31 December 2016, ABS had 27 branches across Sudan, employed 532 staff and was 75.7 per cent. owned by ABG.

Key recent developments

Sudan's economy continues to display robust growth in spite of the ongoing civil war. However, in 2016, Sudan experienced a severe shortage of foreign exchange, high inflation and the Sudanese pound fell to historic lows against the U.S. dollar.

ABS's total assets rose by 24 per cent. in 2016 to SDG 2.8 billion compared to SDG 2.2 billion as at 31 December 2015, supported mainly by growth in *Murabaha* sales receivable. In US dollar terms, total assets grew similarly by 12.2 per cent. to US$391 million compared to US$348.4 million as at 31 December 2015.

A substantial 58 per cent. increase in the bank's share of income from joint accounts (as fund owner and *Mudarib*) drove total operating income up by 57 per cent. to a new high of SDG 332 million for the year ended 31 December 2016 compared to SDG 211 million for the year ended 31 December 2015. Total operating income rose by 53 per cent. to US$50.2 million for the year ended 31 December 2016 compared to US$32.8 million for the year ended 31 December 2015. After a small rise in expenses, net operating income more than doubled to SDG 185 million (US$28.0 million) for the year ended 31 December 2016 compared to SDG 84 million (US$13.5 million) for the year ended 31 December 2015 and net income more than doubled to SDG 142 million (US$21.5 million) for the year ended 31 December 2016 compared to SDG 61 million (US$9.4 million) for the year ended 31 December 2015.

ABS was acquired by the Bank prior to the international sanctions currently imposed against Sudan coming into effect (some of which have recently been lifted on 13 January 2017). ABS' strategy in its dealings in Sudan is, among other things, to not deal with government organisations or with any persons listed on any sanctions list.

Products and Services

As at 31 December 2016, ABS had a network of 27 branches and 28 ATMs. In 2016, ABS purchased new land and properties in Amarat, Sinnar, Dongola and Khartoum Bahri and in 2017 plans to open one new branch in one of these properties (with the other three being retained as investments in properties). ABS offers a range of products and services including pay roll products, *Taqseet* (repayment by instalments) products and electronic payment gateway services that allow its customers to pay utility and education bills. In 2017, ABS intends to launch a number of products allowing its customers to finance medical equipment and solar energy.

Key Financial Information

The table below sets out a summary of ABS's key financial data as at 31 December 2016, 31 December 2015 and 31 December 2014, respectively.

All figures are stated in US$'000 unless otherwise indicated.

	2016	**2015**	**2014**
Total assets	390,938	348,443	334,595
Financing and investments	230,970	200,094	187,459
Customer deposits...	236,120	248,952	233,807
Equity	56,481	44,734	40,398
Total operating income...	50,188	32,769	26,700
Net income..	21,515	9,424	8,769

Itqan Capital

Itqan Capital was set up in 2007 and is a Saudi Arabia based investment company licensed by the Capital Market Authority, engaged in asset and portfolio management, principal investment, investment banking and custodial services. Itqan Capital's business objective is to be a leading provider of investment offerings to Saudi Arabia's pension funds, foundations, charities, endowments, private and public companies, high net worth individuals and family offices. It is strategically important as the only dedicated investment banking unit within the Group.

In 2012, AIB acquired a 60 per cent. stake in Itqan Capital which is considered as strategically important as it will be used to develop new *Shari'a*-compliant investment products for all customers of the Units as well as for the purpose of growing and opening up the large Saudi market for the Group. With Saudi Arabia being the largest Arab economy, with strong fundamentals and a stable financial and investment environment, the acquisition reflects the Group's strategy to enter key regional markets. As at 31 December 2016, Itqan Capital was 75.7 per cent. owned by ABG.

In 2016, continued low oil prices and the Saudi national transformation plan known as "Saudi Vision 2030" suppressed economic activity. Saudi institutional and high-net-worth investors alike have reacted to the difficult economic conditions by becoming increasingly risk averse. These entities and personnel are reluctant to invest in higher risk funds, preferring more conservative, income-generating investment vehicles.

In a difficult economic and political environment, Itqan Capital's total operating income rose considerably in relative terms to US$1.5 million for the year ended 31 December 2016 compared to US$796 thousand for the year ended 31 December 2015. While income from Itqan Capital's own investment activities, such as non-trading securities, rose substantially in 2016, there was a sizeable fall in its income from advisory and investment management activities in that year. After a sharp reduction in operating expenses, for the year ended 31 December 2016, net operating loss and net loss each reduced to US$2.0 million compared to a net operating loss of US$4.0 million and a net loss of US$3.5 million, for the year ended 31 December 2015.

Total assets fell marginally by 5.9 per cent., to US$32.3 million as at 31 December 2016 compared to US$34.3 million as at 31 December 2015. A decline in the non-trading securities portfolio was partially offset by a rise in the value of property investments and trading securities portfolio. As at 31 December 2016, total investments and owners' equity were US$27.2 million and US$30.4 million, respectively, compared to total investments of US$28.6 million and owners' equity of US$32.5 million as at 31 December 2015.

Itqan Capital won several prestigious mandates in 2016. It signed two merger and acquisition mandates, one in each of Bahrain's and Saudi Arabia's respective education sectors. Itqan Capital was also mandated to manage the liquidity of a Saudi financial institution.

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

Key Financial Information

The table below sets out a summary of Itqan Capital's key financial data as at 31 December 2016, 31 December 2015 and 31 December 2014, respectively.

All figures are stated in US$'000 unless otherwise indicated.

	2016	**2015**	**2014**
Total assets	32,296	34,310	38,327
Financing and investments	27,182	28,611	35,113
Equity	30,431	32,457	36,377
Total operating income	1,542	796	2,380
Net income	(2,011)	(3,529)	(2,761)

Representative Offices in Indonesia and Libya

The representative offices in Indonesia and Libya, established in 2008 and 2011, respectively, do not themselves provide any banking services. They serve as a base for the Group to conduct research on local banks and their potential for acquisition and for assessing the business potential of the relevant country from the Group's perspective. The representative offices are also responsible for maintaining contact with regulators and major banking groups and for preserving the image and brand value of the Group. The representative offices are part of the Group's strategy to use low cost and low risk vehicles to explore a potential new market without committing significant resources.

CORPORATE GOVERNANCE

Corporate Governance Code

In October 2010, the CBB introduced new requirements to implement the corporate governance principles contained in the Corporate Governance Code issued by the Ministry of Industry, Commerce and Tourism of Bahrain. The Corporate Governance Code has been based on international best practices for corporate governance and includes consideration of the standards, high level controls and policies set by bodies such as the Basel Committee for Banking Supervision. The new requirements can be found under Volumes 2 and 6 of Module HC of the CBB's Rulebook. In 2014, the CBB introduced further requirements addressing the matter of remuneration of Approved Persons and Material Risk Takers (as defined in the CBB Rulebook Volume 2), which requirements were duly adopted by ABG. ABG annually conducts detailed internal assessments to ensure compliance with these requirements and, in the event that any shortfall is identified, sets specific milestones for implementation of measures to address the shortfall. The CBB, ABG's shareholders, the Board and the executive management team of ABG (the **Executive Management**) are all kept fully appraised of such shortfalls, if any, and the milestones set. Nominations for membership of the boards of the Units are approved by the Board Affairs and Remuneration Committee in accordance with ABG's shareholding in the relevant Unit. In accordance with local regulations, the term of office for board members is usually three years. On expiry of such term of office, members are re-elected at ABG's Annual General Meeting for a further three-year term.

Board of Directors

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

In line with international best practices, the Board has instituted corporate governance measures to ensure that the interests of all shareholders are protected, including the requirement that more than one-third of the Board's directors are Independent Directors (as defined in the CBB Rulebook). Separately, and in accordance with the internal assessments procedure outlined above, the Group has applied for, and received permission from, the CBB to appoint Sheikh Saleh Abdullah Kamel as Chairman of the Board, despite him not being an Independent Director (as defined in the CBB Rulebook).

The Board has established a written compliance policy governing the Group's compliance with all laws and regulations, in particular those issued by the CBB and other local regulators. The Board has delegated overall responsibility for the Group's compliance function to the President and Chief Executive. In practice, the Group's day-to-day compliance function is carried out through a dedicated compliance department, with a mandate to cover all aspects of compliance, as applicable to the Group as a whole, including: formulation of effective policies and processes for the management of the Group's compliance risk; assisting Executive Management and staff in managing compliance risk; advising on laws and regulations and applicable compliance standards; disseminating compliance policies and providing guidelines to the Group's staff members; ensuring an effective compliance framework; providing periodical reports to the Board in connection with compliance controls; and establishing operational controls and a robust Know Your Customer and Anti-Money Laundering framework. ABG is continuously enhancing its compliance framework and that of each Unit.

The Board meets regularly (at least four times a year) and all directors attend Board meetings whenever possible, and in any event not less than 75 per cent. of meetings in any year, and maintain regular contact between each other in between meetings. The Board met six times in 2016. The Board is required to maintain of a minimum of five and a maximum of fifteen members, and currently comprises thirteen members. Members of the Board hold office for a three-year renewable term, although the term of office may be extended at the request of the Board for a period not exceeding six months with the approval of the Minister of Industry, Commerce and Tourism of Bahrain.

The non-executive directors, Independent Directors and executive directors of the Board set out below were elected at the annual general assembly meeting of ABG held on 20 March 2017.

Non-executive and non-Independent Directors

(1) Sheikh Saleh Abdullah Kamel – Chairman

(2) Mr. Abdullah Saleh Kamel – Vice Chairman

(3) Mr. Abdul Elah Sabbahi

(4) Mr. Yousef Ali Fadil bin Fadil

(5) Mr. Mohyedin Saleh Kamel

(6) Mr. Khalid Abdullah Ateeq

Non-executive and Independent Directors

(1) Mr. Abdulla A. Saudi – Vice Chairman

(2) Mr. Saleh Al Yousef

(3) Mr. Ebrahim Fayez Al Shamsi

(4) Mr. Jamal bin Ghalaita

(5) Dr. Bassem Awadallah

(6) Mr. Saud Saleh Al Saleh

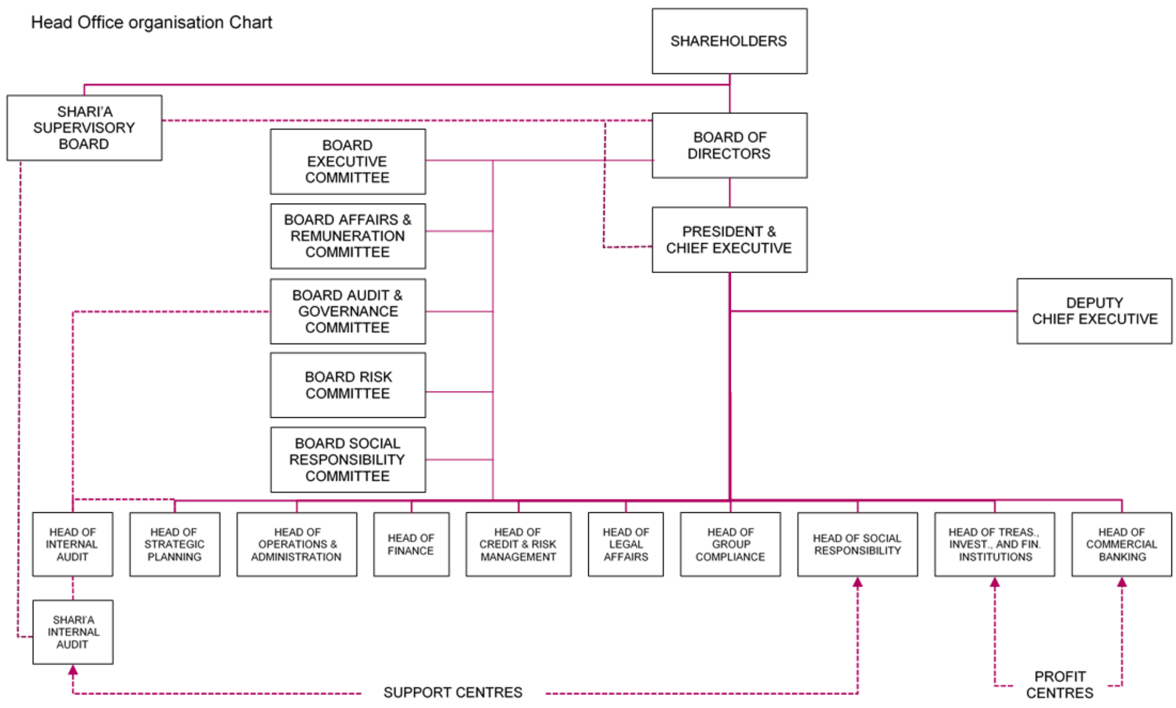
Executive director

(1) Mr. Adnan Ahmed Yousif – President and Chief Executive

The appointment of the above-listed directors will become effective upon receiving the approval of the CBB.

The Board has adopted a formal Code of Business Conduct and Ethics applicable to directors and Executive Management, officers, employees and agents, consultants and others representing or acting for the Group (the **Code**).

Management Reporting Structure



Board Committees

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

The principal Board committees are set out below.

Board Executive Committee

The Board Executive Committee is chaired by Mr. Abdullah Saleh Kamel and its other members include Mr. Adnan Ahmed Yousif (President and Chief Executive), Mr. Abdul Elah Sabbahi (non-executive director) and Mr. Saleh Al Yousef (Independent Director). Membership of the committee comprises a minimum of four directors and the committee meets at least twice a year.

Summary of terms of reference

The Board has delegated to the Board Executive Committee, under a formal written charter adopted by it, the responsibility of making recommendations to the Board, for the Board's approval, concerning the Group's overall strategies and business plan, or any significant change to them, or any major change to its capital or organisational structure, assets or investments.

Board Affairs and Remuneration Committee

The Board Affairs and Remuneration Committee is chaired by Mr. Saud Saleh Al Saleh (Independent Director) and its other members include Mr. Ebrahim Fayez Al Shamsi (Independent Director) and Mr. Yousef Ali Fadil Bin Fadil (non-executive director). The committee meets at least twice a year.

Summary of terms of reference

The Board Affairs and Remuneration Committee operates in accordance with a formal written charter adopted by it. The committee considers all material elements relating to remuneration policy, including, *inter alia*, the approval of the remuneration of the directors, based on their attendance at Board and committee meetings, and recommends to the Board the level of remuneration of the Executive Management members and other Group employees under an approved performance-linked incentive structure. The committee also performs the role of a nominations committee.

The committee conducts an annual evaluation of the performance of the Board, Board committees and the President and Chief Executive. When an issue related to the personal interest of a director is discussed in the Board Affairs and Remuneration Committee, the interested director withdraws himself from the meeting and abstains from voting. The committee is responsible for identifying persons qualified to become members of the Board or the chief executive officer, the chief financial officer, the Board secretary and other executive officers (with the exception of the head of the internal audit department) and for making recommendations accordingly. It is also responsible for inducting, educating and orienting new directors and for conducting seminars and other training programmes from time to time for members of the Board.

Board Audit and Governance Committee

The Board Audit and Governance Committee is chaired by Mr. Ebrahim Fayez Al Shamsi (Independent Director). The other members are Mr. Mohyedin Saleh Kamel (non-executive director) and Dr. Bassem Awadallah (Independent Director). The committee meets formally at least four times a year. The external auditors of the Group attend at least one meeting of the committee annually and have unrestricted access to the committee and its Chairman throughout the year.

Summary of terms of reference

The Board has delegated to the Board Audit and Governance Committee, under a formal written charter adopted by the committee and approved by the Board, the responsibility for ensuring that an effective internal auditing and continuous internal controls monitoring environment, and a sound system of accounting and financial control, are in place. The committee achieves this through a regular review of internal audit reporting, external auditors' management letters, central banks' inspection reports, accounting and financial policies, financial reporting and disclosure controls and procedures and the adequacy and effectiveness of the internal control procedures at both Group and Unit level. The committee considers all matters relating to financial control and reporting, internal and external audits and their scope and results, risk management and compliance with regulatory and legal requirements, accounting standards and *Shari'a* requirements. The committee is also responsible for considering and approving the annual audit plans, ensuring coordination between the internal and external auditors, monitoring the independence, qualifications, effectiveness and performance of the external auditors and their remuneration and making recommendations to the Board regarding the appointment, retirement and remuneration of the external auditors and the appointment of the head of the Group's internal audit department.

In addition, the Board Audit and Governance Committee reviews the Group's annual and interim financial statements in order to be in a position to recommend their approval to the Board, and to assess the adequacy of provisions and any reports by external consultants on specific investigative or advisory engagements.

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

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

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

Board Risk Committee

The Board Risk Committee is chaired by Mr. Yousef Ali Fadil bin Fadil (non-executive director), with its other members being Mr. Jamal bin Ghalaita (Independent Director) and Mr. Khalid Abdullah Ateeq (non-executive director). The Board Risk Committee meets formally at least twice a year but will meet more frequently at the request of the Chairman of the committee. The Board Risk Committee can call for the attendance of the President and Chief Executive, head of credit and risk management and other senior executives of the Group at any of its meetings.

Summary of terms of reference

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

Board Social Responsibility Committee

The Board Social Responsibility Committee is chaired by Dr. Bassem Awadallah (Independent Director) and other members are Mr. Abdul Elah Sabbahi (non-executive director) and Mr. Saleh Al Yousef (Independent Director). All minutes and reports of meetings of the committee are disseminated to all members of the Board. The committee leads the Al Baraka Social Responsibility Programme.

Summary of terms of reference

The Board Social Responsibility Committee operates in accordance with a formal written charter adopted by it. The committee oversees the formulation of policies and strategies by ABG, which are intended to make ABG and its Units a model Islamic banking group that offers banking and financial services in a socially responsible manner and in conformity with the objectives of *Shari'a*.

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

Executive Management

The Board has delegated to the Executive Management the primary responsibility for implementing the strategy of the Group, identifying and evaluating significant risks to the business of the Group and for the design and operation of appropriate internal controls.

All members of Executive Management have been provided with a written appointment agreement specifying the rights and obligations attaching to the office of each member.

Executive Management Committees

Executive Management also exercises control via a number of committees with specific responsibilities. The principal Executive Management committees are set out below.

Executive Management Committee

The Executive Management Committee's role is to oversee the implementation of the strategic objectives of the Group in relation to its business direction, operations, risk, expansion plans and overall policies and procedures. The committee is chaired by the President and Chief Executive, with the remaining membership comprising the heads of strategic planning, operations and administration, finance, credit and risk management, treasury, investments and financial institutions, commercial banking, social responsibility and legal affairs, with the head of internal audit as observer.

Asset and Liability Committee

The Asset and Liability Committee's mandate is to monitor the liquidity and capital adequacy of the Group and to review the Group's long term equity investments and its penetration into different markets. The committee reviews the liquidity and cash flow of ABG and the Group and sets balance sheet growth targets, along with monitoring the distribution of profits to investors. The committee is chaired by the President and Chief Executive, with the remaining membership comprising the heads of strategic planning, operations and administration, finance, credit and risk management, treasury, investments and financial institutions, together with a senior member of AIB.

Head Office Credit Committee

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

Management Risk Committee

The Management Risk Committee's role is to assist the Board Risk Committee in managing and controlling risks and to introduce and support such measures which enhance the efficiency of risk management policies, procedures, practices and controls within the Group. It is chaired by the President and Chief Executive, with the remaining membership comprising the heads of operations and administration, finance and credit and risk management, together with the manager of credit review and analysis and the manager of credit portfolio analysis.

Head Office IT Steering Committee

The Head Office IT Steering Committee's role is to draw up the Group's short and long term IT strategy and to oversee and monitor its implementation throughout the Group, with a view to effecting standardisation in information and operation management. The committee is chaired by the head of operations and administration, with the remaining membership comprising the heads of finance, strategic planning and credit and risk management, together with senior support nominees drawn from across the Group.

Human Resources and Compensation Committee

The role of the Human Resources and Compensation Committee is to review the human resources policies, management and planning at the Head Office. The committee is chaired by the head of operations and administration and the other members are the heads of strategic planning and finance.

Head Office Insiders Committee

The Head Office Insiders Committee was set up in accordance with the guidelines issued by the CBB and the Bahrain Bourse, and is aimed at ensuring the maintenance of a fair, orderly and transparent securities market and enhancing and developing the practices relating to the risk management systems and internal controls within listed companies and similar institutions. The committee is responsible for monitoring and supervising issues relating to insiders in order to regulate their dealings in the Group's securities and to ensure that Group insiders are acquainted with and aware of the legal and administrative requirements regarding their holdings and dealings in the Group's securities, in addition to preventing the abuse of inside information by such insiders. The committee is chaired by the President and Chief Executive, with the remaining membership comprising the heads of internal audit, operations and administration, legal affairs and investor relations.

Other committees

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

Shari'a Supervisory Board

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

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

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

Business addresses and conflicts

The business address of each member of the Board and each member of Executive Management is Al Baraka Banking Group B.S.C., Al Baraka Headquarters, Bahrain Bay, P.O. Box 1882, Manama, Kingdom of Bahrain. No member of the Board or Executive Management has any actual or potential conflict of interest between his duties to the Bank and his private interests and/or other duties.

Details of the Board, Executive Management and *Shari'a* Supervisory Board

The Board

A short biography of each member of the Board is set out below.

Sheikh Saleh Abdullah Kamel – Chairman

Sheikh Kamel, a Saudi Arabian national, is a well-known and highly respected international businessman and a pioneer of Islamic banking, with more than 50 years of experience. Sheikh Kamel holds a Bachelor of Commerce degree from the University of Riyadh. He is the founder of the Dallah Al Baraka Holding Company E.C. (**Dallah Al Baraka Group**) and ABG, and is a member of the Advisory Panel of the Islamic Development Bank. He serves as a director on the boards of a number of organisations and associations across the world. Currently he is Chairman of the following organisations: General Council for Islamic Banks and Financial Institutions; Jeddah Chamber of Commerce and Industry; the Islamic Chamber of Commerce, Industry and Agriculture; and the Dallah Al Baraka Group. Sheikh Kamel has been awarded a number of awards, certificates and accolades in recognition of his position as an expert in the field of Islamic banking, his achievements and his role in promulgating Islamic economic principles.

Mr. Abdulla A. Saudi – Vice Chairman

Mr. Saudi, a Libyan national, is a well-known and highly respected international banker with over 50 years of experience. He worked at the Central Bank of Libya for 14 years, holding various positions including that of Manager of the Banking Department and Head of the Foreign Investment Department. He was the founder of Libyan Arab Foreign Bank, where he served as Executive Chairman between 1972 and 1980, establishing branches of the bank worldwide. He was the founder of Arab Banking Corporation (B.S.C.), Bahrain, and served as its President and Chief Executive from 1980 to 1994. He also founded Arab Financial Services (E.C.), Bahrain, in 1982 and ABC Islamic Bank (E.C.) in the early 1980s. He serves as a board member of Credit Lebanese Bank Beirut. Currently he is Chairman of the United Bank for Commerce and Investments, Tripoli, Libya and Executive Chairman of ASA Consultants W.L.L., Bahrain. Mr. Saudi has received many international accolades and decorations, including: the title of one of the “Most Innovative Bankers” in 1980 at a presentation at Georgetown University, Washington D.C.; the “Best Banker” award from the Association of Arab American Banks in 1990; and the “Arab Banker of the Year” award from the Union of Arab Banks in 1993. He also has several gold medals and awards, notably those bestowed by the King of Spain and the President of Italy in 1977, and the Grand Medal of the Republic of Tunisia in 1993. Recently, he was honoured with the Integrity Award for Combating Forgery by the Arab Union (a subordinate of the Arab League) in 2012. Mr. Saudi holds a Certificate in Management and Accounting.

Mr. Abdulla Saleh Kamel – Vice Chairman

Mr. Abdulla Kamel, a Saudi Arabian national and the son of Sheikh Saleh Kamel, studied Economics at the University of California in Los Angeles, USA. Mr. Abdulla Kamel has held a number of executive positions at the Dallah Al Baraka Group over the years and has over 28 years’ experience in various fields. He headed the real estate and property management and central logistics division during the period 1988 to 1989, was President’s Assistant for Trade Affairs during the period 1989 to 1995 and worked as Vice President for the Business Sector during the period 1995 to 1999, when he assumed his current position. Mr. Abdulla Kamel is currently the President and CEO of the Dallah Al Baraka Group, as well as Chairman of Aseer Company, Amlak Real Estate Development and Finance and Okaz Press and Publishing Corporation. He is also Vice-Chairman of King Abdullah Economic City Eimaar. Mr. Abdulla Kamel is active in public and charitable activities through his membership of many international and local organisations and associations, such as the Jeddah Chamber of Commerce (twice as a board member), the Young Presidents’ Organisation, Friends of Saudi Arabia, The Centennial Fund and the Board of Trustees of the Prince of Wales Business Leaders Forum.

Mr. Saleh Al Yousef – Board Member

Mr. Al Yousef, a Kuwaiti national, holds a Bachelor of Science degree in Commerce from Kuwait University. Mr. Al Yousef is a Kuwaiti businessman with over 34 years’ experience in the banking industry. He served as Chairman and Managing Director of The Industrial Bank of Kuwait K.S.C. from 1988 to 2005. Prior to that, Mr. Al Yousef held a number of executive positions with The Industrial Bank of Kuwait and the Central Bank of Kuwait. He is former chairman of ABC Islamic Bank (E.C.), Bahrain and Chairman of the Supervisory Board of

Arab Banking Corporation – Daus & Co. GmbH, Frankfurt. He served as a director of the Financial Securities Group during 1986. He has also served on the boards of a large number of other financial institutions, including Gulf Bank K.S.C., Kuwait, Arab Banking Corporation (B.S.C.), Bahrain, and Ahli United Bank B.S.C., London. He was Chairman and Managing Director of Afkar Holding Co. until September 2010 and a director of Gulf Investment Corporation until April 2010. Currently he is a board member of ABBL.

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

Mr. Yousif, a Bahraini national, holds a Master of Business Administration degree from the University of Hull, UK. He has over 40 years' experience in international banking, including involvement with numerous financial institutions and social organisations. Mr. Yousif has been a director of ABG since its inception and President and Chief Executive since August 2004. Mr Yousif previously worked at Arab Banking Corporation for over 20 years and served as director on its board. Mr. Yousif was previously Chairman of the Union of Arab Banks from 2007 to 2013. Currently he is chairman of the following organisations: ABTPB; BAA; ABL; ABBL; JIB; ABE; ABBS; ABS; and ABP. He is also Vice Chairman of AIB. Mr. Yousif is also a board member of ABT. He is the recipient of the Medal of Efficiency, a unique honour conferred by His Royal Highness - King Hamad Bin Isa Al Khalifa, the King of Bahrain during the year 2011. He holds the title of the CSR International Ambassador (Kingdom of Bahrain) from the CSR Regional Network, and was twice named "Islamic Banker of the Year" (in 2004 and 2009). In addition, he was awarded the 2012 "LARIBA Award for Excellence in Achievement". The Al Jinan University of Lebanon has granted him an Honorary Doctorate of Philosophy in Business Administration and he has been awarded the Accolade of the Sudanese Presidency for Excellency in Social Responsibility. In 2016, Mr. Yousif was given the title of "High Commissioner to preach the United Nations Sustainable Development Goals 2030". He also won the Gold Award for Sustainable Development at the Oman International Conference on Social Responsibility 2016.

Mr. Abdul Elah Sabbahi – Board Member

Mr. Sabbahi, a Saudi Arabian national, holds a Bachelor of Science degree in Accounting from the Faculty of Economics and Administration, King Abdulaziz University, Saudi Arabia. Mr. Sabbahi has had over 37 years' experience in international banking, the last 26 of which were with the Dallah Al Baraka Group in Saudi Arabia. He is currently Vice President of the Dallah Al Baraka Group. Mr. Sabbahi is also a Member of the Boards of the Dallah Al Baraka Group, Al Amin Investment Co., Jordan and a number of other international companies. Currently he is Chairman of the following organisations: ABT, Arab Leasing International Finance, Saudi Arabia; and La Société de Promotion du Lac de Tunis.

Mr. Ebrahim Fayez Al Shamsi – Board Member

Mr. Al Shamsi, a UAE national, holds a Bachelor of Commerce degree from Beirut Arab University. He has over 44 years' varied experience in the financial services industry and in service of the UAE Government. He is a former Chief Executive Officer of Emirates Islamic Bank, Dubai and has served as a director of the Arab Fund for Economic and Social Development, Kuwait, over the period 1983 to 2010. Mr. Al Shamsi has been a director of ABG since August 2006 and is currently also a board member of ABTPB and ABBS.

Mr. Jamal Bin Ghalaita – Board Member

Mr. Ghalaita, a UAE national, holds a Bachelor of Science and Business Administration degree from the University of Arizona, USA. His career as a banker spans 26 years with key roles in the corporate, retail, trade finance and human resources sectors at Emirates Islamic Bank and Emirates NBD Group. His significant achievements include the planning for the launch of Emirates Islamic Bank and the establishing of several new areas of business at Emirates NBD Group, including Private Banking, Asset Management and Emirates Money, in addition to overseeing the growth of the core Consumer Banking and Wealth Management business. He has been the Chief Executive Officer of Emirates Islamic Bank since October 2011 (and previously served as Group Deputy Chief Executive Officer and General Manager, Consumer Banking and Wealth Management at Emirates

NBD Group). Currently he is Chairman of Emirates Islamic Financial Brokerage LLC and a Board member of ABG and Tanfeeth LLC.

Mr. Yousef Ali Fadil Bin Fadil – Board Member

Mr. Bin Fadil, a UAE national, holds a Bachelor of Science degree in Mathematics and Computer Science from Gonzaga University, Spokane, Washington State, USA. He has more than 31 years' experience in the banking sector. During the period 1984 to 1998, Mr. Bin Fadil held a number of senior positions in the National Bank of Umm Al Qaiwain. He then served as Executive Manager for Investment at Dubai Islamic Bank for the period 1999 to 2002. In 2003 Mr. Bin Fadil was appointed General Manager of the Emirates Financial Company. Mr. Bin Fadil has also served as a member of the board of directors of several financial institutions including, amongst others, Union Insurance Company, UAE, Bahrain Islamic Bank and Bosnia International Bank. Currently he is a board member of AIB, Ajman Bank and Gulfa Mineral Water.

Dr. Bassem Ibrahim Awadallah – Board Member

Dr. Bassem Ibrahim Awadallah, born in 1964, holds a PhD in Economics (1985) and Master of Science in Economics (1988) from the London School of Economics and Political Science, U.K. He also holds a Bachelor of Science in Foreign Service, International Economics and International Finance and Commerce from Georgetown University, in the United States of America (1984). Dr. Awadallah worked in the investment banking field in the U.K. from 1986 to 1991, after which he returned to Jordan where he served in a number of positions: Economic Secretary to the Prime Minister (1992-1996), Economic Advisor to the Prime Minister (1996-1999), Director of the Economic Department at the Royal Hashemite Court (1999-2001), Minister of Planning and International Cooperation (2001-2005), Minister of Finance (2005), Director of the Office of His Majesty King Abdullah II (April 2006 - November 2007), and Chief of the Royal Hashemite Court (November 2007 - October 2008). Dr. Awadallah also served as the Secretary General of the Islamic Chamber of Commerce and Industry (2010-2013).

Dr. Awadallah currently serves as a Personal Representative of His Majesty King Abdullah II of the Hashemite Kingdom of Jordan and Special Envoy to Saudi Arabia. He is also the Chief Executive Officer of Tomoh Advisory, a strategy and financial consultancy based in the UAE. Dr. Awadallah currently also serves as the Vice Chairman of the Arab Bank, Jordan, and as a member of its board of directors since 31 March 2016 and a member of the board of directors of Arab National Bank, Saudi Arabia, since 1 September 2016. Dr. Awadallah was awarded the King Abdullah Bin Abdulaziz Visiting Fellowship at the Oxford Centre for Islamic Studies, at Oxford University, U.K., in 2012, and was a Visiting Fellow at the Oxford Centre in 2010. He has also been a member of the Advisory Board of the Middle East Centre, of the London School of Economics and Political Science, U.K., since 2011, and is also the Vice Chairman of the Board of Trustees of Al-Quds University, Palestine, since 2014. Dr. Awadallah is the recipient of the Al Hussein Medal for Distinguished Service, the Al Kawkab Decoration of the First Order, and the Al Istiqlal Decoration of the First Order of the Hashemite Kingdom of Jordan, as well as a number of other decorations from several countries in Europe and Asia. He was also chosen as a Lee Kuan Yew Fellow in Singapore, in 2004, and as a Young Global Leader by the World Economic Forum in 2005.

Mr. Mohyedin Saleh Kamel – Board Member

Mr. Mohyedin Kamel, a Saudi Arabian national, studied Economics at the University of San Francisco, USA. He is a prominent Saudi businessman with 15 years' varied experience, currently serving as Deputy Chief Executive Officer of Dallah Al Baraka Group. Mr. Mohyedin Kamel has also served on the boards of many other companies and institutions, including as Chairman of the board of directors of Dallah Media Production Company and of Al Rabie Saudi Foods Co. Ltd., and member of the board of directors of, respectively, Dallah Real Estate Consulting Investment, Egypt, Almaza Real Estate Development Company, Egypt, Jabal Omar Development Company, Al Khozami Company, Saudi Research and Marketing Group, Dallah Health Co., Saudi Fund Equestrian and Okaz Organization for Press and Publication. He has also served as a member of the Management Committees of the Dallah Al Baraka Group. Mr. Mohyedin Kamel is also previously a member of the board of directors of the Jeddah Chamber of Commerce and Industry and is active in public and community work in Saudi Arabia.

Dr. Khalid Abdulla Ateeq – Board Member

Dr. Khalid Abdulla Ateeq is the chief executive officer and a board member of Family Bank in Bahrain. He has over 36 years of experience in banking, finance, auditing, and accounting. Dr. Ateeq served as the Executive Director of Banking Supervision at the CBB, where he was responsible for the licensing, inspection, and supervision of financial institutions, ensuring that all banks and financial institutions, either operating or incorporated in Bahrain, complied with laws and regulations. In addition, Dr. Ateeq currently serves as a director at AIB. He also served in senior posts with a number of firms including serving as the Deputy CEO at Venture Capital Bank. Before joining the CBB, he was an Assistant Professor at the University of Bahrain. Dr. Ateeq holds a PhD in Philosophy of Accounting from Hull University, U.K.

Mr. Saud Saleh AlSaleh – Board Member

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

Executive Management

A short biography of each member of Executive Management is set out below.

Mr. Adnan Ahmed Yousif – President and Chief Executive

Mr. Yousif has over 40 years of international banking experience. He has been on the Board since the inception of ABG and has been President and Chief Executive of ABG since August 2004. He has twice been awarded the Islamic Banker of the year award at the World Islamic Banking Conference. He is currently Chairman of JIB, BAA, ABTPB, ABL, ABE, ABL, ABBS, ABS and ABP, Vice Chairman of AIB and serves on the board of ABT and Itqan Capital. Mr. Yousif holds a Master of Business Administration degree from the University of Hull, UK.

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

Mr. Alawi has over 36 years of international banking experience mainly in auditing. He reports directly to the Audit and Governance Committee of the Board, for which he also acts as secretary. He participates as an observer member in audit committee meetings of all Units. Previously he was an audit team leader at Arab Banking Corporation (B.S.C.)'s Internal Audit Department, prior to which he was Head of Operations at Banque National de Paris in Bahrain. Mr. Alawi is a Fellow of the Chartered Association of Certified Accountant, U.K.

Mr. K. Krishnamoorthy – Executive Vice President, Head of Strategic Planning

Mr. Krishnamoorthy has over 40 years of experience in financial and management reporting, corporate and structured finance, credit, strategic planning, project management, equity research, fund management and administration. Prior to joining ABG in 2004, he headed the worldwide banking solutions business of Kumaran Systems Inc., Etobicoke, Ontario Canada, a major Canadian IT solutions company in Toronto, Canada, after two years as a partner in The International Investor, a regional investment bank in the Gulf region. Prior to that, he spent 11 years at Arab Banking Corporation (B.S.C.), latterly managing its mutual fund investment portfolio and Treasury Mid-Office. His early career was spent as an accountant in India and Bahrain.

He holds a Bachelor of Commerce from Osmania University, Hyderabad, India and is an Associate of the Institute of Chartered Accountants of India.

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

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

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

Mr. Eqab has over 23 years of experience in finance and auditing. He is Chairman of the Accounting Standards Board of the AAOIFI and is a member of the boards of ABTPB, JIB and BAA. In addition, he serves as member of the Board Executive Committee and observing member of the Board Audit Committee of ABTPB. He is a member of the Board Audit Committee, Board Social Responsibility Committee and Board Credit Committee of JIB and is also the member of the Board Audit Committee of BAA. Before joining ABG in February 2005, he worked at Shamil Bank as Senior Manager, Internal Audit, prior to which he was a member of the audit team at Arthur Andersen. Mr. Eqab holds a Bachelor of Science in Accounting from the University of Bahrain is a Certified Public Accountant from the State of Michigan - Board of Accountancy and a Chartered Global Management Accountant from the American Institute of Certified Public Accountants, U.S.A.

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

Mr. Szalay has over 40 years of international banking experience encompassing credit and risk management, corporate banking and trade finance. Mr. Szalay has been a member of ABG's executive management team since September 2006. Prior to ABG, he worked as Chief Credit Officer and was a member of the Group Risk Committee at Gulf International Bank B.S.C. Prior to that, he worked at Bank of Montreal, Canada, latterly being appointed its Middle East Representative.

He holds an M.A. in Economics from the University of Budapest, a Banking Certificate from the Institute of Canadian Bankers and is a graduate of the Advanced Management Programme from INSEAD, France.

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

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

Mr Mohammed A. El Qaq – Head of Commercial Banking

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

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

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

Mr Qutub Yousafali – Head of Group Compliance

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

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

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

Shari'a Supervisory Board

Sheikh Dr Abdul Sattar Abdul Kareem Abu Ghuddah – Chairman

Dr. Abu Ghuddah holds a Doctor of Philosophy (**PhD**) in Comparative Jurisprudence from Al-Azhar University, a Bachelor of Science degree in *Shari'a* from Damascus University, a Bachelor of Law from Damascus University, a Master's degree in *Shari'a* from Al-Azhar University and a Master's degree in Al-

Hadith Sciences from Al-Azhar University. He is Chairman and General Secretary of the Unified *Shari'a* Board of ABG, an expert and a former reporter of the Jurisprudence Encyclopaedia at the Kuwaiti Ministry of Awqaf and Islamic affairs, and a visiting professor at Saleh Kamel's Center for Islamic Economic Studies, Al-Azhar University.

He is also a member of the International Islamic Fiqh Academy in Jeddah, the Zakat International *Shari'a* Board, the Accounting Standards Council and the *Shari'a* Council of AAOIFI. Dr. Abu Ghuddah also serves as vice chairman of the *Shari'a* Board of Dubai Financial Market, an executive member of the *Shari'a* Board of the Central Bank of Syria, a member of the *Shari'a* committee of the CBB, vice chairman of the *Shari'a* Board of the Abu Dhabi Islamic Bank, a member of the *Shari'a* Board of the Sharjah Islamic Bank, chairman of the *Shari'a* Board of Abu Dhabi National Takaful Co., a member of the *Shari'a* Board of Takaful Re Limited, and chairman of the Al Hilal Bank *Shari'a* Board, in addition to being the chairman or a member of many other *Shari'a* boards, including those of Standard Chartered Bank, Dow Jones Islamic Market Indices, Credit Agricole CIB, SAMBA Financial Group, Qatar Islamic Bank and JIB.

Sheikh Dr. Abdullatif Mahmood Al Mahmood – Member

Sheikh Dr. Abdullatif Mahmood Al Mahmood holds a PhD in Fiqh (Islamic jurisprudence) and *Shari'a* from Zaytoona University, a Master's degree in Fiqh Al Muqarin (comparative jurisprudence) from Al Azhar University and a Diploma in Education from Ain Shams University. Sheikh Dr. Abdullatif Mahmood Al Mahmood has also served as chairman of the Department of Islamic Studies and the Arabic Language at Bahrain University since 2001, and as Professor in Islamic Studies, Bahrain University, since 1985. He is a member of the *Shari'a* supervisory board at various institutions including the Bahrain Islamic Bank, Al Takaful and the Arab Islamic Banking Association in Bahrain and London.

Dr Ahmed Mohiyeldin Ahmed – Member

Dr Ahmed Mohiyeldin Ahmed holds a PhD in Islamic Economics from Umul Qura University, Makkah, Saudi Arabia, a Master's degree in Fiqh Al Muamalat (Islamic jurisprudence on matters of contract/dealings) from Umul Qura University and a Baccalaureate in Economics from Amdarman Islamic University. Dr Ahmed Mohiyeldin Ahmed also acts as head of the Department of Research and Development at ABG and he serves as a member of the Legislative *Shari'a* committee of ABG, the *Shari'a* supervisory board of ABE and the *Shari'a* board of RHB Malaysia. He currently serves as an advisor to International Islamic Fiqh, to the Office of the Chairman of the Al Baraka Group and as Supervisor of the Library at ABG. He has previously been a member of the board of directors and the executive committee of Al Tawfeeq and Al Ameen companies.

Sheikh Abdulla bin Sulieman bin Mohammad Al Mannea – Member

Sheikh Abdulla bin Sulieman bin Mohammad Al Mannea holds a Master's degree in Fiqh and Economics at the College of Finance in Saudi Arabia. He is currently a member of the Legislative Fatwa Committee, the committee of the Grand Scholars and the International Islamic Fiqh. He has previously held the position of Chief Justice of the Supreme Court in Makkah, Saudi Arabia. Sheikh Abdulla bin Sulieman bin Mohammad Al Mannea serves as a member of *Shari'a* legislative organisations for various Islamic financial institutions.

Sheikh Dr Abdulaziz Bin Fawzan Al Fawzan – Member

Sheikh Dr Abdulaziz Bin Fawzan Al Fawzan holds a Master degree and a PhD in Comparative Jurisprudence from the Higher Institute of Judiciary. He is a Professor of Comparative Jurisprudence at the Higher Institute of Judiciary, board member of the Human Rights Commission and serves as an advisor to several Islamic financial institutions. He is also a member of the Saudi Jurisprudence Society and a member of the Saudi Judicial Society.

Dr Eltigani El Tayeb Mohammed – secretary to the SSB

Dr Eltigani El Tayeb Mohammed holds a PhD in Islamic *Shari'a* from the University of Khartoum, Sudan. He currently serves as Secretary General of the General Council for several Islamic banks and financial institutions. He is also currently a member of the Board of Trustees and Executive Committee at the International Islamic Centre for Conciliation and Arbitration and is a member of the *Shari'a* Standards Committee at the AAOIFI. In addition, Dr Eltigani El Tayeb Mohammed serves as a coordinator and member of the *Shari'a*' supervisory board at several Islamic financial institutions.

The Al Baraka Social Responsibility Programme

In 2012, ABG established the "Al Baraka Social Responsibility Programme", the first such programme to be introduced by an Islamic banking and financial services institution in the world. The programme includes the following activities:

- assessing the social impact of ABG's business at the local and transactional levels;
- investing in and supporting socially responsible businesses;
- supervising and monitoring development of ABG's microfinance programme;
- supporting local economies;
- supporting academic institutions and centres of excellence;
- promoting Islamic classical arts and literature;
- promoting scholarly works of Islamic banking and finance;
- investing in people;
- nurturing and encouraging local talent; and
- promoting programmes that protect the environment by adopting various conservation strategies, such as carbon mitigation, reduction of paper usage, energy and water conservation.

RISK MANAGMENT

Managing risk is essential for any financial institution. Accordingly, the Group has implemented risk management policies and procedures which comprise: risk identification, control limits, monitoring and reporting. Key features of the risk management policies and procedures include:

- standardisation of credit and other risk policies and procedures across the Group based on the Group's risk policy manual;
- aligning Units' credit and risk management policies with those of the Group and with local requirements, while permitting Units to follow whichever is more conservative, with Group policies being the minimum requirement;
- Board Risk Committees in each Unit and providing to all Units a template for credit and risk management, which includes the Unit's risk manager always reporting to the Unit's general manager;
- implementation of necessary IT systems to enable accurate and up-to-date reporting on credit and other risks both within each Unit and from each Unit to the Head Office;
- establishing, controlling and centrally monitoring at Head Office level ratings and limits for banks, financial institutions and countries;
- requiring corporate financing and investments above certain limits to be reviewed at the Head Office level by ABG's credit and risk management function;
- a well-diversified granular financing and investments portfolio, with Units enjoying good sectoral diversification; and
- regular stress-testing and monitoring for credit, liquidity and market risk across the Group.

Non-performing assets

The Group's ratio of non-performing assets at 31 December 2016 was (before provisions) 3.9 per cent. and (after provisions) 0.4 per cent. The Group policy for the management of non-performing assets is implemented on a Group-wide basis and requires all financing or investments of the Units to be reviewed at least annually. These reviews are performed by specialised analysts who highlight weaknesses and propose mitigants for risks. Any financing or investments facility under which an amount is overdue for more than 90 days is classified as non-performing and categorised as:

- Substandard (overdue 90 – 180 days);
- Doubtful (overdue 181 – 360 days); or
- Loss (overdue 361 days plus).

Minimum provision levels after the deduction of collateral from exposure are: 20 per cent., 50 per cent. and 100 per cent., respectively, for the above three categories. Similarly, the policies cover impairment rules for different classes of financial assets (for example, equity instruments, debt instruments and funds).

Market Risk

In its financing and investment portfolio the Group is exposed to market risk. As at 31 December 2016, the Group had a US$2.63 billion investment portfolio that was comprised of 85.6 per cent. *sukuk* and other Islamic debt instruments. The Group's largest currency exposure is to the Turkish lira, followed by the Jordanian dinar and the Algerian dinar. The Group's exposures are routinely stress-tested as part of the monitoring process. A hypothetical 20 per cent. devaluation in the Turkish lira versus the US dollar would have resulted in 2016 in a US$15 million decrease in total net income (a decrease of 5.6 per cent.) and a US$109 million decrease in total shareholders' equity (a decrease of 5.4 per cent.).

As a result of the Group's conservative approach to market risk, the Group does not have significant trading book assets and all investments and financings are recorded in the banking book.

Credit Risk

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

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

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

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

The Units are in the process of implementing a credit rating system for the better management of credit risk.

Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal or stressed circumstances. Liquidity management is a critical issue for all banking institutions. However, it becomes more important for Islamic financial institutions as funding tends to be on a short-term basis and there is only a small secondary market in which such institutions can manage their liquidity. Some assets of Islamic banks are generally not as readily sellable as those of conventional banks in a secondary market. In addition, the interbank market is thinner than for conventional banks. Accordingly, Islamic finance institutions face challenges in finding suitable instruments for the purpose of managing liquidity. The Group has therefore implemented cautious liquidity management policies in each Unit. As a consequence, the three largest Units (ABTPB, JIB and ABE), which account for 74.2 per cent. of the Group's total assets as at 31 December 2016, each have Basel III liquidity ratios (net stable funding ratio and liquidity coverage ratio) that meet the minimum required under Basel III.

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

Equity Price Risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity indices and the values of individual stocks. Each Unit has in place appropriate strategies, risk management and reporting processes in respect of the risk characteristics of equity investments, including *Mudaraba*, *Musharaka* and other investments. Based on Group policies, each Unit ensures that its valuation methodologies are appropriate and consistent, and assesses the potential impact of its methods on profit calculations and allocations mutually agreed between that Unit and its partners. Further, each Unit has defined and established appropriate exit strategies and risk management and reporting processes in respect of its equity investment activities.

Profit Rate Risk/Rate of Return Risk

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

Foreign Exchange Rate Risk

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

Operational Risk

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

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

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

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

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

Finally, a new fraud risk policy was introduced in 2016 to help prevent, control and investigate fraud.

Information Security (Cyber Security) Risk

The Group increased its efforts to manage information security (cyber security) risk in 2016. It is conducting an assessment of, and documenting, such risks in an information risk register with responsibility for the identified risks being assigned to appropriate officers. All attempted cyber security attacks or actual attacks are documented and reported together with the root causes thereof to the appropriate management team of ABG and the CBB. The Head Office credit and risk management department has developed a comprehensive information security risk policy which has been approved by the Board and will be distributed to the Units in the usual way.

Compliance Risk

Compliance risk is defined as the risk of legal or regulatory sanctions, material or financial loss or the loss to reputation that a bank may suffer as a result of its failure to comply with relevant applicable laws, regulations, rules, reporting requirements, codes of conduct and standards. The compliance environment has changed substantially in recent years. As a result, ABG and the Units are continuously enhancing their compliance risk management framework.

Shari'a Compliance Risk

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

REGULATORY CAPITAL, THE BANKING INDUSTRY AND REGULATION IN BAHRAIN

Regulatory Capital

The Group operates under an Islamic wholesale banking licence issued by the CBB. The Group is supervised and regulated by the CBB. The CBB is the sole banking regulator in Bahrain. The CBB sets the capital requirements for banks operating in or out of Bahrain. The CBB's framework for prudential requirements until 31 December 2014 was based on the Basel II Guidelines, as published by the Bank of International Settlements' Revised Framework – 'International Convergence of Capital Measurement and Capital Standards'.

The CBB issued its final directives on implementation of Basel III Guidelines to conventional banks in Bahrain in July 2014. These regulations came into force on 1 January 2015. Under the Basel III regulations, banks are required to maintain a Core Equity Tier 1 ratio of 9.0 per cent., Tier 1 ratio of 10.5 per cent. and total capital adequacy ratio of 12.5 per cent. (all ratios including the capital conservation buffer of 2.5 per cent.). As was the case under the Basel II Guidelines, Basel III is structured around three 'Pillars': Pillar I – Minimum Capital Requirements; Pillar II – the Supervisory Review Process and the Internal Capital Adequacy Assessment Process (**ICAAP**); and Pillar III – Market Discipline.

Pillar I – Minimum Capital Requirements

Pillar I deals with the basis for the computation of the regulatory capital ratio. It defines the various classes and the calculation of risk weighted assets (**RWAs**) in respect of credit risk, market risk and operational risk, as well as deriving the regulatory capital base. The capital adequacy ratio is then calculated as the ratio of the Group's regulatory capital to its total RWAs.

All Bahrain incorporated banks are currently required to maintain a minimum capital adequacy ratio of 12 per cent. at a consolidated basis. In addition, the CBB requires banks to maintain an additional 0.5 per cent. buffer above the minimum capital adequacy ratio. This means that the total capital adequacy ratio for Bahrain incorporated banks is 12.5 per cent. (including the buffer). The Group ensures that each Unit maintains sufficient capital levels for their respective legal and compliance purposes.

Credit Risk

Basel III provides three approaches to the calculation of regulatory capital required for credit risk. The Group has adopted the "standardised" approach which requires banks to use external credit ratings, to the extent that they are available, to determine the risk weightings applied to rated counterparties and groups counterparties into broad categories and applies standardised risk weightings to these categories. All Bahrain-incorporated banks are currently following the "standardised" approach to credit risk under Pillar I of Basel III.

Operational Risk

Basel III provides two approaches for calculating operational risk capital charge in a continuum of increasing sophistication and risk sensitivity. The Group has adopted the "basic indicator" approach, pursuant to which the regulatory capital requirement for operational risk is calculated by applying a co-efficient of 15 per cent. to the average gross income for the preceding three financial years.

Market Risk

Basel III provides two approaches for determining the market risk capital requirement: the maturity ladder approach and the simplified approach. The Group has adopted the simplified approach whereby it takes the largest net open long or net open short position in its market risk exposure and, using the capital charge percentage and the multiplier (both of which are stipulated by the CBB), arrives at the amount of capital required for market risk.

Pillar II – The Supervisory Review Process and ICAAP

Pillar II involves the process of supervisory review of a financial institution's risk management framework and its capital adequacy. Accordingly, this involves both ABG and its regulators taking a view on whether additional capital should be held against risks not covered in Pillar I. Part of the Pillar II process is the ICAAP, which is the Group's self-assessment of risks not captured by Pillar I.

As part of the CBB's Pillar II guidelines, each bank is required to be individually reviewed and assessed by the CBB with the intention of setting individual minimum capital adequacy ratios.

Pillar III – Market Discipline

Pillar III is related to market discipline and requires the Group to publish detailed qualitative and quantitative information on its risk management and capital adequacy policies and processes to complement the first two pillars and the associated supervisory review process. Pillar III disclosure requirements came into effect for all locally incorporated banks' financial statements dated 30 June 2015 onward. Under Basel III, all banks operating in Bahrain are required to submit prudential information returns on a quarterly basis and statistical returns on a monthly basis to the CBB. In addition, the CBB requires all locally incorporated banks to report *pro forma* Basel III ratios on leverage and liquidity on a quarterly basis.

As published in the 2016 annual report and the 2015 annual report, as applicable, the regulatory capital adequacy ratio of the Group was 15.49 per cent. as at 31 December 2016 as compared with 14.55 per cent. as at 31 December 2015, which is above the regulatory minimum requirement of 12.5 per cent. The Group's Tier 1 capital ratio was 14.35 per cent. as at 31 December 2016 as compared with 13.79 per cent. as at 31 December 2015.

Key Regulatory Requirements

As the Group is registered and licensed in Bahrain, it is subject to the jurisdiction of the CBB. The Group's overseas subsidiaries are also regulated by local regulators in their respective jurisdictions of operation.

A brief summary of key regulatory requirements in Bahrain are set out below:

The CBB is the sole regulator of Bahrain's financial sector, covering the full range of banking, insurance, investment business and capital markets activities. Established in 2006 as a successor to the Bahrain Monetary Agency, the CBB performs the role of a financial agent to the government of Bahrain, a role which principally entails advising the government in relation to financial matters generally, as well as administering government debt. More specifically, the main functions of the CBB are to arrange and implement the issuance of currency, to maintain monetary stability, and supervise and construct the regulatory framework applicable to financial institutions. The CBB is not directly accountable to parliament and is independent of the government but is accountable to the Minister of Finance. There are seven members of the Board of Directors of the CBB, including an independent chairman, each of whom is appointed by royal decree. The Governor of the CBB serves for a five-year term (the current Governor was reappointed in January 2015).

The CBB's wide scope of responsibilities facilitates the adoption of a consistent policy approach to be applied across the whole of Bahrain's financial sector. It is also designed to provide a straightforward and efficient regulatory framework for financial services firms operating in Bahrain.

Under the Financial Institutions Law, the CBB is authorised, among other things, to grant banking licences, determine the types of business which banks may or may not conduct, establish capital requirements for banks, conduct inspections of banks, stipulate reserve and liquidity ratios for banks and, in certain circumstances, to take over the administration of banks and liquidate them. The CBB currently issues two main types of banking licences, namely retail bank licences and wholesale bank licences. All licences may be operated under either conventional or Islamic banking principles.

The CBB supervises the banks in Bahrain through a mixture of on-site assessment (including, a review of the quality of systems and controls, and of books and records) and off-site supervision (which focuses on the analysis of regulatory returns, as well as of audited financial statements and other relevant public information).

The CBB has five off-site Supervision Directorates which undertake supervision of retail banks, wholesale banks, non-bank financial institutions, capital markets and insurance firms, respectively. The principal objectives of these Directorates are to ensure that the institutions remain adequately capitalised, have effective risk management and internal controls in place, maintain adequate liquidity and operate with integrity and skill. Off-site supervision includes regular prudential meetings with licensees to review performance, strategy and compliance matters (such as capital adequacy, large exposures and liquidity). Prudential returns are made monthly, quarterly, semi-annually or annually, depending on the nature of the information they contain.

A separate Inspection Directorate carries out on-site examinations of banks, including Islamic financial institutions. This Directorate has introduced a risk-based approach whereby a particular institution's risk profile will determine the nature and frequency of inspections. A separate Directorate, the Compliance Directorate, undertakes supervision of banks from the financial crime perspective and investigates suspicious financial transactions, money laundering, terrorist financing and unauthorised business activities.

The Retail and Wholesale Banking Supervision Directorates are responsible for the off-site supervision of all conventional banks, whether locally incorporated or branches of foreign banks. The Financial Institutions Supervision Directorate is responsible for all non-Islamic non-bank financial institutions (including money changers and money and foreign exchange brokers).

The Banking Supervision Directorates deal with the prudential supervision of banks and require the published accounts of locally incorporated banks to comply with International Accounting Standards (including IFRS). Locally incorporated banks and branches of overseas banks operating under a commercial bank licence in Bahrain are required to publish financial statements on a quarterly basis and to have such financial statements reviewed by external auditors.

ABG is regulated and supervised by the CBB and is listed on the Bahrain Bourse and on Nasdaq Dubai.

Other Key Regulations

The following other key regulations other than those relating to capital adequacy are set by the CBB for the banks operating from Bahrain:

- ***Deposit Insurance:*** Certain customers' deposits held with the bank in Bahrain are covered by the Regulation Protecting Deposits and Unrestricted Investment Accounts issued by the CBB on 22 August 2011 in accordance with Resolution No. (43) of 2011. A periodic contribution as mandated by the CBB is paid by the bank under this scheme.

- ***Single Borrower Limit:*** Banks are not allowed to incur an exposure to an individual counterparty or group of closely related counterparties which exceeds 15 per cent. of the bank's consolidated capital base without the prior written approval of the CBB. Total aggregate large exposures (being exposures which account for 10 per cent. or more of consolidated capital base) cannot exceed 800 per cent. of the consolidated capital base.

- ***Connected Counterparty Limit:*** Exposures to all connected counterparties, when taken together, must not exceed 25 per cent. of the bank's capital base.

- ***Loans to Shareholders:*** Banks are not allowed to have any exposure to a shareholder with 10 per cent. or more shareholding in the bank.

- ***Consumer Lending:*** Banks cannot grant consumer loans where the monthly repayment of a borrower exceeds 50 per cent. of his monthly gross salary. The maximum tenor for instalment consumer finance facilities is seven years. The tenor may not be extended more than twice during the period of the agreement.

- ***Liquidity:*** All banks in Bahrain are required to maintain reserves deposited at the CBB amounting to 5 per cent. of the value of non-bank deposits denominated in Bahrain dinars. The CBB expects mark to market value of assets that could be readily realised at short notice to exceed 25 per cent. of customer deposit liabilities at all times.

- ***Dividend Payment:*** Banks cannot present the dividend proposal on ordinary shares to its General Assembly unless the dividend proposal has been approved by the CBB.

Deposit Protection Scheme

The CBB has established a deposit protection scheme (the **Scheme**) for compensating eligible depositors (any natural person holding an eligible account with a conventional bank or an Islamic bank in Bahrain) when retail and Islamic banks licensed by the CBB are unable, or are likely to be unable, to satisfy claims against them. The Scheme, which is pre-funded, was established by the CBB at the beginning of 2011 to replace the previous, post-funded, scheme. The Scheme creates two pre-funded investment funds (one conventional, one Islamic) which will be used to compensate eligible depositors in the amount of their bank's defaults.

The body established to operate and administer the Scheme is the Deposit Protection Board (the **DPB**). The DPB will consider if and when compensation will be available in relation to a particular bank, sets out the procedures and rules of operation of the Scheme and is also responsible for calculating the amounts of compensation payable.

The Scheme applies to eligible deposits held with the Bahrain offices of CBB licensees, whether in Bahrain dinars or other currencies, held by persons who are either residents or non-residents of Bahrain. In the event of default, such deposits are protected up to a maximum of BD 20,000 (US$53,191.5), subject to the right of set off by the DPB for any debts of the eligible depositor and claim disbursement-related expenses, as applicable.

SUMMARY OF THE PRINCIPAL TRANSACTION DOCUMENTS

The following is a summary of certain provisions of the principal Transaction Documents and is qualified in its entirety by reference to the detailed provisions of the principal Transaction Documents. Copies of the Transaction Documents will be available for inspection at the offices of the Principal Paying Agent (as defined in the Conditions).

Declaration of Trust

The Declaration of Trust will be entered into on the Issue Date between the Bank, the Trustee and the Delegate and will be governed by English law.

Pursuant to the Declaration of Trust, the Trustee will declare a trust for the benefit of the Certificateholders over the Trust Assets.

The Trust Assets will comprise (i) the cash proceeds of the issuance of the Certificates pending application thereof in accordance with the terms of the Transaction Documents; (ii) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets; (iii) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by the Bank (acting in any capacity) pursuant to any of the Transaction Documents and the covenant to indemnify the Trustee given by the Bank pursuant to the Declaration of Trust); and (iv) all amounts standing to the credit of the Transaction Account from time to time, and all proceeds of the foregoing.

The Declaration of Trust shall provide that the rights of recourse in respect of Certificates shall be limited to the amounts from time to time available therefor from the Trust Assets, subject to the priority of payments set out in Condition 5 (*The Trust*). After enforcing or realising the Trust Assets and distributing the net proceeds of the Trust Assets in accordance with the Declaration of Trust, the obligations of the Trustee in respect of the Certificates shall be satisfied and no Certificateholder may take any further steps against the Trustee (or any steps against the Delegate) or any other person to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished.

Pursuant to the Declaration of Trust, the Trustee will, *inter alia*:

(a) hold the Trust Assets on trust absolutely for and on behalf of the Certificateholders *pro rata* according to the face amount of Certificates held by each Certificateholder in accordance with the provisions of the Declaration of Trust and the Conditions; and

(b) act as trustee in respect of the Trust Assets, distribute the income from the Trust Assets and perform its duties in accordance with the provisions of the Declaration of Trust and the Conditions.

In the Declaration of Trust, the Trustee shall irrevocably and unconditionally appoint the Delegate to be its delegate and attorney and in its name, on its behalf and as its act and deed, to execute, deliver and perfect all documents, and to exercise all of the present and future powers (including the power to sub-delegate), trusts, rights, authorities (including but not limited to the authority to request directions from any Certificateholders and the power to make any determinations to be made under the Transaction Documents) and discretions vested in the Trustee by the relevant provisions of the Declaration of Trust that the Delegate may consider to be necessary or desirable in order to, upon the occurrence of a Dissolution Event or a Potential Dissolution Event, and subject to its being indemnified and/or secured and/or pre-funded to its satisfaction, exercise all of the rights of the Trustee under the Mudaraba Agreement and any of the other Transaction Documents and make such distributions from the Trust Assets as the Trustee is bound to make in accordance with the provisions of the Declaration of Trust and the Conditions. The appointment of such delegate by the Trustee is intended to be in the interests of the Certificateholders and, subject to certain provisions of the Declaration of Trust, shall not affect the Trustee's continuing role and obligations as trustee. Pursuant to the Declaration of Trust:

(a) upon the occurrence of a Bank Event and the delivery of a Dissolution Notice by the Delegate to the Trustee, to the extent that the amounts payable in respect of the Certificates have not been paid in full pursuant to Condition 12.1 (*Bank Events*), the Delegate may at its discretion (acting on behalf of Certificateholders) or shall, if so requested in writing by Certificateholders holding at least one-fifth of the then aggregate face amount of the Certificates outstanding, and subject to its being indemnified and/or secured and/or prefunded to its satisfaction take one or more of the following steps: (i) institute any steps, actions or proceedings for the winding-up of the Bank; and/or (ii) prove in the winding-up of the Bank; and/or (iii) institute steps, actions or proceedings for the bankruptcy of the Bank; and/or (iv) claim in the liquidation of the Bank; and/or (v) take such other steps, actions or proceedings which, under the laws of Bahrain, have an analogous effect to the actions referred to in (i) to (iv) above, in each case for (subject to the provisos contained in Condition 12.3(a) (*Proceedings for Winding-up*)), all amounts of Mudaraba Capital, Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit and/or other amounts due (if any) to the Trustee on termination of the Mudaraba Agreement in accordance with its terms and the terms of the other Transaction Documents; and

(b) without prejudice to Conditions 12.1 (*Bank Events*) and 12.3 (*Winding-up, Dissolution or Liquidation*) and the provisions of clause 16 of the Declaration of Trust, the Trustee (or the Delegate) may at its discretion and the Delegate shall, in each case subject to Condition 12.3(e)(i) (*Realisation of Trust Assets*) if so requested in writing by Certificateholders holding at least one-fifth of the then aggregate face amount of the Certificates outstanding and without further notice institute such steps, actions or proceedings against the Bank and/or the Trustee, as it may think fit to enforce any term or condition binding on the Bank or the Trustee (as the case may be) under the Transaction Documents (other than any payment obligation of the Bank under or arising from the Transaction Documents, including, without limitation, payment of any principal or premium or satisfaction of any payments in respect of the Transaction Documents, including any damages awarded for breach of any obligations) including, without limitation, any failure by the Bank to procure the substitution of the Trustee in the circumstances described in Condition 12.2 (*Trustee Events*), and in no event shall the Bank, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it in accordance with the Transaction Documents.

A Transaction Account will be established in the name of the Trustee. Monies received in the Transaction Account will, *inter alia*, comprise payments of amounts payable under the Mudaraba Agreement immediately prior to each Periodic Distribution Date (see "*–Mudaraba Agreement*" below). The Declaration of Trust shall provide that all monies credited to the Transaction Account from time to time will be applied in the order of priority set out in Condition 5 (*The Trust*).

Mudaraba Agreement

The Mudaraba Agreement will be entered into on or before the Issue Date between the Bank (as the Mudareb) and ABG Sukuk Limited (as Trustee and Rab-al-Maal) and will be governed by English law (except for clause 2.4 thereof, which shall be governed by the laws of Bahrain).

The Mudaraba will commence on the date of payment of the Mudaraba Capital to the Mudareb, being the date of the Mudaraba Agreement, and will end (i) on the date on which the Certificates are redeemed in whole but not in part in accordance with the Conditions following the liquidation of the Mudaraba in accordance with the terms of the Mudaraba Agreement (the **Mudaraba End Date**) or (ii) (if earlier), in the case of a Write-down in whole only, on the Non-Viability Event Write-down Date.

Pursuant to the Mudaraba Agreement the proceeds of the issue of the Certificates will be contributed by the Trustee to the Mudareb and shall form the Mudaraba Capital. The Mudaraba Capital shall be invested by the Bank (as Mudareb), on an unrestricted co-mingling basis, in its general business activities in accordance with the investment plan prepared by the Mudareb and scheduled to the Mudaraba Agreement (the **Investment Plan**). The Mudareb will acknowledge and agree in the Mudaraba Agreement that the Investment Plan was prepared by it with due skill, care and attention, and acknowledge that the Trustee has entered into the Mudaraba in reliance on the Investment Plan.

The Mudareb is expressly authorised to co-mingle the Mudaraba Capital with its shareholders' equity and such amounts may be co-mingled in its general business activities, provided that prior to the calculation of any Mudaraba Profit or Final Mudaraba Profit the Mudareb shall exclude a proportion of any profit earned for its own account.

The Mudaraba Agreement provides that the profit (if any) generated by the Mudaraba will be distributed by the Mudareb on each Mudaraba Profit Distribution Date on the basis of a constructive liquidation of the Mudaraba by the Mudareb in accordance with the following profit sharing ratio:

(a) the Trustee 99 per cent.; and

(b) the Mudareb 1 per cent.

If the Mudareb elects to make a payment of Mudaraba Profit, or Final Mudaraba Profit is otherwise payable pursuant to the Mudaraba Agreement, and if the Trustee's share of the Mudaraba Profit (the **Rab-al-Maal Mudaraba Profit**) or the Trustee's share of the Final Mudaraba Profit (the **Rab-al-Maal Final Mudaraba Profit**) (as applicable) payable to the Trustee is (i) greater than the then applicable Periodic Distribution Amount, the amount of any excess shall be credited to a reserve account (the **Mudaraba Reserve**) and the Rab-al-Maal Mudaraba Profit or the Rab-al-Maal Final Mudaraba Profit (as applicable) payable to the Trustee will be reduced accordingly or (ii) is less than the then applicable Periodic Distribution Amount, the Mudareb shall first utilise any amount available in the Mudaraba Reserve (after re-crediting amounts to it in accordance with the terms of the Mudaraba Agreement if there is any such shortfall) and, if a shortfall still exists following such re-credit, it may (at its sole discretion) elect (but shall not be obliged) to make one or more payments from its own cash resources in order to cover such shortfall. Provided that, at any time, the amount standing to the credit of the Mudaraba Reserve (the **Minimum Reserve Amount**) is not less than the aggregate Periodic Distribution Amounts which are, or would, but for the occurrence of a Non-Payment Event or a Non-Payment Election, be payable by the Trustee on the next two following Periodic Distribution Dates, the Mudareb shall be entitled to deduct and retain for its own account as an incentive fee for its performance under the Mudaraba Agreement, any amounts over and above the Minimum Reserve Amount standing to the credit of the Mudaraba Reserve (at its sole discretion) at any time prior to the Mudaraba End Date.

If the Mudareb makes a Non-Payment Election or a Non-Payment Event occurs, then the Mudareb shall give notice to the Trustee, the Principal Paying Agent, the Delegate and the Certificateholders, in each case providing details of such Non-Payment Election or Non-Payment Event in accordance with the notice periods set out in the Mudaraba Agreement. The Trustee shall have no claim in respect of any Rab-al-Maal Mudaraba Profit (or any part thereof, as applicable) or Rab-al-Maal Final Mudaraba Profit not paid as a result of either a Non-Payment Event or (in the case of any Rab-al-Maal Mudaraba Profit only) a Non-Payment Election and such non-payment in whole or in part, as applicable, in such circumstance will not constitute a Dissolution Event. If the Mudareb makes a Non-Payment Election or a Non-Payment Event occurs, then from the date of such Non-Payment Election or Non-Payment Event (the **Dividend Stopper Date**), the Mudareb shall be prohibited from declaring or paying certain distributions or dividends, declaring or paying profit or other distributions on certain of its securities, or redeeming, purchasing, cancelling, reducing or otherwise acquiring certain of its share capital and securities, in each case unless or until (i) the next following payment of Rab-al-Maal Mudaraba Profit or, (ii) as the case may be, payment of Rab-al-Maal Final Mudaraba Profit following the Dividend Stopper Date, is made in full to the Trustee following such Non-Payment Election or Non-Payment Event (or an amount equal to that amount has been duly set aside or provided for in full for the benefit of the Trustee).

Subject to certain conditions as set out in the Mudaraba Agreement, the Bank (as Mudareb) may (in its sole and absolute discretion) liquidate the Mudaraba in whole, but not in part, on the basis of a final constructive liquidation of the Mudaraba in the following circumstances:

(a) on the First Call Date or any Periodic Distribution Date thereafter by giving not less than 35 nor more than 65 days' prior notice to the Trustee; or

(b) on any date, on or after the Issue Date (whether or not a Periodic Distribution Date), by giving not less than 35 nor more than 65 days' prior notice to the Trustee:

    (i) if a Tax Event occurs; or

    (ii) if a Capital Event occurs and is continuing.

If the Mudareb were to exercise its option to liquidate in accordance with paragraph (a) or (b)(i) above and the amount of capital to be returned to the Trustee upon liquidation of the Mudaraba (the **Dissolution Mudaraba Capital**) which would be generated upon such liquidation is less than the Mudaraba Capital, the Mudareb shall either continue investing the Dissolution Mudaraba Capital in the Mudaraba, and accordingly no distribution of the liquidation proceeds shall occur, or shall, if it were to proceed with such final constructive liquidation, indemnify the Trustee in respect of such shortfall and shall pay an amount equal to the aggregate of the Dissolution Mudaraba Capital and such shortfall to the Trustee in which case there shall be a final constructive liquidation of the Mudaraba.

If the Mudareb were to exercise its option to liquidate in accordance with paragraph (b)(ii) above and the Dissolution Mudaraba Capital which would be generated upon such liquidation is less than the aggregate of the Mudaraba Capital and the Capital Event Profit Amount, the Mudareb shall either continue investing the Dissolution Mudaraba Capital in the Mudaraba, and accordingly no distribution of the liquidation proceeds shall occur, or shall, if it were to proceed with such final constructive liquidation, indemnify the Trustee in respect of such shortfall and shall pay an amount equal to the aggregate of the Dissolution Mudaraba Capital, the Capital Event Profit Amount and such shortfall to the Trustee in which case there shall be a final constructive liquidation of the Mudaraba.

Under the terms of the Mudaraba Agreement, the Mudaraba will mandatorily be liquidated in whole but not in part if a Bank Event occurs and a Dissolution Notice is delivered pursuant to Condition 12.1 (*Bank Events*). The Mudareb acknowledges under the Mudaraba Agreement that the Trustee shall in such case be entitled to claim for all amounts due (if any) in accordance with the terms of the Mudaraba Agreement in such winding-up, bankruptcy, dissolution or liquidation (or analogous event) subject to certain conditions being satisfied.

The Mudaraba Agreement also provides that if a Non-Viability Event occurs, a Write-down (in whole or in part, as applicable) will take place. In such circumstances, in the case of a Write-down in whole only, the Mudaraba Agreement will be automatically terminated (and the Trustee shall not be entitled to any claim for any amounts in connection with the Mudaraba Assets), and in the case of a Write-down in part only, the Mudaraba Capital shall be reduced in proportion to the face amount of the Certificates that are to be written-down and the Certificateholders' rights to the Trust Assets shall automatically be deemed to be irrevocably and unconditionally written-down in the same manner as the Certificates.

The Bank (as Mudareb) and the Trustee undertake in the Mudaraba Agreement, in circumstances where the Certificates are required by the Bank to be varied upon the occurrence of a Tax Event or the occurrence and continuation of a Capital Event pursuant to the Conditions, to make such variations to the Mudaraba Agreement as are necessary to ensure that the Certificates become or, as appropriate, remain Qualifying Tier 1 Instruments.

The Mudareb shall not be responsible for any losses to the Mudaraba Capital suffered by the Trustee except to the extent such losses are caused by (i) the Mudareb's breach of the Mudaraba Agreement or (ii) the Mudareb's gross negligence, wilful misconduct or fraud.

The Mudareb shall exercise its rights, powers and discretions under the Mudaraba Agreement and shall take such action as it deems appropriate, in each case, in accordance with material applicable laws, with the degree of skill and care that it would exercise in respect of its own assets and in a manner that is not repugnant to *Shari'a*.

Other than its share of profit from the Mudaraba and any incentive fee payable in accordance with the Mudaraba Agreement, the Mudareb shall not be entitled to receive any remuneration from the Mudaraba.

The Mudareb will agree in the Mudaraba Agreement that all payments by it under the Mudaraba Agreement will be made free and clear of, and without any withholding or deduction for, or on account of, taxes, unless such withholding or deduction is required by law and provide for the payment of Additional Amounts so that the net amounts received by the Certificateholders shall equal the respective amounts that would have been received in the absence of such withholding or deduction. Any taxes incurred in connection with the operation of the Mudaraba (including in connection with any transfer, sale or disposal of any Mudaraba Asset during the corresponding Mudaraba Profit Distribution Period (as defined in the Mudaraba Agreement)), but excluding the Mudareb's obligations (if any) to pay any taxes and/or Additional Amount, will be borne by the Mudaraba itself.

Agency Agreement

The Agency Agreement will be entered into on the Issue Date between the Trustee, the Bank, the Delegate, the Principal Paying Agent, the Calculation Agent, the Registrar and the Transfer Agent.

Pursuant to the Agency Agreement, the Registrar has agreed to be appointed as agent of the Trustee and has agreed, amongst other things, to authenticate (or procure the authentication of) and deliver the Global Certificate and, if any, each Definitive Certificate; the Principal Paying Agent has agreed to be appointed as agent of the Trustee and has agreed, amongst other things, to pay all sums due under such Global Certificate; the Calculation Agent has agreed to be appointed as agent of the Trustee and has agreed, amongst other things, to calculate the Profit Rate in respect of each Reset Period commencing on the relevant Reset Date, subject to and in accordance with the Conditions; and the Transfer Agent has agreed to be appointed as agent of the Trustee and has agreed, amongst other things, to effect requests to transfer all or part of the Definitive Certificate and issue Definitive Certificates in accordance with each request.

On the Issue Date, the Registrar will (i) authenticate (or procure the authentication of) the Global Certificate in accordance with the terms of the Declaration of Trust and (ii) deliver the Global Certificate to the Common Depositary.

The Bank shall cause to be deposited into the Transaction Account opened by the Trustee with the Principal Paying Agent, in same day freely transferable, cleared funds, any payment which may be due under the Certificates in accordance with the Conditions.

The Principal Paying Agent agrees that it shall, on each Periodic Distribution Date and on the date fixed for payment of the Dissolution Distribution Amount, or any earlier date specified for the liquidation of the Mudaraba, apply the monies standing to the credit of the Transaction Account in accordance with the order of priority set out in Condition 5 (*The Trust*).

TAXATION

The following is a general description of certain Bahrain, Cayman Islands, European Union and United States tax considerations relating to the Certificates. It does not purport to be a complete analysis of all tax considerations relating to the Certificates, whether in those jurisdictions or elsewhere. Prospective purchasers of Certificates should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Certificates and receiving payments under the Certificates and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Bahrain

As at the date of this Prospectus, there are no taxes payable with respect to income, withholding or capital gains under existing Bahrain laws. Corporate income tax is only levied on oil, gas and petroleum companies at a flat rate of 46 per cent. This tax is applicable to any oil company conducting business activity of any kind in Bahrain, including oil production, refining and exploration, regardless of the company's place of incorporation. Accordingly, under current legislation, there is no requirement for withholding or deduction for or on account of taxation in Bahrain in respect of payments made by the Bank under the Mudaraba Agreement and/or the Trustee under the Certificates.

If any such withholding or deduction is required to be made in respect of payments due by the Bank under the Mudaraba Agreement, the Bank has undertaken in the Mudaraba Agreement to gross-up the payments due by it accordingly. If any such withholding or deduction is required to be made in respect of payments due by the Trustee under the Certificates, (i) the Trustee has undertaken to gross-up the payment(s) accordingly (subject to certain limited exceptions) and (ii) the Bank has undertaken under the Mudaraba Agreement to pay such additional amounts to the Trustee to enable the Trustee to discharge such obligation.

Cayman Islands

The following is a discussion on certain Cayman Islands income tax consequences of an investment in Certificates. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances and does not consider tax consequences other than those arising under Cayman Islands law.

Under existing Cayman Islands laws, payments on Certificates will not be subject to taxation in the Cayman Islands and no withholding will be required on the payments to any holder of Certificates nor will gains derived from the disposal of Certificates be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance or gift tax.

Subject as set out below, no capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Certificates. An instrument transferring title to any Certificates, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty. An annual registration fee is payable by the Trustee to the Cayman Islands Registrar of Companies which is calculated by reference to the nominal amount of its authorised capital. At current rates, this annual registration fee is approximately U.S.$854. The foregoing is based on current law and practice in the Cayman Islands and this is subject to change therein.

The Proposed Financial Transactions Tax (*FTT*)

On 14 February 2013, the European Commission published a proposal (the **Commission's Proposal**) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**). However, Estonia has since stated that it will not participate.

The proposed FTT has very broad scope and could, if introduced, apply to certain dealings in the Certificates (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No. 1287/2006 are expected to be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Certificates where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including: (a) by transacting with a person established in a participating Member State; or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Certificates are advised to seek their own professional advice in relation to the FTT.

Foreign Account Tax Compliance Act Withholding

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as **FATCA**, a **foreign financial institution** (as defined by FATCA) may be required to withhold on certain payments it makes (**foreign passthru payments**) to persons that fail to meet certain certification, reporting or related requirements. The Trustee may be a foreign financial institution for these purposes. A number of jurisdictions (including the Cayman Islands and Bahrain) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (**IGAs**), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Certificates, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Certificates, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Certificates, such withholding would not apply prior to 1 January 2019. Certificateholders should consult their own tax advisers regarding how these rules may apply to their investment in the Certificates. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Certificates, no person will be required to pay additional amounts as a result of the withholding.

SUBSCRIPTION AND SALE

The Joint Lead Managers have, in a subscription agreement (the **Subscription Agreement**) dated 29 May 2017, agreed with the Trustee and the Bank to sell to the Joint Lead Managers U.S.$400,000,000 in aggregate face amount of the Certificates and, subject to certain conditions, the Joint Lead Managers have jointly and severally agreed to subscribe for the Certificates.

In accordance with the terms of the Subscription Agreement, each of the Trustee and the Bank has agreed to reimburse the Joint Lead Managers for certain of their expenses in connection with the Certificates and to indemnify the Joint Lead Managers against certain liabilities incurred by them in connection therewith.

The Trustee and the Bank will pay each relevant Joint Lead Manager a commission as agreed between them in respect of Certificates subscribed by it. To the extent permitted by law, the Trustee, the Bank and the Joint Lead Managers may agree that commissions or fees may be paid to certain brokers, financial advisers and other intermediaries based upon the amount of investment in the Certificates by such intermediary and/or its customers. Any disclosure and other obligations in relation to the payment of such commission to such intermediary are solely the responsibility of the relevant intermediary and none of the Trustee, the Bank, the Joint Lead Managers or any of their affiliates, nor any person who controls or is a director, officer, employee or agent of any such person accepts any liability or responsibility whatsoever for compliance with such obligations. Each customer of any such intermediary is responsible for determining for itself whether an investment in the Certificates is consistent with its investment objectives.

The Subscription Agreement entitles the Joint Lead Managers to terminate any agreement that they make to subscribe Certificates in certain circumstances prior to payment for such Certificates being made to the Trustee.

In connection with the offering of the Certificates, any shareholder or related party of the Bank may invest in and may take up Certificates in the offering and may retain, purchase or sell for its own account such Certificates. Accordingly, references herein to the Certificates being offered should be read as including any offering of the Certificates to any shareholder or related party of the Bank. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

General

Each Joint Lead Manager has agreed that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it offers or sells any Certificates or possesses or distributes this Prospectus and neither the Trustee, the Bank nor any of the Joint Lead Managers shall have any responsibility therefor.

None of the Trustee, the Bank or any of the Joint Lead Managers represents that Certificates may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

United States

The Certificates have not been and will not be registered under the Securities Act, as amended, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in certain transactions exempt from the registration requirements of the Securities Act. Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Certificates (i) as part of their distribution at any time or (ii) otherwise until expiration of 40 days after the later of the commencement of the offering and the Issue Date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer (whether or not participating in the offering) to which it sells Certificates during the distribution compliance period a confirmation or other notice setting out the restrictions on offers and sales of the Certificates within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the preceding sentence have the meanings given to them by Regulation S.

The Certificates are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S.

In addition, until the expiration of 40 days after the commencement of the offering of the Certificates, an offer or sale of Certificates within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act, unless the dealer makes the offer or sale in compliance with an exemption from registration under the Securities Act.

Each Joint Lead Manager has represented that it has not entered into and will not enter into any contractual arrangement with any distributor (as that term is defined in Regulation S) with respect to the distribution or delivery of the Certificates, except with its affiliates or the prior written consent of the Trustee and the Bank.

United Kingdom

Each Joint Lead Manager has represented and agreed that:

(i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Certificates in circumstances in which Section 21(1) of the FSMA does not apply to the Trustee or the Bank; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Certificates in, from or otherwise involving the United Kingdom.

Cayman Islands

Each Joint Lead Manager has represented and agreed that no invitation or offer, whether directly or indirectly, to subscribe for the Certificates has been or will be made to the public in the Cayman Islands.

United Arab Emirates (excluding the Dubai International Financial Centre)

Each Joint Lead Manager has represented and agreed that the Certificates have not been and will not be offered, sold or publicly promoted or advertised by it in the UAE other than in compliance with any laws applicable in the UAE governing the issue, offering and sale of securities.

Dubai International Financial Centre

Each Joint Lead Manager has represented and agreed that it has not offered and will not offer the Certificates to any person in the Dubai International Financial Centre unless such offer is:

(i) an "Exempt Offer" in accordance with the Markets Rules (MKT) Module of the Dubai Financial Services Authority (the **DFSA**); and

(ii) made only to persons who meet the "Professional Client" criteria set out in Rule 2.3.3 of the DFSA Conduct of Business Module.

Kingdom of Bahrain

Each Joint Lead Manager has represented and agreed that it has not offered or sold, and will not offer or sell, any Certificates except on a private placement basis to persons in Bahrain who are "accredited investors".

For this purpose, an **accredited investor** means:

(i) an individual holding financial assets (either singly or jointly with a spouse) of U.S.$1,000,000 or more;

(ii) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.$1,000,000; or

(iii) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

Kingdom of Saudi Arabia

No action has been or will be taken in Saudi Arabia that would permit a public offering of the Certificates. Any investor in Saudi Arabia or who is a Saudi person (a **Saudi Investor**) who acquires any Certificates pursuant to an offering should note that the offer of Certificates is a private placement under Article 11 or Article 12 of the "Offers of Securities Regulations" as issued by the Board of the Capital Market Authority resolution number 2-

11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 3-151-2016 dated 21 December 2016 (the **KSA Regulations**), through a person authorised by the Capital Market Authority to carry on the securities activity of arranging and following a notification to the Capital Market Authority under the KSA Regulations.

The Certificates may thus not be advertised, offered or sold to any person in Saudi Arabia other than to "Sophisticated Investors" under Article 11 of the KSA Regulations or by way of a limited offer under Article 12 of the KSA Regulations. Each Joint Lead Manager has represented and agreed that any offer of Certificates to a Saudi Investor will be made in compliance with the KSA Regulations.

The offer of Certificates shall not therefore constitute a "public offer" pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 18 of the KSA Regulations. Any Saudi Investor who has acquired Certificates pursuant to a private placement under Article 11 or Article 12 of the KSA Regulations may not offer or sell those Certificates to any person unless the offer or sale is made through an authorised person appropriately licensed by the Capital Market Authority and: (i) the Certificates are offered or sold to a Sophisticated Investor (as defined in Article 11 of the KSA Regulations); (ii) the price to be paid for the Certificates in any one transaction is equal to or exceeds SAR 1 million or an equivalent amount; or (iii) the offer or sale is otherwise in compliance with Article 18 of the KSA Regulations.

State of Qatar

Each Joint Lead Manager has represented and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, any Certificates in Qatar (including the Qatar Financial Centre), except: (a) in compliance with all applicable laws and regulations of Qatar; and (b) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in Qatar.

State of Kuwait

Each Joint Lead Manager has represented and agreed that no Certificates will be offered in Kuwait unless all necessary approvals from the CMA pursuant to Law No. 7 of 2010 and its executive bylaws, each as amended, together with the various resolutions, regulations, guidance principles and instructions issued pursuant thereto, or in connection therewith (regardless of nomenclature) or any other applicable law or regulation in Kuwait, have been given in respect of the offering, marketing, and sale of the Certificates. For the avoidance of doubt, no Certificates shall be offered, marketed and/or sold in Kuwait except on a private placement basis to Professional Clients (as defined in Module 1 of the executive by laws of Law No. 7 of 2010 (each as amended)).

Japan

The Certificates have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the **FIEA**). Accordingly, each Joint Lead Manager has represented and agreed that it has not, directly or indirectly offered or sold and will not offer or sell any Certificates, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act of 1949 (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Hong Kong

Each Joint Lead Manager has represented and agreed that:

(i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Certificates other than (a) to persons whose ordinary business is to buy or sell shares or debentures (whether as principal or agent); or (b) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the **Securities and Futures Ordinance**) and any rules made under that Ordinance; or (c) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Certificates, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Certificates which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Malaysia

Each Joint Lead Manager has represented and agreed that:

(i) this Prospectus has not been registered as a prospectus with the Securities Commission of Malaysia under the Capital Markets and Services Act 2007 of Malaysia (the **CMSA**); and

(ii) accordingly, the Certificates have not been and will not be offered or sold, and no invitation to subscribe for or purchase the Certificates has been or will be made, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons falling within any one of the categories of persons specified under Schedule 6 or Section 229(1)(b) and Schedule 7 or Section 230(1)(b) and Schedule 8 or Section 257(3), read together with Schedule 9 or Section 257(3) of the CMSA, subject to any law, order, regulation or official directive of the Central Bank of Malaysia, the Securities Commission of Malaysia and/or any other regulatory authority from time to time.

Residents of Malaysia may be required to obtain relevant regulatory approvals including approval from the Controller of Foreign Exchange to purchase the Certificates. The onus is on the Malaysian residents concerned to obtain such regulatory approvals and none of the Joint Lead Managers is responsible for any invitation, offer, sale or purchase of the Certificates as aforesaid without the necessary approvals being in place.

Singapore

This Prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Each Joint Lead Manager has represented and agreed that it has not offered or sold any Certificates or caused such Certificates to be made the subject of an invitation for subscription or purchase and will not offer or sell such Certificates or cause such Certificates to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Certificates, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the **SFA**); (ii) to a relevant person under Section 275(1) of the SFA or to any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Certificates are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(i) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(ii) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Certificates pursuant to an offer made under Section 275 of the SFA except:

(a) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(b) where no consideration is or will be given for the transfer;

(c) where the transfer is by operation of law;

(d) as specified in Section 276(7) of the SFA; or

(e) as specified in Regulation 32 of the Securities and Futures (Offer of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Switzerland

This Prospectus is not intended to constitute an offer or solicitation to purchase or invest in the Certificates. The Certificates may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Prospectus nor any other offering or marketing material relating to the Certificates constitutes a prospectus as such term is understood pursuant to Article 652a or Article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland and neither this Prospectus nor any other offering or marketing material relating to the Certificates may be publicly distributed or otherwise made publicly available in Switzerland.

GENERAL INFORMATION

Listing

Application has been made to the Irish Stock Exchange for the Certificates to be admitted to listing on the Official List and to trading on the Main Securities Market. The Main Securities Market is a regulated market for the purposes of MiFID. It is expected that the listing of the Certificates on the Official List and admission of the Certificates to trading on the Main Securities Market will be granted on or around 31 May 2017. The total expenses related to the admission to trading are estimated at €6,540.

The Bank of New York Mellon SA/NV, Dublin Branch is acting solely in its capacity as listing agent for the Trustee in relation to the Certificates and is not itself seeking admission of the Certificates to the Official List or to trading on the Main Securities Market.

Authorisation

The issue of the Certificates has been duly authorised by a resolution of the Board of Directors of the Trustee dated 11 May 2017. The Trustee has obtained all necessary consents, approvals and authorisations in the Cayman Islands in connection with the issue of the Certificates and the entry into the Transaction Documents.

The entry by the Bank into the Transaction Documents was authorised by the directors of the Bank by way of a board resolution (adopted by circulation) in response to a recommendation (Ref. No.: P&CE/310117/12753) dated 31 January 2017 and by the shareholders of the Bank on 20 March 2017.

Clearing Systems

The Certificates have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records) under common code 160944897 and ISIN XS1609448979.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, LI 855 Luxembourg.

Significant or Material Change

There has been no significant change in the financial or trading position of the Bank or the Group since 31 March 2017 and there has been no material adverse change in the prospects of the Bank or the Group since 31 December 2016.

There has been no significant change in the financial or trading position of the Trustee and no material adverse change in the prospects of the Trustee, in each case since the date of its incorporation.

Litigation

The Trustee is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Trustee is aware) since the date of its incorporation which may have or have in such period had a significant effect on the financial position or profitability of the Trustee.

Neither the Bank nor any member of the Group has been involved in any governmental, legal or arbitration proceedings (including any such proceedings that are pending or threatened of which the Bank is aware) during the 12 months preceding the date of the Prospectus that may have or have in such period had a significant effect on the financial position or profitability of the Bank or the Group.

Auditors

Since the date of its incorporation, no financial statements of the Trustee have been prepared. The Trustee is not required by the laws of the Cayman Islands, and does not intend, to publish audited financial statements or appoint any auditors.

The Bank's appointed auditors are Ernst & Young-Bahrain (**Ernst & Young Bahrain**). The business address of Ernst & Young Bahrain is P.O. Box 140, 10th Floor, East Tower, Bahrain World Trade Centre, Manama, Kingdom of Bahrain. Ernst & Young Bahrain is regulated in Bahrain by the Ministry of Industry, Commerce and Tourism and is a registered auditor licensed to act as an auditor in Bahrain by the Ministry of Industry, Commerce and Tourism. Ernst & Young Bahrain is a member of the Bahrain Accountants Association.

The 2016 Financial Statements and the 2015 Financial Statements have been audited by Ernst & Young Bahrain with license no. 45 in accordance with Auditing Standards for Islamic Financial Institutions issued by AAOIFI as stated in their reports included herein. The Interim Financial Information has been reviewed by Ernst & Young Bahrain in accordance with the International Standard of Review 2410, "Review of Interim Financial Information Performed by the Independent Auditors of the Entity", as stated in their report included herein.

Documents Available

For as long as any Certificates remain outstanding, copies of the following documents will be available in electronic and physical format and in English to be inspected and/or collected during normal business hours on any weekday at the specified office for the time being of the Principal Paying Agent:

(a) the Memorandum and Articles of Association of the Trustee and the constitutional documents (with an English translation thereof) of the Bank;

(b) the Consolidated Financial Statements;

(c) the Interim Financial Information;

(d) a copy of this Prospectus together with any supplement to this Prospectus; and

(e) the Transaction Documents.

Joint Lead Managers Transacting with the Bank

In the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Bank or the Bank's affiliates. Certain of the Joint Lead Managers or their affiliates that have a lending relationship with the Bank routinely hedge their credit exposure to the Bank consistent with their customary risk management policies. Typically, such Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Certificates. Any such short positions could adversely affect future trading prices of the Certificates. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

INDEX TO FINANCIAL STATEMENTS

Al Baraka Banking Group B.S.C.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 MARCH 2017 (REVIEWED)

Building a better working world

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF AL BARAKA BANKING GROUP B.S.C.

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of Al Baraka Banking Group B.S.C. (the "Bank") and its subsidiaries (together the "Group") as at 31 March 2017, and the related interim consolidated statements of income, cash flows, changes in owners' equity and changes in off-balance sheet equity of investment accountholders for the three-month period then ended and explanatory notes. The Board of Directors and management are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with the accounting policies disclosed in note 2. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with the accounting policies disclosed in note 2.

Ernst + Young

10 May 2017
Manama, Kingdom of Bahrain

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2017 (Reviewed)

	Notes	31 March 2017 US$ '000	Audited 31 December 2016 US$ '000
ASSETS			
Cash and balances with banks		**4,808,321**	5,073,418
Receivables	3	**11,529,114**	11,423,448
Mudaraba and Musharaka financing	4	**1,383,013**	1,582,396
Investments	5	**2,907,274**	2,629,131
Ijarah Muntahia Bittamleek		**1,852,699**	1,830,339
Property and equipment		**428,895**	417,295
Other assets	6	**454,332**	469,238
TOTAL ASSETS		**23,363,648**	23,425,265
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
LIABILITIES			
Customer current and other accounts		**4,837,238**	4,983,772
Due to banks		**814,494**	918,395
Long term financing	7	**1,376,413**	1,381,256
Other liabilities	8	**865,371**	856,467
Total liabilities		**7,893,516**	8,139,890
EQUITY OF INVESTMENT ACCOUNTHOLDERS		**13,444,646**	13,276,794
OWNERS' EQUITY			
Share capital	12	**1,206,679**	1,149,218
Treasury shares		**(10,124)**	(9,588)
Share premium		**19,085**	18,574
Reserves		**181,051**	181,971
Cumulative changes in fair values		**40,719**	41,271
Foreign currency translations	12	**(671,124)**	(666,719)
Retained earnings		**527,356**	497,374
Proposed appropriations	12	-	68,857
Equity attributable to parent's shareholders		**1,293,642**	1,280,958
Non-controlling interest		**731,844**	727,623
Total owners' equity		**2,025,486**	2,008,581
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		**23,363,648**	23,425,265

Saleh Abdullah Kamel
Chairman

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

The attached notes 1 to 14 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF INCOME

For the three months ended 31 March 2017 (Reviewed)

	Three months ended	
	31 March 2017 US$ '000	*31 March 2016 US$ '000*
INCOME		
Net income from jointly financed contracts and investments	**296,777**	327,809
Return on equity of investment accountholders before Group's share as a Mudarib	**(251,483)**	(276,110)
Group's share as a Mudarib	**92,269**	98,475
Return on equity of investment accountholders	**(159,214)**	(177,635)
Group's share of income from equity of investment accountholders (as a Mudarib and Rabalmal)	**137,563**	150,174
Mudarib share for managing off-balance sheet equity of investment accountholders	**281**	638
Net income from self financed contracts and investments	**88,045**	74,712
Fees and commission income	**39,665**	47,359
Other operating income	**3,762**	22,566
	269,316	295,449
Profit paid on long term financing	**(20,445)**	(19,814)
TOTAL OPERATING INCOME	**248,871**	275,635
OPERATING EXPENSES		
Staff expenses	**85,169**	94,144
Depreciation and amortisation	**11,559**	15,749
Other operating expenses	**50,996**	51,469
TOTAL OPERATING EXPENSES	**147,724**	161,362
NET INCOME FOR THE PERIOD BEFORE NET PROVISIONS AND TAXATION	**101,147**	114,273
Net provisions	**(28,912)**	(16,058)
NET INCOME FOR THE PERIOD BEFORE TAXATION	**72,235**	98,215
Taxation	**(20,725)**	(29,379)
NET INCOME FOR THE PERIOD	**51,510**	68,836
Attributable to:		
Equity holders of the parent	**34,003**	37,799
Non-controlling interest	**17,507**	31,037
	51,510	68,836
Basic and diluted earnings per share - US cents (note 11)	**2.84**	3.15

Saleh Abdullah Kamel
Chairman

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

The attached notes 1 to 14 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the three months ended 31 March 2017 (Reviewed)

	Three months ended	
	31 March 2017 US$ '000	*31 March 2016 US$ '000*
OPERATING ACTIVITIES		
Net income for the period before taxation	**72,235**	98,215
Adjustments for:		
Depreciation and amortisation	**11,559**	15,749
Depreciation on Ijarah Muntahia Bittamleek	**64,083**	35,452
Unrealised gain on equity and debt-type instruments at fair value through statement of income	**(414)**	(60)
Gain on disposal of property and equipment	**(1,824)**	(455)
Gain on disposal of investment in real estate	**(10)**	(137)
Gain on disposal of equity-type instruments at fair value through equity	**(952)**	(55)
Gain on disposal of equity and debt-type instruments at fair value through statement of income	**(58)**	(137)
Net provisions	**28,912**	16,058
Income from associates	**(513)**	(150)
Operating profit before changes in operating assets and liabilities	**173,018**	164,480
Net changes in operating assets and liabilities:		
Reserves with central banks	**128,242**	686,343
Receivables	**(138,177)**	(448,729)
Mudaraba and Musharaka financing	**198,252**	(183,039)
Ijarah Muntahia Bittamleek	**(86,444)**	(43,051)
Other assets	**10,378**	6,493
Customer current and other accounts	**(146,529)**	(18,489)
Due to banks	**(103,901)**	14,820
Other liabilities	**12,891**	95,370
Equity of investment accountholders	**168,361**	(257,181)
Taxation paid	**(34,725)**	(69,279)
Net cash from (used in) operating activities	**181,366**	(52,262)
INVESTING ACTIVITIES		
Net purchase of investments	**(277,916)**	331,668
Net purchase of property and equipment	**(18,567)**	(3,355)
Net movement in associates	**16**	(122)
Net disposal of investment in associates	**163**	662
Net cash (used in) from investing activities	**(296,304)**	328,853
FINANCING ACTIVITIES		
Net movement in treasury shares	**(25)**	(144)
Long term financing	**(4,843)**	97,047
Net change in non-controlling interest	**(7,036)**	(20,757)
Net cash (used in) from financing activities	**(11,904)**	76,146
Foreign currency translation adjustments	**(10,013)**	(12,634)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(136,855)**	340,103
Cash and cash equivalents at 1 January	**2,851,959**	2,292,689
CASH AND CASH EQUIVALENTS AT 31 MARCH (note 14)	**2,715,104**	2,632,792

The attached notes 1 to 14 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the three months ended 31 March 2017 (Reviewed)

	Attributable to equity holders of the parent												
				Reserves									
	Share capital US$ '000	*Treasury shares US$ '000*	*Share premium US$ '000*	*Statutory reserve US$ '000*	*Other reserves US$ '000*	*Cumulative changes in fair value of investments US$ '000*	*Cumulative changes in fair value of property and equipment US$ '000*	*Foreign currency translation US$ '000*	*Retained earnings US$ '000*	*Appropriations US$ '000*	*Total US$ '000*	*Non-controlling interest US$ '000*	*Total owners' equity US$ '000*
At 1 January 2017	1,149,218	(9,588)	18,574	139,740	42,231	4,971	36,300	(666,719)	497,374	68,857	1,280,958	727,623	2,008,581
Dividends (note 12)	-	-	-	-	-	-	-	-	-	(11,396)	(11,396)	-	(11,396)
Bonus shares issued (note 12)	57,461	-	-	-	-	-	-	-	-	(57,461)	-	-	-
Net movement in treasury shares	-	(536)	511	-	-	-	-	-	-	-	(25)	-	(25)
Net movement in cumulative changes in fair values	-	-	-	-	-	(552)	-	-	-	-	(552)	(187)	(739)
Net movement in other reserves	-	-	-	-	(920)	-	-	-	-	-	(920)	(456)	(1,376)
Foreign currency translations	-	-	-	-	-	-	-	(4,405)	-	-	(4,405)	(5,607)	(10,012)
Net income for the period	-	-	-	-	-	-	-	-	34,003	-	34,003	17,507	51,510
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(5,971)	(5,971)
Allocation of Zakah	-	-	-	-	-	-	-	-	(4,021)	-	(4,021)	-	(4,021)
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	(1,065)	(1,065)
At 31 March 2017	**1,206,679**	**(10,124)**	**19,085**	**139,740**	**41,311**	**4,419**	**36,300**	**(671,124)**	**527,356**	**-**	**1,293,642**	**731,844**	**2,025,486**

The attached notes 1 to 14 form part of these interim condensed consolidated financial statements.

Al Baraka Banking Group B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the three months ended 31 March 2017 (Reviewed)

	Attributable to equity holders of the parent												
				Reserves									
	Share capital US$ '000	*Treasury shares US$ '000*	*Share premium US$ '000*	*Statutory reserve US$ '000*	*Other reserves US$ '000*	*Cumulative changes in fair value of investments US$ '000*	*Cumulative changes in fair value of property and equipment US$ '000*	*Foreign currency translation US$ '000*	*Retained earnings US$ '000*	*Appropriations US$ '000*	*Total US$ '000*	*Non-controlling interest US$ '000*	*Total owners' equity US$ '000*
At 1 January 2016	1,115,746	(8,464)	17,662	124,585	40,874	2,229	36,300	(461,948)	433,631	55,787	1,356,402	738,181	2,094,583
Dividends (note 12)	-	-	-	-	-	-	-	-	172	(22,315)	(22,143)	-	(22,143)
Bonus shares issued (note 12)	33,472	-	-	-	-	-	-	-	-	(33,472)	-	-	-
Net movement in treasury shares	-	(258)	114	-	-	-	-	-	-	-	(144)	-	(144)
Net movement in cumulative changes in fair values	-	-	-	-	-	(317)	-	-	-	-	(317)	(139)	(456)
Net movement in other reserves	-	-	-	-	927	-	-	-	-	-	927	477	1,404
Foreign currency translations	-	-	-	-	-	-	-	(7,431)	-	-	(7,431)	(5,204)	(12,635)
Net income for the period	-	-	-	-	-	-	-	-	37,799	-	37,799	31,037	68,836
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(20,098)	(20,098)
Allocation of Zakah	-	-	-	-	-	-	-	-	(3,962)	-	(3,962)	-	(3,962)
Effects of acquisition of non-controlling interest	-	-	-	-	-	-	-	-		-	-	(659)	(659)
At 31 March 2016	1,149,218	(8,722)	17,776	124,585	41,801	1,912	36,300	(469,379)	467,640	-	1,361,131	743,595	2,104,726

The attached notes 1 to 14 form part of these interim condensed consolidated financial statements.

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

For the three months ended 31 March 2017 (Reviewed)

	Cash *US$ '000*	*Sales receivable* *US$ '000*	*Mudaraba financing* *US$ '000*	*Investment in real estate* *US$ '000*	*Ijarah Muntahia Bittamleek* *US$ '000*	*Investments* *US$ '000*	*Others* *US$ '000*	*Total* *US$ '000*
At 1 January 2017	73,558	223,323	286,201	38,150	82,962	157,672	10,177	872,043
Deposits	94,578	138,223	123,307	15	631	220	25,242	382,216
Withdrawals	(70,658)	(79,886)	(162,623)	-	(3,061)	(9,134)	(23,967)	(349,329)
Income net of expenses	-	5,649	1,925	-	1,710	1,655	(1,062)	9,877
Mudarib's share	-	(137)	(120)	-	-	(2)	(22)	(281)
Foreign exchange translation	-	3,156	-	-	-	350	-	3,506
At 31 March 2017	**97,478**	**290,328**	**248,690**	**38,165**	**82,242**	**150,761**	**10,368**	**918,032**
At 1 January 2016	11,579	170,139	257,719	38,277	81,173	200,535	18,537	777,959
Deposits	42,160	25,960	259,867	479	5,851	6,966	10,703	351,986
Withdrawals	(6,227)	(25,835)	(234,130)	-	(967)	(33,472)	(14,492)	(315,123)
Income net of expenses	-	43	1,068	-	-	1,375	34	2,520
Mudarib's share	-	(640)	72	-	-	(36)	(34)	(638)
Foreign exchange translation	-	693	-	-	-	-	(4,405)	(3,712)
At 31 March 2016	47,512	170,360	284,596	38,756	86,057	175,368	10,343	812,992

The attached notes 1 to 14 form part of these interim condensed consolidated financial statements.

1 ACTIVITIES

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

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

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

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of Preparation

These interim condensed consolidated financial statements for the three months period ended 31 March 2017 have been prepared in accordance with the guidance given by the International Accounting Standard 34 - "*Interim Financial Reporting*". The interim condensed consolidated financial statements do not contain all information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements as at 31 December 2016. In addition, results for the three month period ended 31 March 2017 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2017.

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

Statement of compliance

The annual consolidated financial statements for the year ended 31 December 2016 were prepared in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ('AAOIFI'), the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group, the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law and the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions and rules and procedures of the Bahrain Bourse. In accordance with the requirements of AAOIFI, for matters for which no AAOIFI standards exist including "Interim Financial Reporting," the Group uses the relevant International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), given it does not contradict with Shari'a Rules and Principles and the conceptual framework of AAOIFI.

Basis of consolidation

The interim condensed consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at and for the period ended 31 March 2017. The financial statements of the subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies.

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

Significant accounting policies

These interim condensed consolidated financial statements have been prepared using accounting policies, which are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2016.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Approval of the Interim Condensed Consolidated Financial Statements
These interim condensed consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 10 May 2017.

3 RECEIVABLES

	31 March 2017 US$ '000	Audited 31 December 2016 US$ '000
Sales (Murabaha) receivables	**11,213,818**	11,119,981
Ijarah receivables	**53,530**	57,086
Salam receivables	**164,216**	154,649
Istisna'a receivables	**97,550**	91,732
	11,529,114	11,423,448

4 MUDARABA AND MUSHARAKA FINANCING

	31 March 2017 US$ '000	Audited 31 December 2016 US$ '000
Mudaraba financing	**615,556**	821,729
Musharaka financing	**767,457**	760,667
	1,383,013	1,582,396

5 INVESTMENTS

	31 March 2017 US$ '000	Audited 31 December 2016 US$ '000
Equity and debt-type instruments at fair value through statement of income (5.1)	**12,409**	27,842
Equity-type instruments at fair value through equity (5.2)	**113,761**	107,225
Debt-type instruments at amortised cost (5.3)	**2,370,376**	2,250,764
	2,496,546	2,385,831
Investment in real estate (5.4)	**358,723**	191,565
Investment in associates	**52,005**	51,735
	2,907,274	2,629,131

5 INVESTMENTS (continued)

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

	31 March 2017 US$ '000	*Audited 31 December 2016 US$ '000*
Quoted investments		
Debts	**10,321**	8,369
Equities	**1,955**	928
Unquoted investments		
Equities	**133**	18,545
	12,409	27,842

5.2 Equity-type instruments at fair value through equity

	31 March 2017 US$ '000	*Audited 31 December 2016 US$ '000*
Quoted investments		
Equities	**50,889**	46,476
Managed funds	**20,155**	18,478
	71,044	64,954
Unquoted investments		
Equities	**35,833**	34,766
Managed funds	**9,828**	10,403
	45,661	45,169
Provisions	**(2,944)**	(2,898)
	113,761	107,225

5.3 Debt-type instruments at amortised cost

	31 March 2017 US$ '000	*Audited 31 December 2016 US$ '000*
Quoted investments		
Sukuk and similar items	**1,261,683**	1,212,230
	1,261,683	1,212,230
Unquoted investments		
Sukuk and similar items	**1,115,441**	1,042,796
	1,115,441	1,042,796
Provisions	**(6,748)**	(4,262)
	2,370,376	2,250,764

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

The Group's investments in sukuk and similar items held at amortised cost have fair values amounting to US$ 2,370 million (31 December 2016: US$ 2,821 million).

5 INVESTMENTS (continued)

5.4 Investment in real estate

	31 March 2017 US$ '000	Audited 31 December 2016 US$ '000
Land	**124,129**	107,315
Buildings	**234,594**	84,250
	358,723	191,565

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

	31 March 2017 US$ '000	Audited 31 December 2016 US$ '000
Beginning balance of the period / year	**191,565**	187,412
Acquisition	**172,335**	14,479
Net gain from fair value adjustments	**227**	1,253
Disposal	**(1,476)**	(8,660)
Foreign exchange translation - net	**(3,928)**	(2,919)
	167,158	4,153
Ending balance of the period / year	**358,723**	191,565

6 OTHER ASSETS

	31 March 2017 US$ '000	Audited 31 December 2016 US$ '000
Bills receivable	**142,267**	144,327
Goodwill and intangible assets	**89,917**	91,735
Collateral pending sale	**61,480**	62,151
Prepayments	**48,307**	40,540
Deferred taxation	**35,462**	34,693
Good faith qard fund	**19,657**	19,136
Others	**71,958**	91,485
	469,048	484,067
Provisions	**(14,716)**	(14,829)
	454,332	469,238

7 LONG TERM FINANCING

	31 March 2017 US$ '000	Audited 31 December 2016 US$ '000
Murabaha financing	**781,393**	762,752
Subordinated financing obtained by a subsidiary	**429,866**	456,600
Wakala	**165,154**	161,904
	1,376,413	1,381,256

8 OTHER LIABILITIES

	31 March 2017 US$ '000	Audited 31 December 2016 US$ '000
Payables	**328,890**	299,433
Cash margins	**225,214**	222,008
Managers' cheques	**95,209**	103,969
Other provisions	**7,217**	11,091
Current taxation	**57,696**	68,055
Deferred taxation	**10,061**	12,933
Accrued expenses	**68,531**	71,303
Charity fund	**15,961**	10,658
Others	**56,592**	57,017
	865,371	856,467

9 COMMITMENTS AND CONTINGENCIES

	31 March 2017 US$ '000	Audited 31 December 2016 US$ '000
Guarantees	**2,487,345**	2,680,992
Letters of credit	**731,111**	704,307
Acceptances	**52,043**	53,791
Undrawn commitments	**934,363**	834,915
Sharia'a compliant promise contracts	**191,530**	323,915
Others	**326**	321
	4,396,718	4.598,241

10 RELATED PARTY TRANSACTIONS AND BALANCES

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

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

	Associated companies US$ '000	Major shareholders US$ '000	Directors and key management personnel US$ '000	Other related parties US$ '000	Three months ended 31 March 2017 US$ '000	Three months ended 31 March 2016 US$ '000
Net income from jointly financed contracts and investments	496	-	54	-	**550**	591
Net income from self financed contracts and investments	-	2	-	-	**2**	9
Return on equity of investment accountholders	160	56	6	1	**223**	116
Fees and commission income	166	-	-	-	**166**	174

The significant balances with related parties were as follows:

	Associated companies US$ '000	Major shareholders US$ '000	Directors and key management personnel US$ '000	Other related parties US$ '000	31 March 2017 US$ '000	Audited 31 December 2016 US$ '000
Assets						
Receivables	2,744	-	831	-	**3,575**	2,768
Mudaraba and Musharaka financing	-	-	2,350	-	**2,350**	-
Investments	60,690	-	-	288	**60,978**	63,555
Ijarah Muntahia Bittamleek	-	-	560	-	**560**	559
Other assets	1,386	1	538	506	**2,431**	1,881
Liabilities						
Customer current and other accounts	5,523	2,862	1,370	73	**9,828**	9,076
Other liabilities	-	6	2	-	**8**	2
Equity of investment accountholders	21,611	6,121	8,548	68	**36,348**	25,071
Off-balance sheet equity of investment accountholders	14,928	9,071	6,956	-	**30,955**	29,114

All related party exposures are performing and are free of any provision for possible credit losses. All related party transactions were conducted on an arm's length basis.

11 BASIC AND DILUTED EARNINGS PER SHARE

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

	Three months ended	
	31 March 2017	*31 March 2016*
Net income attributable to the equity holders of the parent for the period - US$ '000	**34,003**	37,799
Number of shares outstanding at beginning of the period (in thousands)	**1,206,679**	1,149,218
Treasury shares effect (in thousands)	**(9,773)**	(8,462)
Bonus shares effect (in thousands)*	-	57,461
Number of shares outstanding at end of the period - (in thousands)	**1,196,906**	1,198,217
Earnings per share - US cents	**2.84**	3.15

*The number of shares of the previous period has been adjusted on account of the bonus issue made during 2016.

12 OWNERS' EQUITY

	31 March 2017 US$ '000	*Audited 31 December 2016 US$ '000*
Share capital		
Authorised:		
Ordinary shares 1,500,000,000 (2016: 1,500,000,000) of US$ 1 each	**1,500,000**	1,500,000

	31 March 2017 US$ '000	*Audited 31 December 2016 US$ '000*
Issued and fully paid up:		
At beginning of the period / year 1,149,218,451 (2016: 1,115,746,069) shares of US$1 each	**1,149,218**	1,115,746
Issued during the period / year 57,460,923 bonus shares (2016: 33,472,382) of US$1 each	**57,461**	33,472
At end of the period / year 1,206,679,374 (2016: 1,149,218,452) shares of US$1 each	**1,206,679**	1,149,218

Appropriations

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

12 OWNERS' EQUITY (continued)

Foreign currency translations

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

The following table summarises the subsidiary wise foreign currency translation loss balance.

Subsidiary	*Currency*	***31 March 2017 US$ '000***	*Audited 31 December 2016 US$ '000*
Banque Al Baraka D'Algerie (BAA)	Algerian Dinar	**49,227**	50,617
Al Baraka Bank (Pakistan) Limited	Pakistani Rupees	**8,049**	7,890
Al Baraka Bank Egypt (ABE)	Egyptian Pound	**140,826**	144,651
Al Baraka Turk Participation Bank (ATPB)	Turkish Lira	**362,528**	350,455
Al Baraka Bank Limited (ABL)	South African Rand	**15,437**	17,279
Al Baraka Bank Sudan (ABS)	Sudanese Pound	**37,500**	36,901
Al Baraka Bank Tunis (ABT)	Tunisian Dinar	**21,797**	23,166
Al Baraka Bank Syria (ABBS)	Syrian Pound	**35,760**	35,760
		671,124	666,719

13 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 the following geographic segments:

Middle East
North Africa
Europe
Others

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

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

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

	31 March 2017			*Audited 31 December 2016*		
	Assets US$ '000	***Liabilities US$ '000***	***Equity of investment accountholders US$ '000***	*Assets US$ '000*	*Liabilities US$ '000*	*Equity of investment accountholders US$ '000*
Segment						
Middle East	**9,949,782**	**2,768,043**	**6,287,024**	9,710,447	2,782,561	6,057,888
North Africa	**2,408,394**	**1,086,337**	**1,038,877**	2,419,901	1,171,716	974,704
Europe	**9,029,924**	**3,358,416**	**5,038,799**	9,304,781	3,546,164	5,103,850
Others	**1,975,548**	**680,720**	**1,079,946**	1,990,136	639,449	1,140,352
	23,363,648	**7,893,516**	**13,444,646**	23,425,265	8,139,890	13,276,794

13 SEGMENTAL INFORMATION (continued)

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

	Three months ended 31 March 2017			*Three months ended 31 March 2016*		
	Total operating income US$ '000	***Net operating income US$ '000***	***Net income US$ '000***	*Total operating income US$ '000*	*Net operating income US$ '000*	*Net income US$ '000*
Segment						
Middle East	**96,767**	**41,579**	**28,948**	113,119	48,907	30,946
North Africa	**24,134**	**8,284**	**5,297**	27,160	11,430	6,209
Europe	**97,190**	**41,233**	**10,299**	113,014	45,984	25,582
Others	**30,780**	**10,051**	**6,966**	22,342	7,952	6,099
	248,871	**101,147**	**51,510**	275,635	114,273	68,836

14 CASH AND CASH EQUIVALENTS

	Three months ended	
	31 March 2017 US$ '000	*31 March 2016 US$ '000*
Balances with central banks excluding mandatory reserve	**1,439,972**	1,144,444
Balances with other banks	**716,520**	958,729
Cash and cash in transit	**558,612**	529,619
	2,715,104	2,632,792

Al Baraka Banking Group B.S.C.

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

31 DECEMBER 2016

Unified Shari'a Supervisory Board Report
AlBaraka Banking Group B.S.C.
For the year ended 31 December 2016

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

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

To: Al Baraka Banking Group Shareholders

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

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

First:

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

Second:

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

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مجموعة البركة المصرفية ش.م.ب.
ص ب ١٨٨٢، المنامة
مملكة البحرين

(Licensed as an Islamic Wholesale Bank by CBB)

Third:

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

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

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

In our opinion:

1. The Contracts, transactions and dealings entered into by the Group and its Units during the year ended 31 December 2016 are made in compliance with Shari'a Rules and Principles.

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

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

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

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

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

Praise be to Allah

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

Chairman and Members

Shaik Dr. Abdul Sattar Abu Ghuddah
Chairman

Shaikh Abdulla bin Sulaiman Al Mannea
Member

Shaikh Dr. Abdullatif Al Mahmood
Member

Shaikh Dr. Abdulaziz Al Fawzan
Member

Dr. Ahmed Mohiyeldin
Member

Zakah Calculation for the year ended 31 December 2016

	US$ '000
Equity Attributable to Shareholders	1,280,512
Less Investment of the parent on the shareholding of Al Baraka Bank Egypt, Al Baraka Bank Sudan and Itqan Capital	(146,970)
Net Zakatable Equity Attributable to Shareholders	**1,133,542**
Less:	
Musharaka underlined by unzakatable assets	(96,439)
Investment in Islamic Sukuk underlined by unzakatable assets	(50,043)
Ijarah Muntahia Bittamleek	(398,331)
long-term investment in real estate	(43,812)
Properties and equipment	(247,478)
Intangible assets	(80,721)
Investment in Associates	(58,321)
Prepayments	(47,938)
Deferred tax asset	(108)
Add:	
Shareholders share on Zakatable Assets by Associates	14,927
Borrowing to finance Unzakatable Assets	2,052
Sale of long-term investment in real estate during the year	873
Deferred tax liability	6,217
Employees end of services benefit	32,553
Zakatable amount	166,973
Zakah Percentage	2.5775%
Total Zakah due	4,304
Number of Shares (thousands)	1,139,630
Zakah per share (US$ cents)	0.38

alBaraka

Directors' Report

(All figures in US Dollars unless stated otherwise)

2016 REVIEW

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

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

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

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

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

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

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

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

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

2017 AND BEYOND

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

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

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

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

For and on behalf of the Board of Directors

Saleh Abdullah Kamel
Chairman

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

Report on the consolidated financial statements

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

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

Opinion

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

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

Report on other regulatory requirements

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

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

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

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

Ernst + Young

Partner's registration no 45
22 February 2017
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

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

Saleh Abdullah Kamel
Chairman

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

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

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2016

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

Saleh Abdullah Kamel
Chairman

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	2016 US$ '000	2015 US$ '000
OPERATING ACTIVITIES			
Net income before taxation		**384,789**	405,311
Adjustments for:			
Depreciation and amortisation	19	**44,579**	50,054
Depreciation on Ijarah Muntahia Bittamleek	14 4	**238,315**	191,729
Unrealised gain on equity and debt-type instruments at fair value through statement of income	14 3	**(152)**	(145)
Gain on sale of property and equipment	17	**(14,804)**	(10,502)
(Gain) loss on sale of investment in real estate	14.3	**(5,502)**	1,332
Gain on sale of equity type instruments at fair value through equity	14.3	**(3,585)**	(1,509)
Gain on sale of equity and debt-type instruments at fair value through statement of income	14.3	**(667)**	(1,636)
Gain from associates	14.3	**(2,059)**	(652)
Provisions and impairment	21	**122,154**	58,371
Operating profit before changes in operating assets and liabilities		**763,068**	692,353
Net changes in operating assets and liabilities:			
Reserves with central banks		**859,261**	(804,579)
Receivables		**443,093**	(18,818)
Mudaraba and Musharaka financing		**(40,793)**	(10,608)
Ijarah Muntahia Bittamleek		**(334,197)**	(431,386)
Other assets		**(24,167)**	3,510
Customer current and other accounts		**142,675**	331,783
Due to banks		**110,126**	(403,225)
Other liabilities		**10,143**	(25,342)
Equity of investment accountholders		**(1,238,504)**	378,244
Taxation paid		**(147,598)**	(104,730)
Net cash from (used in) operating activities		**543,107**	(392,798)
INVESTING ACTIVITIES			
Net purchase of investments		**495,992**	(514,289)
Net purchase of property and equipment		**2,890**	(57,424)
Dividends received from associates		**2,329**	2,068
(Purchase) disposal of investment in associate		**(14,587)**	3,556
Net cash from (used in) investing activities		**486,624**	(566,089)
FINANCING ACTIVITIES			
Long term financing		**(115,952)**	841,539
Dividends paid to equity holders of the parent		**(22,143)**	(32,816)
Net movement in treasury shares		**(212)**	171
Net changes in non-controlling interest		**(9,018)**	(33,494)
Net cash (used in) from financing activities		**(147,325)**	775,400
Foreign currency translation adjustments		**(323,137)**	(258,945)
NET CHANGES IN CASH AND CASH EQUIVALENTS		**559,269**	(442,432)
Cash and cash equivalents at 1 January		**2,292,689**	2,735,121
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	23	**2,851,958**	2,292,689

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

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2016

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

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

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2016

	Attributable to equity shareholders of the parent												
				Reserves		Cumulative changes in fair values							
	Share capital US$ '000	Treasury shares US$ '000	Share premium US$ '000	Statutory reserve US$ '000	Other reserves US$ '000	Investments US$ '000	Property and equipment US$ '000	Foreign currency translations US$ '000	Retained earnings US$ '000	Proposed appropriations US$ '000	Total US$ '000	Non-controlling interest US$ '000	Total owners' equity US$ '000
Balance at 1 January 2015	1,093,869	(8,261)	17,288	108,311	39,310	3,073	-	(313,602)	343,398	54,693	1,338,079	736,544	2,074,623
Dividends paid	-	-	-	-	-	-	-	-	-	(32,816)	(32,816)	-	(32,816)
Bonus shares issued (note 13)	21,877	-	-	-	-	-	-	-	-	(21,877)	-	-	
Movement in treasury shares	-	(203)	374	-	-	-	-	-	-	-	171	-	171
Net movement in cumulative change in fair value for investments	-	-	-	-	-	(844)	-	-	-	-	(844)	(357)	(1,201)
Net movement in cumulative change in fair value for property and equipment	-	-	-	-	-	-	36,300	-	-	-	36,300	21,690	57,990
Net movement in other reserves	-	-	-	-	1,564	-	-	-	-	-	1,564	505	2,069
Foreign currency translation	-	-	-	-	-	-		(148,346)	-	-	(148,346)	(110,599)	(258,945)
Net income for the year	-	-	-	-	-	-	-	-	162,741	-	162,741	123,445	286,186
Transfer to statutory reserve	-	-	-	16,274	-	-	-	-	(16,274)	-	-	-	-
Proposed dividends	-	-	-	-	-	-	-	-	(22,315)	22,315	-	-	-
Proposed bonus shares	-	-	-	-	-	-	-	-	(33,472)	33,472	-	-	-
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(33,494)	(33,494)
Effects of acquisition of non-controlling interest	-	-	-	-	-	-	-	-	(447)	-	(447)	447	-
Balance at 31 December 2015	1,115,746	(8,464)	17,662	124,585	40,674	2,229	36,300	(461,948)	433,631	55,787	1,356,402	738,181	2,094,583

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

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

For the year ended 31 December 2016

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

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

1 ACTIVITIES

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

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

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

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

2 ACCOUNTING POLICIES

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

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

New standards, interpretations and amendments adopted by the Group

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

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

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

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

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

d. Investments

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

Investment in real estate

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

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

Investment in associates

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

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

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

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

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

Equity-type instruments at fair value through equity

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

2 ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

d. 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.

e. Ijarah Muntahia Bittamleek

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

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

f. Property and equipment

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

The calculation of depreciation is on the following basis:

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

g. Fair values

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

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

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

h. Goodwill

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

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

2 ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

h. Goodwill (continued)

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

i. Intangible assets

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

j. Collateral pending sale

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

k. Employees' end of service benefits

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

l. Provision

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

m. Dividends

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

n. Equity of investment accountholders

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

o. Investment risk reserve

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

p. Profit equalisation reserve

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

q. Sukuk

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

r. Off-balance sheet equity of investment accountholders

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

2 ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

s. Treasury shares

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

t. Revenue recognition

Sales (Murabaha) receivables

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

Salam and Istisna'a receivables

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

Mudaraba and Musharaka financing

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

Ijarah Muntahia Bittamleek

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

Fee and commission income

Fee and commission income is recognised when earned.

Other income

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

Group's share as a Mudarib

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

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

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

u. Return on equity of investment accountholders

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

v. Joint and self financed

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

2 ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

w. Taxation

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

x. Shari'a supervisory board

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

y. Zakah

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

z. Earnings prohibited by Shari'a

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

aa. Impairment of financial assets

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

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

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

bb. Offsetting

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

cc. Foreign currencies

Foreign currency transactions at the subsidiary level

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

2 ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

cc. Foreign currencies (continued)

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

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

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

ff. Derecognition

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

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

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

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

3 CASH AND BALANCES WITH BANKS

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

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

4 RECEIVABLES

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

4 RECEIVABLES (continued)

4.1 Sales (Murabaha) receivables

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

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

4.2 Ijarah receivables

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

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

4.3 Salam receivables

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

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

4 RECEIVABLES (continued)

4.4 Istisna'a receivables

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

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

5 MUDARABA AND MUSHARAKA FINANCING

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

5.1 Mudaraba financing

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

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

5.2 Musharaka financing

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

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

6 INVESTMENTS

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

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

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

6.2 Equity-type instruments at fair value through equity

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

6 INVESTMENTS (continued)

6.3 Debt-type instruments at amortised cost

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

6.4 Investment in real estate

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

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

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

6 INVESTMENTS (continued)

6.5 Investment in associates

Investment in associates comprise the following:

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

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

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

8 PROPERTY AND EQUIPMENT

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

9 OTHER ASSETS

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

9 OTHER ASSETS (continued)

9 (a) Goodwill and intangible assets

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

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

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

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

10 LONG TERM FINANCING

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

10 LONG TERM FINANCING (continued)

Murabaha financing and wakala (continued)

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

Subordinated financing obtained by a subsidiary

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

11 OTHER LIABILITIES

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

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

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

12 EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH)

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

** Medium term Sukuk*

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

12 EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH) (continued)

12.1 Profit equalisation reserve

The following shows the movement in profit equalisation reserve:

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

12.2 Investment risk reserve

The following shows the movement in investment risk reserve:

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

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

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

13 OWNERS' EQUITY

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

	2016	*2015*
	US$ '000	*US$ '000*
Issued and fully paid up:		
At beginning of the year 1,115,746,069 (2015: 1,093,868,695) shares of US$1 each	**1,115,746**	1,093,869
Issued during the year 33,472,382 bonus shares (2015: 21,877,374) of US$1 each	**33,472**	21,877
At end of the year 1,149,218,452 (2015: 1,115,746,069) shares of US$1 each	**1,149,218**	1,115,746

Proposed appropriations

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

Treasury shares

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

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

Additional information on shareholding pattern

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

At 31 December 2016

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

13 OWNERS' EQUITY (continued)

Additional information on shareholding pattern (continued)

At 31 December 2015

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

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

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

At 31 December 2016

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

At 31 December 2015

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

a. Share premium/Equity transaction cost

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

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

b. Statutory reserve

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

13 OWNERS' EQUITY (continued)

c. Cumulative changes in fair values

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

d. Foreign currency translations

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

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

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

e. Other reserves

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

f. Zakah paid on behalf of shareholders

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

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

13 OWNERS' EQUITY (continued)

g. Proposed Appropriations

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

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

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

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

h. Net movement in non-controlling interest

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

14 NET INCOME FROM JOINTLY AND SELF FINANCED CONTRACTS AND INVESTMENTS

	2016 US$ '000	2015 US$ '000
Receivables (note 14.1)	**1,099,779**	1,050,895
Mudaraba and Musharaka financing (note 14.2)	**126,248**	101,177
Investments (note 14.3)	**293,096**	256,661
Ijarah Muntahia Bittamleek (note 14 4)	**135,999**	126,010
Others	**3,532**	731
	1,658,654	1,535,474
Net income from jointly financed contracts and investments	**1,336,569**	1,223,215
Gross income from self financed contracts and investments	**322,085**	312,259
	1,658,654	1,535,474
Gross income from self financed contracts and investments	**322,085**	312,259
Profit paid on wakala financing	**(36,586)**	(39,318)
Net income from self financed contracts and investments	**285,499**	272,941

14.1 Receivables

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

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

14.2 Mudaraba and Musharaka financing

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

14.3 Investments

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

14.4 Ijarah Muntahia Bittamleek

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

15 GROUP'S SHARE AS A MUDARIB

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

16 OTHER FEES AND COMMISSION INCOME

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

17 OTHER OPERATING INCOME

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

18 PROFIT PAID ON LONG TERM FINANCING

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

19 DEPRECIATION AND AMORTISATION

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

20 OTHER OPERATING EXPENSES

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

21 PROVISIONS AND IMPAIRMENT

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

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

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

21 PROVISIONS AND IMPAIRMENT (continued)

The provisions relate to the following geographical areas:

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

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

22 BASIC AND DILUTED EARNINGS PER SHARE

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

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

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

23 CASH AND CASH EQUIVALENTS

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

24 RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

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

24 RELATED PARTY TRANSACTIONS (continued)

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

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

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

24 RELATED PARTY TRANSACTIONS (continued)

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

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

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

25 COMMITMENTS AND CONTINGENCIES

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

26 SEGMENTAL ANALYSIS

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

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

Middle East
North Africa
Europe
Others

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

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

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

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

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

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

27 RISK MANAGEMENT

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

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

a) Liquidity risk

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

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

27 RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

The maturity profile at 31 December 2016 was as follows:

	Up to 1 month US$ '000	*1 to 3 months US$ '000*	*3 to 6 months US$ '000*	*6 months to 1 year US$ '000*	*1 to 3 years US$ '000*	*3 to 5 years US$ '000*	*5 to 10 years US$ '000*	*10 to 20 years US$ '000*	*20 years and above US$ '000*	*Undated US$ '000*	*Total US$ '000*
Assets											
Cash and balances with banks	3,909,408	-	24,107	10,000	174,568	7,303	-	-	-	948,032	5,073,418
Receivables	1,504,074	810,358	1,378,701	2,087,664	3,126,846	1,861,219	463,466	190,549	571	-	11,423,448
Mudaraba and Musharaka financing	691,754	15,944	11,995	29,133	217,576	334,008	241,125	40,861	-	-	1,582,396
Investments	833,342	242,353	238,977	224,864	384,115	261,045	131,311	42,864	-	270,260	2,629,131
Ijarah Muntahia Bittamleek	96,173	61,860	56,550	81,838	412,325	305,851	382,191	418,041	15,510	-	1,830,339
Property and equipment	-	-	-	-	-	-	-	-	-	417,295	417,295
Other assets	89,262	44,747	19,492	42,513	27,030	50,777	774	-	1,865	192,778	469,238
Total assets	7,124,013	1,175,262	1,729,822	2,476,012	4,342,460	2,820,203	1,218,867	692,315	17,946	1,828,365	23,425,265
Liabilities											
Customer current and other accounts	4,983,772	-	-	-	-	-	-	-	-	-	4,983,772
Due to banks	324,835	203,088	114,013	21,899	60,000	-	-	194,560	-	-	918,395
Long term financing	-	-	259,171	258,670	359,452	33,405	460,558	-	-	-	1,381,256
Other liabilities	296,977	83,044	64,699	57,579	22,444	26,147	205	305,372	-	-	856,467
Total liabilities	5,605,584	286,132	447,883	338,148	441,896	59,552	460,763	499,932	-	-	8,139,890
Equity of investment accountholders	5,330,813	1,480,775	1,110,258	1,494,765	1,378,054	2,249,865	84,222	148,042	-	-	13,276,794
Total liabilities and equity of investment accountholders	10,936,397	1,766,907	1,558,141	1,832,913	1,819,950	2,309,417	544,985	647,974	-	-	21,416,684
Net liquidity gap	(3,812,384)	(591,645)	171,681	643,099	2,522,510	510,786	673,882	44,341	17,946	1,828,365	2,008,581
Cumulative net liquidity gap	(3,812,384)	(4,404,029)	(4,232,348)	(3,589,249)	(1,066,739)	(565,953)	117,929	162,270	180,216	2,008,581	
Off-balance sheet equity of investment accountholders	140,557	154,324	105,977	351,637	71,373	47,661	180	534	-	-	872,043

27 RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

The maturity profile at 31 December 2015 was as follows:

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

27 RISK MANAGEMENT (continued)

b) Credit risk

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

Type of credit risk

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

Sales (Murabaha) receivables

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

Salam receivables

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

Istisna'a receivables

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

Mudaraba financing

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

Musharaka financing

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

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

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

27 RISK MANAGEMENT (continued)

b) Credit Risk (continued)

Credit quality by type of islamic financing contracts

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

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

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

Aging analysis of past due but performing Islamic financing contracts

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

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

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

27 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Credit Risk Mitigation

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

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

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

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

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

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

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

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

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

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

27 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Credit Quality

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

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

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

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

27 RISK MANAGEMENT (continued)

c) Concentration risk

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

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

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

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

d) Market risk

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

Profit rate risk

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

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

Equity price risk

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

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

27 RISK MANAGEMENT (continued)

d) Market risk (continued)

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

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

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

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

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

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

27 RISK MANAGEMENT (continued)

d) Market risk (continued)

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

At 31 December 2016

Currency	*Particular*	*Exposures in US$ '000*	*Maximum expected decrease %*	*Change in net income and owners' equity US$ '000*	*Maximum expected increase %*	*Change in net income and owners' equity US$ '000*
Algerian Dinar	Net Income	33,231	-15%	(4,334)	5%	1,749
	Total owners' equity	203,609	-15%	(26,558)	5%	10,716
Egyptian Pound	Net Income	50,860	-20%	(8,477)	5%	2,677
	Total owners' equity	103,829	-20%	(17,305)	5%	5,465
Turkish Lira	Net Income	90,022	-20%	(15,004)	5%	4,738
	Total owners' equity	654,767	-20%	(109,128)	5%	34,461
Sudanese Pound	Net Income	21,852	-20%	(3,609)	5%	1,140
	Total owners' equity	62,633	-20%	(10,439)	5%	3,296
S.African Rand	Net Income	2,803	-15%	(366)	5%	148
	Total owners' equity	45,381	-15%	(5,919)	5%	2,388
Syrian Pound	Net Income	8,467	-20%	(1,411)	5%	446
	Total owners' equity	51,503	-20%	(8,584)	5%	2,711
Pakistani Rupees	Net Income	(588)	-10%	53	5%	(31)
	Total owners' equity	102,321	-10%	(9,302)	5%	5,385
Tunisian Dinar	Net Income	1,183	-10%	(108)	5%	62
	Total owners' equity	69,872	-10%	(6,352)	5%	3,677

At 31 December 2015

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

27 RISK MANAGEMENT (continued)

e) Operational Risk

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

Operational Risk Management Framework

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

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

The Operational Risk framework is subject to periodic Internal Audit.

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

Infrastructure Risks

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

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

Information Technology Risks

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

Staff risk

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

Business risk

This risk may take on the following forms:

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

27 RISK MANAGEMENT (continued)

f) Corporate governance

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

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

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

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

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

28 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

29 EARNINGS PROHIITED BY SHARI'A

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

30 COMPARATIVE FIGURES

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

Al Baraka Banking Group B.S.C.

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

31 DECEMBER 2015

alBaraka

Unified Shari'a Supervisory Board Report
Al Baraka Banking Group B.S.C.
For the year ended 31 December 2015

In the name of Allah, The Beneficent, The Merciful, Ever Merciful
Praise be to Allah and peace be upon our Prophet Mohamed, His Apostles and Companions

To: Al Baraka Banking Group Shareholders
May peace and Allah's Mercy and Blessings Be upon You

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

First:
We have conducted five meetings during 2015, one of which was conducted at the premises of Al Baraka Banking Group and two in the premises of the Group's subsidiaries, Al Baraka Bank Sudan and Al Baraka Turk Participation Bank in which we met the subsidiaries' Management, Shari'a Board members, Shari'a auditors and employees and clients and conducted several small seminars and replied to many of the employees and customers' inquiries. In addition, we have made sure that the operations of the transactions are conducted in compliance with Shari'a rules and principles, the other meetings were conducted at our premises in Jeddah, in which we studied Shari'a audit reports prepared by the Group's Shari'a Audit for the year ended 31 December 2015 and gave few Shari'a related comments on those reports. These reports were rectified through coordination between Shari'a Audit and the relative local subsidiaries' Shari'a Boards. In addition, the executive committee of the Unified Shari'a Supervisory Board conducted several meetings in which a number of commercial contracts and agreements signed by the Financial Institutions Department in the Group with the subsidiaries and other financial institutions and organizations has been reviewed.

Second:
We have reviewed the principles applied by the Group and reviewed the 2015 Shari'a reports issued by the Group Units' Shari'a Supervisory Boards. We have also reviewed their financial statements when needed. In addition, we examined the Group's financial position as of 31 December 2015 and Statement of Income and their notes for the year then ended. We have queried from some of the Technical's on the points that need explanation and statement. We have also reviewed the process of calculating Zakah in accordance with the Shari'a Standard number (35) and the Financial Accounting Standard number (9) issued by the Accounting and Auditing Organization for Islamic financial Institutions and according to what was approved by Al Baraka Symposium1/31 and by the Unified Shari'a Supervisory Board.

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www.albaraka.com

مجموعة البركة المصرفية ش.م.ب
ص.ب ١٨٨٢، المنامة
مملكة البحرين

(Licensed as an Islamic Wholesale Bank by CBB)

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

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

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

In our opinion:

1. The Contracts, transactions and dealings entered into by the Group and its Units during the year ended 31 December 2015 are made in compliance with Shari'a Rules and Principles.

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

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

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

As the article of association of Al Baraka Banking Group is not empowering the Group for paying Zakah on behalf of the shareholders and there is no such law in Kingdom of Bahrain requiring the Group to pay Zakah on behalf of the shareholders, unless there is a direct empowerment from the general assembly to the Group to pay Zakah on the behalf of the shareholders. In case of unavailability of such empowerment,
then the shareholders should pay their share of Zakah as per the enclosed calculation. In case of unavailability of liquidity, it is allowed to postponed the Zakah and become debt until the liquidity become available.

Praise be to Allah

Issued on 1 Jamadi Alawal 1437 H, corresponding to 10 February 2016 AD.

Chairman and Members

Shaik Dr. Abdul Sattar Abu Ghuddah
Chairman

Shaikh Abdulla bin Sulaiman Al Mannea
Member

Shaikh Dr. Abdullatif Al Mahmood
Member

Shaikh Dr. Abdulaziz Al Fawzan
Member

Dr. Ahmed Mohiyeldin
Member

Zakah Calculation for the year ended 31 December 2015

	US$ '000
Equity Attributable to Shareholders	1,356,402
Less: Investment of the parent on the shareholding of Al Baraka Bank Egypt, Al Baraka Bank Sudan and Itqan Capital	(204,373)
Net Zakatable Equity Attributable to Shareholders	**1,152,029**
<u>Less:</u>	
Musharaka underlined by unzakatable assets	(86,737)
Investment in Islamic Sukuk underlined by unzakatable assets	(88,578)
Ijarah Muntahia Bittamleek	(421,954)
Long-term investment in real estate	(47,100)
Properties and equipment	(253,087)
Intangible assets	(88,957)
Investment in Associates	(25,825)
Prepayments	(24,361)
Deferred tax asset	(14)
<u>Add:</u>	
Shareholders share on Zakatable Assets by Associates	18,924
Borrowing to finance Unzakatable Assets	4,209
Sale of long-term investment in real estate during the year	2,577
Deferred tax liability	6,045
Employees' end of services benefit	28,860
Zakatable amount	176,031
Zakah Percentage	2.5775%
Total Zakah due	**4,537**
Number of Shares (thousands)	1,107,282
Zakah per share (US$ cents)	**0.41**

alBaraka

Directors' Report

(All figures in US Dollars unless stated otherwise)

2015 REVIEW

In an environment of near-global economic slowdown, and depreciation on international markets of the currencies of account of many of our units, most ABG subsidiaries did relatively well in 2015, with the majority reporting stable or increased performance.

The Group's share of total income from jointly financed contracts and investments, including its share as Mudarib, amounted to $542 million representing an increase of 14% or $65 million compared with 2014. Its income from self-financed contracts and investments also increased, by 15% to $273 million, as did its revenues from banking services, which grew by 7% to $201 million, more than offsetting reduced other operating income, which fell by 16% to $35 million and its Mudarib share from managing off-balance sheet equity of investment account holders which amounted to $6 million compared with $14 million in 2014. The Group's total operating income consequently rose by 9% to $1 billion and, as total operating expenses were only 3% higher at $536 million, the net operating income grew by a creditable 17% to $464 million. After allocations for prudential provisions and taxation, both higher than applicable for 2014, the net income was $286 million, 4% above the result for 2014.

The Group's total assets, after consolidation and taking into account the depreciation of the units' local currencies against the US dollar, increased by 5% to $24.6 billion, as total financings and investments increased by 4% to $18.4 billion and Cash and balances with banks by 7% to $5.4 billion. The growth in the total financings and investments portfolios was mainly attributable to increased Ijarah Muntahia Bittamleek and Istisna'a balances and various investments, particularly non-trading investments, partly offset by slightly lower Murabaha sales receivables and Musharaka and Salam balances.

In light of the Group's performance in 2015, the Board of Directors has recommended a cash dividend distribution to the shareholders of 2.0% of the paid up capital, amounting to $22.31 million, after a transfer of $16.27 million to the legal reserve, with the remainder of the net income, amounting to $124.15 million, being allocated to retained earnings. The Board has also recommended a bonus dividend of 3 shares for every 100 shares held, to be allocated from retained earnings and amounting to $33.47 million. The Board has further recommended a remuneration distribution of $1.50 million, to be paid following the approval of shareholders at the Annual General Meeting.

Ownership of shares in ABG by Board Members and Executive Management (with the exception of that of the Chairman) is not material and no major trading of such shares took place during 2015. Details of shares held by Directors and members of the Executive Management are provided in the Notes to the Consolidated Financial Statements.

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Kingdom of Bahrain

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فاكس ١٧٥٣٦٥٣٣ ٩٧٣+
www.albaraka.com

مجموعة البركة المصرفية ش.م.ب
ص.ب ١٨٨٢، المنامة
مملكة البحرين

(Licensed as an Islamic Wholesale Bank by CBB)

2016 AND BEYOND

Despite the negative impact on local conditions of the relatively weak performance in most major economies, our units once again delivered growth and profitability and continued to provide ample vindication of our medium term strategy, aimed as always at generating steady growth and consistent profitability for our shareholders.

Our ongoing commitment to organic and geographical expansion within the framework of a sound risk management and governance culture continues to be rewarded through performance at every level. We are however mindful that our culture and ethos must be continually reinforced throughout the organisation so that the lessons of cautious and careful asset management, combined with planned and deliberate expansion strategies, are always in the forefront of our minds.

We congratulate our operating units for their commitment to these values and worthy performance in the face of many challenges. Congratulations are also due to our Executive Management Team, whose vigilance and hard work help so much to ensure the ongoing success of our strategic plan.

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

For and on behalf of the Board of Directors

Saleh Abdullah Kamel

Chairman

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

Report on the consolidated financial statements

We have audited the accompanying consolidated statement of financial position of Al Baraka Banking Group B.S.C. ("the Bank") and its subsidiaries ("the Group") as of 31 December 2015, 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 2015, the results of its operations, its cash flows, changes in owners' equity and changes in off-balance sheet equity of investment accountholders for the year then ended in accordance with Financial Accounting Standards issued by AAOIFI.

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Building a better working world

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

Report on other regulatory requirements

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

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

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

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association having occurred during the year ended 31 December 2015 that might have had a material adverse effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests. The Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group.

Ernst & Young

Partner's registration no 45
21 February 2016
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	Notes	2015 US$ '000	2014 US$ '000
ASSETS			
Cash and balances with banks	3	**5,373,409**	5,011,262
Receivables	4	**11,959,052**	11,999,547
Mudaraba and Musharaka financing	5	**1,558,593**	1,549,786
Investments	6	**3,105,750**	2,580,034
Ijarah Muntahia Bittamleek	7	**1,734,457**	1,494,799
Property and equipment	8	**444,608**	379,323
Other assets	9	**442,332**	448,838
TOTAL ASSETS		**24,618,201**	23,463,589
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
LIABILITIES			
Customer current and other accounts		**4,841,099**	4,509,312
Due to banks		**808,268**	1,211,493
Long term financing	10	**1,497,208**	655,669
Other liabilities	11	**862,444**	872,700
Total liabilities		**8,009,019**	7,249,174
EQUITY OF INVESTMENT ACCOUNTHOLDERS	12	**14,514,599**	14,139,792
OWNERS' EQUITY	13		
Share capital		**1,115,746**	1,093,869
Treasury shares		**(8,464)**	(8,261)
Share premium		**17,662**	17,288
Reserves		**165,459**	147,621
Cumulative changes in fair values		**38,529**	3,073
Foreign currency translations		**(461,948)**	(313,602)
Retained earnings		**433,631**	343,398
Proposed appropriations		**55,787**	54,693
Equity attributable to parent's shareholders		**1,356,402**	1,338,079
Non-controlling interest		**738,181**	736,544
Total owners' equity		**2,094,583**	2,074,623
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		**24,618,201**	23,463,589

Saleh Abdullah Kamel
Chairman

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

The attached notes 1 to 29 form part of these consolidated financial statements.

Al Baraka Banking Group B.S.C.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2015

	Notes	2015 US$ '000	2014 US$ '000
INCOME			
Net income from jointly financed contracts and investments	14	1,223,215	1,166,772
Return on equity of investment accountholders before Group's share as a Mudarib		(1,026,367)	(1,018,827)
Group's share as a Mudarib	15	345,415	328,871
Return on equity of investment accountholders		(680,952)	(689,956)
Group's share of income from equity of accountholders (as a Mudarib and Rabalmal)		542,263	476,816
Mudarib share for managing off-balance sheet equity of investment accountholders		5,583	13,886
Net income from self financed contracts and investments	14	272,941	236,420
Other fees and commission income	16	200,513	187,144
Other operating income	17	34,794	41,413
		1,056,094	955,679
Profit paid on long term financing		(56,541)	(38,117)
TOTAL OPERATING INCOME		999,553	917,562
OPERTAING EXPENSES			
Staff expenses		298,927	301,308
Depreciation and amortisation	18	50,054	45,575
Other operating expenses	19	186,890	174,477
TOTAL OPERATING EXPENSES		535,871	521,360
NET OPERATING INCOME FOR THE YEAR BEFORE PROVISIONS AND IMPAIRMENT AND TAXATION		463,682	396,202
Provisions and impairment	20	(58,371)	(21,163)
NET INCOME BEFORE TAXATION		405,311	375,039
Taxation		(119,125)	(100,272)
NET INCOME FOR THE YEAR		286,186	274,767
Attributable to:			
Equity holders of the parent		162,741	151,731
Non-controlling interest		123,445	123,036
		286,186	274,767
Basic and diluted earnings per share - US cents	21	14.70	13.70

Saleh Abdullah Kamel
Chairman

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

The attached notes 1 to 29 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Notes	2015 US$ '000	2014 US$ '000
OPERATING ACTIVITIES			
Net income before taxation		**405,311**	375,039
Adjustments for:			
Depreciation and amortisation	18	**50,054**	45,575
Depreciation on Ijarah Muntahia Bittamleek	14.4	**191,729**	91,505
Unrealised gain on equity and debt-type instruments at fair value through statement of income	14.3	**(145)**	(495)
Gain on sale of property and equipment	17	**(10,502)**	(6,262)
Loss (gain) on sale of investment in real estate	14.3	**1,332**	(693)
Gain on sale of equity type instruments at fair value through equity	14.3	**(1,509)**	(1,489)
Gain on sale of equity and debt-type instruments at fair value through statement of income	14.3	**(1,636)**	(927)
(Gain) loss from associates	14.3	**(652)**	294
Provisions and impairment	20	**58,371**	21,163
Operating profit before changes in operating assets and liabilities		**692,353**	523,710
Net changes in operating assets and liabilities:			
Reserves with central banks		**(804,579)**	216,593
Receivables		**(18,818)**	(1,217,961)
Mudaraba and Musharaka financing		**(10,608)**	(354,519)
Ijarah Muntahia Bittamleek		**(431,386)**	(644,257)
Other assets		**3,510**	(45,859)
Customer current and other accounts		**331,783**	260,131
Due to banks		**(403,225)**	115,625
Other liabilities		**(25,342)**	171,713
Equity of investment accountholders		**378,244**	1,732,269
Taxation paid		**(104,730)**	(81,313)
Net cash (used in) from operating activities		**(392,798)**	676,132
INVESTING ACTIVITIES			
Net purchase of investments		**(514,289)**	(142,578)
Net purchase of property and equipment		**(57,424)**	(5,067)
Dividends received from associates		**2,068**	654
Disposal (purchase) of investment in associate		**3,556**	(21,484)
Net cash used in investing activities		**(566,089)**	(168,475)
FINANCING ACTIVITIES			
Long term financing		**841,539**	114,989
Dividends paid to equity holders of the parent		**(32,816)**	(36,690)
Net movement in treasury shares		**171**	397
Net changes in non-controlling interest		**(33,494)**	(19,607)
Net cash from financing activities		**775,400**	59,089
Foreign currency translation adjustments		**(258,945)**	(136,378)
NET CHANGES IN CASH AND CASH EQUIVALENTS		**(442,432)**	430,368
Cash and cash equivalents at 1 January		**2,735,121**	2,304,753
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	22	**2,292,689**	2,735,121

The attached notes 1 to 29 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2015

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

The attached notes 1 to 29 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2015

	Attributable to equity shareholders of the parent											
				Reserves								
	Share capital US$ '000	*Treasury shares US$ '000*	*Share premium US$ '000*	*Statutory reserve US$ '000*	*Other reserves US$ '000*	*Cumulative changes in fair value for investments US$ '000*	*Foreign currency translations US$ '000*	*Retained earnings US$ '000*	*Proposed appropriations US$ '000*	*Total US$ '000*	*Non-controlling interest US$ '000*	*Total owners' equity US$ '000*
Balance at 1 January 2014	1,048,291	(8,123)	16,753	93,138	38,546	(2,380)	(232,928)	263,086	82,268	1,298,651	684,736	1,983,387
Dividends paid	-	-	-	-	-	-	-	-	(36,690)	(36,690)	-	(36,690)
Bonus shares issued (note 13)	45,578	-	-	-	-	-	-	-	(45,578)	-	-	-
Movement in treasury shares	-	(138)	535	-	-	-	-	-	-	397	-	397
Net movement in cumulative change in fair value for investments	-	-	-	-	-	5,453	-	-	-	5,453	2,186	7,639
Net movement in other reserves	-	-	-	-	764	-	-	-	-	764	512	1,276
Foreign currency translation	-	-	-	-	-	-	(80,674)	-	-	(80,674)	(55,704)	(136,378)
Net income for the year	-	-	-	-	-	-	-	151,731	-	151,731	123,036	274,767
Transfer to statutory reserve	-	-	-	15,173	-	-	-	(15,173)	-	-	-	-
Proposed dividends	-	-	-	-	-	-	-	(32,816)	32,816	-	-	-
Proposed bonus shares	-	-	-	-	-	-	-	(21,877)	21,877	-	-	-
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	(35,200)	(35,200)
Zakah paid by subsidiaries	-	-	-	-	-	-	-	(169)	-	(169)	(54)	(223)
Effects of acquisition of non-controlling interest	-	-	-	-	-	-	-	(1,384)	-	(1,384)	1,384	-
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	-	15,648	15,648
Balance at 31 December 2014	1,093,869	(8,261)	17,288	108,311	39,310	3,073	(313,602)	343,398	54,693	1,338,079	736,544	2,074,623

The attached notes 1 to 29 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 2015

	Cash	*Sales receivables*	*Mudaraba financing*	*Investment in real estate*	*Ijarah Muntahia Bittamleek*	*Investments*	*Others*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Balance at 1 January 2015	82,015	192,109	313,924	37,588	41,747	160,405	20,228	848,016
Deposits	94,839	346,958	662,398	3,967	40,005	364,780	27,933	1,540,880
Withdrawals	(165,275)	(350,704)	(723,665)	(4,446)	(5,586)	(300,018)	(21,584)	(1,571,278)
Income net of expenses	-	17,104	5,282	1,256	5,291	1,413	80	30,426
Mudarib's share	-	(3,369)	(220)	(88)	(284)	(1,573)	(49)	(5,583)
Foreign exchange translations	-	(31,959)	-	-	-	(24,472)	(8,071)	(64,502)
Balance at 31 December 2015	**11,579**	**170,139**	**257,719**	**38,277**	**81,173**	**200,535**	**18,537**	**777,959**
Balance at 1 January 2014	106,868	69,860	282,380	50,459	27,835	155,608	21,238	714,248
Deposits	55,430	291,090	1,228,759	113	14,818	132,135	106,392	1,828,737
Withdrawals	(80,283)	(165,966)	(1,201,626)	(13,343)	(3,384)	(132,307)	(101,004)	(1,697,913)
Income net of expenses	-	11,859	4,745	573	2,964	7,450	610	28,201
Mudarib's share	-	(4,984)	(334)	(94)	(486)	(1,582)	(413)	(7,893)
Foreign exchange translations	-	(9,750)	-	(120)	-	(899)	(6,595)	(17,364)
Balance at 31 December 2014	82,015	192,109	313,924	37,588	41,747	160,405	20,226	848,016

SUKUK HOLDERS:

	Commodity murabaha	*Ijarah sukuk*	*Total*
	US$ '000	*US$ '000*	*US$ '000*
Subscriptions	171,500	178,500	350,000
Net income	10,938	5,993	16,931
Profit attributable to sukuk holders			(10,938)
Profit attributable to wakeel as incentive fee			(5,993)
At 31 December 2014			350,000

The attached notes 1 to 29 form part of these consolidated financial statements.

1 ACTIVITIES

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

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

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

The consolidated financial statements were approved by the Board of Directors on 21 February 2016.

2 ACCOUNTING POLICIES

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

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

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

	Ownership for 2015	*Ownership for 2014*	*Year of incorporation*	*Country of incorporation*	*No. of branches/ offices at 31 December 2015*
Held directly by the Bank					
Banque Al Baraka D'Algerie (BAA)	**55.90%**	55.90%	1991	Algeria	**30**
Al Baraka Islamic Bank - Bahrain (AIB)	**91.12%**	91.12%	1984	Bahrain	**142**
Al Baraka Bank Tunis (ABT)	**78.40%**	78.40%	1983	Tunisia	**22**
Al Baraka Bank Egypt (ABE)	**73.68%**	73.68%	1980	Egypt	**29**
Al Baraka Bank Lebanon (ABBL)	**98.94%**	98.86%	1991	Lebanon	**7**
Jordan Islamic Bank (JIB)	**66.01%**	66.01%	1978	Jordan	**92**
Al Baraka Turk Participation Bank (ATPB)	**56.64%**	56.64%	1985	Turkey	**213**
Al Baraka Bank Limited (ABL)	**64.51%**	64.51%	1989	South Africa	**12**
Al Baraka Bank Sudan (ABS)	**75.73%**	75.73%	1984	Sudan	**27**
Al Baraka Bank Syria (ABBS) *	**23.00%**	23.00%	2009	Syria	**12**

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

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

	Subsidiary held through	***Effective Ownership for 2015***	*Effective Ownership for 2014*	*Year of incorporation*	*Country of incorporation*
Held indirectly by the Bank					
Al Baraka Bank (Pakistan) Limited	AIB	**58.90%**	58.90%	2010	Pakistan
Itqan Capital	AIB	**75.69%**	75.69%	2007	Saudi Arabia
Al-Omariya School Company	JIB	**62.31%**	62.31%	1987	Jordan
Al-Samaha Real Estate Company	JIB	**65.15%**	65.15%	1998	Jordan
Future Applied Computer Technology Company	JIB	**66.01%**	66.01%	1998	Jordan
Sanable Alkhair for Financial Investment	JIB	**66.01%**	66.01%	2006	Jordan
Al Baraka Properties (Pty) Ltd.	ABL	**64.51%**	64.51%	1991	South Africa

2 ACCOUNTING POLICIES (continued)

Significant accounting policies

The significant accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year, except for the adoption of new standards and interpretations effective as of 1 January 2015 and change in accounting policy with respect to land occupied by the Group (classifed as property and equipment):

New standards, interpretations and amendments adopted by the Group

FAS 23 – Consolidation

The amendment introduced to FAS 23 is to give clarification on the way an Islamic financial institution (IFI) should determine if financial statements of an investee company, or a subsidiary, should be consolidated with its own. The amendment provides clarification that, in addition to the existing stipulations in the standard, control may also exist through rights arising from other contractual arrangement, voting rights of the Islamic financial institutions that give de facto power over an entity, potential voting rights, or a combination of these factors. In terms of voting rights, the amendment also clarifies that an Islamic financial institution shall consider only substantive voting rights in its assessment of whether the institution has power over an entity. In order to be substantive, the voting rights need to be exercisable when relevant decisions are required to be made and the holder of such rights must have the practical ability to exercise those rights. Determination of voting rights shall include current substantive voting rights and currently-exercisable voting rights.

The amendments and clarifications are effective for the annual financial periods ending on or after 31 December 2015. The transition provision requires retrospective application including restatement of previous period comparatives. The amendment had no impact on the consolidation of investments held by the Group.

FAS 27 – Investment Accounts

FAS 27 will replace 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'. Upon adoption of this standard certain disclosures with respect to investment account holders and bases of profit allocation will be enhanced without having any significant impact on the financial statements of the Group.

Change in accounting policy

During the year the Group changed its accounting policy with respect to land occupied by the Group (classifed under property and equipment) from cost model to revaluation model. As per the previous policy, subsequent to initial recognition, land classified under property and equipment was carried at cost less accumulated impairment losses. As per the revised policy subsequent to initial recognition, the land classified under property and equipment is re-measured at fair value with the resulting surplus being recognised in the consolidated statement of changes in owners' equity under 'cumulative changes in fair values'. A revaluation deficit is recognised in the statement of income, except to the extent that it offsets an existing surplus on the same asset recognised in the cumulative changes in fair values. As per the accounting standard this change in accounting policy is to be applied prospectively and accordingly an revaluation surplus of US $ 57,990 thousand has been recognised in the Group's consolidated statement of financial position and consolidated statement of changes in owners' equity.

Summary of significant accounting policies

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

a. Cash and cash equivalents

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

2 ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

b. Receivables

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

Sales (Murabaha) receivables

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

Ijarah receivables

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

Salam receivables

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

Istisna'a receivables

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

c. Mudaraba and Musharaka financing

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

d. Investments

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

Investment in real estate

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

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

Investment in associates

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

2 ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

d. Investments (continued)

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

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

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

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

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

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

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

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

The calculation of depreciation is on the following basis:

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

2 ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

g. Fair values

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

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

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

h. Goodwill

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

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

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

i. Intangible assets

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

j. Collateral pending sale

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

k. Employees' end of service benefits

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

l. Provision

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

m. Dividends

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

n. Equity of investment accountholders

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

2 ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

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

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

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

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

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

t. Revenue recognition

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

t. Revenue recognition (continued)

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

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

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

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

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

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

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

cc. Foreign currencies

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

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

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

ff. Derecognition

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

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

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

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

3 CASH AND BALANCES WITH BANKS

	2015	*2014*
	US$ '000	*US$ '000*
Balances with central banks*	**3,821,899**	3,910,919
Balances with other banks	**789,692**	670,208
Cash and cash in transit	**761,818**	430,135
	5,373,409	5,011,262

* Balances with central banks include mandatory reserves amounting to US$ 3,080,720 thousand (2014: US$ 2,276,141 thousand). These amounts are not available for use in the Group's day-to-day operations.

4 RECEIVABLES

	2015	*2014*
	US$ '000	*US$ '000*
Sales (Murabaha) receivables (note 4.1)	**11,727,017**	11,761,908
Ijarah receivables (note 4.2)	**34,832**	17,380
Salam receivables (note 4.3)	**125,339**	163,173
Istisna'a receivables (note 4.4)	**71,864**	57,086
	11,959,052	11,999,547

4 RECEIVABLES (continued)

4.1 Sales (Murabaha) receivables

	2015			2014		
	Self financed US$ '000	*Jointly financed US$ '000*	*Total US$ '000*	*Self financed US$ '000*	*Jointly financed US$ '000*	*Total US$ '000*
International commodity murabaha	22,455	299,631	322,086	66,642	324,653	391,295
Other murabaha	1,906,274	11,339,803	13,246,077	2,103,908	10,945,418	13,049,326
Gross sales (murabaha) receivables	1,928,729	11,639,434	13,568,163	2,170,550	11,270,071	13,440,621
Deferred profits	(246,887)	(1,214,990)	(1,461,877)	(219,278)	(1,055,947)	(1,275,225)
	1,681,842	10,424,444	12,106,286	1,951,272	10,214,124	12,165,396
Provisions (note 20)	(48,452)	(330,817)	(379,269)	(58,008)	(345,480)	(403,488)
Net sales (murabaha) receivables	1,633,390	10,093,627	11,727,017	1,893,264	9,868,644	11,761,908

	2015 US$ '000	*2014 US$ '000*
Non-performing	459,013	473,465

4.2 Ijarah receivables

	2015			2014		
	Self financed US$ '000	*Jointly financed US$ '000*	*Total US$ '000*	*Self financed US$ '000*	*Jointly financed US$ '000*	*Total US$ '000*
Gross ijarah receivables	-	45,064	45,064	-	23,770	23,770
Provisions (note 20)	-	(10,232)	(10,232)	-	(6,390)	(6,390)
Net ijarah receivables	-	34,832	34,832	-	17,380	17,380

	2015 US$ '000	*2014 US$ '000*
Non-performing	28,134	17,157

4.3 Salam receivables

	2015			2014		
	Self financed US$ '000	*Jointly financed US$ '000*	*Total US$ '000*	*Self financed US$ '000*	*Jointly financed US$ '000*	*Total US$ '000*
Gross salam receivables	-	130,806	130,806	-	168,304	168,304
Provisions (note 20)	-	(5,467)	(5,467)	-	(5,131)	(5,131)
Net salam receivables	-	125,339	125,339	-	163,173	163,173

	2015 US$ '000	*2014 US$ '000*
Non-performing	9,755	9,089

4 RECEIVABLES (continued)

4.4 Istisna'a receivables

	2015			2014		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Gross istisna'a receivables	-	72,274	72,274	-	57,604	57,604
Provisions (note 20)	-	(410)	(410)	-	(518)	(518)
Net istisna'a receivables	-	71,864	71,864	-	57,086	57,086

	2015 US$ '000	2014 US$ '000
Non-performing	693	1,322

5 MUDARABA AND MUSHARAKA FINANCING

	2015 US$ '000	2014 US$ '000
Mudaraba financing (note 5.1)	1,043,517	1,025,223
Musharaka financing (note 5.2)	515,076	524,563
	1,558,593	1,549,786

5.1 Mudaraba financing

	2015			2014		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Gross mudaraba financing	275,967	778,812	1,054,779	361,748	674,431	1,036,179
Provisions (note 20)	-	(11,262)	(11,262)	-	(10,956)	(10,956)
Net mudaraba financing	275,967	767,550	1,043,517	361,748	663,475	1,025,223

	2015 US$ '000	2014 US$ '000
Non-performing	11,262	10,956

5.2 Musharaka financing

	2015			2014		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Gross musharaka financing	124,764	394,549	519,313	141,175	387,567	528,742
Provisions (note 20)	-	(4,237)	(4,237)	-	(4,179)	(4,179)
Net musharaka financing	124,764	390,312	515,076	141,175	383,388	524,563

	2015 US$ '000	2014 US$ '000
Non-performing	6,487	8,370

6 INVESTMENTS

	2015 US$ '000	2014 US$ '000
Equity and debt-type instruments at fair value through statement of income (note 6.1)	**20,652**	17,510
Equity-type instruments at fair value through equity (note 6.2)	**102,810**	104,919
Debt-type instruments at amortised cost (note 6.3)	**2,748,405**	2,242,616
	2,871,867	2,365,045
Investment in real estate (note 6.4)	**187,412**	159,549
Investment in associates (note 6.5)	**46,471**	55,440
	3,105,750	2,580,034

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

	2015			2014		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Quoted investments						
Debts	**6,093**	**6,374**	**12,467**	8,749	5,658	14,407
Equities	**271**	**551**	**822**	2,413	690	3,103
	6,364	**6,925**	**13,289**	11,162	6,348	17,510
Unquoted investments						
Equities	**7,363**	**-**	**7,363**	-	-	-
	7,363	**-**	**7,363**	-	-	-
	13,727	**6,925**	**20,652**	11,162	6,348	17,510

6.2 Equity-type instruments at fair value through equity

	2015			2014		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Quoted investments						
Equities	**9,185**	**31,595**	**40,780**	7,363	32,024	39,387
Managed funds	**8,946**	**9,418**	**18,364**	7,053	14,237	21,290
	18,131	**41,013**	**59,144**	14,416	46,261	60,677
Unquoted investments						
Equities	**29,121**	**11,693**	**40,814**	26,626	10,520	37,146
Managed funds	**-**	**6,901**	**6,901**	-	12,385	12,385
	29,121	**18,594**	**47,715**	26,626	22,905	49,531
Provisions (note 20)	**(1,396)**	**(2,653)**	**(4,049)**	(2,650)	(2,639)	(5,289)
	45,856	**56,954**	**102,810**	38,392	66,527	104,919

6 INVESTMENTS (continued)

6.3 Debt-type instruments at amortised cost

	2015			2014		
	Self financed US$ '000	*Jointly financed US$ '000*	*Total US$ '000*	*Self financed US$ '000*	*Jointly financed US$ '000*	*Total US$ '000*
Quoted investments						
Sukuk and similar items	**625,592**	**1,023,816**	**1,649,408**	441,539	780,676	1,222,215
Unquoted investments						
Sukuk and similar items	**117,207**	**986,235**	**1,103,442**	72,284	951,964	1,024,248
Provisions (note 20)	**-**	**(4,445)**	**(4,445)**	-	(3,847)	(3,847)
	742,799	**2,005,606**	**2,748,405**	513,823	1,728,793	2,242,616

6.4 Investment in real estate

	2015			2014		
	Self financed US$ '000	*Jointly financed US$ '000*	*Total US$ '000*	*Self financed US$ '000*	*Jointly financed US$ '000*	*Total US$ '000*
Land	**2,154**	**90,655**	**92,809**	901	82,147	83,048
Buildings	**6,719**	**87,884**	**94,603**	6,079	70,422	76,501
	8,873	**178,539**	**187,412**	6,980	152,569	159,549

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

	2015 US$ '000	*2014 US$ '000*
Beginning balance of the year	**159,549**	139,350
Acquisitions	**35,905**	34,803
Net (loss) gain from fair value adjustments	**(2,629)**	9,050
Disposals	**(4,719)**	(21,413)
Foreign exchange translation / others - net	**(694)**	(2,241)
	27,863	20,199
Ending balance of the year	**187,412**	159,549

6 INVESTMENTS (continued)

6.5 Investment in associates

Investment in associates comprise the following:

	2015 Ownership %	Country of incorporation	2015 Self financed US$ '000	2015 Jointly financed US$ '000	2015 Total US$ '000	2015 Market value US$ '000
Quoted						
Investment Banking						
Al Amin for Investment	30.00	Jordan	-	5,535	5,535	3,418
Insurance						
The Islamic Insurance Company	33.40	Jordan	-	8,284	8,284	8,032
Others						
Jordan International Trading Centre	28.40	Jordan	-	2,189	2,189	1,894
Arabian Steel Pipes Manufacturing Company Limited	26.00	Jordan	-	5,242	5,242	4,819
			-	21,250	21,250	18,163
Unquoted						
Real Estate						
Egyptian Saudi Finance Real Estate	40.00	Egypt	-	291	291	
REIF 1 Real Estate Income Fund	37.47	Saudi Arabia	3,750	-	3,750	
REIF 2 Real Estate Income Fund	19.90	Saudi Arabia	2,085	-	2,085	
REIF 3 Real Estate Income Fund	53.20	Saudi Arabia	12,049	-	12,049	
Insurance						
Takaful for Pension and Life Insurance	50.00	Turkey	2,870	-	2,870	
Others						
BEST Lease	28.00	Tunisia	4,176	-	4,176	
			24,930	291	25,221	
			24,930	21,541	46,471	

6 INVESTMENTS (continued)

6.5 Investment in associates (continued)

	2014 Ownership %	Country of incorporation	2014 Self financed US$ '000	2014 Jointly financed US$ '000	2014 Total US$ '000	2014 Market value US$ '000
Quoted						
Investment Banking						
Al Amin for Investment	29.70	Jordan	-	5,966	5,966	4,599
Insurance						
The Islamic Insurance Company	33.20	Jordan	-	8,302	8,302	7,745
Others						
Jordan International Trading Centre	28.40	Jordan	-	2,155	2,155	1,621
Arabian Steel Pipes Manufacturing Company Limited	26.00	Jordan	-	5,516	5,516	7,756
			-	21,939	21,939	21,721
Unquoted						
Real Estate						
Egyptian Saudi Finance Real Estate	40.00	Egypt	-	318	318	
REIF 1 Real Estate Income Fund	37.47	Saudi Arabia	7,426	-	7,426	
REIF 2 Real Estate Income Fund	19.90	Saudi Arabia	2,208	-	2,208	
REIF 3 Real Estate Income Fund	53.20	Saudi Arabia	16,736	-	16,736	
Insurance						
Takaful for Pension and Life Insurance	50.00	Turkey	2,410	-	2,410	
Others						
BEST Lease	28.00	Tunisia	4,403	-	4,403	
			33,183	318	33,501	
			33,183	22,257	55,440	

7 IJARAH MUNTAHIA BITTAMLEEK

	2015			2014		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Land and building						
Cost	220,812	1,453,236	1,674,048	-	1,276,142	1,276,142
Accumulated depreciation	(10,927)	(323,693)	(334,620)	-	(357,951)	(357,951)
Net book value	209,885	1,129,543	1,339,428	-	918,191	918,191
Equipment						
Cost	146,615	324,408	471,023	314,926	431,186	746,112
Accumulated depreciation	(14,467)	(108,764)	(123,231)	(10,247)	(225,756)	(236,003)
Net book value	132,148	215,644	347,792	304,679	205,430	510,109
Others						
Cost	-	61,492	61,492	-	85,735	85,735
Accumulated depreciation	-	(14,255)	(14,255)	-	(19,236)	(19,236)
Net book value	-	47,237	47,237	-	66,499	66,499
TOTAL						
Cost	367,427	1,839,136	2,206,563	314,926	1,793,063	2,107,989
Accumulated depreciation	(25,394)	(446,712)	(472,106)	(10,247)	(602,943)	(613,190)
Net book value	342,033	1,392,424	1,734,457	304,679	1,190,120	1,494,799

8 PROPERTY AND EQUIPMENT

	Buildings	*Lands*	*Office furniture and equipment*	*Vehicles*	*Others*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Cost:						
At 1 January 2014	201,449	97,159	179,893	9,262	112,879	600,642
Additions	45,078	573	35,969	2,838	34,283	118,741
Disposals	(19,544)	-	(4,127)	(1,001)	(67,424)	(92,096)
Foreign exchange translations	(11,696)	(5,039)	(8,339)	(539)	(6,262)	(31,875)
At 31 December 2014	215,287	92,693	203,396	10,560	73,476	595,412
Additions	15,728	3,190	25,061	3,158	40,557	87,694
Revaluation	-	72,275	-	-	-	72,275
Disposals	(25,256)	-	(2,488)	(1,342)	(1,616)	(30,702)
Foreign exchange translations	(22,222)	(11,864)	(15,994)	(742)	(11,526)	(62,348)
At 31 December 2015	**183,537**	**156,294**	**209,975**	**11,634**	**100,891**	**662,331**
Depreciation:						
At 1 January 2014	62,029	-	114,216	5,326	13,191	194,762
Provided during the year (note 18)	12,733	-	17,951	1,123	6,079	37,886
Relating to disposals	(963)	-	(3,625)	(706)	(570)	(5,864)
Foreign exchange translations	(4,680)	-	(4,207)	(250)	(1,558)	(10,695)
At 31 December 2014	69,119	-	124,335	5,493	17,142	216,089
Provided during the year (note 18)	12,055	-	19,132	1,301	6,456	38,944
Relating to disposals	(11,345)	-	(3,107)	(855)	(882)	(16,189)
Foreign exchange translations	(8,085)	-	(8,341)	(486)	(4,209)	(21,121)
At 31 December 2015	**61,744**	-	**132,019**	**5,453**	**18,507**	**217,723**
Net book values:						
At 31 December 2015	**121,793**	**156,294**	**77,956**	**6,181**	**82,384**	**444,608**
At 31 December 2014	146,168	92,693	79,061	5,067	56,334	379,323

9 OTHER ASSETS

	2015	*2014*
	US$ '000	*US$ '000*
Bills receivables	**148,108**	170,898
Goodwill and intangible assets (note 9 (a))	**102,284**	103,773
Collateral pending sale	**65,089**	75,951
Good faith qard	**13,799**	12,122
Deferred taxation	**19,331**	19,793
Prepayments	**60,594**	38,036
Others	**45,517**	41,681
	454,702	462,254
Provisions (note 20)	**(12,370)**	(13,416)
	442,332	448,838

9 OTHER ASSETS (continued)

9 (a) Goodwill and intangible assets

	2015			2014		
	Goodwill US$ '000	*Intangible assets US$ '000*	*Total US$ '000*	*Goodwill US$ '000*	*Intangible assets US$ '000*	*Total US$ '000*
At 1 January	**82,177**	**21,596**	**103,773**	87,548	17,398	104,946
Additions	**-**	**22,021**	**22,021**	-	13,280	13,280
Amortisation charge for the year (note 18)	**-**	**(11,110)**	**(11,110)**	-	(7,689)	(7,689)
Impairment loss for the year	**(4,000)**	**-**	**(4,000)**	(4,000)	-	(4,000)
Foreign exchange translations	**(5,396)**	**(3,004)**	**(8,400)**	(1,371)	(1,393)	(2,764)
At 31 December	**72,781**	**29,503**	**102,284**	82,177	21,596	103,773

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

	2015 US$ '000	*2014 US$ '000*
Al Baraka Turk Participation Bank	**17,522**	21,994
Al Barak Bank Egypt	**1,871**	2,047
Jordan Islamic Bank	**26,646**	26,646
Al Baraka Bank (Pakistan) Limited	**17,660**	18,408
Itqan Capital	**9,082**	13,082
	72,781	82,177

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

10 LONG TERM FINANCING

	2015 US$ '000	*2014 US$ '000*
Murabaha financing	**918,520**	452,519
Subordinated financing obtained by a subsidiary	**411,327**	203,150
Wakala	**167,361**	-
	1,497,208	655,669

Murabaha financing and wakala
During 2015, Al Baraka Turk Participation Bank (ATPB) obtained US$ 715 million murabaha financing in US$ and Euro, which has an annual profit rate ranging from 1.59% to 2.64%, for more than one year. The murabaha financing which was obtained in 2013 matured in 2015 and was repaid.

10 LONG TERM FINANCING (continued)

Murabaha financing and wakala (continued)
During 2014, ATPB issued sukuk listed in Irish Stock Exchange for a tenure of 5 years with an expected profit rate of 6.25%, through its fully owned subsidiary Bereket Varlık Kiralama A.Ş., amounting to US$ 350 million. The sukuk subscriptions to an extent of not less than 51% will be utilised to purchase asset portfolio based on wakala contract, while the remaining portion to an extent of not more than 49% will be utilised as commodity murabaha. During the year, the Bank has voluntarily taken measures to manage the market risk of the sukuk holders with respect to the assets portfolio, therefore, the assets of US$ 178.5 million, representing 51% of the total sukuk subscriptions, has been recognised as part of the Group's assets and the corresponding sukuk subscriptions to the extent of these assets has been classified as long term financing under wakala

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

11 OTHER LIABILITIES

	2015	*2014*
	US$ '000	*US$ '000*
Payables	**269,771**	327,615
Cash margins	**269,557**	268,959
Managers' cheques	**87,963**	74,071
Other provisions (note 20) *	**13,809**	11,521
Current taxation **	**84,581**	72,606
Deferred taxation **	**11,491**	9,531
Accrued expenses	**77,472**	82,225
Charity fund	**7,224**	4,296
Others	**40,576**	21,876
	862,444	872,700

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

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

12 EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH)

	2015	*2014*
	US$ '000	*US$ '000*
Equity of investment accountholders *	**14,313,084**	13,912,511
Profit equalisation reserve (note 12.1)	**10,037**	13,045
Investment risk reserve (note 12.2)	**179,238**	198,559
Cumulative changes in fair value attributable to equity of investment accountholders - net (note 12.3)	**12,240**	15,677
	14,514,599	14,139,792

** Medium term Sukuk*
This includes unsecured, sub-ordinated and privately placed unrestricted mudaraba sukuk amounting to US$ 16,708 thousand (2014: US$ 20,508 thousand) issued by Al Baraka Bank (Pakistan) Limited (ABPL) during 2014. The issuance of sukuk is intended to comply with regulatory requirements related to capital adequacy ratio of ABPL. The tenure of the sukuk is seven years maturing in 2021. The principal repayment, started after six months of the drawdown date and is being made semi-annually on a straight line basis.

12 EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH) (continued)

12.1 Profit equalisation reserve

The following shows the movement in profit equalisation reserve:

	2015 US$ '000	2014 US$ '000
Balance at 1 January	**13,045**	12,126
Amount apportioned from income allocable to equity of investment accountholders	**49**	2,377
Amount used during the year	**(1,229)**	-
Foreign exchange translations	**(1,828)**	(1,458)
Balance at 31 December	**10,037**	13,045

12.2 Investment risk reserve

The following shows the movement in investment risk reserve:

	2015 US$ '000	2014 US$ '000
Balance at 1 January	**198,559**	110,424
Amount appropriated to provision (note 20)	**(9,549)**	(5,288)
Amount apportioned from income allocable to equity of investment accountholders	**10,711**	102,728
Foreign exchange translations	**(20,483)**	(9,305)
Balance at 31 December	**179,238**	198,559

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

	2015 US$ '000	2014 US$ '000
Balance at 1 January	**15,677**	8,676
Change in fair values during the year	**(5,966)**	13,738
Realised gain transferred to consolidated statement of income	**(144)**	(693)
Deferred taxation effect	**935**	(5,356)
Transfer to shareholders equity	**1,738**	(688)
	12,240	15,677
Attributable to investment in real estate	**10,375**	11,879
Attributable to equity-type instruments at fair value through equity	**1,865**	3,798
	12,240	15,677

13 OWNERS' EQUITY

	2015 *US$ '000*	*2014* *US$ '000*
Share capital		
Authorised: 1,500,000,000 (2014: 1,500,000,000) ordinary shares of US$ 1 each	**1,500,000**	1,500,000

	2015 *US$ '000*	*2014* *US$ '000*
Issued and fully paid up:		
At beginning of the year		
1,093,868,695 (2014: 1,048,290,833) shares of US$1 each	**1,093,869**	1,048,291
Issued during the year		
21,877,374 bonus shares (2014: 45,577,862) of US$1 each	**21,877**	45,578
At end of the year		
1,115,746,069 (2014: 1,093,868,695) shares of US$1 each	**1,115,746**	1,093,869

Proposed appropriations

At the Annual General Meeting held on 23 March 2015 (2014: 23 March 2014), the shareholders of the Group resolved to distribute US$ 32,816 thousand (2014: US$ 36,690 thousand) as cash dividends and US$ 21,877 thousand (2014: US$ 45,578 thousand) as bonus shares.

Treasury shares

	Number of shares ('000)	*2015 US$ '000*	*2014 US$ '000*
At 1 January	**8,261**	**8,261**	8,123
Purchase of treasury shares	**304**	**304**	548
Sale of treasury shares	**(101)**	**(101)**	(410)
At 31 December	**8,464**	**8,464**	8,261

The market value of the treasury shares is US$ 4,824 thousand (2014: US$ 6,650 thousand) and it represents 0.8% (2014: 0.8%) of the outstanding shares.

Additional information on shareholding pattern

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

At 31 December 2015

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

13 OWNERS' EQUITY (continued)

Additional information on shareholding pattern (continued)

At 31 December 2014

Names	*Nationality/ Incorporation*	*Number of shares*	*% holding*
Saleh Abdullah Kamel	Saudi	329,369,040	30.11%
Dallah AlBaraka Holding Company E.C.	Bahrain	269,484,470	24.64%
Altawfeek Company For Investment Funds	Cayman Island	211,378,282	19.32%
Abdulla AbdulAziz AlRajihi	Saudi	76,845,065	7.03%

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

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

At 31 December 2015

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

At 31 December 2014

Categories:	*Number of shares*	*Number of shareholders*	*% of total outstanding shares*
Less than 1%	84,001,577	1,108	7.68%
1% up to less than 5%	122,790,261	6	11.22%
5% up to less than 10%	76,845,065	1	7.03%
10% up to less than 20%	211,378,282	1	19.32%
20% up to less than 50%	598,853,510	2	54.75%
	1,093,868,695	1,118	100.00%

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

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

b. Statutory reserve
In accordance with the BCCL and the Bank's articles of association, 10% of the parent's share of the net income for the year is transferred to the statutory reserve until such time as the reserve reaches 50% of the Bank's paid-up share capital. This reserve is not distributable, but can be utilised as security for the purpose of distribution in such circumstances as stipulated in the BCCL and other applicable statutory regulations. During the year US$ 16,274 thousand (2014: US$ 15,173 thousand) was transferred to statutory reserve.

13 OWNERS' EQUITY (continued)

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

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

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

Subsidiary	*Currency*	*2015 US$ '000*	*2014 US$ '000*
Banque Al Baraka D'Algerie (BAA)	Algerian Dinar	**42,424**	23,964
Al Baraka Bank (Pakistan) Limited	Pakistani Rupees	**10,174**	8,173
Al Baraka Bank Egypt (ABE)	Egyptian Pound	**41,040**	28,717
Al Baraka Turk Participation Bank (ATPB)	Turkish Lira	**274,067**	180,354
Al Baraka Bank Limited (ABL)	South African Rand	**20,474**	12,137
Al Baraka Bank Sudan (ABS)	Sudanese Pound	**30,912**	29,337
Al Baraka Bank Tunis (ABT)	Tunisian Dinar	**14,582**	8,994
Al Baraka Bank Syria (ABBS)	Syrian Pound	**28,275**	21,926
		461,948	313,602

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

f. Proposed Appropriations

	2015 US$ '000	*2014 US$ '000*
Cash dividend 2% (2014: 3%)	**22,315**	32,816
Bonus shares	**33,472**	21,877
	55,787	54,693

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

The Bank proposed issuance of bonus shares from the retained earnings at three bonus shares for each 100 shares held (2014: one bonus share for each 50 shares held). This will be submitted for formal approval at the Annual General Meeting subject to regulatory approval.

The proposed appropriations for the year 2014 was approved at the Annual General Meeting on 23 March 2015 and was effected in 2015 following the approval.

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

14 NET INCOME FROM JOINTLY AND SELF FINANCED CONTRACTS AND INVESTMENTS

	2015 US$ '000	2014 US$ '000
Receivables (note 14.1)	**1,050,895**	1,035,030
Mudaraba and Musharaka financing (note 14.2)	**101,177**	95,859
Investments (note 14.3)	**256,661**	207,077
Ijarah Muntahia Bittamleek (note 14.4)	**126,010**	96,242
Others	**731**	3,359
	1,535,474	1,437,567
Net income from jointly financed contracts and investments	**1,223,215**	1,166,772
Gross income from self financed contracts and investments	**312,259**	270,795
	1,535,474	1,437,567
Gross income from self financed contracts and investments	**312,259**	270,795
Profit paid on wakala financing	**(39,318)**	(34,375)
Net income from self financed contracts and investments	**272,941**	236,420

14.1 Receivables

	2015 US$ '000	2014 US$ '000
Sales (Murabaha) receivables	**1,034,312**	1,019,486
Salam receivables	**12,165**	11,590
Istisna'a receivables	**4,418**	3,954
	1,050,895	1,035,030

14.2 Mudaraba and Musharaka financing

	2015 US$ '000	2014 US$ '000
Mudaraba financing	**46,063**	38,146
Musharaka financing	**55,114**	57,713
	101,177	95,859

14.3 Investments

	2015 US$ '000	2014 US$ '000
Equity-type instruments at fair value through equity	**4,589**	2,008
Debt-type instruments at amortised cost	**247,630**	200,107
Unrealised gain on equity and debt-type instruments at fair value through statement of income	**145**	495
Gain on sale of equity-type instruments at fair value through equity	**1,509**	1,489
Gain on sale of equity and debt-type instruments at fair value through statement of income	**1,636**	927
Rental income	**1,832**	1,652
Income (loss) from associates	**652**	(294)
(Loss) gain on sale of investment in real estate	**(1,332)**	693
	256,661	207,077

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

14.4 Ijarah Muntahia Bittamleek

	2015 *US$ '000*	*2014* *US$ '000*
Income from Ijarah Muntahia Bittamleek	**317,739**	187,747
Depreciation on Ijarah Muntahia Bittamleek	**(191,729)**	(91,505)
	126,010	96,242

15 GROUP'S SHARE AS A MUDARIB

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

16 OTHER FEES AND COMMISSION INCOME

	2015 *US$ '000*	*2014* *US$ '000*
Banking fees and commissions	**116,547**	96,110
Letters of credit	**33,743**	40,760
Guarantees	**41,883**	41,081
Acceptances	**8,340**	9,193
	200,513	187,144

17 OTHER OPERATING INCOME

	2015 *US$ '000*	*2014* *US$ '000*
Foreign exchange gain	**18,267**	30,070
Gain on sale of property and equipment	**10,502**	6,262
Others	**6,025**	5,081
	34,794	41,413

18 DEPRECIATION AND AMORTISATION

	2015 *US$ '000*	*2014* *US$ '000*
Property and equipment depreciation (note 8)	**38,944**	37,886
Intangible assets amortisation (note 9 (a))	**11,110**	7,689
	50,054	45,575

19 OTHER OPERATING EXPENSES

	2015 *US$ '000*	*2014* *US$ '000*
General and administration expenses	**101,470**	93,923
Professional and business expenses	**26,740**	25,401
Premises related expenses	**58,680**	55,153
	186,890	174,477

20 PROVISIONS AND IMPAIRMENT

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

During the year, an impairment loss of US$ 4,118 thousand (2014: US$ 4,335 thousand) was charged against investments and goodwill.

2014	*Sales (Murabaha) receivables US$ '000 (note 4.1)*	*Ijarah receivables US$ '000 (note 4.2)*	*Salam receivables US$ '000 (note 4.3)*	*Istisna'a receivables US$ '000 (note 4.4)*	*Mudaraba financing US$ '000 (note 5.1)*	*Musharaka financing US$ '000 (note 5.2)*	*Investments US$ '000 (note 6.2 & 6.3)*	*Other assets US$ '000 (note 9)*	*Other liabilities US$ '000 (note 11)*	*Total US$ '000*
Provisions at 1 January	393,056	5,778	4,243	1,310	11,110	7,392	8,042	15,506	30,306	476,743
Charged during the year	76,622	2,675	1,823	1,358	232	870	1,690	1,911	2,073	89,254
Written back during the year	(41,369)	(1,569)	(832)	(2,075)	-	(4,244)	(790)	(1,803)	(19,744)	(72,426)
	35,253	1,106	991	(717)	232	(3,374)	900	108	(17,671)	16,828
	428,309	6,884	5,234	593	11,342	4,018	8,942	15,614	12,635	493,571
Written off during the year	(12,948)	-	-	-	(65)	-	-	-	(152)	(13,165)
Amount appropriated from investment risk reserve (note 12.2)	5,287	-	-	-	-	1	-	-	-	5,288
Foreign exchange translations/others - net	(17,160)	(494)	(103)	(75)	(321)	160	194	(2,198)	(962)	(20,959)
Provisions at 31 December	403,488	6,390	5,131	518	10,956	4,179	9,136	13,416	11,521	464,735

20 PROVISIONS AND IMPAIRMENT (continued)

The provisions relate to the following geographical areas:

2015	*Sales (Murabaha) receivables US$ '000 (note 4.1)*	*Ijarah receivables US$ '000 (note 4.2)*	*Salam receivables US$ '000 (note 4.3)*	*Istisna'a receivables US$ '000 (note 4.4)*	*Mudaraba financing US$ '000 (note 5.1)*	*Musharaka financing US$ '000 (note 5.2)*	*Investments US$ '000 (note 6.2 & 6.3)*	*Other assets US$ '000 (note 9)*	*Other liabilities US$ '000 (note 11)*	*Total US$ '000*
Middle East	233,083	2,294	-	-	11,262	244	7,461	4,090	13,607	272,041
North Africa	22,346	6,209	1,235	382	-	39	610	2,048	202	33,071
Europe	96,213	-	-	-	-	-	-	1,620	-	97,833
Others	27,627	1,729	4,232	28	-	3,954	423	4,612	-	42,605
Total	379,269	10,232	5,467	410	11,262	4,237	8,494	12,370	13,809	445,550
2014										
Middle East	233,703	-	-	-	10,956	242	5,647	4,148	11,390	266,086
North Africa	26,436	4,905	1,361	392	-	46	757	2,469	131	36,497
Europe	116,488	-	-	-	-	-	-	1,911	-	118,399
Others	26,861	1,485	3,770	126	-	3,891	2,732	4,888	-	43,753
Total	403,488	6,390	5,131	518	10,956	4,179	9,136	13,416	11,521	464,735

The fair value of collateral the Group holds relating to non-performing facilities as at 31 December 2015 amounts to US$ 335.5 million (2014: US$ 292.2 million). The collateral consists of cash margin, securities and properties. The utilisation of the collaterals will be on customer by customer basis and will be limited to the customer's total exposure.

21 BASIC AND DILUTED EARNINGS PER SHARE

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

	2015	*2014*
Net income attributable to the equity shareholders of the parent for the year - *US$ '000*	**162,741**	151,731
Number of shares outstanding at the beginning of the year (in thousands)	**1,107,485**	1,085,608
Treasury shares effect (in thousands)	**(139)**	(128)
Bonus shares effect during the year (in thousands)*	**-**	21,877
Weighted average number of shares outstanding at the end of the year (in thousands)	**1,107,346**	1,107,357
Earnings per share - US cents	**14.70**	13.70

*The weighted average number of shares of the previous year has been adjusted on account of the bonus share issue made in 2014.

22 CASH AND CASH EQUIVALENTS

	2015 *US$ '000*	*2014* *US$ '000*
Balances with central banks excluding mandatory reserve	**741,179**	1,634,778
Balances with other banks	**789,692**	670,208
Cash and cash in transit	**761,818**	430,135
	2,292,689	2,735,121

23 RELATED PARTY TRANSACTIONS

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

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

	Associated companies US$ '000	*Major shareholders US$ '000*	*Directors and key management personnel US$ '000*	*2015 US$ '000*	*2014 US$ '000*
Net income from jointly financed contracts and investments	2,244	-	124	2,368	2,574
Net income from self financed contracts and investments	277	53	-	330	976
Return on equity of investment accountholders	-	41	345	386	691
Other fees and commission income	776	-	-	776	855

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

	2015 US$ '000	*2014 US$ '000*
Short term benefits	6,014	5,846
Long term benefits	1,272	1,414

Director's remuneration accrued for the year ended 31 December 2015 amounted to USD 1.5 million (2014: USD 1.5 million).

23 RELATED PARTY TRANSACTIONS (continued)

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

	Associated companies US$ '000	*Major shareholders US$ '000*	*Directors and key management personnel US$ '000*	*Other related parties US$ '000*	*2015 US$ '000*	*2014 US$ '000*
Assets:						
Receivables	10,157	-	522	-	10,679	8,794
Mudaraba and Musharaka financing	-	-	1,420	-	1,420	1,305
Investments	51,463	1,034	-	-	52,497	57,486
Ijarah Muntahia Bittamleek	-	-	740	-	740	933
Other assets	1,443	27	312	-	1,782	1,801
Liabilities:						
Customer current and other accounts	6,676	3,089	1,006	73	10,844	14,878
Due to banks	888	3,374	-	-	4,262	15,101
Other liabilities	-	19,508	2	253	19,763	2,297
Equity of investment accountholders	8,845	9,846	10,616	66	29,373	34,578
Off-balance sheet equity of investment accountholders	14,687	8,567	642	-	23,896	22,860

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

23 RELATED PARTY TRANSACTIONS (continued)

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

Name of directors	*Position*	*Nationality*	*2014* *Number of shares*	*Transaction* *Number of shares*	***2015**** ***Number of shares***
Saleh Abdulla Kamel	Chairman	Saudi	598,853,510	-	**610,830,579**
Abdulla Ammar Saudi	Vice Chairman	Bahraini	586,462	-	**598,191**
Abdulla Saleh Kamel	Vice Chairman	Saudi	298,004	-	**303,964**
Fahad Abdulla AlRajhi	Board Member	Saudi	22,127,249	-	**22,569,793**
Mohydin Saleh Kamel	Board Member	Saudi	623,098	-	**635,559**
AbdulElah Sabbahi	Board Member	Saudi	198,818	-	**202,794**
Adnan Ahmed Yousif	Board Member (President & Chief Executive)	Bahraini	321	-	**327**
Abdulrahman Shehab	Executive Vice President, Head of Operations and Administration	Bahraini	119,909	-	**122,307**

* Includes the effect of the Bank's issuance of bonus shares at one bonus share for each 50 shares held as per the approval of the shareholders at the Annual General Meeting on 23 March 2015.

24 COMMITMENTS AND CONTINGENCIES

	2015 US$ '000	2014 US$ '000
Letters of credit	**810,168**	877,685
Guarantees	**3,105,059**	3,639,789
Acceptances	**52,315**	142,917
Undrawn commitments	**654,138**	560,596
Others	**249**	198
	4,621,929	5,221,185

25 SEGMENTAL ANALYSIS

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

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

Middle East
North Africa
Europe
Others

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

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

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

	2015			2014		
	Assets US$ '000	Liabilities US$ '000	IAH US$ '000	Assets US$ '000	Liabilities US$ '000	IAH US$ '000
Segment						
Middle East	**10,589,649**	**2,659,913**	**6,984,027**	9,668,236	2,630,783	6,157,725
North Africa	**2,489,812**	**1,113,612**	**1,084,982**	2,448,620	1,023,181	1,106,558
Europe	**10,035,619**	**3,733,314**	**5,586,129**	9,665,187	3,127,066	5,801,091
Others	**1,503,121**	**502,180**	**859,461**	1,681,546	468,144	1,074,418
	24,618,201	**8,009,019**	**14,514,599**	23,463,589	7,249,174	14,139,792

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

	2015			2014		
	Total operating income US$ '000	Net operating income US$ '000	Net income US$ '000	Total operating income US$ '000	Net operating income US$ '000	Net income US$ '000
Segment						
Middle East	**407,929**	**207,450**	**103,137**	337,724	144,880	90,292
North Africa	**101,996**	**48,886**	**42,101**	108,903	56,727	49,093
Europe	**407,121**	**184,264**	**124,478**	396,754	174,695	120,934
Others	**82,507**	**23,082**	**16,470**	74,181	19,900	14,448
	999,553	**463,682**	**286,186**	917,562	396,202	274,767

26 RISK MANAGEMENT

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

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

a) Liquidity risk

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

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

26 RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

The maturity profile at 31 December 2015 was as follows:

	Up to 1 month US$ '000	*1 to 3 months US$ '000*	*3 to 6 months US$ '000*	*6 months to 1 year US$ '000*	*1 to 3 years US$ '000*	*3 to 5 years US$ '000*	*5 to 10 years US$ '000*	*10 to 20 years US$ '000*	*20 years and above US$ '000*	*Undated US$ '000*	*Total US$ '000*
Assets											
Cash and balances with banks	4,289,731	-	6,008	21,721	269,961	6,038	-	-	-	779,950	5,373,409
Receivables	1,429,128	1,325,093	1,665,527	2,134,547	3,445,465	1,484,743	455,435	18,028	1,096	-	11,959,052
Mudaraba and Musharaka financing	840,924	3,874	10,854	27,969	137,139	303,719	210,508	23,606	-	-	1,558,593
Investments	1,337,184	276,766	128,852	303,888	531,753	113,159	116,963	40,135	-	258,050	3,105,750
Ijarah Muntahia Bittamleek	58,880	55,649	59,230	143,850	474,628	305,366	231,333	392,699	12,846	-	1,734,467
Property and equipment	-	-	-	-	-	-	-	-	-	444,608	444,608
Other assets	52,631	43,376	14,526	53,856	37,814	44,619	956	2,051	-	192,504	442,332
Total assets	8,008,458	1,704,758	1,884,997	2,685,830	4,896,747	2,257,543	1,014,195	476,519	13,942	1,675,212	24,618,201
Liabilities											
Customer current and other accounts	4,841,099	-	-	-	-	-	-	-	-	-	4,841,099
Due to banks	428,917	141,867	63,309	83,077	38,000	-	-	53,098	-	-	808,268
Long term financing	-	2,009	29,172	192,200	525,997	373,531	374,299	-	-	-	1,497,208
Other liabilities	315,516	79,479	20,749	42,955	18,618	44,695	366	340,066	-	-	862,444
Total liabilities	5,585,532	223,355	113,230	318,232	582,615	418,226	374,665	393,164	-	-	8,009,019
Equity of investment accountholders	5,582,600	2,073,919	986,483	1,426,318	1,520,286	2,587,753	59,397	277,833	-	-	14,514,599
Total liabilities and equity of investment accountholders	11,168,132	2,297,274	1,099,713	1,744,550	2,102,901	3,005,969	434,062	670,997	-	-	22,523,618
Net liquidity gap	(3,159,674)	(592,516)	785,284	941,280	2,793,846	(748,446)	580,133	(194,478)	13,942	1,675,212	2,094,583
Cumulative net liquidity gap	(3,159,674)	(3,752,190)	(2,966,906)	(2,025,626)	768,220	19,774	599,907	405,429	419,371	2,094,583	
Off-balance sheet equity of investment accountholders	133,468	152,036	186,308	124,433	11,134	11,368	-	159,212	-	-	777,959

26 RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

The maturity profile at 31 December 2014 was as follows:

	Up to 1 month US$ '000	*1 to 3 months US$ '000*	*3 to 6 months US$ '000*	*6 months to 1 year US$ '000*	*1 to 3 years US$ '000*	*3 to 5 years US$ '000*	*5 to 10 years US$ '000*	*10 to 20 years US$ '000*	*20 years and above US$ '000*	*Undated US$ '000*	*Total US$ '000*
Assets											
Cash and balances with banks	4,371,143	15,487	-	-	11,000	216,561	10,000	-	-	387,071	5,011,262
Receivables	1,719,630	1,414,712	1,736,626	1,924,670	3,137,623	1,173,886	593,300	298,687	413	-	11,999,547
Mudaraba and Musharaka financing	813,313	6,548	11,881	24,084	152,218	289,848	232,383	19,511	-	-	1,549,786
Investments	1,026,923	279,545	124,702	264,839	426,803	156,910	45,993	38,939	391	214,989	2,580,034
Ijarah Muntahia Bittamleek	20,723	27,295	46,025	103,920	385,164	367,016	197,508	340,269	6,879	-	1,494,799
Property and equipment	-	-	-	-	-	-	-	-	-	379,323	379,323
Other assets	47,488	67,262	20,497	35,798	48,343	28,309	1,138	82,561	-	117,442	448,838
Total assets	7,999,220	1,810,849	1,939,731	2,353,311	4,161,151	2,232,530	1,080,322	779,967	7,683	1,098,825	23,463,589
Liabilities											
Customer current and other accounts	4,509,312	-	-	-	-	-	-	-	-	-	4,509,312
Due to banks	540,291	178,939	143,179	266,210	22,000	60,874	-	-	-	-	1,211,493
Long term financing	-	1,474	18,971	265,191	12,190	357,843	-	-	-	-	655,669
Other liabilities	326,805	61,728	129,487	23,250	48,363	29,420	209	253,438	-	-	872,700
Total liabilities	5,376,408	242,141	291,637	554,651	82,553	448,137	209	253,438	-	-	7,249,174
Equity of investment accountholders	5,865,872	1,687,304	1,063,450	1,244,228	1,410,274	2,275,489	5,479	587,696	-	-	14,139,792
Total liabilities and equity of investment accountholders	11,242,280	1,929,445	1,355,087	1,798,879	1,492,827	2,723,626	5,688	841,134	-	-	21,388,966
Net liquidity gap	(3,243,060)	(118,596)	584,644	554,432	2,668,324	(491,096)	1,074,634	(61,167)	7,683	1,098,825	2,074,623
Cumulative net liquidity gap	(3,243,060)	(3,361,656)	(2,777,012)	(2,222,580)	445,744	(45,352)	1,029,282	968,115	975,798	2,074,623	
Off-balance sheet equity of investment accountholders	77,681	185,480	193,279	168,590	38,056	368,256	339	166,335	-	-	1,198,016

26 RISK MANAGEMENT (continued)

b) Credit risk

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

Type of credit risk

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

Sales (Murabaha) receivables

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

Salam receivables

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

Istisna'a receivables

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

Mudaraba financing

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

Musharaka financing

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

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

	Maximum exposure	
	2015	*2014*
	US$ '000	*US$ '000*
Balances with other banks	**789,692**	670,208
Receivables	**11,959,052**	11,999,547
Mudaraba and Musharaka financing	**1,558,593**	1,549,786
Investments	**2,760,872**	2,257,023
Other assets	**195,054**	211,285
Total	**17,263,263**	16,687,849
Commitments and contingencies	**4,621,929**	5,221,185
	21,885,192	21,909,034

26 RISK MANAGEMENT (continued)

b) Credit Risk (continued)

Credit quality by type of islamic financing contracts

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

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

	31 December 2014			
Type of Islamic Financing Contracts	*Neither past due nor non performing US$ '000*	*Past due but performing US$ '000*	*Non performing islamic financing contracts US$ '000*	*Total US$ '000*
Receivables	11,460,437	453,604	501,033	12,415,074
Mudaraba and Musharaka financing	1,482,965	62,630	19,326	1,564,921
Other assets	212,299	49	12,353	224,701
	13,155,701	516,283	532,712	14,204,696

Aging analysis of past due but performing Islamic financing contracts

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

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

	31 December 2014			
Type of Islamic Financing Contracts	*Less than 30 days US$ '000*	*31 to 60 days US$ '000*	*61 to 90 days US$ '000*	*Total US$ '000*
Receivables	250,027	58,901	144,676	453,604
Mudaraba and Musharaka financing	55,989	5,644	997	62,630
Other assets	11	28	10	49
	306,027	64,573	145,683	516,283

26 RISK MANAGEMENT (continued)

b) Credit risk (continued)

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

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

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

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

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

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

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

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

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

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

26 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Credit Quality

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

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

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

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

26 RISK MANAGEMENT (continued)

c) Concentration risk

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

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

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

	2015			*2014*		
	Assets	***Liabilities***	***IAH***	*Assets*	*Liabilities*	*IAH*
	US$ '000	***US$ '000***	***US$ '000***	*US$ '000*	*US$ '000*	*US$ '000*
Manufacturing	**4,048,955**	**218,528**	**342,991**	4,345,866	159,368	270,664
Mining and quarrying	**106,609**	**4,054**	**36,328**	131,400	1,567	45,980
Agriculture	**124,537**	**11,471**	**9,003**	106,714	4,492	9,045
Construction and real estate	**2,826,010**	**30,049**	**23,667**	3,009,413	36,237	27,237
Financial	**3,091,392**	**2,463,290**	**1,406,834**	3,376,998	2,089,789	1,504,148
Trade	**1,686,693**	**247,035**	**254,479**	1,646,955	199,853	414,230
Personal and consumer finance	**2,507,063**	**3,571,598**	**10,646,130**	2,070,163	3,391,460	10,526,039
Government	**7,050,655**	**47,360**	**130,081**	6,157,519	53,453	152,124
Other Services	**3,176,287**	**1,415,634**	**1,665,086**	2,618,561	1,312,955	1,190,325
	24,618,201	**8,009,019**	**14,514,599**	23,463,589	7,249,174	14,139,792

d) Market risk

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

Profit rate risk

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

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

Equity price risk

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

The Group has total equity portfolio of US$ 110,995 thousand (2014: US$ 108,022 thousand) comprising of equity-type instruments at fair value through equity amounting to US$ 102,810 thousand (2014: US$ 104,919 thousand) and equity-type instruments at fair value through statement of income amounting to US$ 8,185 thousand (2014: US$ 3,103 thousand). Variation of 10% increase or decrease in the portfolio value will not have a significant impact on the Group's consolidated net income or owners' equity.

26 RISK MANAGEMENT (continued)

d) Market risk (continued)

Foreign exchange risk

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

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

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

	2014		
	Operational equivalent Long (Short) US$ '000	*Strategic equivalent Long (Short) US$ '000*	*Total equivalent Long (Short) US$ '000*
Currency			
Turkish Lira	(39,446)	417,488	378,042
Jordanian Dinar	(17,480)	271,819	254,339
Egyptian Pound	(23,575)	139,502	115,927
Sudanese Pound	(2,386)	29,848	27,462
Algerian Dinar	-	129,817	129,817
Lebanese Pound	(1,799)	19,049	17,250
Pound Sterling	(3,293)	-	(3,293)
Tunisia Dinar	74,046	67,931	141,977
Euro	(13,855)	-	(13,855)
South African Rand	(313)	31,194	30,881
Pakistani Rupees	1,346	62,234	63,580
Syrian Pound	(314)	12,438	12,124
Others	18,398	-	18,398

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

Foreign currency risk sensitivity analysis

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

26 RISK MANAGEMENT (continued)

d) Market risk (continued)

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

At 31 December 2015

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

At 31 December 2014

Currency	Particular	Exposures in US$ '000	Maximum expected decrease %	Change in net income and owners' equity US$ '000	Maximum expected increase %	Change in net income and owners' equity US$ '000
Algerian Dinar	Net Income	44,328	(10%)	(4,030)	10%	4,925
	Total owners' equity	232,234	(10%)	(21,112)	10%	25,804
Egyptian Pound	Net Income	31,611	(15%)	(4,123)	20%	7,903
	Total owners' equity	189,331	(15%)	(24,695)	20%	47,333
Turkish Lira	Net Income	125,040	(20%)	(20,840)	20%	31,260
	Total owners' equity	740,900	(20%)	(123,483)	20%	185,225
Sudanese Pound	Net Income	8,805	(15%)	(1,148)	25%	2,935
	Total owners' equity	39,412	(15%)	(5,141)	25%	13,137
S.African Rand	Net Income	3,597	(10%)	(327)	10%	400
	Total owners' equity	48,354	(10%)	(4,396)	10%	5,373
Syrian Pound	Net Income	22,428	(10%)	(2,039)	25%	3,958
	Total owners' equity	54,080	(10%)	(4,916)	25%	9,544
Pakistani Rupees	Net Income	2,045	(10%)	(186)	15%	361
	Total owners' equity	6,981	(10%)	(635)	15%	1,232
Tunisian Dinar	Net Income	4,765	(10%)	(433)	10%	529
	Total owners' equity	86,647	(10%)	(7,877)	10%	9,627

26 RISK MANAGEMENT (continued)

e) Operational Risk

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

Operational Risk Management Framework

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

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

The Operational Risk framework is subject to periodic Internal Audit.

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

Infrastructure Risks

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

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

Information Technology Risks

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

Staff risk

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

Business risk

This risk may take on the following forms:

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

26 RISK MANAGEMENT (continued)

f) Corporate governance

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

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

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

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

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

27 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The Group's investments in sukuk held at amortised cost have fair values amounting to US$ 2,821 million (2014: US$ 2,438 million).

Also included under investments are unquoted equity-type instruments at fair value through equity amounting to US$ 47,095 thousand (2014: US$ 49,531 thousand) which are carried at cost due to lack of other reliable methods for arriving at a reliable fair value for these investments.

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

28 EARNINGS PROHIITED BY SHARI'A

Earnings realised during the year from transactions that were not permitted by Shari'a amounted to US$ 5 million (2014: US$ 1.6 million). This amount has been taken to charity.

29 COMPARATIVE FIGURES

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

SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN THE FINANCIAL ACCOUNTING STANDARDS ISSUED BY AAOIFI AND INTERNATIONAL FINANCIAL REPORTING STANDARDS

Statement of compliance

The Consolidated Financial Statements were prepared in accordance with FAS, issued by the AAOIFI and, for matters where no AAOIFI standard exists and, provided it does not conflict with *Shari'a* rules and principles, and the conceptual framework of AAOIFI, IFRS as issued by the IASB and in conformity with the Bahrain Commercial Companies Law and the Financial Institutions Law.

The Interim Financial Information was prepared in accordance with guidance given by the International Accounting Standard 34 – "Interim Financial Reporting" and using accounting policies which are consistent with those used in the preparation of the 2016 Financial Statements.

Basis of preparation

The Consolidated Financial Statements and the Interim Financial Information were prepared under the historical cost convention except for the following items: (i) investment in real estate; (ii) equity and debt-type instruments at fair value through statement of income; (iii) equity-type instruments at fair value through equity; and (iv) land occupied by the Group (classified as property and equipment) which are measured at fair value.

Basis of consolidation

The Consolidated Financial Statements comprise the audited consolidated financial statements of the Group as at and for the year ended 31 December in each of 2015 and 2016.

The Interim Financial Information comprises the interim condensed consolidated financial statements as at and for the three months ended 31 March 2017.

The financial statements of the Units are prepared (for consolidation purposes) for the same reporting year as ABG, using consistent accounting policies.

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

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

Summary of significant differences between the FAS and International Financial Reporting Standards

FAS differs from IFRS in certain respects. Accordingly, the Group has prepared as of the date of this Prospectus a narrative summary of the significant differences between FAS as applied by the Group in the Consolidated Financial Statements and IFRS in so far as they relate to the significant accounting policies adopted by the Group.

Ernst & Young Bahrain has not performed any audit, review or other procedures including any reconciliation in respect of the summary of differences described below.

ABG has not performed a reconciliation of its Consolidated Financial Statements to IFRS, nor has it quantified such differences nor does it undertake to identify all such differences. Had ABG undertaken any such quantification or reconciliation, other accounting and disclosure differences may have come to ABG's attention that are not identified below.

The differences discussed below relate to the significant differences that impact amounts recorded in the Consolidated Financial Statements rather than differences in presentation or disclosure.

Investment securities

In accordance with FAS, investments in equity-type instruments are classified into the following categories: (i) as investments carried at fair value through income statement; or (ii) as investments carried at fair value through equity.

Unrealised gains or losses arising from a change in the fair value of investments classified as fair value through equity are recognised directly in the fair value reserve under shareholders' equity, which is then distributed between shareholders' equity and the unrestricted investment deposit accounts until the investment is sold, collected or otherwise disposed of or the investment is determined to be impaired. In other words, the fair value reserves attributable to shareholders are recognised under statement of changes in shareholders' equity, and the fair value reserves attributable to unrestricted investment accounts are included in the balance for unrestricted investment accounts as disclosed in note 12 of the 2016 Financial Statements.

Under IFRS, the unrealised gains or losses arising from a change in the fair value of investments classified as available for sale investments are recognised under the other comprehensive income statement.

Investment in real estate

In accordance with FAS, 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.

Under IFRS, the unrealised gains or losses arising from a change in the fair value of investments in real estate are measured at fair value through the consolidated statement of income.

Ijarah Muntahia Bittamleek transactions

The Group's *Ijarah Muntahia Bittamleek* transactions are treated as operating leases, whereas they are considered as finance leases or financial instruments (depending on the specific deal structure) according to the definition used in IFRS.

In accordance with FAS, *Ijarah Muntahia Bittamleek* assets are presented at original cost less accumulated depreciation up to the relevant date of financial position.

Under IFRS, the leased assets would be presented at an amount equal to the net investment in the lease, and income accrued since inception of the lease.

Equity of investment accountholders

In accordance with FAS, equity of investment accountholders is disclosed and presented in the consolidated statement of financial position as a separate line item between liabilities and owners' equity and is recognised as quasi-equity while under IFRS it would be presented in the consolidated statement of financial position as a liability.

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GLOBAL CO-ORDINATOR

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