

Annual Report 2015
Initiative through
relationships

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"Subject to the provisions thereof, deposits held by the Bahrain office of Eskan Bank are covered by the Deposit protection Scheme established by the Central Bank of Bahrain regulation concerning the establishment of a Deposit protection scheme and Deposit protection Board."

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Representative Offices

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**His Royal Highness,
Prince Khalifa
bin Salman Al Khalifa**

The Prime Minister of the
Kingdom of Bahrain



**His Majesty,
King Hamad
bin Isa Al Khalifa**

The King of the
Kingdom of Bahrain



**His Royal Highness
Prince Salman
bin Hamad Al Khalifa**

Crown Prince, Deputy
Supreme Commander
and First Deputy
Prime Minister of the
Kingdom of Bahrain

Corporate profile

Vision

Lead in providing innovative and sustainable housing solutions

Core Values

- Integrity
- Respect
- Ownership
- Innovation

Mission

- Build a strategic alliance with the Ministry of Housing and government bodies towards achieving the overall housing sector objectives of the Government of Bahrain
- Develop innovative and effective frameworks of partnerships with the private sector for funding social housing beneficiaries and enhancing the supply of housing units
- Lead in benchmarking socio-economic and environmentally sustainable housing developments
- Enhance the welfare and empower the Bank's human capital towards realizing its full potential

Eskan Bank was established in 1979 with a unique social role to provide mortgages for citizens of the Kingdom of Bahrain on low-to-medium incomes, and also to engage in community-related property development activities.

Eskan Bank is the Kingdom's leading provider of residential mortgages, and a significant player in the property development market. Since inception, the Bank has provided mortgages totalling BD 772,8 million benefiting 54,452 Bahraini families. Eskan Bank's property development and investment activities embrace real estate investment, construction and property management; as well as finance for the construction of social and affordable homes, Community Projects and commercial projects.

As the Bank's property development arm, its subsidiary, Eskan Properties Company (EPC), develops social, affordable, community and commercial projects in partnership with the private sector and the Government.

Through its associate companies, Eskan Bank seeks to expand its social and community role. Ebdaa Bank provides micro-financing for low-to-middle income Bahraini families to help them start their own businesses and become financially independent; while Naseej B.S.C. (c) acts as a catalyst in addressing the need for social and affordable housing in the Kingdom, and enabling more Bahrainis on middle incomes to afford home ownership.

The Bank strongly believes in the importance of the private sector's active involvement in addressing the Kingdom's housing needs. In this respect, the Bank has structured innovative financial packages to attract private sector participation. It has also established partnerships with property developers and landlords, to construct social and affordable housing units.

Eskan Bank has implemented a five-year strategy which significantly strengthens the scope of the Bank's activities to support the social agenda of Bahrain's Economic Vision 2030. In particular, it defines the Bank's role to assist the Ministry of Housing in achieving the Government's commitment to significantly reduce the backlog of housing applications by Bahraini families on low-to-medium incomes. This is being achieved by accelerating the construction of social housing units in partnership with the private sector.

Wholly-owned by the Government of Bahrain, and with an authorised share capital of BD 400 million and paid-up capital of BD 108.3 million, Eskan Bank operates under a restricted conventional retail banking license issued and regulated by the Central Bank of Bahrain. At the end of 2015, total assets of the Bank stood at BD 597.3 million.

2015 has been another year of strength for Eskan Bank, with its many initiatives continuing to gather pace and interest in the affordable housing sector reaching new heights. This has been achieved through the development of closer working relationships with the Ministry of Housing and the private sector through a focus on building cohesive communities. These relationships have allowed Eskan Bank to continue its pivotal role in Bahrain's national ambition to provide homes to all on the government housing list, as envisioned by His Majesty King Hamad bin Isa Al Khalifa.



Eskan Bank 2015 awards

Operational highlights

Financial performance

- Posted record financial results of BD 11.4 million for fiscal year 2015.
- Disbursed a record Shari'a compliant loans of BD 57 million to 3,618 families.
- Total equity topped BD221.9 million while the return on equity stood at 5.2%.
- The cost-to-income ratio reached 35.9%, compared with 34.5% in 2014.

Property Development

- Construction work on Danaat Al Madina was completed on April 2015. All the residential units have been sold.
- 100% of residential and commercial units in Segaya Plaza leased since June 2014.
- Reclamation of the land for Danaat Al Lawzi, is due for completion in January 2016 and preparations for the construction of 200 villas and 299 apartments are in progress.
- Danaat Al Seef and Danaat Al Riffa reached 80% completion and sales are expected to start within the 1st Quarter of 2016.
- Construction of the 18 Hamad Town villas was completed and sales are expected to start within the 1st Quarter of 2016.
- Eskan Properties Company was appointed as the Development Manager for the 200 villa Danaat Al Baraka project.
- A Joint Venture Company is under formation, for a third-party land tie up, for the development of 545 villas with the name Danaat Al Yafoor.
- EPC is to be appointed as the Development Manager for the Danaat Al Hamala project to develop 700+ villas.
- 4,200 units are to be developed at Danaat Al Sayah, and the next stage is to sign an MOU with the Ministry of Housing to proceed with the development and secure the funding required.

Community Projects

- 100% of the units in Hamad Town project were leased by end of 2014.
- 100% of the units in Hamala projects were leased by end of 2014.
- 100% of the units in Hamad Town, Karzakan and Dumistan projects were leased by end of 2014.
- 100% of units in Riffa project were leased during the year.
- 3 new community Projects in Samaheej, Budaiya and Salmabad have been completed and are 100% leased.

Operations

- Centralized activities to head office from branches to increase efficiency.
- Successfully Implemented EFTS (Electronic Fund Transfer System) a Central Bank of Bahrain mandated process for quick and real time transfer of funds for customer between banks in Bahrain.
- Successfully handled growth of 300% in numbers of beneficiaries towards Ministry of Housing, Social Housing Financing Scheme (SHFS).
- Re-engineering of loan processing, processing and restructuring of delinquent loans.

- Optimum utilisation of staff resources while replacing staff under early retirement scheme.
- Automated processes to reduce transactional turnaround time.
- Active participation in developing detailed RFP and short-listing for new core Banking system.
- Reviewed and approved Operation's procedures and re-aligned to meet maximum productivity.

Information Security

- Achieved certification of ISO 27001:2013 standard for the Information Security Management System implemented at the bank. The certification scope covered Eskan Bank Headquarters, Jidali branch and Diplomatic branch. This certification is testimony for the bank's strong drive towards continuous improvement in security measures for enhanced security of information assets of the bank.
- Introduced measures to strengthen the data loss prevention initiatives of the bank. Existing controls for data protection were reviewed and updated. Clear desk policy was reviewed and issued to employees to ensure employees are fully committed towards data protection requirements of the bank.

Business Continuity

- Business impact analysis was conducted to identify any changes to the critical business processes. Commercial loan booking was removed from the list of critical business processes as a commercial loan product is no longer offered by the bank. Business recovery documents were updated for the remaining 15 critical business processes.
- A simulation test was conducted at the business continuity management command centre in Jidali to successfully test and validate the effectiveness of the recovery initiatives of the Bank.

Quality

- Achieved re-certification of ISO 9001:2008 standard for the quality management system implemented at the Bank.
- Process non-conformance to the Bank's established policies, procedures and ISO 9001:2008 standard, identified as part of the annual internal quality audits, were closely monitored and managed to ensure adequate measures are taken to address the non-conformity effectively with every process adequately documented and implemented to achieve consistent performance.

Information Technology

- Finalized the selection of a new core-banking system and started the implementation phase.
- Completed the Implementation of Electronic Funds Transfer System (EFTS).
- Upgraded the in-house real estate booking system to allow for the pre-sales of (Danaat Al Riffa and Danaat Al Seef).
- Upgraded the remedial and collection system to incorporate integration with SIO site.
- Enhanced the bank's existing infrastructure through servers' virtualization and replacements of the main core switch.

Risk Management:

Basel Compliance:

- Successfully completed the updation and BOD review of the Bank's policies in line with Basel and CBB regulations.
- Strengthened the awareness of operational risk through staff training.

Real Estate Risk management:

- Improved the real estate project risk monitoring through implementation of Project dashboards and project progress reports.
- Introduced the risk framework for monitoring real estate developments of the Bank.

Credit Control:

- Successfully completed the annual reconciliation of title deed collaterals through RFID system with nil errors.
- Enhanced customer service by providing access to RFID database to branches including financial malls and call centers.
- Initiated the upgrade of RFID application to improve the operational efficiency for tracking collaterals.

Compliance

- Facilitated special considerations from CBB towards social housing project developments, in particular lowering the Risk Weight for such projects from 200% to 50% for calculation of CAR and inclusion of Eskan Bank in CBB list of sovereign owned companies eligible for 0% risk weight.
- Enhanced compliance monitoring through introduction of comprehensive checklists of all applicable legal requirements.
- Strengthened the awareness of Compliance and Anti Money Laundering regulations through staff training.

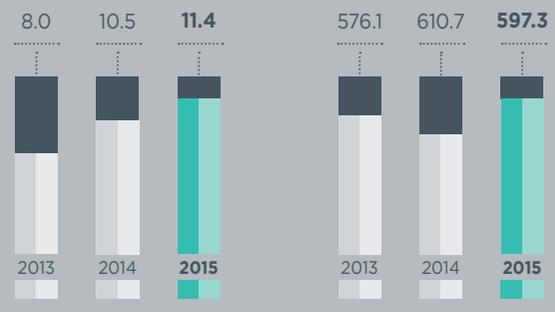
Treasury

- Liquidity management with improved spreads remained a top priority for Treasury in 2016. In view of increased securities issuances by government of Bahrain, which reached BD 1.5 billion, through Islamic Sukuk and international bonds, liquidity was absorbed from the capital markets and interbank placement were reduced. Treasury took advantage of the Government of Bahrain active marketing of financial instruments through the CBB a diverted their placements with banks towards sovereign exposure resulting in an improvement of spreads and a reduced risk profile.

Strategy implementation

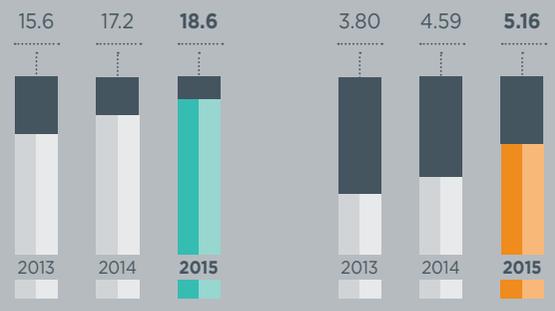
- Secured the approval of the Social Housing Financing Scheme in the 2015 housing decree as a main housing service due to the success of the pilot phase, secured the participation of an additional bank, developed and secured approval for special enhancements to the scheme.
- Finalized work towards the launch of the Bank's "Tomoooh" initiative, for the encouragement of social housing beneficiaries to adopt more financially sound dwelling choices without sacrificing lifestyle.
- Strengthened the relationship with Ministry of Housing by offering technical and operational advisory services.

Financial performance



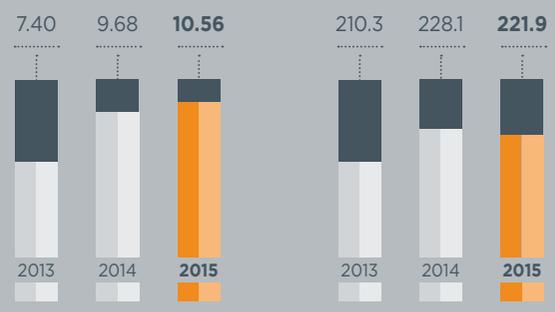
Net Income
(BD Million)

Total Assets
(BD Million)



Operating Income
(BD Million)

Return on Equity
(%)



Earnings per Share
(BD)

Total Equity
(BD Million)

Board of Directors



1



2



3



4



5



6



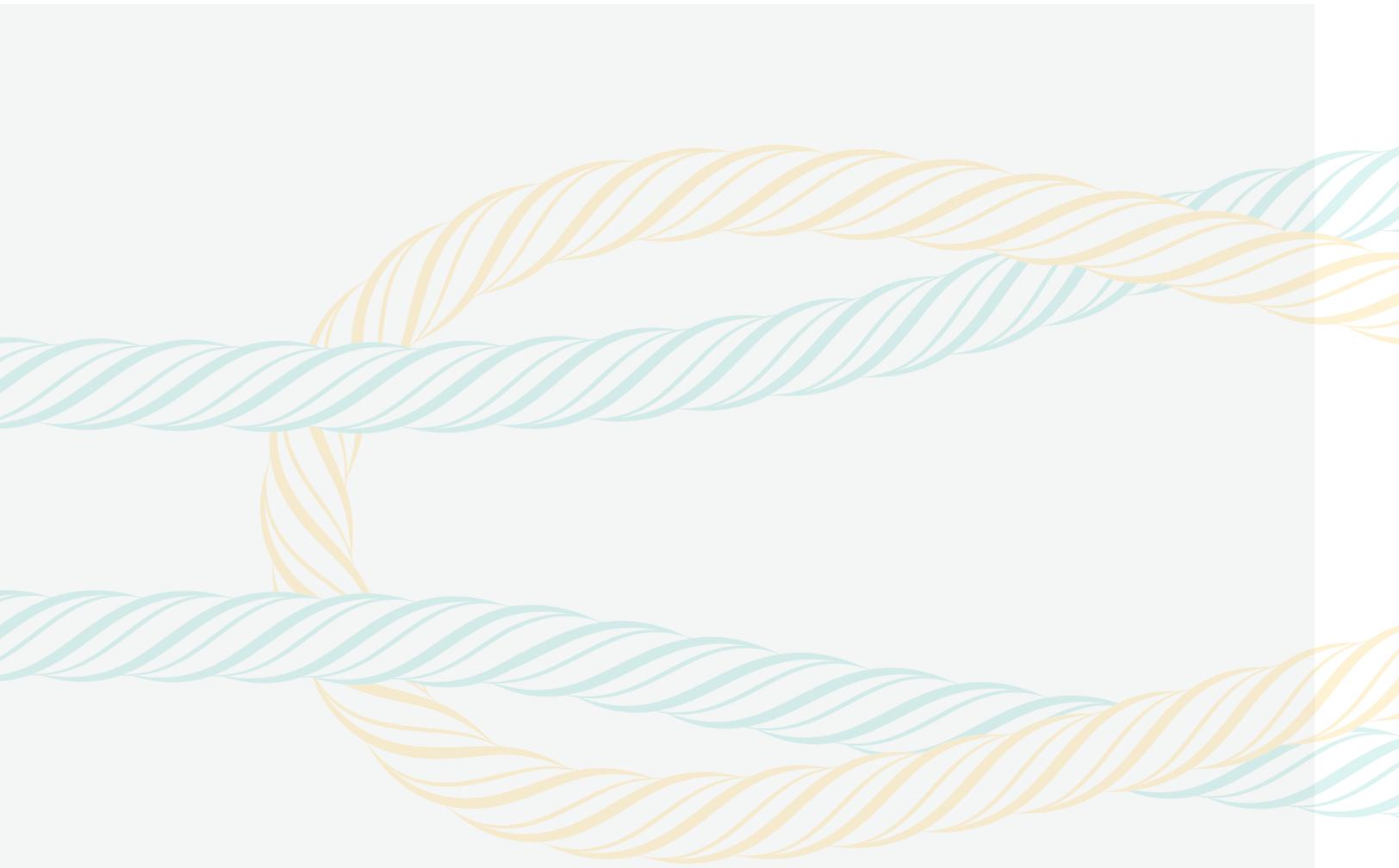
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1. **H.E. Eng. Basim bin Yacob Al Hamer**
Minister of Housing, Chairman
2. **Mr. Mohammed A.R. Hussain Bucheeri**
Vice Chairman and Chairman of Executive Committee (Independent Non-Executive Director)
3. **Dr. Zakareya Sultan Al Abbasi**
Member (Independent Non-Executive Director)
4. **Mr. Yusuf Saleh Khalaf**
Independent Non-Executive Director and member of the Audit Committee
5. **Mr. Yousif Abdulla Taqi**
Member (Independent Non-Executive Director)
6. **Mr. Riyadh Saleh Al Saei**
Independent Non-Executive Director, Vice Chairman of the Executive Committee, and Member of the Remuneration, Nomination and Corporate Governance Committee
7. **Ms. Rana Ebrahim Faqihi**
Independent Non-Executive Director and member of Executive Committee
8. **Mr. Kamal Murad Ali Murad**
Independent Non-Executive Director and member of Executive Committee
9. **Mrs. Najla Mohammed Al Shirawi**
Independent Non-Executive Director and member of Audit Committee

The BOD full profiles are detailed in Pillar-III - Disclosures Section.

Chairman's Statement

On behalf of the Board of Directors, it gives me great pleasure to present the annual report and consolidated financial statements of Eskan Bank for the year ended 31 December 2015.

I am happy to report that Eskan Bank has posted positive financial results for 2015, with continuous growth in mortgage loan portfolio and progress on social and affordable housing initiatives. Total net income for 2015 was BD11.4 million, compared to BD10.5 million the previous year and total equity stood at BD221.9 million, down slightly from BD228.1 million in 2014, while the return on equity stood at 5.3%. Total expenses increased by 7% compared to the previous year as the Bank absorbed the cost of disbursements relating to an early retirement scheme, while total income grew by 8%.



H.E. Eng. Basim Bin Yacob Al Hamer

The Bank's total balance sheet fell slightly to BD597 million at the end of 2015, compared to BD611 million at the end of the previous year, but our capital adequacy ratio improved to 117%, and, while the Bank's balance sheet continues to boast healthy liquidity, liquid assets dropped by 27% compared to 2014 mainly due to the lower level of borrowing during the year.

With our national strategy now largely accepted by the private sector, we look forward to slowly transitioning Eskan Bank into playing a primarily consultative/catalyst role, supporting private sector initiatives that will take on more and more of the responsibility for the provision of social housing. For this plan to be successful, the quality needs of the public must be met, which is where the experience and knowledge of the Bank is most valuable. Our achievements this year included several milestones on the road towards achieving these aspirations, with Danaat Al Madina, Danaat Al Seef, Danaat Al Riffaa, and suchlike serving as a model for future developments of its kind by both the private and public sectors. We look forward to further successes in the year ahead.

On behalf of the Board of Directors, I take this opportunity to convey our gratitude to His Majesty King Hamad Bin Isa Al Khalifa, the King of The Kingdom of Bahrain; to His Royal Highness Prince Khalifa Bin Salman Al Khalifa, the Prime Minister; and to His Royal Highness Prince Salman Bin Hamad Al Khalifa, the Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister, and Chairman of the Economic Development Board; for their wise leadership and visionary reform.

I would also like to thank the Government of Bahrain, for its confidence and support and to acknowledge the close cooperation, professional advice and guidance received from its various ministries and official bodies. These include the Ministry of Finance; Ministry of Housing; Ministry of Industry and Commerce; Ministry of Justice, Islamic Affairs and Endowments; Ministry of Municipalities and Urban Planning; Ministry of Works; the Electricity and Water Authority; the Economic Development Board; Survey & Land Registration ; the Tender Board and all Municipalities.

With our national strategy now largely accepted by the private sector, we look forward to slowly transitioning Eskan Bank into playing a primarily consultative/catalyst role, supporting private sector initiatives that will take on more and more of the responsibility for the provision of social housing.

In closing, I would also like to express my appreciation to our management and staff for their strong commitment and dedication; to our business partners for their support and encouragement; and, above all, to our customers for their loyalty and trust in our efforts.



H.E. Eng. Basim Bin Yacob Al Hamer
Minister of Housing,
Chairman of Eskan Bank

General Manager's Report



This past year saw Eskan Bank, under the directives of H. E. the Minister of Housing and Chairman of the Board, make unprecedented strides towards achieving the Ministry of Housing goal to provide homes for all 40,000 people on the Government's waiting list, as envisioned by His Majesty King Hamad bin Isa Al Khalifa.

The steps, which we initiated back in 2014 with the launch of Danaat Al Madina, have now gathered pace, giving us an incredible forward momentum that has carried us through 2015, and will ensure even greater success in 2016 and beyond.

The introduction of private sector involvement in affordable housing projects is a key ingredient in a winning formula for the future of the sector, which we have created with the help and guidance of our partners in the Ministry of Housing. By engaging investors, we have been able to open up an entirely new and highly profitable market, which will not only be good for business, but will have a wide-reaching trickle down effect on the overall economy.

Dr. Khalid Abdulla

The launch of Danaat Al Madina, Bahrain's largest affordable residential mixed use project to date, showed beyond a doubt that it is possible to both give the people of Bahrain what they want in terms of comfort and privacy, and ensure financial sustainability at the same time. The project was almost completely sold out by year end, and its success encouraged private developers to approach us for advice on how they can modify their own business models to accommodate social housing within their project portfolios. It also allowed us to expand our "Danaat" brand with the addition of Danaat Al Seef and Danaat al Riffa, both of which are scheduled for completion in 2016, and Danaat Al Yufur and Danaat Al Lawzi, which will begin construction this year. We have also attracted a record number of private-sector partnerships to deliver more than 1,000 further units.

The result of all this is that financiers are now very willing to lend their money to social housing, both by financing Eskan Bank itself, and the beneficiaries on the waiting list, further proof of the business community's confidence in our national plan.

Another key goal of the Bank is to reduce the burden on government budgets by refocusing the majority of housing development work to the private sector. Public funds can then be more efficiently utilised to deliver better essential government services to the public, an especially important deliverable given the challenging economic circumstances of our times. We also continued to strengthen our relationships with the Ministry of Housing and other government bodies. This synergy will further improve the efficient management of resources, leading to profound economic benefits for the Kingdom as a whole. In the long run, we aim to become a net contributor to the government budget rather than relying on it.

With respect to our primary customers, private Bahraini citizens seeking social housing, we are continually upgrading our services to make it easier for them to enjoy our services. For example, last year we worked with the government to pass new regulations which would enable beneficiaries of Eskan Social Loans to benefit from competitive top up mortgages from any participating bank on a pari passus basis, which simultaneously opened up a new business line for private banks, made mortgages more affordable, and helped trim the government's waiting list.

Streamlining our operations to focus on our core mandate, we have assumed a greater role in the processing of Mazaya applications (previously the Social Housing Finance Scheme) by assisting the Ministry of Housing, and are currently working towards the introduction of automation of process procedures for further efficiency.

Already our new systems have reduced the time from application to loan disbursement from four weeks to just 15 days. Adopting an Electronic Fund Transfer System has

Another key goal of the Bank is to reduce the burden on government budgets by refocusing the majority of housing development work to the private sector.

resulted in quicker transactions and improved transparency for customers. Implementing the Bahrain Cheque Truncation System has enabled the Bank to identify beneficiaries who were struggling with their repayments and help them by rescheduling their loans to more manageable levels.

As a forward-looking enterprise, we are also committed to sustainable, environmentally friendly building practices which will pay rich dividends in the long term. 18 Villas, being developed by Eskan Bank, incorporate solar power and LED lighting and water heating, which is not just good for the environment, but also benefits residents in the form of smaller electricity bills, and the Government by lowering overall energy consumption.

As the nation's housing bank, we vow to continue to work with all stakeholders to overcome any and all challenges that come our way. With the steady support of the Government and private sector; the guidance of our Chairman and Directors; and the professionalism and expertise of our management and staff, our future success is virtually assured, and we move forward with confidence towards achieving our common targets. Above all, our responsibility lies in serving the people of Bahrain, and we remain committed to our goal of providing affordable quality housing for all Bahrainis.



Dr. Khalid Abdulla
General Manager



His Royal Highness Prince Khalifa bin Salman Al Khalifa during a visit to Eskan Bank stand at the Gulf Property Show 2015

1

Strength through relationships



Concerted efforts by Eskan Bank since 2013 to knit the public and private sectors closer together hit critical mass this year, as developers and commercial banks embraced new opportunities in the affordable housing sector like never before.

Strength through relationships



H.E. Chairman Eng. Basim bin Yacob Al-Hamer in agreement signing ceremony with BBK

Concerted efforts by Eskan Bank since 2013 to knit the public and private sectors closer together hit critical mass this year, as developers and commercial banks embraced new opportunities in the affordable housing sector like never before. Recognising the potential of this untapped and stable market, the private sector is taking on a greater part of this national responsibility, which was previously borne solely by the Government of Bahrain. This new synergy, forged among Eskan Bank, the Ministry of Housing, and a number of private banks, landowners and property developers, is streamlining the process of acquiring new homes, creating a win-win situation for all stakeholders, and above all for the beneficiaries on the national housing waiting list.

Eskan Bank disbursed circa BD 57, 2 million in social housing loans last year, maintaining similar levels as the previous year, only slowing down in the last quarter of 2015. Leveraging its expertise and unique knowledge of the affordable housing sector, Eskan Bank has opened the door to the private sector to deliver the maximum possible benefit to the economy, while reducing the strain on the public sector as much as possible. In the long run, it aspires to transform itself into a self-sustained entity.

'Sharing' the market

It is more important than ever that the burden and reward of economic development are shared by all, with the private and public sectors working hand in hand rather than towards

separate agendas. Eskan Bank recognises the importance of private sector involvement in social housing development, and has evolved new ways to include it.

There are currently around 40,000 beneficiaries waiting for the Ministry of Housing to allocate housing services to them, and without action this number will keep rising with the population growth. To resolve the issue, Eskan Bank now allows higher income beneficiaries, defined as households in which the primary breadwinner's monthly salary is between BD600 and BD1,200, to choose between two further options. Firstly, they can avail of a social loan of up to BD60,000 from Eskan Bank, which they can top up by an extra BD40,000 by seeking market-competitive rates from private sector banks. This arrangement follows the Bank's tweaking of its lending policies to allow for the sharing of its security, i.e., sharing the pledge or the ownership of the title deed with banks that agrees to this "pari-passu" arrangement. This allows social housing beneficiaries to acquire higher price ceiling dwellings while being able to shop around for the best additional mortgage rate from participating banks. It also opens a new business to retail banks which without this new arrangement would not have been possible.

The second option is the Social Housing Finance Scheme (Mazaya), which allows beneficiaries to access government subsidised loans through private banks to buy into approved private sector developments.

With the promotion of Mazaya from a pilot to a key Ministry of Housing service in 2015, more private banks have been encouraged to sign up, and the list of participating banks has now grown to include Bahrain Islamic Bank (BiSB), Al Salam Bank, Kuwait Finance House (KFH), Ahli United Bank (AUB), Al Baraka Bank, Khaleeji Commercial Bank (KHCB), Ithmaar Bank and Bank of Bahrain and Kuwait (BBK), with Eskan Bank acting as administrator.

“It’s a win-win situation for all stakeholders. It opens up the mortgage business for banks for a category they could not serve in the past. For private sector developers, it also opens up a market of end users which used to be served by the Ministry of Housing solely. For customers, the choice of what to buy as a dwelling is no longer limited to what is supplied by the Ministry of Housing making so many more options available. For the government the SHFS helps us tie-in the private sector to reduce the waiting list more effectively. This philosophy of relying on the private sector to contribute to the social housing agenda marks a definite evolution of attitude with the ripple effects being felt at the levels of the entire economy of the Kingdom” explains Ahmad Tayara, Chief Business Officer and Deputy General Manager.

There are also new incentives for private sector banks to lend to Eskan Bank projects following a change in Central Bank of Bahrain (CBB) policies through which the standard 200 per cent risk weight for real estate investment was decreased to just 50 per cent for joint ventures with Eskan Bank on social housing developments. In addition, Eskan Bank has worked to place itself on the Ministry of Finance’s list of sovereign entities, which officially gives the Bank a zero risk weight.

With the number of Social Housing Finance Scheme applicants ballooning from just a handful to some 200 to 300 a month, Eskan Bank took on a new role as their first point of contact, setting up a dedicated customer services operation to receive and filter requests directly instead of rerouting them back to the Ministry of Housing as per the previous process. The application system itself has also been streamlined to become more user-friendly, and the Bank is currently working to automate it further via a seamless electronic communications platform. Bolstering the government’s efforts to promote vertical housing, Eskan Bank is also developing enhancements to the Social Housing Finance Scheme which will make apartment living a more attractive option. One proposal currently under consideration is to waive the down payment on apartments worth BD70,000 so that families can use that money to furnish their homes.



Dr. Khalid Abdulla signing a pari passu title deed sharing agreement with BiSB

Leveraging its expertise and unique knowledge of the affordable housing sector, Eskan Bank has opened the door to the private sector to deliver the maximum possible benefit to the economy.

“This scheme’s success has exceeded all expectations, allowing banks to enter the social housing finance market in which Eskan Bank once had a monopoly. We know exactly what the market requires and we can put developers in touch with thousands of potential buyers with access to the necessary finance, so there is a ready market for their product,” said Samar Wissa, Head of Financial Institutions & Government Relations.

Another established incentive geared specifically to encourage apartment purchases is Eskan Bank’s “Tomoooh” programme, which gained further momentum in 2015. Under the scheme, the Bank advises a new generation of families who cannot yet afford a villa, to start with apartments in selected Eskan properties such as Danaat Al Madina, offering to buy back these apartments at 90 per cent of their market value within seven to ten years. This enables the family to build equity over time and eventually afford their dream home without compromising on lifestyle.

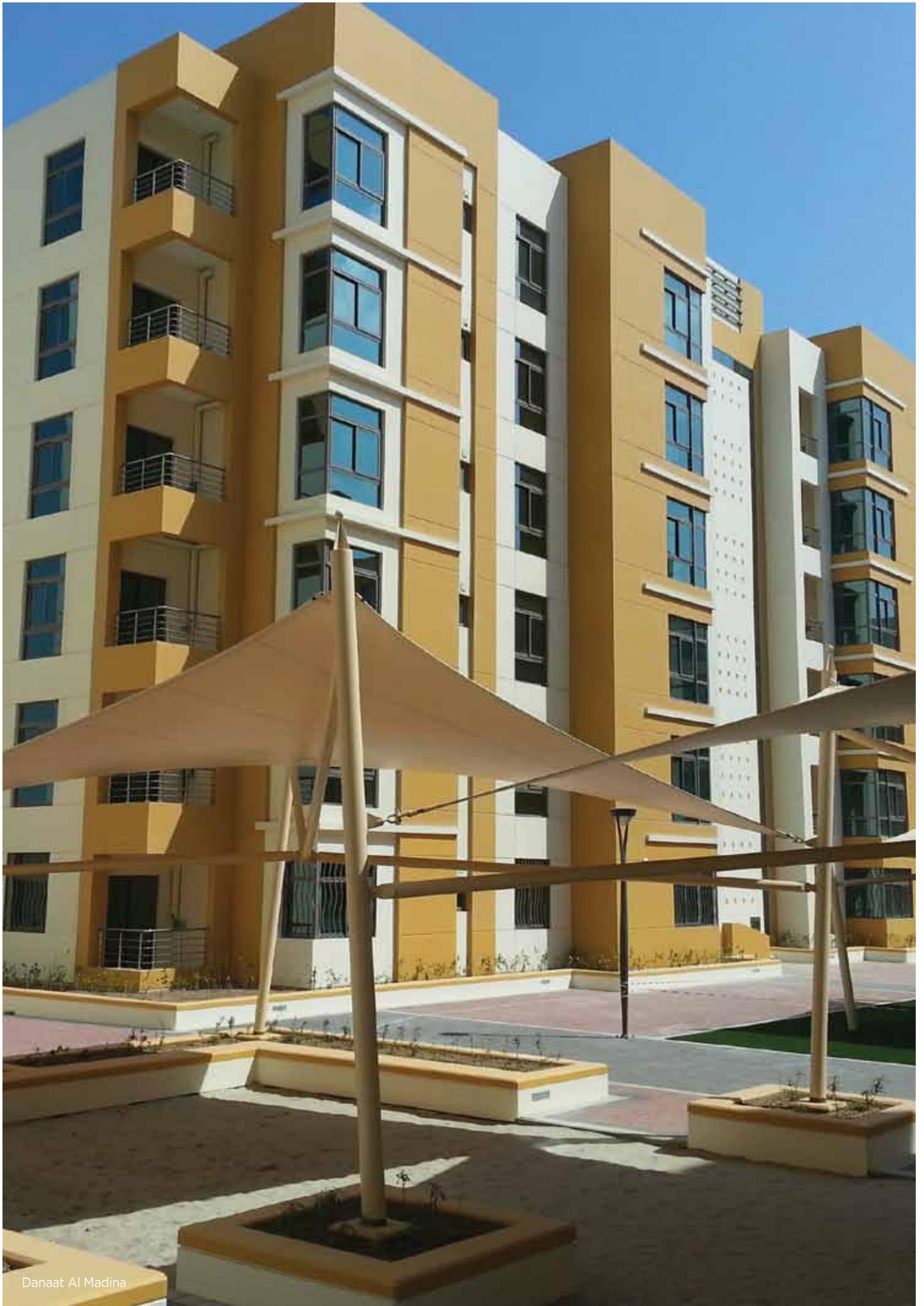
To be closer to its customers and offer them better services, Eskan Bank created new customer touch points this year at two branches of Bahrain Islamic Bank (BiSB) in areas in which it didn’t have a presence, making Eskan services more accessible than ever to customers.

The year ahead

2016 could be the first year Bahrain sees foreign investment in its social housing. Following the successful completion of the Danaat Al Madina project in March 2015, Eskan Bank finds itself in the role of facilitator, linking government initiatives with private sector resources to replicate this success story elsewhere in the Kingdom, and on a larger scale. In 2015, Eskan Bank gauged interest from over 20 groups of international developers and financiers to build large scale projects on government land, which will provide an immediate boost to housing supply.

In a first for Bahrain, Eskan Bank is set to launch a Real Estate Investment Trust (REIT) which will be listed on the Bahrain stock market, offering citizens the opportunity to invest in its developed realty projects and benefit from the rental income generated.

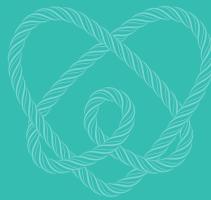
As the synergies among private banks, landowners, the ministries continue to strengthen, quicker and better housing solutions will manifest. As the Kingdom’s housing bank, at the heart of its social housing market, Eskan Bank is perfectly positioned to observe all aspects of the process and advice on best practices and policy changes, a responsibility it takes very seriously in its commitment to serve the Kingdom of Bahrain’s citizens.



Danaat Al Madina

2

The 'Danaat Initiative'



The delivery in March of 324 apartments at Danaat Al Madina was a defining moment for Bahrain's housing industry, demonstrating very publicly the business viability of providing quality homes at prices the majority of the Kingdom's citizens are able to afford.

The 'Danaat Initiative'

The importance of the Danaat initiative cannot be underestimated; it is changing the entire process of developing social housing even as it improves the public's perception towards it.



Danaat Al Madina

Consisting of 2 office buildings and 16 six-storey buildings which incorporate a layout tailored specifically to meet Bahraini families' need for privacy. This 'micro city' offers open areas for neighbours to meet in a community atmosphere, has its own dedicated commercial spaces, and is close to both a major shopping mall and a traditional market. Each spacious three-bedroom unit, complete with a house maid accommodation, storage space and two basement parking spaces each, features a level of quality previously unheard of at this price range.

The homes captured the imagination of home buyers, who snapped up almost all units within the year. Its success also made private banks more willing than ever to finance these types of projects, while encouraging private sector developers to very seriously eye the affordable housing market as a more stable alternative to the luxury properties they have traditionally focused on.

"We delivered a product that changed the way people looked at social housing and immediately cemented our reputation in the market. This was a game changer for us," says Eyad Obaid, General Manager, Eskan Properties Company (EPC).

Brand recognition

With this initial success behind it, the Bank is now working to leverage the value of the 'Danaat' brand across future developments, including the 164-unit Danaat Al Seef and 84-unit Danaat Al Riffa, both of which are expected to be completed during 2016. Work is also set to start on Danaat Al Lawzi and Danaat Al Yufur in Q2 2016, the latter being a joint venture to deliver 200 houses and 300 apartments in the Northern Governorate, with a private sector partner providing land.

"Affordable housing doesn't have to be unattractive. We are offering choice and space by finding the best ways to utilise the resources at our disposal," continues Obaid.

Each new Danaat development is planned to be an improvement over its predecessor. Benefiting from the scale of the various projects, EPC has been able to install top-of-the-range fittings and fixtures at reasonable prices. The new projects will also incorporate air conditioning systems, and are available as two, three and four bedroom configurations. They will feature the same open spaces concept, with play areas and a variety of services available within convenient walking distance.

Becoming green

With an eye on sustainability, the EPC's new building guidelines aim to be as environmentally friendly as possible to ensure lower energy and maintenance costs, requiring LED lighting, solar powered heaters, and the use of double glazed windows and green insulation systems. This is not only good for the environment, but also benefits both the Government, in the form of lower energy demand, and residents in the form of lower electricity bills, which is particularly relevant today as subsidies are being reduced.

Attracting private investment

Property developers and landowners are encouraged by the success of Danaat al Madina as it represents proven demand and an assured return on investment. Witnessing first-hand the very real demand that exists in the market for these homes, various private sector entities have approached both the Bank and EPC to lend the 'Eskan' name and expertise to their projects, an acknowledgement of their growing reputation as authorities in this field.

"Eskan Bank and Eskan Properties Company (EPC) met with the country's major property developers to explain the Ministry of Housing's requirements and approved price range, and found that all of them were interested in developing affordable social units for the beneficiaries of the social housing scheme. We expect this will be the main driver to expedite the clearing of the Ministry's backlog," explains Obaid. "Such development will also engage contractors, building materials suppliers, and banks, and the overall impact on the country's economy will be very positive. It is a matter of pride for us to be able to facilitate this growth."

"2015 saw a record number of private sector tie-ups. In some cases, Eskan Bank is serving as development manager for projects in which we have no equity stake at all. For example, there are around 733 units in Hamala and many other projects in the pipeline which will be funded by the private sector as equity providers and landlords contributing land. Our contribution is only through our people, knowledge, and experience. This is the ultimate efficiency," Obaid remarks.



Corner offices Danaat Al Madina



Danaat Al Riffa

The Bank is also working to develop major housing projects in conjunction with the Ministry of Housing. A BD 280 million project in Busaiteen will see 4,000 units delivered in phases, and work is expected to begin in Q1 2017.

Other projects

With Danaat Al Madina nearly sold out, EPC has been handed a new set of responsibilities, staying on to provide property and facility management services such as security and maintenance.

"With the scale of the project being as large as it is, providing these services is a massive undertaking," says Mr. Obaid. "The community retail development alone consists of over 200 shops for us to manage. As we complete and handover more developments, the requirement for these services is only going to grow, so we are restructuring our property management department to accommodate this future demand and may even set up a separate company to handle it under the EPC umbrella."

The importance of the Danaat initiative cannot be underestimated; it is changing the entire process of developing social housing even as it improves the public's perception towards it. The reputational boost it provides will allow Eskan Bank to pass on most of its development work to private sector partners, while focusing its own resources on more strategic initiatives that are set to transform the Kingdom's social housing market in the years and decades to come.



H.E. Deputy Prime Minister Sheikh Khalid bin Abdulla Al Khalifa and H.E. Chairman Eng. Basim Bin Yacob Al Hamer in Gulf Property Show 2015

3

Doing more with less



Enriched with information from key Eskan Bank departments, the system will integrate various processes, thereby reducing the time from loan application to disbursement by half, from approximately one month to 15 days.

Doing more with less



Customer service stand at BIPEX

A 40,000-strong Ministry of Housing waiting list, growing by approximately five to six thousand every year, ensures that there will be no shortage in the demand for social housing services in Bahrain for many years to come. With loan disbursements totalling 57 million during 2015, and Social Housing Finance Scheme recipients growing threefold, the magnitude of Eskan Bank's mandate demands the most efficient processes available, both to serve customers, and stretch resources at a time of increasing fiscal strain.

Efficiency enhancements and customer care

Eskan Bank is proud to report that a major restructuring and introduction of new systems have enabled it to manage this additional volume without any extra costs and with a smaller workforce. An early retirement scheme reduced monthly salary expenses, while organisational reshuffling brought about departmental mergers, employee reassignments and new technologies that made up for the lower staffing levels with enhanced policies and better operational efficiencies.

In November, Eskan Bank became one of the first banks to switch to the new Electronic Fund Transfer System (EFTS) operated by Benefit, Bahrain's national ATM and point of sale switch. A requirement of the Central Bank of Bahrain (CBB), the new process more efficiently handles

fund transfers, with no manual intervention required. Customers can send and receive payments faster and are kept informed of the status of their transactions via SMS messages. Lower costs resulting from the upgrade have also been passed onto customers, allowing some to reduce past dues. Meanwhile, an auto-processing feature helped clear 1,800 post-dated cheques during 2015. Inputted as data up to three years in advance, the Bahrain Cheque Truncation System automatically clears the cheques as they become due, replacing the previously manual process. Such efficiencies also help commercial banking partners which have been approved to provide top up loans to complement Eskan Bank's financing. This allows the Bank to focus its own resources on less routine, value-added tasks such as improved customer care.

"Commercial banks were earlier hesitant to come onboard, but seeing the high customer numbers we are able to efficiently process has reassured them. Mortgages were previously not a very big business in Bahrain, but our new partnerships with local banks is encouraging more people to use them to top up their government subsidised financing," says Chief Operating Officer, Aref Qamber.



Dr. Khalid receives Information Security Management Certificate

Unlike commercial institutions however, Eskan Bank provides a public non-profit service to the citizens of the Kingdom. Although they are expected to pay back their dues, as a semi-governmental organisation, Eskan does its best to accommodate individual needs. Retirees, for example, are able to get their loans rescheduled to be aligned with their lower pension incomes. A core banking system handles these requests, while also keeping track of defaults, which currently number at approximately 1,300 cases. Non-performing loan issues are resolved by providing rescheduling as an incentive to defaulters who show a genuine effort to pay.

Future enhancements

The core banking system is now being upgraded in a bid to further improve efficiency in 2016. The Bank appointed a new IT team, charging it with the responsibility of managing the introduction of a more advanced platform. Lebanese banking software specialist BML Istisharat was appointed to

install and rollout the new solution, which was undergoing gap analysis at the end of the reporting period and is expected to be live by the middle of 2016.

“Enriched with information from key Eskan Bank departments, the system will integrate various processes, thereby reducing the time from loan application to disbursement by half, from approximately one month to 15 days,” says Head of Information Technology, Aqeel Mayoof.

Eskan Bank is confident that these ongoing enhancements will increase its capacity to a level where it can comfortably absorb growing customer demand.

“We may be able to further double or treble our volume. This is vital given the challenging backlog we face, but also with more units now being developed by the private sector, we need to have the capacity to take on more loans. The new system will help us with that,” adds Head of Operations, Deepak Patel.

Internal improvements

Eskan Bank’s internal systems were also enhanced in several ways during 2015, including through the introducing new paperless, interactive and transparent processes that are

Eskan Bank is proud to report that a major restructuring and introduction of new systems have enabled it to manage this additional volume without any extra costs and with a smaller workforce.



Dr. Khalid presenting a GCC Best Employer Award to H.E. Chairman Eng. Basim Al Bin Yacob Al Hamer

lowering costs, and at the same time improving productivity and working relationships. An employee satisfaction survey found a high level of contentment among a sample of more than 65% of the Bank’s employees. Covering career development, working culture, and the effect of the ongoing restructuring, among other important matters, the survey’s findings are now being translated into tangible actions.

A new talent management system keeps track of each employee’s career development requirements, as well as succession planning. A greater focus on customer care has meant that more resources have been diverted towards creating a people-oriented organisation.

“The atmosphere has continued to improve. There is more engagement of staff, better transparency and ultimately higher productivity. This wasn’t felt as strongly in the culture before. Our people feel empowered, with a real sense of purpose,” remarks Head of Human Resources & Administration, Adnan Janahi.

Social Responsibility - Eskan Bank Award for Creative Engineering

Innovation in improving efficiency

The annual 'Eskan Bank Award for Creative Engineering', initiated by the Bank in 2013 in cooperation with University of Bahrain, aims to cultivate a spirit of constructive competition, extend the horizons of creativity and innovation of young minds and encourage youth involvement in national housing and urban developments.

Based on the highest professional standards, the award is granted to distinguished student entries from various engineering specializations in the University of Bahrain. The competition is held annually to encompass various themes pertaining to the latest developments in architectural design and modern construction techniques, aimed towards meeting the goals of sustainable development in order to fulfil the housing needs of the Kingdom of Bahrain.

This year's second edition of the award, entitled "The Sustainable Affordable House for Bahrain", specified sustainability as a major element, with an emphasis on innovative designs, including row housing, detached and semi-detached type units. We believe that efficiency in

design and construction should go hand-in-hand with sustainability, to allow the current generation to enjoy comfortable, pleasant lifestyles, in homes that are of high standard, while, at the same time, preserving land, energy and other natural resources for future generations.

According to the contest's judges, the designs submitted presented solutions in a variety of innovative ways, while also fulfilling area, cost, design and efficiency requirements. Eskan Bank makes the students' designs available to its customers, the beneficiaries of the Government's housing services. They are posted on the Bank's website so they can be viewed by potential home owners, who can choose to utilise them in designing their units.

The completion of this second edition of the Award for Creative Engineering marks a further step towards the strengthening of our relationship with the University of Bahrain. We are both proud and happy with this joint effort, which is a great opportunity to encourage young minds to come up with constructive ideas, and to recognise innovative thinking as an important building block in our nation's future.



Three categories were judged, with the winners being: Mohammed Salim Al-Yahya (Raw Housing award); Samaa Mahdi Abdulla (Detached Housing award); and Ayat Abdulmahdi Mirza (Semi-Detached award).

Dr. Khalid Abdulla and Ahmed Tayara at the University of Bahrain Exhibition showcasing participating student projects for the Eskan Bank Award



Project portfolio



Eskan Bank housing projects

Danaat Al Medina mixed-use project

Danaat Al Medina is a very unique Mixed Use Project in the Kingdom of Bahrain; Danaat Al Medina has created a true high quality living community, with 16 six storey residential buildings with 324 apartments, 4,400m² of leasable retail space, 2 office buildings, spacious green atriums, and walking plazas intelligently and seamlessly integrated to allow for the adequate amount of privacy while still enhancing the social life of the inhabitants.



→

Segaya Plaza

100% of residential and commercial units in Segaya Plaza leased since June 2014.



↓

Danaat Al Lawzi

Reclamation of the land was completed in January 2016 and preparations for the construction of 200 villas and 299 apartments are in progress.



↓

Danaat Al Seef

The development, strategically located within the Seef Area (facing Al Salam Bank HQ) will consist of 10 residential buildings that include 164 apartments.

↓

Danaat Al Riffa

The development, located at El Istiqlal Avenue will consist of 3 residential buildings that include 84 apartments.



Subsidiaries, Associates and Strategic Investments

Subsidiaries:

Eskan Properties Company (Wholly-owned subsidiary of Eskan Bank)

The Bank's property development and investment activities embrace real estate investment, funding, and property management; and raising finance to support the construction of social and affordable housing units, community projects and commercial projects.

Through its wholly-owned subsidiary, Eskan Properties Company, the Bank implements its strategic commitment to be a major developer of social and affordable housing, and community related commercial projects, to support the Ministry of Housing's objectives and the social agenda of Bahrain's Economic Vision 2030.

Eskan Properties Company aspires to be an innovative leader in real estate development within Bahrain and is committed to social betterment of Bahraini citizens through the impact of its operations. Its vocation is to manage the development of real estate projects, owned by the Bank or by third parties, through professional service agreements. Together with the Bank, Eskan Properties Company aims to attract landowners, investors and government institutions to commission real estate development together with associated financial services.

Jointly with Eskan Bank, the Company provides full development solutions to process all kinds of real estate projects, from urban development; mixed use projects; residential, office and service projects. Emphasis is placed on projects that will create medium to low cost housing or apartment units that will benefit from the low and medium loans provided by Eskan Bank, and also with additional commercial mortgages, providing a holistic affordable solutions.

Eskan Properties Company employs a highly motivated team of industry professionals with a wide network of international consultants and contractors.

Its services include: Project identification; land assessment and business model preparation; the management of feasibility studies; the design process; government approvals; contractors assignment; development management; quantity survey and the sales and marketing process. Once projects are completed, property management and facilities management services can be offered.

The formation of Eskan Properties Company has enabled Eskan Bank to move from a financial facilitator to a far more pro-active role in serving the affordable home-ownership needs of Bahrain.

It commenced operations in April 2007 and to date has managed several substantial projects from concept and design stage through to completion and handover including Segaya Plaza and numerous community-based projects across the Kingdom. It is currently the driving force behind the Danaat Al Madina development.

Danaat Al Lawzi (B.S.C.)

Danaat Al Lawzi was established in 2014, Eskan Bank owns 55.88%, which is registered in the Kingdom of Bahrain and whose principal activities include management and development of private property, buying and selling of properties on behalf of the Company and property development, leasing, management and maintenance.

Associates:

Ebdaa Bank

(20 percent shareholding by Eskan Bank)

Ebdaa Bank was established in 2009 to provide micro-financing for low-to-middle income Bahrainis who are unable to secure commercial banking loans, to help them start new businesses and become financially independent.

Strategic Investment:

Naseej

Eskan Bank is a founder shareholder of Naseej, which was established in 2009 by prominent private and public sector investors as a pioneering catalyst for addressing the affordable housing needs of the Kingdom of Bahrain. In January 2012, Naseej signed a concession agreement for a historic BD 208 million public-private-partnership (PPP) with the Ministry of Housing for the construction of more than 4,000 social and affordable housing units, which will help to alleviate the Kingdom's housing shortage.

In a notable development in 2013, Naseej finalized a financing agreement for BD 450 million that brings together public and private entities to deliver social and affordable housing solutions to Bahrain's growing housing challenges.

Eskan Bank holds a 3 percent stake in Naseej as a strategic investment aligned with the mutual objectives of both institutions to support the development of affordable housing solutions.



Eskan Bank Executive Management Team

Dr. Khalid Abdulla
General Manager

Mr. Ahmad Tayara
Chief Business Officer and Deputy General Manager

Mr. Aref Gamber
Chief Operating Officer

Mr. Tariq Al Jalahma
Head of Retail Banking

Mrs. Samar Agaiby
Head of Financial Institutions and Government Relations

Ms. Parween Ali
Head of Sales and Marketing

Mr. Adnan Fathalla Janahi
Head of Human Resources and Administration

Mr. Muhammed Saeed Butt
Head of Financial Control

Mrs. Prita Tauro
Head of Risk Management

Mr. Deepak Patel
Head of Operations

Mr. Aqeel Mayoof
Head of Information Technology Management

Mr. Hani Abdul Mahdi Jasim Nayem
Head of Internal Audit

Mrs. Haifa Al Madani
Head of Legal and Corporate Secretary

Mrs. Hana Buhejji
Senior Manager of Public Relations and Corporate Communications

Mr. Fadhel Asbool
Treasury Senior Manager

Mr. Fadhel Al Hashemi
Manager of Remedial & Collection

Executive Management
Eskan Properties Company (EPC):

Mr. Eyad Obaid
General Manager

Mrs. Amal Al Aradi
Head of Property Management

Mr. Orabi Mohammed
Senior Project Manager

Note: The Management team full profiles are detailed in Pillar-III Disclosures Section.



Risk Management

Risk Management

Eskan Bank gives significant priority to risk management, and seeks to manage appropriately all risks attendant to its activities. Risk management involves the identification, analysis, evaluation, acceptance and management of all financial and non-financial risks that could have an adverse impact on the Group's performance and reputation. The principal risks inherent in the business are credit risk, project investment risk, market risk, liquidity risk and operational risk. These risks are highly interdependent, and events that affect one area can have adverse implications for one or more of the other risk categories.

The Management of the Bank continues to accord the highest priority towards maintaining and improving the ability of the Bank to identify, measure, monitor and control these specific risks, and the overall risk profile of the Bank. Further, in accordance with the growth in its business lines, the Bank has continued to evolve, widen and intensify the risk management function to cover not only the traditional areas of subsidised loans (social loans), but also those of non-subsidised residential mortgage loans, property development and Islamic finance. Consequently, risk management systems with a greater degree of sophistication have been implemented.

A formal structure has been evolved for managing those risks to which Eskan Bank is exposed. This is based on detailing and documenting various risk policies and procedures; the establishment of a Risk Management division staffed by appropriately qualified and experienced personnel to set policies and limits consistent with the Bank's risk appetite, and to provide an overview in relation to risk management and control; and a Committee structure comprising senior management functionaries to support the management of risk within the Bank. In addition to these management committees, overview of risk management and controls is provided by the Audit Committee on behalf of the Board of Directors. During 2014, the Bank continued to review on an ongoing basis, the implementation of various prudential norms; developed new procedures; and reviewed a suite of existing policies and procedures to better fit the Bank's risk appetite and comply with regulatory requirements.

Credit Risk

Credit Risk is the risk of a potential financial loss due to the failure of counterparty to fulfil its financial obligation. The building blocks put in place for effective management of credit risk comprise the following:

- **Credit Policies and Procedures**

The Risk Management division is guided in its functioning by relevant policies and frameworks that have been documented and approved by the Board of Directors of the Bank. Procedures complementing these, to ensure proper controls are in place, have been approved by the Management.

- **Credit Approving Authority**

The credit approving authority has been defined and documented in the Credit Policy manual and by an Authority Matrix, approved by the Board. Delegation of authority is dependent both on the hierarchical seniority of the approver and on the risk of the transaction, as demonstrated by its size and conformity with approved normal policy. Higher risk exposures require sanction by the Board of Directors.

- **Prudential Limits**

Prudential limits are also in place for exposure to borrowers and sectors, which helps in mitigating credit concentration risk. To mitigate the risk of concentration of placement with any one bank, limits for interbank placements have been approved for each bank, which are monitored on a daily basis.

Project Investment Risk

Project Investment Risk is the risk of potential loss arising from Bank's investment in property development projects. The Bank is primarily into development of social housing projects and community buildings on its own lands which are received by the government in the form of grants. Lately the Bank has also entered into joint ventures with private



developers to build social housing projects. The approval for the investment proposals are guided by the Authority matrix and Property Development framework, approved by the Board. Higher risk exposures require approval of the Board of Directors. The Bank also has instituted formal procedures for the appointment of external parties to the project which is compliant with the Tender Board regulations. The property development activity is managed through the Bank's subsidiary Eskan Properties Company. The Risk Management division is guided in its functioning by relevant policies and frameworks that have been documented and approved by the Board of Directors of the Bank.

Market Risk

Market risk is defined as the potential loss in value or earnings from changes in the value of financial instruments. At present the Bank does not have a trading portfolio or foreign exchange exposure, and therefore no exposure to market risk. In addition, the Bank does not have any foreign exchange risk, does not deal in commodities, and does not engage in off-balance sheet transactions.

Liquidity Risk

Liquidity risk is the risk of the Bank being unable to meet its liabilities when payments are due, assessed under normal and stress conditions. The Bank has instituted comprehensive asset and liability management practices to achieve its objectives of effective liquidity risk management. Daily management of the liquidity position is carried out by the Treasury division, which manages the portfolio of liquid assets and contingency funding plans. The Bank's liquidity risk policy provides for the identification, assessment, control and monitoring of liquidity risk. The liquidity risk is closely monitored on an ongoing basis, with Treasury reporting to ALCO meetings to monitor and control the liquidity risk encountered by the Bank.

Operational Risk

Operational Risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes or systems, human error or external events. External events include legal and regulatory risks, disasters and infrastructure failures, business risks and outsourcing and supplier risks. The Bank's

approach is to ensure business managers identify, assess, prioritise and effectively manage all substantive risks; and that a coordinated, cost-effective approach is adopted. This involves a combination of internal control systems, detailed processes, appropriate insurance cover, and contingency arrangements. The policies and procedures of various departments were reviewed during the year. Further, Operational Risk tools are in place to monitor and manage the operational risks on an ongoing basis throughout the Bank.

Compliance

The Compliance Manager, who reports to the Head of Risk, also has access to the Board of Directors through the Audit Committee, if required. Compliance is responsible for promoting sound compliance practices in the Bank, ensuring adherence to applicable legal and regulatory requirements, and the adoption of high professional standards. The role of the Compliance function is to assist senior management to ensure that the activities of the Bank and its staff are conducted in conformity with CBB regulations and other regulatory requirements; and generally with sound practices pertinent to those activities.



Corporate Governance Report 2015

1. Corporate Governance Policy

Eskan Bank's "the Bank" Board of Directors "the Board" has adopted the Bank's Corporate Governance Policy and business plan. The Board amended the governance policy in compliance with the Corporate Governance Code issued by the Central Bank of Bahrain and the Ministry of Industry and Commerce in 2011. The Board also ensures that the Bank's business is conducted professionally and in accordance with the applicable laws and regulations of the Kingdom of Bahrain. The Remuneration, Nomination and Corporate Governance Committee of the Board is responsible to ensure the effective application of the corporate governance principles within the Bank. The Audit Committee regularly reviews the Bank's policies approved by the Board of Directors.

The Board ensures that training is provided to Board members periodically. The induction program for Directors includes meetings with senior management, visits to the bank's facilities, presentations regarding strategic plans, significant financial, accounting and risk management issues, compliance programs, its internal and external auditors and legal counsel.

2. Shareholder Information

The shareholder of Eskan Bank is the Government of the Kingdom of Bahrain. The Bank was founded with an authorised capital of BD 40 million, and an issued and paid-up capital of BD 15 million. In 2011, the Bank increased its capital upon the Cabinet's approval as per order no. 2113-05. Accordingly, the Bank's capital has reached BD 400 million and the paid up capital was estimated at BD 108.3 million. The increased capital was covered from retained profits available in the Bank.

• Shareholders Notification

The Board of Directors raises decisions that need shareholder approval to the Cabinet in accordance with the Statute of the Bank.

Due to the unique nature of the Bank being fully owned by the Government of the Kingdom of Bahrain, and in pursuance to Legislative decree No. 4 of 1979 with respect to the Establishment of Eskan Bank amended by Law No. 75 of 2006, the Cabinet is the sole authorized party for appointing Board Members, thus the Bank is not required to hold an Annual General Meeting. All key resolutions issued by the Bank which require the approval of an Ordinary or Extra-Ordinary General Assembly shall be subject to Cabinet approval.

• Periodic Reports

Performance and activities reports, as well as financial statements of Eskan Bank are submitted to the Ministry of Housing, Ministry of Finance, Ministry of Industry and Commerce, and the Central Bank of Bahrain.

The Bank is committed to seek the approval of the Tender Board to obtain goods and services with a value exceeding 50,000 Bahraini Dinars in accordance to the Legislative Decree No. 36 of 2002 with Respect to Regulating Government Tenders and Purchases. In addition, the Bank is required to obtain the approval of the Legislation and Legal Opinions Commission on any contracts entered into by the Bank which lead to financial obligations exceeding 300,000 Bahraini Dinars. The Bank is also subject to the supervision of the National Audit Court.

3. Board of Directors Information

• Board composition

Eskan Bank's Board has been appointed by Decree No. 62 of 2011 dated 23 August 2011, and was amended in accordance with Cabinet Edict No. 65, amending Edict 62 of 2011 on re-forming the Board of Directors of Eskan Bank in line with Legislative Decree No. 4 of 1979 with respect to the establishment of the Eskan Bank amended by Law No. 75 of 2006.

On 8 March 2015 the cabinet issued its Decision No.14 for the year 2015 on re-forming the new board of directors for Eskan bank, which stated appointing 8 members of leading Bahraini banking and finance professionals for a period of 3 years eligible for renewal, in addition to the Minister of Housing as the Chairman.

• Board Member's Remunerations

The disbursement of Directors' remuneration (excluding His Excellency the Chairman being a minister) has been determined based on the provisions of Decree No. 19 for the year 2014 with regards to the Remuneration of the Chairmen and Members of Government Boards and Committees, whereby Article (1) of the Decree states that Chairmen and Members of Government Boards and Committees which are established by virtue of a Law, Decree, or Cabinet Decree shall be remunerated with an amount not exceeding BD 8,000 per annum subject to Cabinet approval. Cabinet has set Eskan Bank's Board of Directors remuneration as stated in the letter sent by His Excellency Sheikh Khalid bin Abdulla Al Khalifa, Deputy Prime Minister with regards to the determination of remuneration of the Board of Directors of Eskan Bank which stipulates "the implementation of Cabinet Edict no. 04-1969 which states that the remuneration of BD 8000 shall be paid annually to the Directors appointed within the Boards and Committees of Government Entities of which the nature of their activities result to financial liabilities, subject to the said entities meetings being held annually or periodically".

Aggregate remuneration accrued to be paid to Board members up to 31 December 2015 was BD 64,000.

- **Board Secretary**

The Board is supported by the Board Secretary who provides administrative and legal support to the Board and Board committees. The appointment of the Board Secretary is subject to the approval of the Board and the Central Bank of Bahrain.

- **Director's Roles and Responsibilities**

The Board of Directors is responsible for the overall corporate governance of Eskan Bank, which is in line with CBB corporate governance principles ensuring that the Bank is run in an efficient and effective manner. The Board meets regularly throughout the year and maintains full and effective control over strategic, finance, operational, internal control and compliance issues. The Board's remit includes charting the direction of the Bank, setting objectives, formulating strategy, establishing policy guidelines. The Board has full authority to take decisions on setting annual operating plan and budget, authority levels, major capital expenditure, divestitures, mergers and acquisitions, certain strategic investments, disposal of assets, capital expenditure, review of the financial statements and appointing of external auditors, as well as the implementation of corporate ethics and the code of conduct. The Board is also responsible for monitoring Management and the running of the business according to an agreed framework. The Board is ultimately accountable and responsible for the affairs and performance of the Bank. The resolutions of the Board of Directors shall be valid immediately after their issuance with exception of resolutions relating to matters stated in Article 17 of Eskan Bank's Establishment Law and Articles of Association in which such resolutions shall only be deemed valid after being approved by the Council of Ministers. The Board of Directors in practice has delegated certain duties to the General Manager.

- **Whistle-Blowing Policy**

The Bank has a whistle-blowing policy whereby Management has designated officials to whom employees can approach. The policy provides adequate protection to the employees for any reports in good faith.

- **Code of Conduct**

The Board has approved a Code of Conduct for Eskan Bank Board of Directors. The Board has also approved a Code of Ethical Behaviour for the Management and employees. These codes outline areas of conflict of interest, confidentiality, and best practices. No conflict of interest between the Bank and the Board of Directors has been recorded.

- **Performance Evaluation of Board Members and its Committees**

In accordance with the Corporate Governance Policy, the Board has adopted the performance evaluation models for Board Members performance and Board Committees performance. The Board and its affiliated Committees conducted a performance appraisal for the year 2015.

4. Board Committees

The Board has formed three committees with specific delegated responsibilities which include: the Executive Committee, Audit Committee, and Remuneration, Nomination and Corporate Governance Committee.

- **Board Committees composition, roles and responsibilities**

Executive Committee

Members:

1. Mr. Mohammed Hussein Bucheeri (Chairperson)
2. Mr. Riyad Saleh Al Saei (Vice Chairperson)
3. Mr. Kamal Murad Ali Murad
4. Ms. Rana Ebrahim Faqih

Summary terms of reference:

- The committee is formed with a minimum of three members, which consist mostly of independent non-executive members to be appointed by the Board.
- The Committee shall meet at least quarterly or as frequently as required to perform its role effectively (the Committee held four meetings during 2015).
- Majority of the Members are required to attend the meetings to ensure a quorum.
- Concerned Chiefs, Heads and Managers are invited to attend the meetings (If required).

Summary of responsibilities:

The role of the committee is to assist the Board in carrying out its duties. Therefore the committee is to exercise its roles and responsibilities as required by the terms of reference or assigned by the Board of Directors from time to time.

Corporate Governance Report 2015 continued

Audit Committee

Members:

1. Mr. Yusuf Saleh Sultan Khalaf (Chairman)
2. Dr. Zakareya Sultan Mohammed Al-Abbasi
3. Mrs. Najla Mohamed Al-Shirawi

Summary terms of reference:

- The committee is formed with a minimum of three members, which consists mostly of independent non-executive members to be appointed by the Board.
- A minimum number of four meetings are required to be held each year, (the Committee held four meetings during 2015).
- At least two Members are required to attend the meetings to ensure a quorum.
- General Manager and concerned Chiefs, Heads and Managers are invited to attend the meetings. (If required)

The committee should meet at least twice with the external auditor in the absence of the Bank's executive management.

Summary of responsibilities:

The primary function of the committee is to assist the Board in fulfilling its supervisory responsibilities by reviewing the Bank's financial statements that are to be submitted to the concerned authorities, and reviewing the internal monitoring framework established by the Board of Directors.

Remuneration, Nomination and Corporate Governance Committee

Members:

1. H.E. Eng. Bassim bin Yaqob Al Hamar (Chairman)
2. Mr. Yusuf Abdullah Mohammed Taqi
3. Mr. Riyadh Saleh Al Saei

Summary terms of reference:

- The committee is formed with a minimum of three members, which consists mostly of independent non-executive members to be appointed by the Board.
- A minimum number of two meetings are required to be held each year, (the Committee held two meetings during 2015).
- At least two Members are required to attend the meetings to ensure a quorum.
- General Manager and concerned Chiefs, Heads and Managers are invited to attend the meetings (if required).

Summary of responsibilities:

The purpose of the committee is to recommend human resources policies and procedures for the Bank; assist the Board in reviewing and approving the Bank's policy for the remuneration of employees, directors, Board Committee members, the General Manager, Executive Management and staff; to follow up the policies, rules, and the best practices of corporate governance.

5. Board Meetings and Attendance 2015

The Board of Directors is required to hold at least four meetings during each fiscal year upon the invitation of the Chairman.

A Board of Directors meeting shall be deemed valid if attended by the majority of the Directors in person, provided that the Chairman or Vice Chairman shall attend in person. The Board held four meetings during 2015. The below schedule shows dates of meetings and attendance of Board Members:

- **Board of Directors Meetings During 2015**

Members:	25 Mar. 2015 (1 st Meeting)	13 May. 2015 (2 nd Meeting)	26 Aug. 2015 (3 rd Meeting) (1 st Session)	03 Sep. 2015 (3 rd Meeting) (2 nd Session)	13 Dec. 2015 (4 th Meeting)
HE Eng. Bassim bin Yaqub Al Hamer (Chairman)	✓	✓	✓	✓	✓
Mr. Mohammed Abdulrahman Hussein Bucheeri (Vice Chairman)	✓	✓	✓	✓	✓
Mr. Yusuf Abdullah Mohammed Taqi	✓	X	X	✓	✓
Dr. Zakareya Sultan Mohammed Al-Abbasi	✓	✓	X	✓	✓
Mr. Yusuf Saleh Sultan Khalaf	✓	✓	✓	✓	✓
Mr. Riyad Saleh Al Saei	✓	✓	✓	✓	✓
Mr. Kamal Murad Ali Murad	✓	✓	X	✓	✓
Mrs. Najla Mohamed Al-Shirawi	✓	✓	X	✓	✓
Ms. Rana Ebrahim Faqihi	✓	X	✓	✓	✓

- **Executive Committee Meetings**

The Executive Committee held four meetings during 2015. The below schedule shows dates of meetings and attendance of Board Members:

Members:	28 Apr. 2015 (1 st Meeting)	23 Aug. 2015 (2 nd Meeting)	2 Nov. 2015 (3 rd Meeting)	7 Dec. 2015 (4 th Meeting)
Mr. Mohammed Abdulrahman Hussein Bucheeri (Chairperson)	✓	✓	✓	✓
Mr. Riyad Saleh Al Saei	✓	✓	✓	✓
Mr. Kamal Murad Ali Murad	✓	X	✓	✓
Ms. Rana Ebrahim Faqihi	✓	✓	✓	X

- **Audit Committee Meetings**

The Audit Committee held four meetings during 2015. The below schedule shows dates of meetings and attendance of Board Members:

Members:	25 Feb. 2015 (1 st Meeting)	29 Apr. 2015 (2 nd Meeting)	6 Aug. 2015 (3 rd Meeting)	29 Oct. 2015 (4 th Meeting)
Mr. Yusuf Saleh Sultan Khalaf (Chairperson)	✓	✓	✓	✓
Dr. Zakareya Sultan Mohammed Al-Abbasi	X	✓	✓	X
Mrs. Najla Mohamed Al-Shirawi*	N/A	✓	✓	✓
Mr. Redha Abdulla Ali Faraj*	✓	N/A	N/A	N/A

* Note: With the change in the Bank's Board composition in March 2015, Mr. Redha Abdulla Ali Faraj ceased to be a Board member of Eskan Bank. Accordingly, Mrs. Najla Mohamed Al-Shirawi was appointed as the third member of the Audit Committee.

Corporate Governance Report 2015 continued

• Remuneration, Nomination and Corporate Governance Committee Meetings

The Remuneration, Nomination and Corporate Governance Committee held two meetings during 2015. The below schedule shows dates of meetings and attendance of Board Members:

Members:	08 Apr. 2015 (1 st Meeting)	11 Nov. 2015 (2 nd Meeting)
HE Eng. Bassim bin Yaacub Al Hamar (Chairperson)	✓	✓
Mr. Yusuf Abdullah Mohammed Taqi	✓	✓
Mr. Riyadh Saleh Al Saei	✓	✓

6. Shari'a Supervisory Board (SSB)

The Bank's Board of Directors established a Shari'a Supervisory Board (Shariaa Board) which was formed in May 2009. Upon expiry of sharia board appointment's term in 2015, EB board of directors have re-appointed the existing Sharia Supervisory Board members for a period of 3 years (2016-2018) vide its resolution no. 9/4 for the year 2015 to re-appoint the said board with same expired board members.

Shari'a Supervisory Board (SSB)

Members:

1. Dr. Sh. Nezam Yacouby (Chairperson)
2. Dr. Sh. Abdulaziz Khalifa Al-Qassar
(Vice Chairperson)
3. Sh. Abdalnasser Al-Mahmood
(Executive Member)

Summary terms of reference:

The Shari'a Supervisory Board reviews and approves the Islamic business offered by the Bank to ensure that they are compliant with Islamic Shari'a principles.

• Shari'a Supervisory Board Meetings

The Shari'a Supervisory Board held four meetings during 2015. The below schedule shows dates of meetings and attendance of the Shariaa Board Members:

Members:	24 Mar. 2015 (1 st Meeting)	10 Jun. 2015 (2 nd Meeting)	12 Oct. 2015 (3 rd Meeting)	3 Dec. 2015 (4 th Meeting)
Dr. Sh. Nezam Yacouby (Chairperson)	✓	✓	✓	✓
Dr. Sh. Abdulaziz Khalifa Al-Qassar (Vice Chairperson)	X	✓	✓	✓
Sh. Abdalnasser Al-Mahmood (Executive Member)	✓	✓	✓	✓

• Shari'a Supervisory Board Member's Remuneration

The disbursement of Shari'a Supervisory Board Member's Remuneration has been determined in accordance with Eskan Bank's Board of Director's Resolution No. 9/4 for the year 2015 which states that the remuneration of 10,000 US Dollars is to be disbursed annually to the Shariaa Supervisory Board Members. In addition, BD 2000 per annum is disbursed to Mr. Abdalnasser Al-Mahmood the Shariaa Supervisory Board Executive Member due to the nature of his position which requires him to provide direct and immediate support to the relevant departments of the Bank.

Aggregate remuneration paid to Shari'a Supervisory Board members in 2015 was 12,940 Bahraini Dinars.

7. Management

The Board appointed Dr. Khalid Abdulla in the capacity of General Manager of Eskan Bank, whereby the Board delegated him with the authority to manage the Bank's business. The General Manager is responsible for the day-to-day performance and operations of the Bank, and is supported by a well-qualified and experienced Management Team. The Bank's day-to-day operations are guided by a number of management committees which have been formed by virtue of Administration Decisions with respect to Restructuring of Eskan Bank's Internal Committees issued by the General Manager. Eskan Bank's Internal Committees include the Management Committee, Management Risk Committee, Asset & Liability Management Committee, IT Steering Committee, Social Housing Development Committee, Internal Tender Committee, and Human Resources Committee.

Management Committee

Members:

The Committee shall consist of members with the following designation:

1. General Manager (Chairman)
2. Chief Business Officer & Deputy General Manager
3. Chief Operating Officer
4. Head of Risk Management
5. General Manager - Eskan Properties Company
6. Head of Financial Institutions & Government Relations
7. Head of Financial Control
8. Head of Internal Audit
9. Head of Human Resources
10. Head of Legal Advisory & Corporate Secretary
11. Head of Information Technology
12. Head of Retail Banking
13. Head of Property & Facility Management
14. Head of Marketing
15. Senior Manager - Corporate Communications

The Committee will be chaired by the General Manager who will appoint the Vice Chairperson and the secretary.

Summary of Responsibilities:

The role of the Management Committee is to ensure the proper functioning of the business divisions and support functions of the Bank.

Management of Risk Committee (MRC)

Members:

The Committee shall consist of members with the following designation:

1. General Manager (Chairman)
2. Chief Business Officer & Deputy General Manager
3. Chief Operating Officer
4. Head of Risk Management
5. General Manager - Eskan Properties Company
6. Head of Retail Banking
7. Head of Legal Advisory & Corporate Secretary
8. Head of Marketing
9. Head of Operations
10. Head of Financial Control

The General Manager may appoint any other member upon his discretion. In case of any member's absence, his/her direct successors shall attend on his/her behalf.

The Committee will be chaired by the General Manager who will appoint the Vice Chairperson and the secretary.

Summary of Responsibilities:

The responsibility of the committee is to review and manage the credit, market and operational risks of the Bank, and to recommend on matters brought to it for consideration, including credit proposals for approvals.

Asset and Liability Management Committee (ALCO)

Members:

The Committee shall consist of members with the following designation:

1. General Manager (Chairman)
2. Chief Business Officer & Deputy General Manager
3. Chief Operating Officer
4. Head of Risk Management
5. Senior Manager - Treasury

The General Manager may appoint any other member upon his discretion. In case of any member's absence, his/her direct successors shall attend on his/her behalf.

The Committee will be chaired by the General Manager who will appoint the Vice Chairperson and the secretary.

Summary of Responsibilities:

The function of the committee is to develop and institute an active and integrated approach to managing the Bank's financial position within regulatory and other guidelines on structure and on capital adequacy. ALCO sets and monitors the liquidity and market risk strategy policies of the Bank, as well as reviewing and allocating capacity on the financial position.

Corporate Governance Report 2015 continued

IT Steering Committee (ITSC)

Members:

The Committee shall consist of members with the following designation:

1. Chief Operating Officer (Chairman)
2. Head of Retail Banking
3. Head of Financial Control
4. Head of Information Technology
5. Head of Operations
6. Head of Internal Audit
7. Head of Risk Management
8. Senior Manager – IT infrastructure

The General Manager may appoint any other member upon his discretion. In case of any member's absence, his/her direct successors shall attend on his/her behalf.

The Committee will be chaired by the Chief Operating Officer who will appoint the Vice Chairperson and the secretary.

Summary of Responsibilities:

The committee is responsible for overseeing the IT strategic direction of Eskan Bank; and for providing effective and secure IT services across the Bank through assessing opportunities to practically manage IT resources and knowledge, and acquire best IT solutions to meet the growth of the Bank.

Human Resources Committee (HRC)

Members:

The Committee shall consist of members with the following designation:

1. General Manager (Chairman)
2. Chief Business Officer & Deputy General Manager
3. Chief Operating Officer
4. General Manager - Eskan Properties Company
5. Head of Retail Banking
6. Head of Human Resources
7. Head of Legal Advisory & Corporate Secretary
8. Head of Information Technology

The General Manager may appoint any other member upon his discretion. In case of any member's absence, his/her direct successors shall attend on his/her behalf.

The Committee will be chaired by the General Manager who will appoint the Vice Chairperson and the secretary.

Summary of Responsibilities:

The function of the committee is to provide a forum for consultation and exchange of ideas and decision making, on all matters relating to the planning and management of the Bank's human capital.

Social Housing Development Committee (SHDC)

Members:

The Committee shall consist of members with the following designation:

1. General Manager (Chairman)
2. Chief Business Officer & Deputy General Manager
3. Chief Operating Officer
4. General Manager - Eskan Properties Company
5. Head of Financial Control
6. Head of Internal Audit
7. Head of Financial Institutions & Government Relations
8. Head of Property & Facility Management
9. Head of Marketing
10. Senior Manager - Corporate Communications
11. Head of Risk Management

The General Manager may appoint any other member upon his discretion. In case of any member's absence, his/her direct successors shall attend on his/her behalf.

The Committee will be chaired by the General Manager who will appoint the Vice Chairperson and the secretary.

Summary of Responsibilities:

The Committee serves as a legal entity responsible for the proper functioning of the Property Development function of the Bank, which includes supervising and supporting the activities of the Eskan Property Company in the execution of the strategy in relation to Property Development.

Internal Tender Committee

Members:

The Committee shall consist of members with the following designation:

1. General Manager (Chairman)
2. Chief Business Officer & Deputy General Manager
3. Chief Operating Officer
4. General Manager – Eskan Properties Company
5. Head of Human Resources
6. Head of Legal Advisory & Corporate Secretary

The General Manager may appoint any other member upon his discretion. In case of any member's absence, his/her direct successors shall attend on his/her behalf.

The Committee will be chaired by the General Manager who will appoint the Vice Chairperson and the secretary.

Summary of Responsibilities:

The Committee's role is to approve all internal tender related matters of the Bank which are not subject to the Tender and Auction Board approval, and to ensure their compliance with the Bank's processes and applicable laws and regulations, in addition to ensuring the accuracy and transparency of the selection and awarding process, and that all tenders are evaluated in accordance with the Eskan Bank approved Tender Procedure.

Senior Management Remuneration

The Remuneration, Nomination and Corporate Committee is authorised by the Board to recommend the remuneration policy of the Bank and the remuneration of those senior executives whose appointment requires Board approval.

The Bank's remuneration policies are applicable to all employees including General Manager. The remuneration primarily consists of the monthly salary and allowances.

Aggregate remuneration paid for senior management in 2015 was BD 697,548.

8. Compliance and Anti-money Laundering

Compliance with regulatory and statutory requirements is an ongoing process. The Bank is conscious of its responsibilities in observing all regulatory provisions and best international practices in its functioning. The Bank has established Compliance function in accordance with CBB guidelines. The unit acts as a focal point for all regulatory compliance and for adapting other best practice compliance principles. The Bank continuously strives to improve the level of compliance in all its activities.

Compliance with CBB anti-money laundering requirements and measures forms an important area of the Compliance Function. As per CBB requirements, the anti-money laundering function is regularly audited by the external and internal auditors, and copies of the reports are presented to the Board Audit Committee.

The CBB performs periodic inspections of the Bank's compliance with anti-money laundering regulations.

9. Communication Strategy

The Bank has adopted a Disclosure policy consistent with CBB requirements. The last three years' annual reports are published on the website. The Bank uses a newsletter and emails for the purpose of communicating with its employees on general matters, and sharing information of common interest and concern.

10. Internal Audit role

The role of internal auditor is to provide an independent and objective review of the efficiency of the Bank's operations to help the Board Audit Committee perform its responsibilities effectively. It includes performing a review of the accuracy and reliability of the accounting records and financial reports, as well as a review of the adequacy and effectiveness of the Bank's risk management, internal controls and corporate governance.

The Head of Internal Audit is appointed by and reports directly to the Board Audit Committee.

11. Subsidiaries and Associate Companies

Name/Entity	Headquarter	Legal Status	Percentage	Share value
Southern Area Development Company	Bahraini	B.S.C. (closed)	17.26%	BD 2,250K
Eskan Properties Company	Bahraini	B.S.C. (closed)	100%	BD 250K
Eskan RMBS Company	Bahraini	B.S.C. (closed)	100%	BD 1000
Ebdaa Bank	Bahraini	B.S.C. (closed)	20%	US\$ 1 million
Naseej	Bahraini	B.S.C. (closed)	3%	BD 3.27 million
Daanat Al Lawzi Company	Bahraini	B.S.C. (closed)	55.88%	BD 8,400,900
BPMT holding company	Bahraini	S.P.C.	43%	BD 10.0 million

Shari'a Board of Directors



**Shaikh Dr. Nedham
Mohammed Saleh Yacouby**

- Member of several Shari'a Supervisory Boards around the world
- Member of the Shari'a Supervisory Board for the Accounting and Auditing organization of the Islamic Financial Institutions (AAOIFI)
- Recipient of several Awards in the field of Islamic Finance and Islamic Services
- Doctorate Degree - Hogue University, Bahrain Branch.



**Shaikh Abdul Aziz
Khalifa Al Qassar**

- Professor of Comparative Jurisprudence, Faculty of Shari'a and Islamic Studies, Kuwait University
- Doctorate degree in Comparative Jurisprudence, AL-Azhar University, Egypt
- Member of Shari'a and Fatwa in many number of institutions
- Researcher in Islamic Jurisprudence and Contemporary Financial Transactions.



**Shaikh Abdul-Nasser
Omar Al Mahmood**

- Senior Manager – Head of Shari'a Department at Khaleeji Commercial Bank
- Over 23 years of Experience in Shari'a Audit and Islamic Banking
- Member of several Shari'a Supervisory Boards
- Preparing to obtain PHD from Bolton University of UK
- Master in Business Administration
- B.Sc. in Shari'a and Islamic Studies
- Associate Diploma in Shari'a Control.
- High Diploma in Islamic Commercial Studies from BIBF Institute
- Recognized Trainer at BIBF Institute



SHARI'A SUPERVISORY BOARD REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

12th Jamda Al Oula 1437 BC coinciding 21st February 2016

*In the name of Allah, most Gracious, most Merciful,
Praise be to Allah, and May peace and blessing be upon prophet Mohammed,
his family and companions*

To the shareholder of Eskan Bank

Assalam Alaikum Wa Rahmat Allah Wa Barakatuh

In compliance with letter of appointment, we are required to submit the following report:

During the year ended 31 December 2015, we have reviewed the principles and contracts relating to the transactions and applications conducted by the Bank through Wakala, Commodity Murabaha, Ijara Muntahiya Be Tamleek and Reverse Istisna'a (Islamic Products) carried out by the bank. We have also conducted our review to form an opinion as to whether the Bank has complied with Shari'a Rules and Principles and also with specific Fatwas, rulings and guidelines issued by us.

We believe that ensuring the conformity of the Bank's activities with the provisions of Islamic Shari'a is the sole responsibility of the Bank's Management while the Shari'a Supervisory Board is only responsible for expressing an independent opinion based on our review of the operations of the Bank, and to report to you.

We conducted our review which included examining on a test basis of each type of Islamic products transaction, the relevant documentation and procedures carried out by the Bank in concluding Islamic transactions.

We planned and performed our review whether directly or through the Internal Shari'a Reviewer so as to obtain all information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Bank has not violated Islamic Rules and Principles.

In our opinion:

Contracts, transactions and dealings related to Islamic products entered into by the Bank during year ended on 31 December 2015 that we have reviewed are in compliance with the Islamic Shari'a Rules and Principles.

We pray that Allah may grant all of us further success and prosperity.

Shaikh Dr. Nedham Mohamed Saleh Yacouby
Chairman

Shaikh Dr. Abdul Aziz Khalifa Al Qassar
Vice Chairman

Shaikh Abdul Nasser Omar Al Mahmood
Executive Member

Independent Auditors' Report to the Shareholders of Eskan Bank B.S.C. (c)

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Eskan Bank B.S.C. (c) ("the Bank") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

The Bank's Board of Directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other regulatory requirements

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 1), we report that:

- the Bank has maintained proper accounting records and the financial statements are in agreement therewith; and
- the financial information contained in the Report of the Board of Directors is consistent with the 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 1 and applicable provisions of Volume 6) and CBB directives or the terms of the Bank's memorandum and articles of association during the year ended 31 December 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.



Partner's registration no: 115
10th February 2016
Manama, Kingdom of Bahrain



Consolidated
Financial
Statements
31st December 2015

Eskan Bank B.S.C. (c)

Consolidated Statement of Financial Position

As at 31 December 2015

	Notes	2015 BD	2014 BD
ASSETS			
Cash and bank balances	6	69,328,350	94,410,297
Investments	7	4,756,950	4,756,950
Loans	8	460,092,125	434,770,102
Investment in associates	9	6,911,010	9,110,659
Investment properties	10	31,996,018	42,604,353
Development properties	11	22,219,173	18,592,187
Other assets	12	1,960,326	6,486,261
TOTAL ASSETS		597,263,952	610,730,809
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from financial and other institutions		3,002,875	48,107,183
Government accounts	13	237,808,209	251,459,119
Term loans	14	109,000,000	59,000,000
Other liabilities	15	25,554,884	24,063,726
TOTAL LIABILITIES		375,365,968	382,630,028
EQUITY			
Share capital	16	108,300,000	108,300,000
Contribution by shareholder		1,509,579	19,159,665
Statutory reserve		54,461,896	54,461,896
Retained earnings		50,988,785	39,548,198
Equity attributable to Bank's shareholders		215,260,260	221,469,759
Non-controlling interest		6,637,724	6,631,022
TOTAL EQUITY		221,897,984	228,100,781
TOTAL LIABILITIES AND EQUITY		597,263,952	610,730,809



Basim Bin Yacob Al Hamer
Minister of Housing
Chairman of Eskan Bank



Dr. Khalid Abdulla
General Manager

Eskan Bank B.S.C. (c)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2015

	Notes	2015 BD	2014 BD
Management charges		14,520,403	13,313,932
Interest income	17	2,254,626	2,804,522
Income from investment properties	18	449,853	422,892
Net share of profit of associates	9	1,131,306	159,780
Other income		308,861	540,079
TOTAL INCOME		18,665,049	17,241,205
Staff costs		(4,992,822)	(4,251,976)
Other expenses	19	(1,573,331)	(1,464,694)
Interest expense		(400,280)	(671,964)
Impairment provision on loans	8	(251,327)	(187,414)
Impairment provision on investment in associates	9	-	(185,016)
TOTAL EXPENSES		(7,217,760)	(6,761,064)
PROFIT FOR THE YEAR		11,447,289	10,480,141
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		11,447,289	10,480,141
Attributable to:			
Equity shareholders of the parent		11,440,587	10,482,919
Non-controlling interest		6,702	(2,778)
		11,447,289	10,480,141



Basim Bin Yacob Al Hamer
Minister of Housing
Chairman of Eskan Bank



Dr. Khalid Abdulla
General Manager

Eskan Bank B.S.C. (c)

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

	Equity attributable to Bank's shareholders					Non-controlling interest BD	Total equity BD
	Share capital	Contribution by shareholder	Statutory reserve	Retained earnings	Total		
	BD	BD	BD	BD	BD		
At 1 January 2015	108,300,000	19,159,665	54,461,896	39,548,198	221,469,759	6,631,022	228,100,781
Transfer of land (note 10)	-	338,962	-	-	338,962	-	338,962
Total comprehensive income	-	-	-	11,440,587	11,440,587	6,702	11,447,289
Transfer to Shareholder (note 10 and 12)	-	(17,989,048)	-	-	(17,989,048)	-	(17,989,048)
At 31 December 2015	108,300,000	1,509,579	54,461,896	50,988,785	215,260,260	6,637,724	221,897,984

	Equity attributable to Bank's shareholders					Non-controlling interest BD	Total equity BD
	Share capital	Contribution by shareholder	Statutory reserve	Retained earnings	Total		
	BD	BD	BD	BD	BD		
At 1 January 2014	108,300,000	18,523,651	54,461,896	29,065,279	210,350,826	-	210,350,826
Transfer of land (note 10)	-	636,014	-	-	636,014	-	636,014
Acquisition of a subsidiary (note 5)	-	-	-	-	-	6,633,800	6,633,800
Total comprehensive income	-	-	-	10,482,919	10,482,919	(2,778)	10,480,141
At 31 December 2014	108,300,000	19,159,665	54,461,896	39,548,198	221,469,759	6,631,022	228,100,781

The attached notes 1 to 29 form part of these consolidated financial statements

Eskan Bank B.S.C. (c)

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	Notes	2015 BD	2014 BD
OPERATING ACTIVITIES			
Profit for the year		11,447,289	10,480,141
Adjustments for:			
Net share of profit of associates	9	(1,131,306)	(159,780)
Impairment provision on loans	8	251,327	187,414
Impairment provision on investment in associate		-	185,016
Depreciation	19	318,570	392,967
Operating profit before working capital changes:		10,885,880	11,085,758
Decrease in placements with banks		12,773,149	7,261,239
Increase in loans		(25,573,350)	(34,755,530)
Increase in development properties		(6,068,052)	(1,806,210)
Increase in other assets		(47,806)	(131,035)
Decrease in deposits from financial and other institutions		(45,104,308)	(892,817)
Increase in other liabilities		1,491,158	4,523,056
Net cash flows used in operating activities		(51,643,329)	(14,715,539)
INVESTING ACTIVITIES			
Purchase of equipment		(345,906)	(181,145)
Investment in associate - capital repayment	9	3,330,955	-
Sale of equipment		392	3,615
Acquisition of a subsidiary, net of cash acquired	5	-	(1,232,848)
Net cash flows from (used in) investing activities		2,985,441	(1,410,378)
FINANCING ACTIVITIES			
Proceeds (repayment) of term loans		50,000,000	(6,500,000)
Net movement in Government accounts		(13,650,910)	18,679,884
Net cash flows from financing activities		36,349,090	12,179,884
NET DECREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at 1 January	6	46,818,638	50,764,671
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	6	34,509,840	46,818,638
Non-cash activities			
Development properties (acquisition of a subsidiary)		-	8,845,000
Non-controlling interest (acquisition of a subsidiary)		-	6,631,022
Other liabilities - consideration payable (acquisition of a subsidiary)		-	978,352
Transfer between investment and development properties		2,441,066	715,042
Transfer to the Shareholder	10.2	17,989,048	-
Investment properties (land contribution by the shareholder)	10	338,962	636,014

The attached notes 1 to 29 form part of these consolidated financial statements

Eskan Bank B.S.C. (c)

Notes to the Consolidated Financial Statements

As at 31 December 2015

1 CORPORATE INFORMATION

Incorporation

Eskan Bank B.S.C. (c) ("the Bank") is a closed joint stock company registered and incorporated by Amiri Decree No. 4 of 1979. The Bank operates under a restricted Commercial Banking License issued by the Central Bank of Bahrain ("the CBB"). The Bank is affiliated to the concerned Minister of Housing and its shares are fully owned by the Government of Bahrain in accordance with the Articles of Association, whose provisions shall be deemed as Law according to the establishment law of the Bank.

Activities

The Bank's principal activities include disbursing housing loans to Bahrain nationals as directed by the Ministry of Housing ("MOH"), developing construction projects within the Kingdom of Bahrain and collecting rent and mortgage repayments on behalf of the MOH. Further, the Bank also acts as an administrator for the MOH in respect of housing facilities and certain property related activities. The Bank enters into various transactions in the ordinary course of business related to housing loans, rents and mortgage repayments and property administration. The Bank receives funds from the Ministry of Finance ("MOF") based on annual budgetary allocations for housing loans. The Bank also records certain transactions based on instructions from the MOH and the MOF and decisions taken by the Government of the Kingdom of Bahrain. The Bank's registered office is at Almoayyed Tower, Seef district, Manama, Kingdom of Bahrain.

The consolidated financial statements were approved by the Board of Directors on 10 February 2016.

2 BASIS OF PREPARATION

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and are in conformity with the Bahrain Commercial Companies Law and the CBB and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and the relevant directives.

Accounting convention

The consolidated financial statements have been prepared under the historical cost convention except as modified by the remeasurement at fair value of available for sale investments.

The consolidated financial statements are presented in Bahraini Dinars (BD), this being the functional currency of the Group.

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the consolidated statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in note 26.

Basis of consolidation

The consolidated financial statements comprise the consolidated 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 unrealised profits and losses resulting from intra-group transactions are eliminated in full.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

2 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in the statement of income; and
- Reclassifies the parent's share of components previously recognised in OCI to the statement of income or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

The following are the principal subsidiaries of the Group that are consolidated:

Subsidiaries	Ownership for 2015	Ownership for 2014	Year of incorporation/ acquisition	Country of incorporation/ acquisition
<i>Eskan RMBS Company B.S.C.(c) ('RMBS')</i> RMBS's principal activities are to issue Asset Backed private debt securities for the purpose of securitisation of housing loans.	100%	100%	2007	Kingdom of Bahrain
<i>Eskan Properties Company B.S.C.(c) ('EPC')</i> EPC's principal activities are managing certain investment properties.	100%	100%	2007	Kingdom of Bahrain
<i>Smart Building Materials (SPC)</i> Smart Building Materials (SPC) principal activities are to create the entire value chain to manufacture cost-effective, environmentally efficient homes for the less advantaged.	-%	100%	2009	Kingdom of Bahrain
<i>Danaat Al Lawzi B.S.C Closed</i> Management and development of private property, buying and selling of properties on behalf of the Company and property development, leasing, management and maintenance.	56%	56%	2014	Kingdom of Bahrain

Eskan Bank B.S.C. (c)

Notes to the Consolidated Financial Statements continued

As at 31 December 2015

3 ACCOUNTING POLICIES

3.1 Summary of significant accounting policies

New standards, interpretations and amendments adopted by the Group

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 the new standards and interpretations effective as of 1 January 2015.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. This amendment is not relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual Improvements 2010-2012 Cycle

With the exception of the improvement relating to IFRS 2 Share-based Payment applied to share-based payment transactions with a grant date on or after 1 July 2014, all other improvements are effective for accounting periods beginning on or after 1 July 2014. The Group has applied the relevant improvements for the first time in these consolidated financial statements. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. This is consistent with the Group's current accounting policy and, thus, this amendment did not impact the Group's accounting policy.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. This amendment did not have any impact on the Group.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Group as it does not receive any management services from other entities.

Annual Improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these interim condensed consolidated financial statements. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3; and
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself."

The Group does not have any joint arrangement, thus this amendment is not relevant for the Group and its subsidiaries.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The Group does not apply the portfolio exception in IFRS 13.

3 ACCOUNTING POLICIES (continued)

3.1 Summary of significant accounting policies (continued)

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

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination. In previous periods, the Group has relied on IFRS 3, not IAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment did not impact the accounting policy of the Group.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances held with the CBB and placements with financial institutions with original maturities of less than 90 days. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

Placements with financial institutions and others

Placements with financial institutions and others are financial assets which are mainly money market placements with fixed or determinable payments and placements with financial institutions and others with fixed maturities that are not quoted in an active market. Money market placements are not entered into with the intention of immediate or short-term resale. Placements with financial institutions and others are stated at amortised cost less provision for impairment, if any.

Loans

Loans are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans comprise of social housing loans and commercial housing loans. The Group recognises loans on the date on which they are originated.

Social housing loans represent loans disbursed to Bahraini nationals for the purpose of buying, constructing and repairing houses, based on directives from the MOH.

Commercial housing loans represent loans disbursed to Bahraini nationals in the ordinary course of business in line with the credit policies of the Group.

Loans are stated at amortised cost, less provision for impairment, if any and in the case of social housing loans, subsidies and reductions granted by the Government.

Investments

All Investments are recognised initially at fair value, including directly attributable transaction costs, except in the case of investments recorded at fair value through profit or loss, where transaction costs are expensed in the consolidated statement of comprehensive income.

Following the initial recognition, investments are remeasured using the following policies:

Available for sale investments

Investments are classified as "available for sale" if they are not classified as carried at fair value through profit or loss and mainly comprise of investments in unquoted equity securities.

After initial recognition, investments which are classified as available for sale are remeasured at fair value. Fair value changes are reported as a separate component of equity (other comprehensive income) until the investment is derecognised or the investment is determined to be impaired, at which time the cumulative change in fair value is included in the profit or loss. The losses arising from impairment of such investments are recognised in the profit or loss and are excluded from other comprehensive income.

Government accounts

Transactions with the MOF and the MOH are recorded by the Group as government accounts. Government accounts are non interest bearing and are payable on demand.

Transactions are recorded at the fair value of the consideration received, less amounts repaid or adjustments made as per the instructions of MOF or MOH.

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Notes to the Consolidated Financial Statements continued

As at 31 December 2015

3 ACCOUNTING POLICIES (continued)

3.1 Summary of significant accounting policies (continued)

Deposits from financial and other institutions and term loans

These financial liabilities are carried at amortised cost, less amounts repaid.

Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 valuation: Directly observable quotes for the same instrument (market prices).
- Level 2 valuation: Directly observable proxies for the same instrument accessible at valuation date (mark-to-model with market data).
- Level 3 valuation: Derived proxies (interpolation of proxies) for similar instruments that have not been observed (mark-to-model with deduced proxies).

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial instruments with no active market or where fair value cannot be reliably determined are stated at cost less provision for any impairment.

De-recognition of financial instruments

Financial assets

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

- the right to receive cash flows from the asset has expired; or
- 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:
 - the Group has transferred substantially all the risks and rewards of the asset, or
 - the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

3 ACCOUNTING POLICIES (continued)

3.1 Summary of significant accounting policies (continued)

De-recognition of financial instruments (continued)

Financial liabilities

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

Impairment of financial assets

An assessment is made at the date of each consolidated statement of financial position date to determine whether there is objective evidence that a 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 is recognised for changes in its carrying amount as follows:

Impairment of financial assets held at amortised cost

A financial asset is considered impaired when there is an objective evidence of credit-related impairment as a result of one or more loss event(s) that occurred after the initial recognition of the asset and those loss events have an impact on the estimated future cash flows of the financial asset or group of financial assets and can be reliably estimated.

A specific provision for credit losses, due to impairment of a loan or any other financial asset held at amortised cost, is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The estimated recoverable amount is the present value of expected cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the interest rate at the inception of the credit facility.

The Group considers evidence of impairment for financial assets at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

The carrying amount of the asset is adjusted through the use of a provision for impairment account and the amount of the adjustment is included in the profit or loss.

Financial assets are written off after all restructuring and collection activities have taken place and the possibility of further recovery is considered to be remote. Subsequent recoveries are included in other income. Provisions for impairment are released and transferred to profit or loss where a subsequent increase in the recoverable amount is related objectively to an event occurring after the provision for impairment was established.

Available for sale investments

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of comprehensive income - is removed from equity and recognised in the profit or loss. Impairment losses on equity investments are not reversed through the consolidated statement of comprehensive income; increases in their fair value after impairment are recognised directly in the other comprehensive income.

Impairment of non financial assets

The Group assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount and impairment losses are recognised in the consolidated statement of comprehensive income.

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Notes to the Consolidated Financial Statements continued

As at 31 December 2015

3 ACCOUNTING POLICIES (continued)

3.1 Summary of significant accounting policies (continued)

Impairment of non financial assets (continued)

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed in the profit or loss only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed the recoverable amount nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Offsetting of financial instruments

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

Recognition of income and expense

Income recognition

Revenue is recognised to the extent that it is possible that the economic benefits will flow to the Group and the revenue can be reliably measured. Income earned by the Group is recognised on the following basis:

Management charges

Management charges on social loans is recognised using the effective yield method subsequent to the grace period of six months and is calculated at a fixed rate.

Interest income

Interest income on commercial loans is recognised using the effective yield method, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

Rental income

Rental income from investment properties is recognised on a straight line basis over the term of the lease.

Other income

Other income is recognised when the services are rendered by the Group.

Dividend income

Dividend income is recognised when the Group's right to receive the payment is established.

Employees' end of service benefits

Provision is made for amounts payable under employment contracts applicable to non-Bahraini employees' accumulated periods of service at the consolidated statement of financial position date. Bahraini employees are covered under the General Organization for Social Insurance ("GOSI") scheme and the contributions are determined as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment for financial assets.

3 ACCOUNTING POLICIES (continued)

3.1 Summary of significant accounting policies (continued)

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment in an associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of the net assets of the associate. Losses in excess of the cost of the investment in an associate are recognised when the Group has incurred obligations on its behalf. Goodwill relating to an associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. The consolidated statement of comprehensive 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 comprehensive income. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Group's share of profit or loss of an associate is shown on the face of the consolidated statement of comprehensive income. This is the profit or loss attributable to equity holders of the associate and, therefore, is profit after tax and non-controlling interests in the subsidiaries of the associate.

Distributions received from an associate reduce the carrying amount of investment.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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

Upon loss of significant influence over the associate, the Group measures and recognises any remaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal is recognised in the profit or loss.

Development properties

Development properties consist of land being developed for sale in the ordinary course of business and costs incurred in bringing such land to its saleable condition. Development properties are stated at the lower of cost and net realisable value.

Investment properties

Investment properties are properties held for the purpose of development for rental or capital appreciation or for both. Investment properties are stated at cost, including transaction costs, less accumulated depreciation and any impairment losses. Depreciation is calculated using the straight-line method at annual rates. No depreciation is charged on freehold land. Expenditure subsequent to initial recognition is capitalised only when it increases future economic benefits embodied in the properties. All other expenditure is recognised in the consolidated statement of comprehensive income as an expense when incurred.

Investment properties are derecognised when either they have been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of comprehensive income in the period of derecognition.

Provisions

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

Eskan Bank B.S.C. (c)

Notes to the Consolidated Financial Statements continued

As at 31 December 2015

3 ACCOUNTING POLICIES (continued)

3.1 Summary of significant accounting policies (continued)

Contingent liabilities and contingent assets

Contingent liabilities are not recognised in the consolidated financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is probable.

Contingent assets are not recognised in the consolidated financial statements, but are disclosed when an inflow of economic benefits is probable.

Statutory Reserve

In accordance with the requirements of the Bahrain Commercial Companies Law and the Central Bank of Bahrain regulations, 10% of the net profit for the year is transferred to statutory reserve. The Group may resolve to discontinue such annual transfers when the reserve totals 50% of the issued share capital. The reserve is not distributable, but may be utilised as security for the purpose of a distribution in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

Trade date accounting

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

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

3.2 Prospective changes in accounting policies

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date. The Group is in the process of performing an impact assessment with respect to the classification and impairment assessment of its financial instruments. Further, the Group does not apply any hedge accounting with respect to its financial instruments, therefore the change will not have any impact on the Group.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalises their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method. The Group is still in the process of performing an assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Furthermore, the Group is considering the clarifications issued by the IASB in an exposure draft in July 2015 and will monitor any further developments.

3 ACCOUNTING POLICIES (continued)

3.2 Prospective changes in accounting policies (continued)

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statements of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

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Notes to the Consolidated Financial Statements continued

As at 31 December 2015

3 ACCOUNTING POLICIES (continued)

3.2 Prospective changes in accounting policies (continued)

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively. These amendments are not expected to have any impact on the Group.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements; and
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Management is considering the implications of these standards and amendments, their impact on the Group's financial position and results and the timing of their adoption by the Group.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of assets, liabilities, revenue, expenses and the disclosure of contingent liabilities as of the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements apart from those involving estimates and assumptions, which have the most significant effect on the amounts recognised in the consolidated financial statements.

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, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Classification of investments

Management decides on acquisition of an investment whether it should be classified as fair value through profit or loss or available-for-sale.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the consolidated statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment losses on loans

The Group reviews its individually significant commercial loans at each consolidated statement of financial position date to assess whether an impairment loss should be recorded in the consolidated statement of comprehensive income. In particular, management judgement is required when determining the impairment loss. In estimating the future cash flows, the Group makes judgements about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Impairment of available-for-sale investments

The Group reviews its debt securities classified as available-for-sale investments at each consolidated statement of financial position date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans.

The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

5 ACQUISITION OF A SUBSIDIARY

Acquisition of Danaat Al Lawzi B.S.C (c)

On 27 July 2014, upon satisfaction of all regulatory requirements, the Group invested BD 8.4 million in Danaat Al Lawzi B.S.C (c) ("the Company") acquiring 55.88% of the voting shares of the Company. The acquisition was made by subscribing to the Company's shares worth BD 6.2 million and purchasing shares worth BD 2.2 million from Infinity Capital.

	2015 BD	2014 BD
Accumulated balances of material non-controlling interest	6,637,724	6,631,022
Profit (loss) allocated to material non-controlling interest	6,702	(2,778)

Eskan Bank B.S.C. (c)

Notes to the Consolidated Financial Statements continued

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5 ACQUISITION OF A SUBSIDIARY (continued)

The summarised financial information of the subsidiary is provided below. This information is based on amounts before inter-company eliminations.

	2015 BD	2014 BD
Summarised statement of income for the year ended 31 December:		
Total income	41,623	-
Total expenses	(26,434)	(6,297)
Losses on impairment - net	-	-
Profit (loss) for the year	15,189	(6,297)
Total comprehensive income for the year	15,189	(6,297)
Attributable to non-controlling interests	6,702	(2,778)
Summarised statement of financial position as of 31 December:		
Total assets	15,200,148	15,090,718
Total liabilities	(156,557)	(62,315)
Total equity	15,043,591	15,028,403
Attributable to equity holders of the parent	8,405,868	8,397,381
Non-controlling interest	6,637,724	6,631,022
Summarised cash flow information for the year ended 31 December:		
Operating activities	(219,358)	(6,297)
Net decrease in cash and cash equivalents	(219,358)	(6,297)

6 CASH AND BANK BALANCES

	2015 BD	2014 BD
Cash and bank balances		
Cash	164,224	148,053
Balances with banks	4,124,148	1,109,997
Balances with the Central Bank of Bahrain	3,627,934	1,557,288
	7,916,306	2,815,338
Short term placements (with an original maturity of 90 days or less)		
Placements with banks and other institutions	9,393,534	7,003,300
Placements with the Central Bank of Bahrain	17,200,000	37,000,000
	26,593,534	44,003,300
Total cash and cash equivalents	34,509,840	46,818,638
Placements (with an original maturity of more than 90 days)		
Placements with the Central Bank of Bahrain	34,818,510	47,591,659
	34,818,510	47,591,659
Total cash and bank balances	69,328,350	94,410,297

7 INVESTMENTS

Unquoted	2015 BD	2014 BD
Available for sale		
At 1 January	4,756,950	4,756,950
At 31 December	4,756,950	4,756,950

8 LOANS

	2015 BD	2014 BD
(i) Social loans		
Loans	482,859,659	447,837,248
Less: Provisions for 50% subsidy under Amiri Decree No. 18/1977 (d (v))	(43,879,618)	(37,962,727)
	438,980,041	409,874,521
(ii) Commercial loans		
Gross Loans	22,439,118	25,971,288
Less: Provision for impairment	(1,327,034)	(1,075,707)
	21,112,084	24,895,581
Total loans	460,092,125	434,770,102

Loans stated at a carrying amount of BD 33 million (2014: BD 36 million) are secured as guarantee against the RMBS bonds issued (note 14).

a) Age analysis of past due but not impaired loans

	2015				Total BD
	Up to 30 days BD	31 to 60 days BD	61 to 90 days BD	Above 90 days BD	
Social loans	-	15,845,258	5,062,466	24,856,781	45,764,505
Commercial loans	3,167,023	698,157	467,656	-	4,332,836
	3,167,023	16,543,415	5,530,122	24,856,781	50,097,341
	2014				Total BD
	Up to 30 days BD	31 to 60 days BD	61 to 90 days BD	Above 90 days BD	
Social loans	-	17,473,001	6,059,776	25,790,931	49,323,708
Commercial loans	4,576,448	1,162,929	478,828	-	6,218,205
	4,576,448	18,635,930	6,538,604	25,790,931	55,541,913

None of the above past due loans are considered to be impaired and the credit risk for social loans does not reside with the Group.

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Notes to the Consolidated Financial Statements continued

As at 31 December 2015

8 LOANS (continued)

b) Age analysis of impaired loans

	2015				
	3-6 Months BD	6-12 Months BD	1-3 Years BD	3-5 Years BD	Total BD
Commercial loans	294,837	426,931	641,001	463,162	1,825,931
	2014				
	3-6 Months BD	6-12 Months BD	1-3 Years BD	3-5 Years BD	Total BD
Commercial loans	171,713	227,576	981,329	-	1,380,618

c) Impairment provision for commercial loans

	2015			
	Opening balance BD	Charge for the year BD	Write- backs BD	Closing balance BD
General Provision				
Commercial loans	253,035	-	(39,782)	213,253
Specific Provision				
Commercial loans	822,672	367,856	(76,747)	1,113,781
At 31 December	1,075,707	367,856	(116,529)	1,327,034
	2014			
	Opening balance BD	Charge for the year BD	Write- backs BD	Closing balance BD
General Provision				
Commercial loans	266,038	-	(13,003)	253,035
Specific Provision				
Commercial loans	622,255	362,716	(162,299)	822,672
At 31 December	888,293	362,716	(175,302)	1,075,707

The cost of social loan subsidies, reductions and waivers are charged to the government accounts.

8 LOANS (continued)

d) Social loans

Social loans are stated after writing off the following reductions / waivers:

(i) Under a Cabinet decision issued in April 1992, a reduction of 25% ("1992 Reduction") was granted on monthly instalments with effect from 1 May 1992, and subsequently restricted to social loans granted prior to 31 December 1998.

(ii) On 16 December 2000, an additional reduction of 25% ("2000 Reduction") was granted on monthly instalments for social loans that were outstanding as of 15 December 2000.

In implementing the 2002 Reduction, referred to in (iii) below, the 2000 Reduction was also recalculated in 2002 to apply the reduction only to instalments that were due after 15 December 2000 and not to overdue instalments.

(iii) On 15 February 2002, His Majesty, King Hamad Bin Isa Bin Salman Al Khalifa, announced a waiver of 50% ("2002 Reduction") of the social loans granted.

Management also waived all resultant balances of BD 1,000 and below, as of 15 February 2002 arising from the above reductions and the subsidy mentioned in (v) below. Management have assumed that the 2002 Reduction included borrowers whose loans had been approved on or before 15 February 2002, but not disbursed.

(iv) On 16 December 2006, His Majesty, King Hamad Bin Isa Bin Salman Al Khalifa, announced a waiver of 50% ("2006 Reduction") of the social loans granted.

(v) The provision of this subsidy which was made in earlier years, represents a waiver of 50% of monthly instalments relating to eligible loans covered by Amiri Decree No. 18/1977. The waivers / reductions mentioned in (iv) above have also been applied to the eligible loans.

(vi) On 26 February 2011, His Majesty, King Hamad Bin Isa Bin Salman Al Khalifa, announced a waiver of 25% ("2011 Reduction") on instalments of social loans and a 25% reduction on outstanding balances of mortgage loans.

9 INVESTMENT IN ASSOCIATES

	2015 BD	2014 BD
At 1 January	9,110,659	9,135,895
Capital repayment	(3,330,955)	-
Impairment provision	-	(185,016)
Net share of profit	1,131,306	159,780
At 31 December	6,911,010	9,110,659

The principal associates of the Group are:

Name	Country of Incorporation	Carrying Value	
		2015 BD	2014 BD
Bahrain Property Musharaka Trust Fund	Kingdom of Bahrain	6,911,010	9,110,659
Ebdaa Bank	Kingdom of Bahrain	-	-
		6,911,010	9,110,659

Eskan Bank B.S.C. (c)

Notes to the Consolidated Financial Statements continued

As at 31 December 2015

9 INVESTMENT IN ASSOCIATES (continued)

The principal associates of the Group are (continued):

Name	Nature of activities	Ownership for	
		2015	2014
Bahrain Property Musharaka Trust Fund	Development of two real-estate projects in the Kingdom of Bahrain.	42.98%	42.98%
Ebdaa Bank	Providing micro-financing to low-to-middle income Bahrainis.	20.00%	20.00%

The following table illustrates the summarised financial information of the Group's investment in Bahrain Property Musharaka Trust Fund:

	2015 (unaudited) BD	2014 (unaudited) BD
Summarised statement of financial position		
Current assets*	20,011,535	35,258,440
Current liabilities	(1,695,471)	(11,825,141)
Exclude fair value reserve	(1,178,826)	(1,178,826)
Net assets	17,137,238	22,254,473
Proportion of the Group's ownership	42.98%	42.98%
Group's ownership in equity	7,365,585	9,564,972
Other adjustments	(454,575)	(454,313)
Carrying amount of the investment	6,911,010	9,110,659

* Includes cash and cash equivalents of BD 8,928 thousand (31 December 2014: BD 3,427 thousand).

	2015 (unaudited) BD	2014 (unaudited) BD
Summarised statement of profit and loss		
Total income	3,393,096	985,658
Total expenses	680,775	845,725
Total comprehensive income	2,712,321	139,933
Group's net share of profit	1,165,756	60,143
Other adjustments	(34,450)	155,886
Share of profit for the year	1,131,306	216,029

The Group has no share of any contingent liabilities or capital commitments, as at 31 December 2015 and 2014 related to its associates.

10 INVESTMENT PROPERTIES

	2015 BD	2014 BD
Opening balance at beginning of the year	42,604,353	41,760,348
Transferred from development properties	2,441,066	715,042
Additions during the year (note 10.1)	338,962	636,014
Depreciation charge for the year	(112,981)	(201,730)
Transferred to development properties	-	(305,321)
Transfer to Shareholder (note 10.2)	(13,275,382)	-
	31,996,018	42,604,353

Note 10.1

This represents a capital contribution from the Government of the Kingdom of Bahrain. The land was recognised at its fair value on the date of transfer as determined by independent external real estate valuers.

Note 10.2

During the year, based on the instruction from the MOH, the Bank transferred land worth BD 13.3 million to the shareholder. The corresponding amount has been adjusted from the contribution by shareholder in the consolidated statement of changes in equity.

Investment properties comprise the following:

	2015 BD	2014 BD
Land at Bander Al-Seef	16,856,064	28,584,288
Land at Sanabis	2,571,508	2,528,374
Land at Jaw	1,938,783	1,938,783
Land at Saar	1,903,251	1,903,251
Land at Hamad town	2,045,219	2,045,219
Land at Busayteen	966,962	628,000
Land at Salmabad	109,631	109,631
Land at Isa town	67,160	67,160
Land at Muharraq	23,519	23,519
Land at Safra	99,522	99,522
Land at Zallaq	89,000	89,000
Shops (accumulated depreciation BD 962,532 (2014 BD 849,551))	5,467,399	4,729,606
	32,138,018	42,746,353
Impairment allowance	(142,000)	(142,000)
	31,996,018	42,604,353

The fair value of investment properties, based on independent market valuations, as at 31 December 2015 was BD 176,635 thousand (2014: BD 283,123 thousand). During the year, land with a fair value of BD 339 thousand (2014: BD 636 thousand) was transferred to the Bank by the Government and accordingly has been treated as additional contribution by a shareholder.

The fair value of completed investment properties has been determined on a market value basis. In arriving at their estimates of market values, the valuers have used their market knowledge and professional judgement and did not solely rely on historic transaction comparables.

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Notes to the Consolidated Financial Statements continued

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10 INVESTMENT PROPERTIES (continued)

The valuations were performed by accredited independent valuers with recognised and relevant professional qualifications and with recent experience in the location and category of the investment properties being valued.

The Group's investment properties are categorised in level 3 of the fair value hierarchy as at 31 December 2015 and 31 December 2014. No transfers were made from level 1 to level 2 or from level 1 or level 2 to level 3 during the year ended 31 December 2015 and 31 December 2014.

11 DEVELOPMENT PROPERTIES

	2015 BD	2014 BD
Opening balance at beginning of the year	18,592,187	8,350,698
Acquisition of subsidiary	-	8,845,000
Additions during the year	6,068,052	1,806,210
Transferred from investment properties	-	305,321
Transferred to investment properties	(2,441,066)	(715,042)
At 31 December	22,219,173	18,592,187

12 OTHER ASSETS

	2015 BD	2014 BD
Compensation for transfer of land (note 12.1)	-	4,713,666
Management fee and interest receivable	576,036	614,829
Equipment and other assets (net book value)	670,658	530,733
Receivables	341,876	296,409
Prepayments and advances	155,521	146,137
Staff loans	216,235	184,487
	1,960,326	6,486,261

Note 12.1

This amount represented compensation receivable for the transfer of land owned and held by the Bank to the Ministry of Finance under Law number (39) for the year 2009 that pertained to acquisition of ownership of real estate properties for the public benefit. The Bank was to be compensated by MOF by a similar portion of land once the MOF finalised a master plan for the area. However, as the plan has not been finalised over the course of years passed, the management decided to derecognise the receivable and the corresponding amount has been adjusted from the contribution by shareholder in the consolidated statement of changes in equity.

13 GOVERNMENT ACCOUNTS

The Bank's transactions with the MOH and MOF are recorded in a single account "Government Accounts" and are non-interest bearing. All cash transfers provided by the MOF on behalf of MOH to the Bank are credited to this account. These funds are used for financing housing programs as per Government policy. The Bank also processes various transactions through these accounts based on the instructions of MOH and MOF and the government of Kingdom of Bahrain.

13 GOVERNMENT ACCOUNTS (continued)

These accounts are mainly affected by the following:

- a) Collections, which are mainly monthly budgetary support received from the MOF for disbursement of new social housing loans, reimbursements of project payments processed by Eskan Bank to Contractors, collections relating to MOH houses and rentals from MOH flats;
- b) Reduction decrees issued by the Government from time to time;
- c) Write off and waivers, death benefit write offs; and
- d) Any other payments / transactions undertaken by the Bank on behalf of MOH / MOF in relation to housing projects.

14 TERM LOANS

	2015 BD	2014 BD
Syndicated bank term loan	100,000,000	50,000,000
RMBS bonds	9,000,000	9,000,000
At 31 December	109,000,000	59,000,000

The syndicated bank term loan bears interest repayable monthly at offer rate determined by the syndicate plus a margin of 2.25% (2014: 2.25%). The syndicated bank term loan is repayable semi-annually starting June 2016 to June 2018. The amount is mainly used towards financing disbursements of social loans. However, there is no restriction on the use of this amount. During the year, interest expense amounting to BD 1,793 thousand (2014: BD 1,526 thousand) on the syndicated bank term loan was charged to the Government account.

The RMBS bonds bear interest repayable biannually at BIBOR plus a margin of 1.639% (2014: 1.338%). The RMBS bonds, repayable by October 2017, are secured against certain social loans issued by the Bank (note 8).

	2015 BD	2014 BD
Term loans maturing in less than 1 year	40,000,000	-
Term loans maturing in more than 1 year	69,000,000	59,000,000
	109,000,000	59,000,000

15 OTHER LIABILITIES

	2015 BD	2014 BD
Unearned income for 50% subsidy under Amiri Decree (note 8)	16,739,023	14,347,490
Current accounts	5,181,070	6,256,745
Accrued expenses	1,137,313	1,019,906
Acquisition of a subsidiary consideration payable	301,835	978,352
Employee savings scheme	578,634	496,942
Contractor retentions	575,929	66,769
Employee benefits	204,192	198,930
Accrued interest payable on term loans	298,686	170,855
Other liabilities	538,202	527,737
	25,554,884	24,063,726

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16 SHARE CAPITAL

	Number of shares	2015 BD
31 December 2015		
Authorised ordinary share capital of BD 100 each	4,000,000	400,000,000
Issued and fully paid up ordinary share capital of BD 100 each	1,083,000	108,300,000
	Number of shares	2014 BD
31 December 2014		
Authorised ordinary share capital of BD 100 each	4,000,000	400,000,000
Issued and fully paid up ordinary share capital of BD 100 each	1,083,000	108,300,000

17 INTEREST INCOME

	2015 BD	2014 BD
Interest income on commercial loans	1,858,219	2,123,736
Interest income on placements with financial and other institutions	396,407	680,786
	2,254,626	2,804,522

18 INCOME FROM INVESTMENT PROPERTIES

	2015 BD	2014 BD
Rental income - net	449,853	422,892

19 OTHER EXPENSES

	2015 BD	2014 BD
Depreciation	318,570	392,967
Premises	234,775	285,058
Marketing cost	233,391	61,993
Computer maintenance	227,648	233,882
Legal and professional	215,307	134,623
Transportation and communication	72,304	69,779
Directors remuneration	69,437	88,422
Accountancy and Audit	60,483	53,618
Electricity	42,094	43,242
Insurance	22,557	22,831
Others	76,765	78,280
	1,573,331	1,464,695

20 COMMITMENTS AND CONTINGENCIES

	2015 BD	2014 BD
Housing loan commitments approved by MOH (note 20.1)	91,383,786	91,816,023
Capital commitments	6,298,715	10,750,515
Commercial Loan commitments	91,875	155,068
Lease commitments not later than one year	175,108	175,108
Lease commitments later than one year but not later than five years	72,922	248,070
	98,022,406	103,144,784

The Group has filed cases against certain ex-employees on the grounds of misconduct. If the Group is successful in proving its case, it will result in a receipt of BD 944,418 (2014 : BD 944,418).

Note 20.1

The Ministry of Housing provides funds annually to the Bank for disbursement of social housing loans along with a list of approved beneficiaries. Social loans that remain undisbursed at the end of the year are disclosed as a commitment.

21 RELATED PARTY TRANSACTIONS

Related parties represent shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of the transactions relating to these related parties are approved by management. The amounts due to and from related parties are settled in the normal course of business.

The Group's transactions with related parties comprise of transactions with the MOF and the MOH and transactions with associates in the ordinary course of business. Balances with Government and investment in an associate are disclosed on the face of the consolidated statement of financial position and consolidated statement of comprehensive income and the notes therein.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel of the Group comprise the General Manager, Chief Business Officer, Chief Operating Officer, Head of Finance, Head of Risk and other senior management. The key management personnel compensation is as follows:

	2015 BD	2014 BD
Short term employee benefits	697,548	686,001
Long term employee benefits	40,503	26,013
	738,051	712,014

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22 CLASSIFICATION OF FINANCIAL INSTRUMENTS

Set out below is an overview of financial instruments, other than cash and cash equivalents, held by the Group:

At 31 December 2015	Available- for-sale BD	Amortised cost/ Loans and receivables BD	Total BD
Financial assets			
Investments	4,756,950	-	4,756,950
Loans	-	460,092,125	460,092,125
Other assets	-	1,135,764	1,135,764
	4,756,950	461,227,889	465,984,839
		Amortised cost BD	Total BD
Financial liabilities			
Deposits from financial and other institutions		3,002,875	3,002,875
Government accounts		237,808,209	237,808,209
Term loans		109,000,000	109,000,000
Other liabilities		24,772,058	24,772,058
		374,583,142	374,583,142
		Amortised cost/ Loans and receivables BD	Total BD
At 31 December 2014			
Financial assets			
Investments	4,756,950	-	4,756,950
Loans	-	434,770,102	434,770,102
Other assets	-	1,097,776	1,097,776
	4,756,950	435,867,878	440,624,828
		Amortised cost BD	Total BD
Financial liabilities			
Deposits from financial and other institutions		48,107,183	48,107,183
Government accounts		251,459,119	251,459,119
Term loans		59,000,000	59,000,000
Other liabilities		23,367,854	23,367,854
		381,934,156	381,934,156

23 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

The fair values of financial instruments on the consolidated statement of financial position are not significantly different from their carrying values.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1** quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2** other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3** techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The available-for-sale investments comprise of investments in unquoted equity shares which do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, and are therefore stated at cost. In the opinion of the Group's management, the fair values of these unquoted equity shares are not expected to be significantly different from their carrying amounts. The investments are located in the Kingdom of Bahrain. The investments are held at cost less provision for impairment due to lack of suitable methods for determining reliable fair value.

24 RISK MANAGEMENT

Overview

Risk is inherent in the Group's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each business unit is accountable for the risk exposures relating to their responsibilities. The Group is exposed to credit risk, liquidity risk and market risk. It is also subject to various operating risks.

Risk management framework

Board of Directors

The Board of Directors is responsible for the overall risk management approach and ensuring that an effective risk management framework is in place. The Board of Directors approves and periodically reviews the risk management policies and strategies.

Management Risk Committee

The responsibility of the Management Risk Committee is to review and manage the credit and operational risks of the Group and to recommend on matters brought to it for consideration, including credit proposals or approvals.

Risk Management Department

The key element of the Group's risk management philosophy is for the Risk Management Department ('RMD') to provide independent monitoring and control while working closely with the business units which ultimately own the risks. The RMD is overseen by the Chief Risk Officer.

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

The RMD submits a quarterly Risk Review report to the Board Audit Committee. The Risk Review report describes the potential risk factors and comments as to how risk factors are being addressed by the Group.

Audit Committee

The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting and risk management, the audit thereof, the soundness of the internal controls of the Group, the measurement system of risk assessment relating to the Group's capital.

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24 RISK MANAGEMENT (continued)*Internal Audit*

All key operational, financial and risk management processes are audited by Internal Audit according to risk based auditing standards. Internal Audit examines the strategies of the Group, the adequacy of the relevant policies and procedures and the Group's compliance with internal policies and regulatory guidelines. Internal Audit discusses the result of all assessments with management and reports its findings and recommendations to the Audit Committee.

Treasury

Group Treasury is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group.

Risk Measurement

The Group uses the standardised approach to measure its credit risk and market risk and the Basic Indicator approach for operational risk. In addition, the Group also applies various stress testing methodologies to assess its credit, liquidity, interest rate and market risk.

Risk Mitigation

The Board has put in place various limits and ratios to manage and monitor the risks in the Group. The Group uses suitable strategies to ensure the risk is maintained within the risk appetite levels as laid down by the Board.

a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's commercial loans and placements with financial institutions and receivables.

i) Management of credit risk

Credit risk is actively managed and rigorously monitored in accordance with well-defined credit policies and procedures.

Housing loans under Ministry's Housing Loan Program

The decision to grant the loan is determined by the Ministry of Housing and communicated to the Group to make disbursements to the borrowers. There is no credit risk to the Group arising out of these loans. Losses, if any, arising from the impairment of such loans can be claimed from the Government. Consequently these loans attract zero risk weight. The Group monitors the sanctioned housing loans regularly and non performing loans are aggressively pursued by the Group and are written-off based on ministerial order. The housing loans under the Ministry's Housing Loan Program as at 31 December 2015 is BD 438,980,041 (31 December 2014: BD 409,874,521).

Other loans

Housing loans extended on a commercial basis to individuals are under a retail lending program approved by the Board of Directors with specific credit criteria being required to be met. Prior to the approval of a credit proposal, a detailed credit risk assessment is carried out to ensure that the loan proposal meets certain pre-approved credit criteria.

ii) Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position.

	Gross maximum exposure 2015	Gross maximum exposure 2014
Balances and placements with financial institutions	69,164,126	94,262,244
Loans - commercial loans	21,112,084	24,895,581
Other receivables	1,135,764	1,097,776
	91,411,974	120,255,601

The credit risk of social loans does not reside with the Group.

There were no renegotiated loans during either the year ended 31 December 2015 or 31 December 2014.

24 RISK MANAGEMENT (continued)**a) Credit risk** (continued)**ii) Maximum exposure to credit risk** (continued)*Risk concentration of the maximum exposure to credit risk*

The maximum credit exposure to any client, or counterparty, or group of closely related counterparties as of 31 December 2015 was BD 55,646,444 (31 December 2014: BD 86,148,947).

iii) Collateral

The Group holds collateral against loans in the form of mortgages on residential property and guarantees. The amount and type of collateral is dependent upon the nature of the loan. Collateral is not usually held against placements.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The Group did not take possession of any collateral as a result of a default during either the year ended 31 December 2015 or 31 December 2014.

iv) Credit quality per class of financial assets

The Group has laid down an internal rating framework for classifying its credit exposures. The following is an analysis of credit quality by class of financial assets:

	Neither past due nor impaired	Past due but not impaired	Individually impaired	31 December 2015
Balances and placements with financial institutions	69,164,126	-	-	69,164,126
Loans - commercial loans	16,280,351	4,332,836	1,825,931	22,439,118
Other receivables	1,135,764	-	-	1,135,764
	86,580,241	4,332,836	1,825,931	92,739,008
	Neither past due nor impaired	Past due but not impaired	Individually impaired	31 December 2014
Balances and placements with financial institutions	94,262,244	-	-	94,262,244
Loans - commercial loans	18,372,465	6,218,205	1,380,618	25,971,288
Other receivables	1,097,776	-	-	1,097,776
	113,732,485	6,218,205	1,380,618	121,331,308

v) Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar economic 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. The Group's assets and liabilities are concentrated in the Kingdom of Bahrain.

Eskan Bank B.S.C. (c)

Notes to the Consolidated Financial Statements continued

As at 31 December 2015

24 RISK MANAGEMENT (continued)**b) Market risk**

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to adverse changes in market variables such as interest rates, foreign exchange rates, equity prices. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

i) Management of market risks

The Group does not assume trading positions on its assets and liabilities, and hence the entire consolidated statement of financial position is a non-trading portfolio.

ii) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of the financial instruments. The Group's assets and liabilities that are exposed to interest rate risk include balances and placements with financial institutions, loans, deposits from financial and other institutions and term loans. Interest rate risk is managed principally through monitoring interest rate gaps.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant. The effect of decreases in interest rates is expected to be equal and opposite to the effect of the increases shown.

	31 December 2015 BD	Changes in basis points (+/-)	Effect on net profit (+/-)
Assets			
Balances and placements with financial institutions	61,412,044	100	614,120
Loans - commercial loans	21,112,084	100	211,121
Liabilities			
Deposits from financial and other institutions	3,002,875	100	(30,029)
Term loans	9,000,000	100	(90,000)
Total			705,212
	31 December 2014 BD	Changes in basis points (+/-)	Effect on net profit (+/-)
Assets			
Balances and placements with financial institutions	91,594,959	100	915,950
Loans - commercial loans	24,895,581	100	248,956
Liabilities			
Deposits from financial and other institutions	48,107,183	100	(481,072)
Term loans	9,000,000	100	(90,000)
Total			593,834

iii) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to adverse changes in foreign exchange rates. Since the Group's assets and liabilities are denominated in the local currency and United States Dollars which is pegged to the Bahraini Dinar, the Group does not have any foreign exchange risk.

24 RISK MANAGEMENT (continued)**b) Market risk** (continued)**iv) Equity price risk**

Equity price risk is the risk that the fair value of equities decreases as the result of adverse changes in the levels of equity prices and the value of individual stocks. Equity price risk arises from the Group's investment portfolio. The Group conducts investment activity in unquoted private equity entities. The Group manages this risk through diversification of its investments in terms of geographical distribution and industry concentration by arranging representation on the Board of Directors within the investee company, wherever possible and by frequent monitoring via Risk Management.

The effect on equity and income (as a result of a change in the fair value of equity instruments at 31 December 2014) due to a reasonably possible change (i.e. +/-15%) in the value of individual investments, with all other variables held constant, is BD 713,543 (2014: BD 713,543) on equity and none on income since the Bank does not have any investment at fair value through profit or loss as at 31 December 2015 and 2014. The effect of decrease in the value of individual investments is expected to be equal and opposite to the effect of an increase.

c) Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial assets.

The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Liquidity risk is managed by maintaining cash and cash equivalents and Government accounts at a high level to meet any future commitments.

Analysis of liabilities

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2015 and 31 December 2014 based on contractual undiscounted repayment obligations.

	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
At 31 December 2015				
Deposits from financial and other institutions	3,003,926	-	-	3,003,926
Term loans	284,167	43,009,927	71,262,629	114,556,723
Total	3,288,093	43,009,927	71,262,629	117,560,649
	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
At 31 December 2014				
Deposits from financial and other institutions	48,126,081	-	-	48,126,081
Term loans	372,875	1,476,063	61,702,547	63,551,485
Total	48,498,956	1,476,063	61,702,547	111,677,566

d) Operational risk

Operational risk is the risk of loss arising from systems and control failures, fraud and human errors, which can result in financial and reputation loss, and legal and regulatory consequences. The Group manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, including internal audit and compliance. In addition the Group trains the staff on a regular basis. The Group has undertaken an operational risk assessment in all divisions as part of internal risk assessment process as a part of its implementation of the Basle III Capital Accord.

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Notes to the Consolidated Financial Statements continued

As at 31 December 2015

25 CAPITAL ADEQUACY**Capital management**

The primary objectives of the Group's capital management are to ensure that the Group complies with regulatory capital requirements.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue new capital. No changes were made in the objectives, policies and processes from the previous years.

The Group's capital adequacy ratio, calculated in accordance with the capital adequacy guidelines issued by the CBB, is as follows:

	2015 BD	2014 BD
Total eligible capital	215,477,565	221,844,078
Total regulatory capital (A)	215,477,565	221,844,078
Total Risk-weighted exposure (B)	142,026,021	214,315,969
Capital adequacy ratio (A/B)	151.72%	103.51%
Minimum requirement	12.50%	12.00%

Tier 1 capital comprises of ordinary share capital, contribution by a shareholder, statutory reserve and retained earnings brought forward. Certain adjustments are made to IFRS based results and reserves, as prescribed by the CBB.

Tier 2 capital, which includes qualifying subordinated liabilities and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale.

26 MATURITY PROFILE OF ASSETS AND LIABILITIES

Maturities of assets and liabilities have been determined based on the expected maturity from the consolidated statement of financial position date. The maturity profile of the assets and liabilities was as follows:

At 31 December 2015	Less than 12 months BD	Over 12 Months BD	Total BD
Assets			
Cash and cash equivalents	69,328,350	-	69,328,350
Investments	-	4,756,950	4,756,950
Loans	20,519,241	439,572,884	460,092,125
Investment in associates	6,911,010	-	6,911,010
Investment properties	-	31,996,018	31,996,018
Development properties	-	22,219,173	22,219,173
Other assets	1,110,873	849,453	1,960,326
	97,869,474	499,394,478	597,263,952
Liabilities			
Deposits from financial and other institutions	3,002,875	-	3,002,875
Government accounts	-	237,808,209	237,808,209
Term loans	40,000,000	69,000,000	109,000,000
Other liabilities	8,696,281	16,858,603	25,554,884
	51,699,156	323,666,812	375,365,968
Net liquidity surplus	46,170,318	175,727,666	221,897,984

26 MATURITY PROFILE OF ASSETS AND LIABILITIES (continued)

At 31 December 2014	Less than 12 months BD	Over 12 Months BD	Total BD
Assets			
Cash and cash equivalents	94,410,297	-	94,410,297
Investments	-	4,756,950	4,756,950
Loans	18,981,043	415,789,059	434,770,102
Investment in associates	-	9,110,659	9,110,659
Investment properties	-	42,604,353	42,604,353
Development properties	-	18,592,187	18,592,187
Other assets	5,627,917	858,344	6,486,261
	119,019,257	491,711,552	610,730,809
Liabilities			
Deposits from financial and other institutions	48,107,183	-	48,107,183
Government accounts	-	251,459,119	251,459,119
Term loans	-	59,000,000	59,000,000
Other liabilities	9,638,885	14,424,841	24,063,726
	57,746,068	324,883,960	382,630,028
Net liquidity surplus	61,273,189	166,827,592	228,100,781

27 FUTURE FUNDING REQUIREMENTS

The Group's continued operations are dependent upon the continued financial support of the MOF, and the Government of the Kingdom of Bahrain.

28 ADDITIONAL SUPPLEMENTARY INFORMATION - ISLAMIC BANKING (UNAUDITED)**Islamic products**

The Islamic banking activities of the group are conducted in accordance with Islamic Shari'a principles, as approved by the Shari'a Supervisory Board. The financial statements extracts relating to these activities are prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), IFRS and Central Bank of Bahrain regulations, as applicable. The principal accounting policies are set out below:

Ijara Muntahia Bittamleek and Ijarah income receivables

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

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

Wakala

An agreement whereby one party provides a certain sum of money to an agent who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in the case of default, negligence or violation of any of the terms and conditions of the Wakala.

Investments - sukuk (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.

Eskan Bank B.S.C. (c)

Notes to the Consolidated Financial Statements continued

As at 31 December 2015

28 ADDITIONAL SUPPLEMENTARY INFORMATION - ISLAMIC BANKING (UNAUDITED) (continued)*Commodity Murabaha*

These are sales transaction agreements for commodities stated net of deferred profits and provision for impairment. The Group considers the promise made in the murabaha to the purchase order as obligatory.

Revenue recognition

Revenue is recognised on the above Islamic products as follows:

Ijara income is recognised on a time apportioned basis over the Ijara term and is stated net of depreciation.

Estimated income from Wakala is recognised on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

Income from investments is recognised when earned.

The Islamic Banking assets in compliance with Islamic Sharia principals are presented below:

	2015 BD (unaudited)	2014 BD (unaudited)
Ijara muntahia bittamleek - net	225,118,465	183,990,843
Ijara income receivables	214,889	175,387
Wakala placements	-	2,500,000
Wakala income receivable	-	42
Investments - sukuk	9,507,426	16,599,146
Income receivable on investments	20,751	28,026
	234,861,531	203,293,444

The Islamic Banking liabilities in compliance with Islamic Sharia principals are presented below:

	2015 BD (unaudited)	2014 BD (unaudited)
Wakala takings	-	23,700,000
Wakala Profit payable	-	6,956
Commodity Murabaha	-	11,907,183
Commodity Murabaha profit payable	-	7,763
	-	35,621,902

Income and expenses recognised on Islamic banking operations are presented below:

	2015 BD (unaudited)	2014 BD (unaudited)
Income from Ijara Muntahia Bittamleek - net	6,604,412	5,052,043
Income from wakala & investments	91,506	212,550
Less: profit paid on Wakala	(62,296)	(217,417)
	6,633,622	5,047,176

29 COMPARATIVES

Certain prior period amounts have been regrouped to conform to current year's presentation. Such regrouping did not affect the previously reported profit or equity.

Pillar-III
Disclosures
31st December 2015

Eskan Bank B.S.C. (c)

Pillar-III Disclosures

31st December 2015

1 INTRODUCTION

This report has been prepared in accordance with Pillar III disclosure requirements prescribed by the Central Bank of Bahrain (CBB).

The disclosures in this report are in addition to or in some cases, serve to clarify the disclosures set out in the annual consolidated financial statements for the year ended 31st December 2015, presented in accordance with the International Financial Reporting Standards ("IFRS").

a) Scope of Application

The name of the Bank in the group, to which these regulations apply is Eskan Bank B.S.C. (c) ("the Bank") which is a closed joint stock company registered and incorporated by Amiri Decree No. 4 of 1979, together with its subsidiaries ("the Group"). The Bank operates under a Restricted Banking License issued by the CBB. The Bank is wholly owned by the Government of the Kingdom of Bahrain

b) Subsidiaries of the Bank

- The Bank owns 100% in **Eskan RMBS Company B.S.C. (c) ("RMBS")** incorporated in the Kingdom of Bahrain, whose principal activities are to issue Asset Backed private debt securities for the purpose of securitization of housing loans.
- The Bank owns 100% in **Eskan Properties Company B.S.C. (c) ("EPC")** incorporated in the Kingdom of Bahrain, to successfully execute the various housing and community projects being taken up. The main objectives are to carry out all operations in relation to management, operation and maintenance for all types of real estate owned by the Bank, governmental institutions and ministries or others.
- The Bank owns 55.88% in **Danaat Al Lawzi B.S.C** which is registered in the Kingdom of Bahrain and whose principal activities include management and development of private property, buying and selling of properties on behalf of the Company and property development, leasing, management and maintenance.
- There is no deficiency in the capital of any of the subsidiaries of the Bank as on 31st December 2015. There are no restrictions on the transfer of funds or regulatory capital within the Group.

c) Associate companies of the Bank

- During 2009, **Al Ebdaa Bank B.S.C. (c) ("Ebdaa Bank")** was established and began disbursing micro-finance to low and middle - income Bahrainis, providing each beneficiary with an opportunity to start a new business, to become financially independent and to hold out the promise of a better quality of life. Eskan Bank is a founding shareholder of Ebdaa Bank, holding 20% stake.
- During 2011 **Bahrain Property Musharaka Trust Fund** was established with an initial investment of BHD 23.3 million to fund two major affordable residential and commercial projects in Segaya and Isa Town. The net asset size of the fund as of Dec 2015 is BHD 18.32 million after cash distribution of BHD 7.75 million to the investors during 2015 (BHD 23.43 million in 2014). The Bank holds 42.98% stake in the fund.

d) Treatment of subsidiaries and associates for capital adequacy calculation

Eskan RMBS, and Eskan Properties Company (EPC) are consolidated with the Bank's financials for the purpose of Capital Adequacy calculation. The treatment of other subsidiaries and associate companies is as per the below table.

Table 1: Interests In Entities Risk Weighted Rather Than Deduction / Group-Wide Method

Subsidiaries / Associates	Country of Incorporation / residence	Percentage of ownership	Risk Weight
Bahrain Property Musharaka Trust Fund	Kingdom of Bahrain	42.98%	200% for exposures related to Segaya Plaza. 50% for exposures related to Danaat Al Madina
Danaat Al Lawzi B.S.C	Kingdom of Bahrain	55.88%	50%
Interest in Associate deducted from the capital			
Al Ebdaa Bank B.S.C.(c)	Kingdom of Bahrain	20%	N/A

2 FINANCIAL PERFORMANCE AND POSITION

In 2015, the Bank achieved steady growth and maintained its profitability during the year despite the challenges faced in the aftermath of the financial crisis.

The performance for the year is the result of the Bank's focus on maintaining asset quality, judicious deployment of available liquidity at best possible yields and efficiently managing the operating expenses. The Bank's cost-to-income ratio increased marginally from 34.5% in 2014 to 35.9% in 2015. The Bank continued to make a general loan loss provisions in line with its prudent approach to risk.

The Bank has disbursed BHD 57 million of social loans during 2015 which reflects the Bank's commitment to stay true to its core objectives which is in line with the vision 2030 strategy. The shareholders' equity at BHD 215 million at the end of 2015 down by 2.8% compared to BHD 221 million as at 31st December 2014 due to the transfer of land worth BD 17,989 million to the shareholder, the amount was adjusted from the contribution by shareholder of the bank's equity. Liquidity continues to be comfortable with liquid assets (Cash and balances with central banks and placement with financial institutions) representing 12% of the total assets.

a) Asset Growth & Quality:

- **Quantity:** The total Balance Sheet of the Bank stood at BHD 597 million as at 31st December 2015 compared to BHD 610 million as at the previous year end. The Bank's loans and advances as at 31st December 2015 stood at BHD 460 million, which reflects a growth of 5.8% as compared to 2014.
- **Quality:**
 - Loan Portfolio: The Bank's portfolio is of high quality despite the bulk of the Banking assets being residential mortgage loans. Primarily, these loans are "social loans" where the credit risk does not reside with the Bank. On the other hand, in case of the commercial-basis residential mortgage loans extended by the Bank, the approach has been conservative. The impaired loan accounts classified as Non-Performing Assets ("NPAs") for this portfolio was BHD 1.8 million as at 31st December 2015.
 - Other Investments: The other banking assets are mainly in interbank placements with banks in the Kingdom of Bahrain.
 - Financial Investments: The Bank has investment in Naseej, Southern Area Development Company (SADC) and other small legacy investments.
- **Capital Adequacy Ratio (CAR):** The Group continued to have a strong capital adequacy ratio, with the CAR of 151.7% as of 31st December 2015.
- **Solvency:** The Group has limited external borrowings and as such its solvency position, as indicated by the Asset Liability maturity profiles is satisfactory, with balances in the government account considered as not payable in the short term.

Eskan Bank B.S.C. (c)

Pillar-III Disclosures continued

31st December 2015

2 FINANCIAL PERFORMANCE AND POSITION (continued)

a) Asset Growth & Quality (continued):

Table 2: Earnings & Financial Position (in BHD thousands):

	2015	2014	2013	2012	2011
Earnings					
Net Interest Income	16,375	15,446	14,227	12,751	10,939
Other Income	1,890	1,123	627	774	2,577
Operating Expenses	6,566	5,717	4,871	4,973	5,698
Properties Write off	-	-	1,638	-	-
Impairment Allowance	251	372	325	224	485
Net Income	11,447	10,480	8,020	8,328	7,332
Financial Position					
Total Assets	597,264	610,731	576,192	533,423	474,966
Loans	460,092	434,770	400,202	355,750	313,272
Total Liabilities	375,366	382,630	365,842	329,324	279,258
Non-controlling interest	6,638	6,631	-	-	-
Shareholders' Equity	215,260	221,470	210,351	204,099	195,708
Earnings: Ratios (Per Cent)					
Return on Equity*	5.32%	4.59%	3.81%	4.08%	3.75%
Return on Assets	1.92%	1.72%	1.39%	1.56%	1.54%
Cost-to-income ratio	35.9%	34.5%	32.8%	36.8%	42.2%
Net Interest Margin	98%	96%	95%	82%	73%
Capital:					
Shareholders Equity as per cent of					
Total Assets	36.04%	36.26%	36.51%	38.26%	41.20%
Total Liabilities to Shareholders Equity	174.38%	172.77%	173.92%	161.35%	142.69%

*including non-controlling interest

b) Performance of the group companies:

- **EPC:** Acts as the property development arm of Eskan Bank with a registered and paid up share capital of BHD 250,000. EPC is fully owned by the Bank and its operations have been improved through further streamlining, as well as team building and strengthening so it could enhance its ability to execute various property development projects.

The Bank, with EPC, has developed initiatives to build and raise funds to build projects on its own land bank and with private sector landlords. Presently, various projects are underway ranging from initiation, design, construction to property management.

Table 3: Financial highlights (in BHD):

	31st December 2015	31st December 2014
Net profit for the year	113,141	220,538
Total assets	1,425,981	1,209,579
Total equity	792,987	679,846

2 FINANCIAL PERFORMANCE AND POSITION (continued)

b) Performance of the group companies (continued):

- RESIDENTIAL MORTGAGE BACKED SECURITIES COMPANY (“RMBS”):** In 2007, the Bank set up a Special Purpose Vehicle (“SPV”) subsidiary for the purpose of issuing bonds. The issue of BHD30 million of residential mortgage backed securities was considered as a stimulating initiative for the development of the securities market in the Kingdom of Bahrain.

The proceeds of the RMBS bonds have been utilised to fund the Commercial activities of the Bank. The registered and paid up share capital is BHD 1,000 with a shareholding of 100% by the Bank.

The Bank repaid the first tranche of BHD 8.5 million to the investors in October 2010; the second tranche was repaid in October 2012 for BHD 6 million and the third on October 2014 for BHD 6.5 million. The Bank continued to make timely interest payments on semi-annual basis.

Table 4: Financial highlights (in BHD):

	31st December 2015	31st December 2014
Net profit for the year	987,188	1,026,297
Total assets	19,805,844	18,598,959
Total equity	8,783,789	7,796,601

- SBMC**

The SBMC was formed in the latter half of 2009. Upon completion of legal and other regulatory formalities, the Company was liquidated effective 3 February 2015.

Table 5: Financial highlights (in BHD)

	31st December 2015	31st December 2014
Net profit/ (loss) for the year	-	(3,266)
Total assets	-	250,000
Total equity	-	132,240

- Danaat Al Lawzi**

On 27 July 2014, upon satisfaction of all regulatory requirements, the Group invested BD 8.4 million in Danaat Al Lawzi B.S.C (c) (“the Company”) acquiring 55.88% of the voting shares of the Company. The acquisition was made by subscribing to the Company’s shares worth BD 6.2 million and purchasing shares worth BD 2.2 million from Infinity Capital. The main activities of the subsidiary include management and development of private property, buying and selling of properties on behalf of the Company and property development, leasing, management and maintenance.

Table 6: Financial highlights (in BHD)

	31st December 2015	31st December 2014
Net profit/ (loss) for the year	15,189	(6,297)
Total assets	15,200,148	15,090,718
Total equity	15,043,592	15,028,403

Eskan Bank B.S.C. (c)

Pillar-III Disclosures continued

31st December 2015

3 FUTURE BUSINESS PROSPECTS

The Bank's assets and liabilities' profile for next year may be similar to that of last year to a large extent. The major portfolio for the Bank will continue to be mortgage loans and investment properties. The Bank intends to develop its land bank and tie-up with private sector landlords through joint venture arrangements towards the development of social and affordable housing projects in order to reduce the Ministry of Housing's backlog of social housing units' applicants. To meet this objective, the Bank will look at fund raising by leveraging its balance sheet, free up top up loan commitments, embarking on project finance basis, and launching funds and investment products in line with regulatory requirements. The conditions of the local, regional and international capital markets, as well as the real estate sector cycle would dictate the Bank's ability to meet its objective and the impact on its financial performance.

4 CORPORATE GOVERNANCE AND TRANSPARENCY

The Bank recognises the need to adhere to best practices in Corporate Governance. The Bank's Corporate Governance policies are designed to ensure the independence of the Board of Directors ("the Board") and its ability to effectively supervise management's operation of the Bank.

The Bank has adopted the following corporate governance code principles:

Principle One: The Company must be headed by an effective, collegial and informed board

Principle Two: The directors and officers shall have full loyalty to the company

Principle Three: The board shall have rigorous controls for financial audit, internal control and compliance with law

Principle Four: The Company shall have rigorous procedures for appointment, training and evaluation of the board.

Principle Five: The Company shall remunerate directors and officers fairly and responsibly

Principle Six: The Board shall establish clear and efficient management structure

Principle Seven: The Board shall communicate with shareholders and encourage their participation

Principle Eight: The Company shall disclose its corporate governance

Principle Nine: Companies which refer to themselves as "Islamic" must follow the principles of Islamic Sharia

Due to the unique nature of the Bank being fully owned by the Government of the Kingdom of Bahrain, and in pursuance to Legislative decree No. 4 of 1979 with respect to the Establishment of Eskan Bank amended by Law No. 75 of 2006, the Cabinet is the sole authorized party for appointing Board Members, thus the Bank is not required to hold an Annual General Meeting. All key resolutions issued by the Bank which require the approval of an Ordinary or Extra-Ordinary General Assembly shall be subject to Cabinet approval.

5 BOARD AND MANAGEMENT COMMITTEES

For details of the Board committees and the Management committees refer to the Corporate Governance section of the Annual Report.

6 BOARD OF DIRECTORS

i. H.E. Eng. Basim bin Yacob Al Hamer - Minister of Housing, Chairman

Appointed as Chairman of Eskan Bank in 2011

Qualifications: Master's in Project Management – Boulder, Colorado, Bachelors in Civil Engineering - California

Experience: More than 30 years of work experience

Chairman: Tender Board

Board Member: National Oil and Gas Authority.

ii. Mr. Mohammed A.R. Hussain Bucheeri

Vice Chairman & Chairman of Executive Committee (Independent Non-Executive Director)

Appointed in 2011

Qualifications:

- Bachelor of Arts – Economics and Finance, Aleppo University – Syria
- Intensive Full Credit Course at Citibank Training Center - Athens, Greece
- Intermediate Credit Course at Citibank - Athens, Greece
- Registered Financial Consultant by successfully completing the Series 7
- Examination required by the Securities & Exchange Commission in the United States.

Experience: More than 33 years, work experience

Board Member: Bank of Bahrain & Kuwait (BBK), Solidarity Group Holding Company, Investcorp Saudi Arabia Financial Investment Co., The K Hotel.

6 BOARD OF DIRECTORS (continued)

iii. Dr. Zakareya Sultan Al Abbasi

Member (Independent Non-Executive Director)

Appointed in August 2011

Qualifications: Master & PhD degrees in Law from University of East Anglia – UK

Experience: More than 30 years work experience

Chief Executive Officer: Social Insurance Organization.

Board Member: Bank of Bahrain and Kuwait (BBK), Asset Management Company (Company owned by the Social Insurance Organization)

iv. Mr. Yusuf Saleh Khalaf

Independent Non-Executive Director and member of the Audit Committee.

Appointed in August 2011

Qualifications:

- A member of the UK's Association of Chartered Certified Accountants (ACCA) since 1983.
- Higher Diploma in Business Studies Salford College of Technology, Alford, UK
- National Diploma in Business Studies Fielden Park College Manchester, UK

Experience: Over 30 years of experience in the banking and financial services sector.

Founder & Managing Director: Vision Line Consulting.

Board member: Bank of Bahrain & Kuwait, Securities & Investment Company (SICO), Solidarity General Takaful

Previous Position: Held the positions of Chief Executive Officer at Ajman Bank and Bahrain Islamic Bank

v. Mr. Yousif Abdulla Taqi

Member (Independent Non-Executive Director)

Appointed in August 2011

Qualifications: A Certified Public Accountant (CPA),

Experience: More than 28 years of work experience

CEO and Board member: Al Salam Bank - Bahrain

Chairman: Manara Developments Company B.S.C. (c), Amar Holding Company B.S.C. (c)

Vice Chairman: ASB Biodiesel (Hong Kong) Limited, affiliates of ASBB.

Board Member: Aluminum Bahrain B.S.B. (ALBA), Tadhmon Capital

vi. Mr. Riyadh Saleh Al-Saei

Independent Non-Executive Director, Vice Chairman of the Executive Committee, and Member of the Remuneration, Nomination and Corporate Governance Committee.

Appointed in 2015

Qualifications:

- Bachelor of Business Administration in International Finance & Marketing from the University of Miami, Florida.
- Master of Business Administration "MBA" in International Banking & Finance from the University of Birmingham, U.K.
- Post Graduate Diploma – Chartered Institute of Marketing ("CIM"), UK.
- Completed a three months concentrated Intensive Core International Banking Advanced Programme supervised by Citibank at the Center for International Banking Studies (CIBS), Istanbul – Turkey.

Experience: More than 30 years, work experience

Board Member: Tadhmon Capital BSC, Bahrain

Previous Positions: Executive Director - Investment Placement at Arcapita Bank (B.S.C.), Assistant Vice President - Merchant Banking at Gulf International Bank ("GIB") B.S.C., Deputy Manager - Commercial Banking at Arab Banking Corporation ("ABC") B.S.C.

vii. Ms. Rana Ebrahim Faqihi

Independent Non-Executive Director, & Member of Executive Committee

Appointed in 2015

Qualifications:

- Masters in international Business Administration - United Kingdom
- Bachelor in international Business Administration - United Kingdom.

Experience: More than 12 years work experience.

Board Member: Bahrain Bourse, Eskan bank, Audit committee of Tamkeen.

Currently holds the position of Assistant Undersecretary for Public Revenue Development at Ministry of Finance, Kingdom of Bahrain.

Previous Positions: worked as a senior project manager at Economic Development Board since 2005, worked as Reviewer for international economic affairs at economic researches department of CBB.

Eskan Bank B.S.C. (c)

Pillar-III Disclosures continued

31st December 2015

6 BOARD OF DIRECTORS (continued)

viii. Mr. Kamal Murad Ali Murad

Independent Non-Executive Director, & Member of Executive Committee
Appointed in 2015

Qualifications:

- Bachelor in Economics Finance from the Bentley College, Waltham MA.
- Masters in Global Finance Analysis from the Bentley College, Waltham MA.

Experience: More than 12 years work experience

Currently holds the position of Executive Director, Ventures Projects in one of the leading organizations in the Kingdom of Bahrain and the region.

Board Member: Diyar Al Muharraq W.L.L, Manara Developments Company B.S.C Closed, Marsa Al Seef Real Estate Investment Company W.L.L and Amar Holding Company B.S.C Closed

ix. Mrs. Najla Mohammed Al-Shirawi

Independent Non-Executive Director, & Member of Audit Committee
Appointed in 2015

Qualifications:

- MBA, Masters in Business Administration and Finance, American College in London - United Kingdom
- BSc, Bachelor Degree in Civil Engineering, University of Bahrain-Kingdom of Bahrain
- Attended the Management Acceleration Programme at INSEAD, France.

Experience: More than 18 years' investment banking experience.

Chief Executive Officer: Securities and Investments Company (SICO), Bahrain

Chairperson: SICO Funds Services Company (SFS), and SICO UAE.

Board Member: Deposit Protection Scheme Board, Human Resources Development Fund Board.

Previous Positions: Worked for Securities and Investments Company (SICO) since 1997 where she held various positions in the Bank including Deputy CEO, Chief Operating Officer for seven years, Head of Asset Management, and Head of Investments & Treasury. She also worked for a number of institutions owned by the Geneva-based Dar Al-Maal Al-Islami Trust and was responsible for establishing private banking operations for the Group in the Gulf region, and was previously appointed to a Lectureship in Engineering at the University of Bahrain.

7 EXECUTIVE MANAGEMENT TEAM OF ESKAN BANK

i. Dr. Khalid Abdulla, General Manager

Dr. Khalid Abdulla has over thirty Three years of experience in Islamic and Conventional Banking in addition to real estate market and has held many senior positions with leading investment, commercial and real estate financial institutions in Bahrain in addition to his academic and research expertise in Economic, including University of Bahrain,

Prior to joining the bank, he was the Chief Executive Officer at Inovent Bahrain B.S.C. He holds a Master of Science Degree in Economic Development from the University of East Anglia (UK) and a Doctorate of Philosophy in Economics from Exeter University (UK). He also held the post of Assistant Professor and Chairman of the Department of Economics & Finance at the University of Bahrain, in the recent past.

Dr. Khalid is actively involved in many projects promoting infrastructural development in Bahrain & is a member of many associations such as 'The Public Affairs Committee' at the Bahrain Chamber of Commerce & Industry & is a founding member of the Bahrain Economic Society & Serves on the Board of Trustees of 'MENA Investment Center'.

Dr. Khaled plays an active role in many Societies and institutions such as being a founding member of Bahrain Economic Society and Bahrain Competitiveness council, Board member and Head of Audit Committee at LMRA and Board member of Naseej.

He assumed the present position in 2013.

ii. Mr. Ahmad Tayara, Chief Business Officer & Deputy General Manager

Mr. Ahmad Tayara has over Twenty years of experience in both Islamic and Conventional Banking, particularly in the areas of Investment Banking, Equity Capital Market, Corporate Finance, Real Estate, Private Equity & Corporate Banking. He has worked for leading institutions such as Ithmaar Bank- Bahrain. Prior to joining Eskan Bank, he was General Manager - Investment Banking at Elaf Bank.

Mr. Tayara holds a Bachelor of Science and Master of Science degree from McGill University, Canada.

He assumed the present position in 2012.

7 EXECUTIVE MANAGEMENT TEAM OF ESKAN BANK (continued)

iii. **Mr. Aref Qamber**, Chief Operating Officer

Mr. Aref Qamber has over twenty Seven years of experience in Islamic and Conventional Banking, particularly in the areas of Financial Planning, Corporate Finance, Human Resources and Administration Management. He has worked for leading institutions such as Bank of Bahrain & Kuwait and Shamil Bank (Ithmaar). Prior to joining Eskan Bank, he was Deputy CEO at Manafae Investment Company in Kuwait.

Mr. Aref is a Certified Public Accountant (CPA), USA.

He assumed the present position in 2013.

iv. **Mr. Tariq Al Jalahma**, Head of Retail Banking

Mr. Tariq Al Jalahma has over thirty four years of experience in Commercial Banking Industry, particularly in the areas of Remedial and Retail Banking. Prior to joining Eskan Bank, he was the Vice President, Marketing & Small Business Development Unit at Bahrain Development Bank.

Mr. Tariq holds a Banking Diploma from BIBF.

He assumed the present position in 2005.

v. **Mrs. Samar Agaiby**, Head of Financial Institutions & Government Relations

Mrs. Samar Agaiby has over twenty five years of experience in Risk Management, particularly in the areas of Quality, Finance and Project Management. She spent her full career in Eskan Bank, in which she joined the bank directly after she graduated from the American University in Egypt with a Bachelor degree in Economics.

Mrs. Samar is a Certified Management Accountant (CMA) from USA and Certified Diploma in Accounting and Finance (CDIAF) from UK

She has been with Eskan Bank since 1989 in which she has filled different positions such as Head of Mortgage Guaranteed System and Head of Credit & Operational Risk.

She assumed the present position in 2012.

vi. **Ms. Parween Ali**, Head of Marketing

Ms. Parween Ali has over Twenty years of experience in Banking Industry, particularly in the areas of Sales and Customer Service. Prior to joining Eskan Bank, she was Sales & Customer Service Manager at Standard Chartered Bank.

Ms. Parween has an Advanced Banking Diploma from BIBF.

She has been with Eskan Bank since 2005 under different positions such as Mortgage Loans Manager, Mortgage Loans Senior Manager, Product Development & Marketing Senior Manager, Head of Marketing & Product Development.

She assumed the present position in 2011.

vii. **Mr. Adnan Fathalla Janahi**, Head of Human Resources & Administration

Mr. Adnan Fathalla Janahi has over twenty one years of experience in Human Resource Management, and has worked with one of the leading banks, National Bank of Bahrain and prior to joining Eskan Bank, he was a Director, Head of Human Resources at Investment Dar Bank.

Mr. Adnan holds an MBA from University of Glamorgan.

He has been with Eskan Bank since 2009 under the capacity of Senior Manager HR & Administration and Acting Head of Human Resources & Admin in 2013.

Adnan assumed the present position in 2014.

Eskan Bank B.S.C. (c)

Pillar-III Disclosures continued

31st December 2015

7 EXECUTIVE MANAGEMENT TEAM OF ESKAN BANK (continued)

viii. Mr. Muhammed Saeed Butt, Head of Financial Control

Mr. Muhammed Saeed Butt has over fifteen years of experience within the financial services sector. During the course of his career he has worked for Reputable Financial Institutions such as Earnest & Young in Pakistan. Prior to joining Eskan Bank, he was a Manager Investment & Finance at Al Zayani Investment.

Mr. Muhammed Saeed is an Associate Chartered Accountant (ACA) since 2004.

He has been with Eskan Bank since 2007 and has filled several positions such as Senior Manager Financial Control, Manager Strategic Planning and Acting Head of Financial Control in 2013.

Muhammed Saeed assumed the present position in 2014.

ix. Mrs. Prita Tauro, Head of Risk Management

Mrs. Prita Tauro has over fourteen years of experience in the Banking and Financial Services Industry. During the course of her career, she has worked in Credit and Risk Management functions with ICICI Bank, Development Credit Bank and HDFC Bank.

She holds the professional certificates of Chartered Accountant (CA) from India and Chartered Financial Analyst (CFA) from USA. She has been part of the Risk Management function in Eskan Bank since 2007.

She assumed the present position in 2015.

x. Mr. Deepak Patel, Head of Operations

Mr. Deepak Patel has over Sixteen years of experience in Commercial Banking Industry, particularly in the areas of Operations, Finance and Retail Banking. Prior to joining Eskan Bank, he was Operations & Finance Manager at ICICI Bank in Bahrain.

Mr. Deepak holds a Bachelor's Degree in Commerce & Economics from Mumbai University.

He has been with Eskan Bank since 2007 under different positions such as Manager, Senior Manager and Acting Head within Operations in 2013.

He assumed the present position in 2014.

xi. Mr. Aqeel Mayoof, Head of Information Technology Management

Mr. Aqeel Mayoof has over twenty one years of experience in different IT Core Banking Systems within banking Industry such as Citi Bank and Ahli United Bank. Prior to joining Eskan Bank, he was IT Projects Leaders at Ahli United Bank.

Mr. Aqeel holds a Bachelor Degree in Electrical Engineering from University of Bahrain, and MBA from University of Bahrain.

He has been with Eskan Bank since 2005 under different positions such as Manager, Senior Manager and Acting Head within the Information Technology.

He assumed the present position in 2014.

xii. Mr. Hani Abdul Mahdi Jasim Nayem, Head of Internal Audit

Mr. Hani Nayem has over Fifteen years of experience in the Banking and Audit industry covering various fields such as internal audit, compliance, credit analysis, investment analysis, Islamic banking, financial controls and operations. He has worked for reputable regional and international banks such as Al Baraka Islamic Bank, Shamil bank of Bahrain, Ithmaar Bank, BDO Jawad Habib, Arthur Andersen, CPA firm.

Mr. Nayem holds a Bachelor's degree in Accounting and CPA professional qualification.

He assumed the present position in 2009.

7 EXECUTIVE MANAGEMENT TEAM OF ESKAN BANK (continued)

xiii. **Mrs. Haifa Al Madani**, Head of Legal and Corporate Secretary Department

Mrs. Haifa Al Madani has over Eighteen years of experience as a Lawyer and Legal Advisor, she spent her full career in Eskan bank, where she worked under Legal Department directly after she graduated from Kuwait with Bachelor degree of Law.

She is a board member of Eskan Properties Company, a subsidiary of Eskan Bank since 2007.

She assumed the present position in 2015.

xiv. **Mrs. Hana Buhejji**, Senior Manager of Public Relations & Corporate Communications

Mrs. Hana Buhejji has over twenty seven years of experience in the field of Media & Public relations, writing and editing. She has worked for reputable local newspapers such as "Akhbar Al Khaleej", "Al Ayam", "Al Wasat" and "Alwaqt", worked as Business Correspondent to reputable regional "Alsharq Alawsat" newspaper in London for 11 years. She started her career by working as Economic Analyst in National Accounts dept. in Ministry of Finance and National Economy for 2 years.

Mrs. Hana holds a Master of Art in Economics from Colorado State University in USA, and Bsc. of Business Administration & Accounting from United Arab Emirates University.

She assumed the present position in 2014.

xv. **Mr. Fadhel Asbool**, Treasury Senior Manager

Mr. Fadhel Asbool has over twenty seven years of experience in Banking Treasury in both Islamic and Conventional Banking, particularly in the areas of Money Market and Capital Market. Prior to joining Eskan Bank, he was the Chief Dealer at Tokyo Mitsubishi Bank - Bahrain.

Mr. Fadhel holds a Bachelor of Commerce from Bangalore University, India.

He has been with Eskan Bank since 2007 in which he has filled different positions such as Chief Dealer and Treasury Manager.

He assumed the present position in 2014.

xvi. **Mr. Fadhel Al Hashemi**, Manager of Remedial & Collection Department

Mr. Fadhel Al Hashemi has over fifteen years of experience in Collections, Legal, Credit and Risk Management, particularly in the areas of Collections and Credit, and has worked with many leading banks and companies within Bahrain such as Bahrain Islamic Bank, United Bank Limited and American Express. Prior Joining Eskan Bank he was Assistant Manager, Remedial & Collections at Bahrain Islamic Bank.

He holds a Diploma in Mechanical Engineering in addition to several professional certifications such CMI Leadership Program Level 7, ILM Leadership Development and City and Guilds Certificate from UK.

He assumed the present position since he joined in 2014.

Executive Management Eskan Properties Company

i. **Mr. Eyad Obaid**, General Manager

Mr. Eyad Obaid has over thirty three years of experience in various constructions industry, private and governmental with wide experience in projects management, execution and property development. Prior to joining Eskan Bank he was with Bahrain Defense Force, Military Works Directorate

Mr. Eyad holds a BSc degree in Civil Engineering.

He has been with Eskan Properties Company since 2005 under the capacity of Deputy Chief Development Officer.

He assumed the present position in 2015.

Eskan Bank B.S.C. (c)

Pillar-III Disclosures continued

31st December 2015

7 EXECUTIVE MANAGEMENT TEAM OF ESKAN BANK (continued)

ii. Mrs. Amal Al Aradi, Head of Property Management

Mrs. Amal Al Aradi has over twenty nine years of experience in Assets Management. She spent her full career in Eskan Bank, in which she joined the bank directly after she got her Bachelor Degree in Computer Science.

She has been with Eskan Bank since 1987 in which she has filled different positions such as Acting General Manager of Southern Tourism Company – STC which was subsidiary of Eskan Bank, Projects Manager, Assets Management Manager and Senior Manager.

She assumed the present position in 2014.

8 ADDITIONAL GOVERNANCE MEASURES

In addition to the Board and Management committee structures, the Board of Directors has approved a number of policies to ensure clarity and consistency in the operations of the Bank.

Remuneration related disclosures:

The Bank's HR policy which includes the variable remuneration has been approved by the Bank's RNCGC during the year. Key changes in the policy are as follows:

- a) Revising the salary structure for new management trainees employed by the Bank to commensurate with their educational and professional qualifications
- b) Any variable remuneration to be paid will be subject to the approval of year-end financial reports

It is the Bank's policy to keep the employee compensation and benefits most competitive, in the local labor market, to attract and retain the most competent and experienced employees with remuneration packages that are based on the latest market trends. It is also the policy to establish a fair and equitable remuneration system for all the employees within the Bank.

The Bank reviews the remuneration structure of the employees periodically with an objective of maintaining a competitive advantage in the market based on salary surveys and secondary market sources of information. The Bank had appointed external consultants to advise the bank on the sound remuneration requirements.

Variable remuneration (Bonus)

Employees' bonus entitlement are aligned to the Bank's performance, the group's performance and to individual performance and efficiency, but in all cases it shall be made at Bank's sole discretion.

The pool of bonus is approved by the RNCGC. The performance measures used in the bonus scheme relate closely to the measures used in running the business such as financial vs. non-financial, quantifiable vs. non-quantifiable, short term vs. long term and include profitability, solvency, liquidity and growth indicators.

The performance measures of staff in risk management, internal audit, operations, financial controls, AML, compliance functions and approved persons is based principally on the achievement of the objectives and targets of their functions such as adherence to the bank's risk, control and compliance policies and are independent of the financial performance of the business area they monitor

Bonuses are awarded annually based on the achievement of pre-determined objectives. These targets are based on both individual and department performance and are set by Executive Management.

The Bank has not offered any sign-on awards or guaranteed bonuses during 2015. All employees are entitled to receive 13 month salary which is distributed pro-rata on a monthly basis. There were no severance payments made towards any approved persons or material risk takers during the year.

CBB has approved the Bank's policy and exempted the Bank from the requirements of deferral and clawback provisions given the ownership structure of the organization, nature of its business and the policy of remuneration followed by the Bank.

8 ADDITIONAL GOVERNANCE MEASURES (continued)

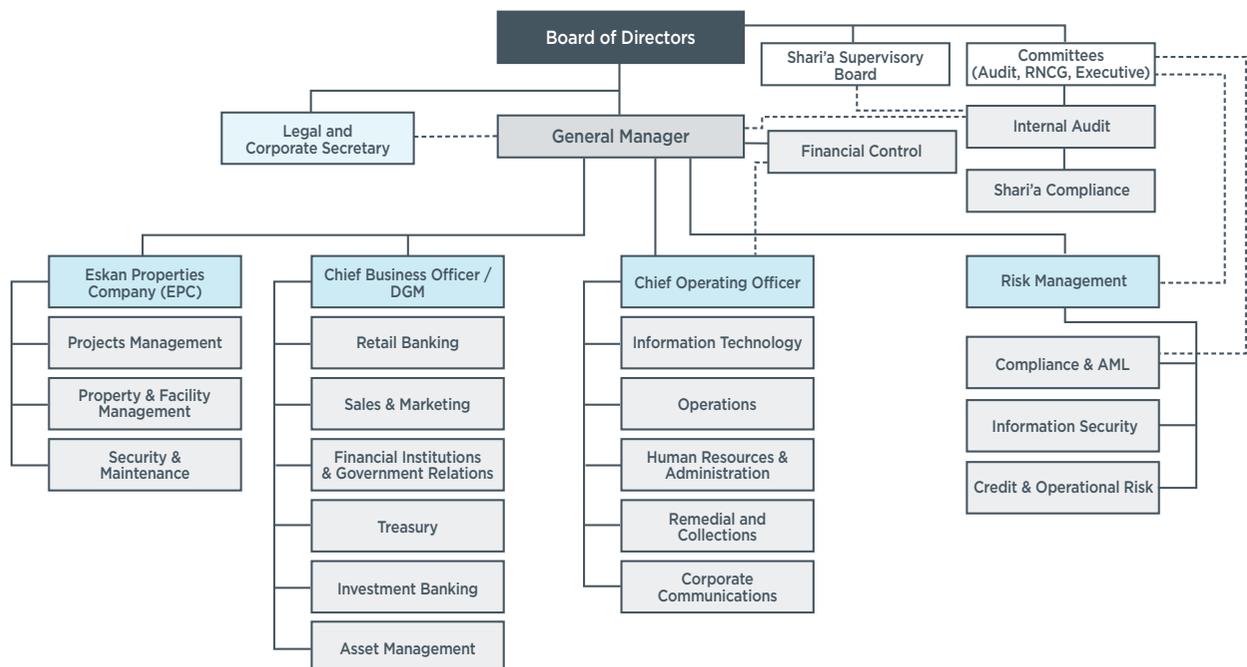
The table below reflects the total value of remuneration awards received by the approved persons of the Bank.

Total value of remuneration awards for the current fiscal year (Amt. in BHD)

	2015		2014	
	Approved Persons	Other Staff	Approved Persons	Other Staff
Fixed remuneration				
• Cash-based	1,557,032	2,471,685	1,331,480	2,149,496
• Shares and share-linked instruments	Nil	Nil	Nil	Nil
• Other	Nil	Nil	Nil	Nil
Variable remuneration				
• Cash-based	210,226	560,774	230,651	429,349
• Shares and share-linked instruments	Nil	Nil	Nil	Nil
• Other	Nil	Nil	Nil	Nil
Grand Total	4,799,717		4,140,976	

9 ORGANISATION CHART

The organisation structure of the Bank is as follows:



10 COMMUNICATION STRATEGY

At the end of each financial year, the Consolidated Financial Statements of the Group and a report on the Bank's activities is presented to the Board. All these documents are subsequently sent to the Council of Ministers.

The Banks' Articles of Association specify the recipients to whom the Bank's annual Audit Report is to be distributed, namely, H.E the Minister of Finance, H.E the Minister of Housing, H.E the Minister of Industry and Commerce, and H.E the Governor of the CBB.

The Bank also follows the disclosure requirements as stipulated by the CBB and publishes the audited financial results on its website.

Eskan Bank B.S.C. (c)

Pillar-III Disclosures continued

31st December 2015

11 CAPITAL

11.1 Capital Structure

The Bank's regulator, Central Bank of Bahrain ("the CBB"), sets and monitors capital requirements for the Group as a whole. In implementing current capital requirements, CBB requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets.

Tier I capital is defined as capital of the same or close to the character of paid-up capital and comprises share capital, share premium, retained earnings and eligible reserves. Eligible reserves include general reserve, statutory reserve, and unrealized losses arising from revaluation of equities classified as available-for-sale.

Tier II capital comprises interim profits, qualifying subordinated term finance, collective impairment provisions, and unrealized gains arising from revaluation of equities classified as available-for-sale.

Table 7: Capital Structure

The following table summarizes the eligible capital after deductions for Capital Adequacy Ratio (CAR) calculation as of 31 December 2015:

	CET1	AT1	T2
Components of capital			
Tier 1 Capital			
Common Equity Tier 1 (CET1)			
Issued and fully paid ordinary shares	108,300	-	-
Legal / statutory reserves	54,462	-	-
Retained profit brought forward	50,993	-	-
Others	1,510	-	-
Current interim profits (reviewed by external auditors)	-	-	-
Total CET 1 Capital prior to the regulatory adjustments	215,265	-	-
Total CET 1 Capital after the regulatory adjustments	215,265	-	-
Other Capital (AT1 & T2)			
General loan loss provisions	-	-	213
NET AVAILABLE CAPITAL	215,265	-	213
TOTAL CAPITAL			215,478

Following are Capital Adequacy Ratios for total capital and Tier 1 capital as of 31 December 2015:

CET1 Capital Adequacy Ratio	151.57%
T1 Capital Adequacy Ratio	151.57%
Total Capital Adequacy Ratio	151.72%

Following are the total risk weighted exposures for each category of risk the Bank is exposed to as of 31 December 2015:

Credit Risk Weighted Exposures	110,938
Operational Risk Weighted Exposures	31,088
Market Risk Weighted Exposures	-
Total Risk Weighted Exposures	142,026

11 CAPITAL

11.2 CAPITAL ADEQUACY (continued)

The Bank maintains adequate capital levels consistent with its business and operational risk profile and takes care of unforeseen contingencies. The capital planning process of the Bank ensures that the capital available for the Bank is at all times in line with the risk appetite of the Bank.

The Bank uses trigger rate of 12.5% for capital adequacy ratio as stipulated by CBB.

The Bank's Capital Adequacy Assessment ("CAAP") Management framework, which aims to ensure that capital supports business growth for its future activities, stipulates that the Bank should maintain an excess cover relative to the statutory requirement.

12 INTERNAL AUDIT

Internal audit department in Eskan bank is an independent function reports directly to the board audit committee and provides an assurance services regarding the effectiveness of the established controls, compliance and governance functions in the bank.

The internal audit department carries out its activities in accordance to an approved risk based plan to ensure that all high risk processes and functions are covered frequently. According to the risk based audit approach, the department maintains a comprehensive risk register, whereby risks are identified and updated regularly throughout the year considering the dynamic changes in the business environment and controls. The department assesses the established controls to mitigate identified risk, and test them on sample basis to ensure their effectiveness. Any weaknesses or deviation are reported to senior management and Audit committee of the Board for corrective action.

13 CREDIT RISK

13.1 Overview of Credit Risk Management

Credit risk reflects the risk of losses because one or more counterparties fail to meet all or part of their obligations towards the Group. The Bank has adopted the Standardised Approach for computation of capital charge for Credit Risk

The Credit Risk Management Framework is summarised as under:

Identification	The Bank endeavours to identify all material risks that may affect it. This is a dynamic process that favours management considerations in the development of new products.
Policies	The Credit policy is designed to be an essential management tool providing readily accessible assistance and support to corporate and credit professionals as well as senior management and other interested users.
Measuring and Handling Risk	To ensure measurement gives a fair presentation of underlying portfolios and transactions, continuous monitoring of the portfolio is carried out.
Parameter Applications	In order to capitalise on the Bank's risk appetite, the Bank applies risk based data about customers, industries etc in the day-to-day handling of customer transactions.
Controls	The Bank has established an independent control environment to monitor and enforce approved policies and limits.
Reporting	The Bank applies a systematic risk reporting at all levels of the organisation and openness in the reporting of risk factors to the Bank's stakeholders.

Eskan Bank B.S.C. (c)

Pillar-III Disclosures continued

31st December 2015

13 CREDIT RISK (continued)

13.1 Overview of Credit Risk Management (continued)

The Bank uses external ratings from Standard & Poors', Moody's, and Fitch Ratings (accredited external credit assessment institutions), for rating the balances with banks and placements with Banks. Wherever ratings are applicable/ available, the Bank has used the same in calculation of risk weighted assets.

Standard & Poor's	Fitch	Moody's	Risk Weight
AAA to AA-	AAA to AA-	Aaa to Aa3	20%
A+ to A-	A+ to A-	A1 to A3	50%
BBB+ to BBB-	BBB+ to BBB-	Baa1 to Baa3	50%
BB+ to B	BB+ to B	Ba1 to B3	100%
CCC+ to D	CCC+ to D	Ca1 to C	150%

13.2 Definition and classification of Impaired loans or Non-performing Assets ("NPAs")

The past due loans in case of social loans are considered as NPAs when the overdues in the loan account exceed 90 days. Social loans are approved by the Government of the Kingdom of Bahrain and losses on these viz: waiver, subsidy, write-off, etc. are charged to the Government Fund account. Hence, the Bank does not pass any provision entry on account of social loans.

The Bank classifies its commercial mortgage top-up loans into performing and non-performing in accordance with the CBB guidelines. In case of commercial mortgages, NPAs are defined as the loans or advances where interest and/or installment of principal remain overdue for more than 90 days. Any amount due to the Bank under any credit facility is past due if it is not paid on the due date fixed by the Bank. Further, NPAs are classified into sub-standard, doubtful and loss assets based on the criteria stipulated by CBB. A sub-standard asset is one, which has remained past due for a period more than 3 months but less than or equal to 6 months. An asset is classified as doubtful if it is past due for more than 6 months but less than or equal to 12 months. A loss asset is one if it is past due for more than 12 months and where loss has been identified by the Bank.

The NPAs under Commercial Mortgage Loans as of 31st December 2015 was BHD 1.8 million.

The Bank has laid down a specific provisioning policy for its impaired commercial mortgage loans whereby a fixed provisioning percentage is applied on the value of the credit facility based on the overdue days. The value of the collateral is offset against the credit facility for calculating the specific provision amount.

Table 8 : Past Due Loans- Aging Analysis (in BHD thousands)

	3 months up to 1 year	1 up to 3 years	Over 3 years	Total
Retail mortgage social loans *	11,698	11,328	1,831	24,857
Retail mortgage commercial loans	722	641	463	1,826
	12,420	11,969	2,294	26,683

Table 9: Movement in provisions (in BHD thousands)

	Opening balance	Charge for the year	Write off / write back	Closing balance
General Provision				
Retail mortgage commercial loans **	253	-	(40)	213
Specific Provision				
Retail mortgage commercial loans	823	368	(77)	1,114
	1,076	368	(117)	1,327

* The Credit Risk of Social Loans does not reside with the Bank & hence no impairment provisions are being made.

**The Bank provides 1% of the overall retail mortgage commercial loan as a nominal collective provision.

13 CREDIT RISK (continued)

13.2 Definition and classification of Impaired loans or Non-performing Assets (“NPAs”) (continued)

The entire past due and provision balance as at 31st December 2015 relates to its operations in the Kingdom of Bahrain.

The social loans are restructured based on the instructions of the Ministry of Housing for which the credit risk does not reside with the Bank. The total amount of social loans restructured during the year based on the instruction of Ministry of Housing amounted to BD 9.6 million.

Table 10: Capital Requirements – Standard Portfolio (in BHD thousands)

Standard Portfolio	* Gross Exposures	Risk Weighted Value	** Capital Charge
Cash Items	164	-	-
Sovereign Portfolio	540,318	-	-
Banks Portfolio	7,665	1,533	192
Residential Retail Portfolio	21,372	16,214	2,027
Equity Portfolio	1,484	2,226	278
Real Estate Portfolio	65,384	89,241	11,155
Other Exposures	1,724	1,724	216
	638,111	110,938	13,868

*Gross Exposures are in agreement with the Form PIRC submitted to the Central Bank of Bahrain (“CBB”) which takes in to account several deduction made in order to arrive at the eligible capital.

** Calculated at 12.5% of RWA

Table 11: Assets - Funded, Unfunded and Average Exposures (in BHD thousands)

	Gross Exposures	* Average Exposures
Funded Exposure		
Cash and cash equivalents	69,328	50,776
Investments	4,757	4,757
Loans	460,092	452,456
Investment in associates	6,911	8,876
Investment properties	31,996	40,162
Development properties	22,219	21,382
Other assets	1,960	5,338
	597,263	583,747
Unfunded Exposure		
Loan related	91,476	85,520
Lease commitments	248	314
Capital Commitments	6,299	8,202
	98,023	94,036

* Average balances are computed based on quarter end balances.

The Group holds collateral against loans in the form of mortgage on residential property.

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Pillar-III Disclosures continued

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13 CREDIT RISK (continued)

13.2 Definition and classification of Impaired loans or Non-performing Assets ("NPAs") (continued)

Table 12: Geographic Distribution of exposures (in BHD thousands)

The following table summarises the geographic distribution of exposures, broken down into significant areas by major types of credit exposure as of 31 December 2015 :

	Kingdom of Bahrain
Cash and cash equivalents	69,328
Investments	4,757
Loans	460,092
Investment in associates	6,911
Investment properties	31,996
Development properties	22,219
Other assets	1,960
	597,263

Table 13: Sector-wise Distribution of Exposures (in BHD thousands)

	Banks and financial institutions	Real estate and construction	Residential mortgage	Tourism	Other	Total
Funded Exposures						
Cash and cash equivalents	69,328	-	-	-	-	69,328
Investments	-	3,273	-	1,216	268	4,757
Loans	-	-	460,092	-	-	460,092
Investment in associates	-	6,911	-	-	-	6,911
Investment properties	-	31,996	-	-	-	31,996
Development properties	-	22,219	-	-	-	22,219
Other assets	-	228	-	-	1,732	1,960
	69,328	64,627	460,092	1,216	2,000	597,263
Unfunded Exposures						
Loan related	-	-	91,476	-	-	91,476
Lease commitments	-	-	-	-	248	248
Capital Commitment	-	6,299	-	-	-	6,299
	-	6,299	91,476	-	248	98,023

13.3 Related Parties Transactions

The Bank's policy is to lend to related or connected Counterparties on arm's length basis i.e. pricing for all transactions with connected counterparties shall be on a similar basis as it is for unconnected parties i.e. as per usual business practice. For all large exposures to connected counterparties, approval is obtained from the Board of Directors of the Bank.

The details of the related party disclosures are incorporated in the relevant section of the consolidated financial statements for the year ended 31st December 2015.

13 CREDIT RISK (continued)

13.3 Related Parties Transactions (continued)

Table 14: Intra-group transactions as of 31 December 2015 (In BHD Thousands)

	Eskan Bank	RMBS Co	Eskan Property Co.	Danaat Al Lawzi	Total
Assets					
Balances with Banks	-	-	178	111	289
Inter Bank Deposits	-	8,053	901	-	8,954
Investments in subsidiaries	8,652	-	-	-	8,652
Other Assets	3,755	10,769	1,570	-	16,094
	12,407	18,822	2,649	111	33,989
Liabilities and Equity					
Non-Bank Deposits	8,954	-	-	-	8,954
Current Accounts	289	-	-	-	289
Other Liabilities	12,189	1,956	1,799	150	16,094
Share Capital & Reserves	-	1	250	8,401	8,652
	21,432	1,957	2,049	8,551	33,989

13.4 Large Exposures

A Large exposure is any exposure to a counterparty or a group of closely related counterparties which is greater than, or equal to, 10% of consolidated capital base. The Bank did not have any large exposure as at 31st December 2015.

14 CREDIT RISK MITIGATION

The Bank has undertaken the following measures for mitigating risk and strategies and processes for monitoring the continuing effectiveness of mitigants:

- Clear definition of acceptable collaterals and factors governing the same
- Thorough analysis of strength of collaterals in terms of its legal certainty, enforceability and liquidity
- Creation of minimum stipulations and conditions for acceptance and valuation of collaterals
- Clearly outline in the credit risk policy the cases where insurance cover is required to be taken
- Clear and conservatively defined parameters for extension of retail mortgage loans including loan to value ratios, and debt service ratios.
- Clear control over the cash flows available to service the mortgage loans by way of transfer of salaries or acceptance of deduction of instalments and remittance thereof to the Bank directly by the employers.

Bank currently uses only non-financial collaterals to mitigate the underlying credit risk in its regular lending operations which mainly comprises of:

- First legal mortgage over real estate/ property/ factory and building

As the above collaterals are ineligible for inclusion under the standardised approach, there is no impact of these collaterals on the Pillar I capital adequacy charge. Given the Bank's prime business is mortgage financing, there is high concentration of such collaterals in the portfolio. However, the recourse to the Government in case of social loans along with a positive growth pattern in the housing sector, has led to the mitigation of this risk.

15 COUNTERPARTY CREDIT RISK FOR DERIVATIVE AND FOREIGN EXCHANGE INSTRUMENTS

The Bank does not have exposure to any of the derivative and foreign exchange instruments. So, the Bank has no counterparty credit risk arising there from.

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16 LIQUIDITY RISK

Liquidity risk is defined as potential inability of a bank to meet its financial obligations on account of a maturity mismatch between assets and liabilities. Liquidity risk management ensures that funds are available at all times to meet the funding requirements of the Bank.

The asset/liability management policies of the Bank define the proportion of liquid assets to total assets with the aim of minimizing liquidity risk. The Bank maintains adequate liquid assets such as inter-bank placements, to support its business and operations.

The Treasury & Finance Departments monitor the maturity profile of assets and liabilities so that adequate liquidity is maintained at all times.

The Bank's ability to maintain a stable liquidity profile is primarily on account of the support from the Government.

The Asset Liability Committee ("ALCO") chaired by the General Manager reviews the Liquidity Gap Profile and the Liquidity scenario and addresses strategic issues concerning liquidity.

16.1 Management of Liquidity Risk

The Bank's approach to managing liquidity is to ensure, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. Liquidity risk is managed by managing cash and cash equivalents and the continued support from the Government of Kingdom of Bahrain to meet any future commitments.

Table 15: Residual Contractual Maturity Breakdown of Assets and Liabilities (in BHD thousands)

	1-7 Days	7 Days - 1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	3-5 Years	5-10 Years	10-20 Years	Above 20 Years	Total
Cash and cash equivalents	26,110	17,126	18,935	7,158	-	-	-	-	-	-	69,328
Investments	-	-	-	-	-	268	4,489	-	-	-	4,757
Loans	47	1,648	3,347	5,117	10,360	42,598	44,533	116,041	172,762	63,638	460,092
Investment in associates	-	-	6,911	-	-	-	-	-	-	-	6,911
Investment property	-	-	-	-	-	-	-	-	31,996	-	31,996
Development property	-	-	-	-	-	22,219	-	-	-	-	22,219
Other assets	581	40	307	37	146	450	400	-	-	-	1,960
TOTAL ASSETS	26,738	18,813	29,499	12,314	10,506	65,536	49,422	116,041	204,758	63,638	597,264
Deposits from financial and other institutions	3,003	-	-	-	-	-	-	-	-	-	3,003
Government accounts	-	-	-	-	-	-	-	-	-	237,808	237,808
Term loans	-	-	-	20,000	20,000	69,000	-	-	-	-	109,000
Other liabilities	5,611	181	985	1,167	753	2,251	1,468	3,600	7,200	2,339	25,555
TOTAL LIABILITIES	8,614	181	985	21,167	20,753	71,251	1,468	3,600	7,200	240,147	375,366
MISMATCH	18,124	18,632	28,515	(8,853)	(10,246)	(5,716)	47,954	112,441	197,558	(176,510)	221,898
CUMULATIVE MISMATCH	18,124	36,755	65,270	56,417	46,170	40,454	88,408	200,849	398,408	221,898	221,898

The report reflects that there are no negative cumulative gaps reflected by the asset liability management ("ALM") report i.e. the Bank would be in a comfortable liquidity position and able to repay its existing liabilities on their scheduled due dates from its existing assets.

17 MARKET RISK

17.1 Overview of Market Risk Management

Market risk of the Bank is defined as the risk to the Bank's earnings and capital, due to changes in the market interest rate or prices of securities, foreign exchange, commodities and equities as well as volatilities of changes. The salient features of the market risk at the Bank are as under:

- Bank currently has no 'Trading Book'.
- Investments are primarily in 'Available for Sale' category.
- Market risk for the Bank is nil.
- The Bank has adopted the Standardized Approach for computation of capital charge for market risk.

18 OPERATIONAL RISK

18.1 Overview of Operational Risk Management

Operational risk is the risk of losses owing to:

- deficient or erroneous internal procedures and processes
- human or system errors
- external events, including legal risks

This implies that operational risk is often associated with specific and one-off events, for instance failure to observe business or working processes, defects or breakdowns of the technical infrastructure, criminal acts, fire and storm damage or litigation.

The Bank has developed an operational risk framework which includes identification, measurement, management, and monitoring and risk control/mitigation elements. A variety of underlying processes are being deployed across the Bank including risk and self-control assessments, key-risk indicators, new product review and approval processes. The initiatives include the preparation of emergency plans and contingency plans that aim to ensure continuing operations should extraordinary events occur. The Bank has an IT and information security framework in place, to ensure control over misuse by staff apart from external events. It also has an internal audit framework to monitor adherence to laid-down processes.

In addition, the following policies, inter alia, have been defined for the business & support areas and the Risk Management Department ("RMD"):

- Operational Risk Framework Policy
- Outsourcing Policy
- New Product Policy
- Books & Records Policy

The Bank has established systems and procedures that would ensure the collection of data concerning operational risk events.

Currently, the Bank has decided to apply the Basic Indicator Approach in the calculation of operational risk as per CBB guidelines. The decision to adopt other approaches like Standardized Approach or Advanced Measurement Approach ("AMA") will be reviewed in due course.

Table 16: Operational Risk

Operational Risk (in BHD thousands)	Amount
Average Gross income	16,579
Risk Weighted Exposures	31,088
Capital Charge (@12.5%)	3,886

The Bank uses a trigger rate of 12.5% for Capital Adequacy ratio and 12.5% for computing Operational Risk Ratio.

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19 EQUITY POSITIONS IN THE BANKING BOOK

The Equity position as at 31st December 2015 comprise investments in subsidiaries and associates which are not subject to consolidation treatment for capital calculation purposes and other investments.

Table 17: Equity Position in the Banking Books (in BHD thousands)

	Gross Exposures	Privately Held	Capital Charge
Available for sale investments	4,757	4,757	1,097
Investments in associates	6,911	6,911	812

The risk weighted assets used in arriving at the capital requirements considered certain investments risk weighted at 200% being equity investments in real estate entities and as well certain deduction to arrive at the eligible capital. Capital Charge is calculated at 12.5%.

The Bank's holding of equity positions in banking book is primarily related to its real estate development activity.

The bank's strategy currently does not allow to hold any equity positions under its treasury investment book and is likely to be continued on the same basis for the foreseeable future.

20 INTEREST RATE RISK IN THE BANKING BOOK

The Principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future flows or fair values of financial instrument due to change in market interest rates.

The Bank's current interest rate sensitive assets and liabilities are limited in nature with fixed maturity dates. The Bank adopt the earnings at risk perspective i.e. gap analysis methodology for evaluation of Interest rate risk.

Analysis of the Bank's sensitivity to an increase or decrease in a 200 bps parallel market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) on the Bank's net profit and equity:

Table 18: Sensitivity Analysis- Interest Rate Risk (in BHD thousands)

	1-7 Days	7 Days - 1 Month	1-3 Months	3-6 Months	6-12 Months	Total
Assets						
Balances and placements with financial institutions	18,194	17,126	18,935	7,158	-	61,413
Loans - commercial loans	-	-	-	-	21,112	21,112
Total Assets	18,194	17,126	18,935	7,158	21,112	82,525
Liabilities						
Deposits from financial and other institutions	3,003	-	-	-	-	3,003
Term Loans	-	-	-	9,000	-	9,000
Total Liabilities	3,003	-	-	9,000	-	12,003
Mismatch	15,191	17,126	18,935	(1,842)	21,112	70,522
Impact of change in Basis Points (+/- 200)	3	17	62	(14)	312	382

The policies and strategies adopted by the Bank in identifying, monitoring, managing and mitigating all the above risks have been effective and there has been no significant change from last year.

21 AUDIT FEES

The fees for the auditing of financial statements of BHD 12,100 (2014: BHD 12,100) mainly comprise those for the audits of the consolidated financial statements of the Group. Fees for the non-audit services of BHD 35,900 (2014: BHD 37,400 thousand) primarily relates to review of interim financial statements, agreed upon procedures services related to CBB quarterly prudential report, anti-money laundering, CBB annual and semi-annual additional public disclosures requirements.