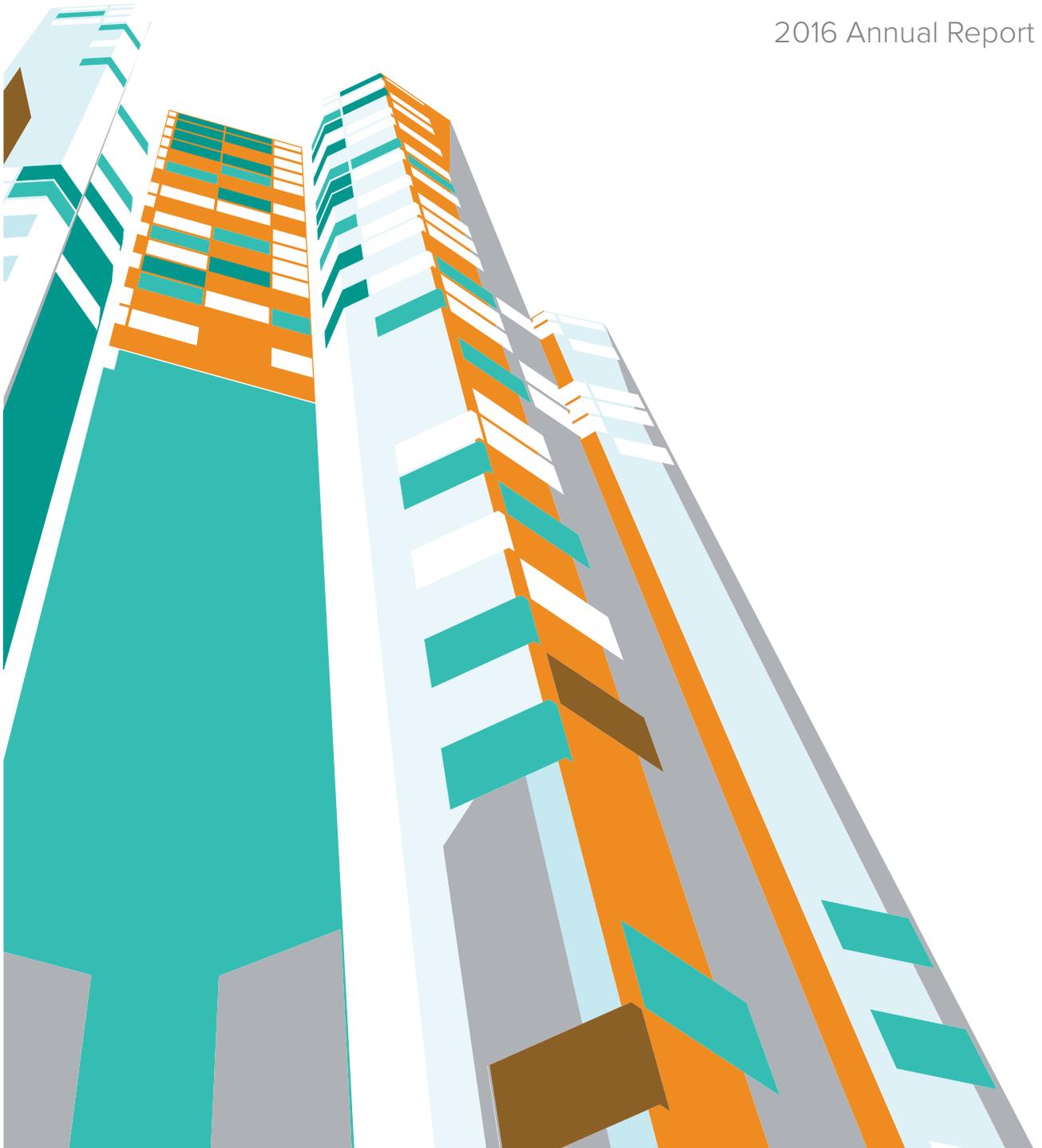




MEASURING OUR  
SUCCESS ON YOURS

2016 Annual Report



VIEW THIS REPORT ONLINE



“Subject to the provisions thereof, deposit 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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 Muharraq  
 Financial Mall – BISB  
 Tel: (+973) 1767 9023

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 Fax: (+973) 1756 4114

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 Ministry of Housing Building  
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 1753 1824, 1753 1862  
 Fax: (+973) 1753 1875

Danaat Al Madina  
 Isa Town  
 Tel: (+973) 1787 8600  
 Fax: (+973) 1787 8619



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

The Prime Minister



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

The King of the Kingdom  
of Bahrain



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

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

## CORPORATE PROFILE

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 814.7 million benefiting 56,386 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 BD400 million and paid-up capital of BD108.3 million, Eskan Bank operates under a restricted conventional retail banking license issued and regulated by the Central Bank of Bahrain. At the end of 2016, total assets of the Bank stood at BD637 million.

**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 814,7 million benefiting 56,386 Bahraini families.**



## VISION

Lead in providing innovative and sustainable housing solutions

## 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.

## VALUES

- Integrity
- Respect
- Ownership
- Innovation



## MEASURING OUR SUCCESS ON YOURS

### **2016 WAS A YEAR OF CONSIDERABLE SUCCESS FOR ESKAN BANK AS WE ADAPTED AND EVOLVED OUR ROLE TO MEET THE CHANGING NEEDS OF THE CITIZENS OF BAHRAIN, AND OUR PUBLIC AND PRIVATE PARTNERS.**

Despite difficult market conditions, including a lack of liquidity and regional political instability, the falling of oil prices and the lifting of some Government subsidies, the Bank remained steadfast in its mission to support the Ministry of Housing in its endeavor to deliver a sustainable housing model that facilitates home ownership for all Bahrainis.

Achievements of the year include the successful completion and delivery of pioneering housing projects in close collaboration with the Ministry and the private sector, and the forging of key partnerships with leading banks in Bahrain to provide more choices for Bahrainis when it comes to home financing.

In addition to stimulating private sector growth and reducing the burden on the government through enhanced Public Private Partnerships (PPP's), the delivery of pioneering community housing projects and enhanced home financing solutions to Bahrainis, the Bank also launched the Kingdom's first ever Islamic Real Estate Investment Trust (REIT); offering Bahraini investors, as well as GCC nationals and institutions, the opportunity to share in Eskan Bank's significant property development activities that are changing the face of social housing in Bahrain, and laying the foundation for a sophisticated and sustainable social housing model.





### HOUSING PROJECTS

Completion and delivery of pioneering housing projects in close collaboration with the Ministry and the private sector,



### ESKAN REIT

The Bank launched the Kingdom's first ever Islamic Real Estate Investment Trust (REIT); offering Bahraini investors, as well as GCC nationals and institutions.



### PARTNERSHIPS

Through enhanced Public Private Partnerships (PPP's), The delivery of pioneering community housing projects and enhanced home financing solutions to Bahrainis.

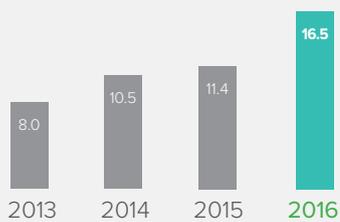


## FINANCIAL HIGHLIGHTS

Eskan Bank has posted positive financial results, with a total net income for 2016 of BD16.5 million, a substantial increase on the previous year representing an increase of 44% (2015: BD11.4 million). Total equity stood at BD230.8 million (2015: BD221.9 million), while the return on equity stood at 7%. Total expenses decreased by 6% compared to the previous year as a result of enhanced development activities, while total income grew by 25%, contributing to a drop in the cost-to-income ratio to 28%, compared with 36% in 2015.

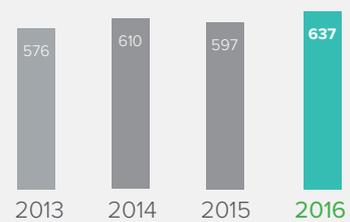
Net Income (BD Million)

16.5



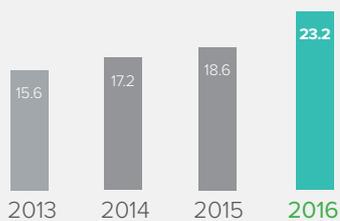
Total Assets (BD Million)

637



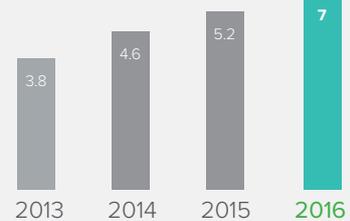
Operating Income (BD Million)

23.2



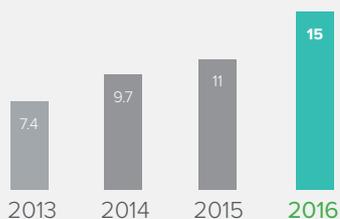
Return on Equity (%)

7



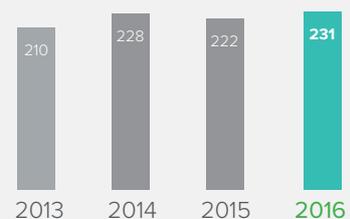
Earnings per Share (BD)

15



Total Equity (BD Million)

231



## OPERATIONAL HIGHLIGHTS

### Adapting & Evolving

As a result of the Bank's increased development activities and evolving role as investment and development manager, Eskan Bank recorded a net profit of BD16.5 million for 2016, representing an increase in excess of 44% on the previous year, (2015: BD11.4 million). These positive results can also be attributed to the sale of major social housing projects Danat al Seef, Danat al Riffa, and the Hamad Town villa development, as well as the Bank's exit from the Bahrain Property Musharaka trust through the listing of Bahrain's first ever Islamic Real Estate Investment Trust, namely the Eskan Bank Realty Income Trust which was listed on the Bahrain Bourse on the 2<sup>nd</sup> of January, 2017.

During the reporting period, the Bank also renewed its syndicated loan for BD100 million which be used for general corporate purposes.

### Doing 'More with Less'

In 2016 the Bank provided Shari'a compliant loans totaling BD38.5 million to 1170 Bahraini families, further facilitating home ownership for Bahrainis. Despite a challenging operating environment, the Bank remained steadfast in its mission to 'do more with less'; enhancing efficiency whilst aiming to reduce operating costs. As such the cost-to-income ratio dropped to 28% in 2016 (compared to 36% in 2015). Savings were also realized from the 'Early Retirement' initiative in 2015.

### Delivering Together

During 2016, the Bank's property development arm, Eskan Properties Company (EPC), worked in close collaboration with the Ministry of Housing and its private sector partners to deliver quality homes to Bahrainis. During the year three major social housing projects; Danaat Al Seef, Danaat Al Riffa, and a development consisting of 18 villas in Hamad Town, were completed and sold in record time to Bahraini citizens on the Ministry of Housing waiting list.

Construction also commenced on Danaat Al Lawzi with BD19.5 million financing arranged by Bahrain Islamic Bank and Arab Bank in order to fund the project. The development, which is comprised of 300 villas designed with state of the art communal amenities and facilities, including 2000 sqm of retail space, green areas and walkways in Al Lawzi, East Hamad Town, was featured in the Bank's Gulf Property stand this year and gained the interest of many Bahraini families for its sophisticated and community-orientated design.

### Evolved Housing Solutions

An agreement was signed with al Baraka Bank and a private sector land owner to develop the BD17 million Danat al Baraka project, a 200 villa community in Jannusan. The deal represents a pioneering initiative by the Bank to arrange and manage partnerships between the sources of capital and land owners in the private sector in order to develop sophisticated social housing projects. Danat al Baraka is currently in the design stage.

### Leveraging Cutting Edge Technology

Aligned with the offering of more services and financing solutions, the Bank has acquired a new core banking system that directly links Eskan with its growing network of private banks whilst supporting the Ministry of Housing programme offerings available to Bahraini citizens through Eskan Bank.

The Oracle based open platform will greatly increase efficiency in the delivery of the Bank's services, reduce operating costs and improve customer turnaround time. The system is in the final stages of testing and user training and will be going live in 2017.

### Elevating 'Vertical' Living

Through the design, development and delivery of state of the art in communities with spacious green communal facilities, Eskan is changing the way citizens view 'vertical community' living. In 2016, more families embraced the step by step approach to home ownership encouraged by 'Tomoooh', a programme that encourages apartment ownership as a first step on the housing ladder and underscores the importance of financial planning in realising home ownership dreams.



## BOARD OF DIRECTORS



1



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8



9



**1. H.E. Eng. Basim bin Yacob Al Hamer**

Minister of Housing, Chairman  
Chairman of Remuneration, Nomination and  
Corporate Governance Committee

**2. Mr. Mohammed A.R. Hussain Bucheeri**

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

**3. Dr. Zakareya Sultan Al Abbasi**

Independent Non-Executive Director and Member  
of Audit Committee

**4. Mr. Yusuf Saleh Khalaf**

Independent Non-Executive Director and member  
of the Audit Committee

**5. Mr. Yusuf Abdulla Taqi**

Independent Non-Executive Director and Member  
of Remuneration, Nomination and Corporate  
Governance Committee

**6. Mr. Riyad Saleh Al Saei**

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

**7. Mrs. 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

Note: 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 2016.

2016 was a year characterized by milestone successes for the Bank as it worked diligently to support the Ministry of Housing in laying the foundation of a sustainable housing model for the people of Bahrain. I am pleased to report that the Bank has posted positive financial results, with a total net income for 2016 of BD16.5 million, a substantial increase on the previous year representing an increase of 44% (2015: BD11.4 million). These outstanding results are attributable to enhanced development activities, in particular the completion and sale of three social housing developments, a successful exit from the Bahrain Property Musharaka Trust, the listing of Bahrain's first ever Islamic Real Estate Investment Trust (REIT), and the implementation of operational cost effective initiatives. Total equity stood at BD230.8 million (2015: BD221.9 million), while the return on equity stood at 7%. Total expenses decreased by 6% compared to the previous year as a result of enhanced development activities, while total income grew by 25%, contributing to a drop in the cost-to-income ratio to 28%, compared with 36% in 2015.

The Bank's total balance sheet grew to BD637 million at the end of 2016, compared to BD597 million at the end of the previous year. Capital adequacy ratio improved to 133%, while the Bank's balance sheet continues to boast healthy liquidity.

Underscoring the private sector's growing trust in the Bank in its evolved role in financial structuring and social housing development management, a number of milestone partnerships were forged with leading banks and landowners during the year. These partnerships further supported the Ministry in delivering quality social housing solutions whilst also substantially boosting private sector growth in the financing and construction sectors.

2016 was a year of delivery for Eskan Bank. Danat al Seef, Danat al Riffa, and the Hamad Town villa development were all completed and sold to beneficiaries of the Ministry of Housing while other key developments progressed; allowing the Ministry to make great strides towards fulfilling The Crown Prince's directives to deliver 25,000 units to citizens by 2018.

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.

I would also like to express my appreciation to our management and staff for their unwavering dedication to serving the people of Bahrain, to our private sector partners for their trust and support, and to our customers for whom all our efforts are directed.



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





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



2016 was a year of delivery for Eskan Bank. Danat al Seef, Danat al Riffa, and the Hamad Town villa development were all completed and sold to beneficiaries on the Ministry of Housing waiting list

.....



## GENERAL MANAGER'S REPORT



As we transform and play a growing role in the delivery of a sustainable housing model, we remain guided by our core values of 'Integrity', 'Respect', 'Ownership' and 'Innovation'.

.....

Dr. Khalid Abdulla  
General Manager



2016 underscored Eskan Bank's ability to adapt and respond to today's rapidly changing business and social landscape; providing comprehensive and innovative solutions that not only support the sustainable success of the Bank and the Kingdom's economy, but also add real value to the lives of Bahraini citizens.

The Bank has faced the ongoing challenges that lower oil prices and regional political instability have created by thinking creatively. We have embraced innovation in our product and service offerings, and in close collaboration with the Ministry of Housing have joined hands with the private sector in financing and development partnerships that have resulted in financing solutions that provide more choice to citizens and result in award winning developments that are transforming the social housing sector in Bahrain, and positioning the Kingdom as a benchmark for sophisticated and sustainable social housing throughout the GCC.

Partnerships with private banks in the offerings of products such as Mazaya and Pari Passu have invigorated the financial services sector, whilst tie-ups with landowners and private sources of capital have reduced the social housing burden on the Government whilst laying the foundation for a truly sustainable social housing model for the Kingdom of Bahrain.

The successful delivery and sale of Danaat developments in 2016 has boosted private sector trust in the Bank's ability in innovative financial structuring and competent development management, and is paving the way for future Private Public Partnerships (PPP's) that are set to elevate future social housing projects to new heights. Danaat al Baraka, where for the first time the Bank will be using private land and private funds to develop social housing, and assuming the role of investment and development manager. These successes are laying the foundation for further PPP's.

Our positive financial results, profits which will be reinvested into new social housing programmes that add value to the people of Bahrain, underscore the trust and confidence the Bank enjoys among its private and public partners. Key to our ongoing success is the Bank's sensitivity towards the needs of the private sector; ensuring our partners are satisfied with Eskan Bank as a business partner.

As we transform and play a growing role in the delivery of a sustainable housing model, we remain guided by our core values of 'Integrity', 'Respect', 'Ownership' and 'Innovation'. These values translate into the Bank embracing sustainability in every form. In addition to ensuring the financial sustainability of the Bank and its customers through creative financial structuring, we design homes and communities that last. This includes the efficient use of resources and the materials and technologies we use in our developments such as solar energy and water recycling.

At Eskan we understand that our customers all have unique needs. That's why, rather than finding one financing solution that 'fits all', the Bank is working to create bespoke sophisticated products that cater to each customer segment. Our 'Tomoooh' product, which encourages citizens to begin their journey on the social housing ladder through the purchase of an apartment in state of the art vertical communities, has been positively received allowing more families to take a step towards owning their dream home without compromising on lifestyle. It is these pioneering programmes that highlight Eskan's dedication to fulfilling the rights of all citizens to live in a safe, positively energized community.

In addition to new products and partnerships, the Bank launched the first Islamic Real Estate Investment Trust (REIT) fund in Bahrain providing Bahraini and GCC investors with the opportunity to share in the Bank's development success. Eskan REIT be listed on the Bahrain Stock exchange early in 2017 in the first IPO in the Kingdom since 2007.

The Bank received a number of awards in 2016. These included the 'Best Design & Best Development in the GCC' by MEED magazine, for Danat Al Madina development, and 'Best Customer Service in the Middle East,' an accolade bestowed on the Bank by the prestigious Banker Magazine for our innovative product offerings 'Tomoooh', 'Pari Passu', and Mazaya. In addition, the Bank also received the "Bahrain CSR Award for Excellence in Community Partnerships with Charity", from Bahrain's CSR Society. The CSR award is the first from the society and was in recognition for the Bank's initiative with UOB in Launching the annual "Eskan Bank Award for Creative Engineering".

These achievements would not have been possible without the hard work and commitment of Eskan Bank employees. Their dedication to serving the country and its citizens is unswerving and I consider myself privileged to work alongside them.

As we move towards 2017, Eskan Bank is extending its reach beyond the borders of Bahrain, where there is encouraging interest from international players to participate in Bahrain's burgeoning social housing scene.

Although the coming years may continue to present challenges, the management and Board of Eskan Bank are confident that the Bank is well positioned to navigate successfully. Eskan Bank has the financial structure, products and partnerships, and a flexibility that allows it to respond to the market and our customers needs. Therefore, with the steadfast support of the Ministries, and a moral compass that puts the citizens of Bahrain at the center of everything we do, we will continue to prosper with the support of our stakeholders.



**Dr. Khalid Abdulla**  
General Manager



## BUSINESS REVIEW

### **Bolstering the government's efforts to promote vertical housing, Eskan Bank in cooperation and coordination with Ministry of Housing is developing enhancements to the Social Housing Finance Scheme which will make apartment living a more attractive option.**

#### **Building Sustainable Communities**

Eskan Bank builds communities that last. From the design of our master planned developments that include more 'green' space and communal areas, to the design and materials we use in our apartments and villas; sustainability is at the core of what we do.

All Eskan Bank properties are being developed with materials that last, are cost effective and environmentally friendly. These improvements not only reduce the costs of maintaining the properties, but also reduce the cost of water and electricity for our homeowners. Solar powered water heaters and solar powered street lighting are among some of the improvements, while more efficient insulation materials are also being sourced to reduce cooling costs.



#### **Solutions for Every Family**

Aligned with its mission to deliver innovative housing solutions tailored to meet the needs of all customer segments, the Bank launched 'Tomoooh' in 2016. Tomoooh facilitates the purchase of apartments for beneficiaries, providing citizens with a step by step, planned approach to owning their dream home without compromising on quality of life. The programme encourages citizens to purchase apartments in state of the art 'vertical communities' by guaranteeing the re - purchase of apartments by the Bank, between the 7<sup>th</sup> and 10<sup>th</sup> year, at 90% of its market price, enabling the homeowner to purchase a larger apartment or villa when they are financially ready.

The vertical communities are designed with the needs of the Bahraini family in mind. Each apartment, which comes with 2 years of free maintenance, includes a room for a housemaid, two parking spaces, and spacious communal areas for children to play. Interior designers are appointed to ensure space is utilized to ensure comfort, privacy and a quality finish.

Bolstering the government's efforts to promote vertical housing, Eskan Bank is also developing enhancements to the Mazaya 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.

#### **Creating Solutions Through Partnerships**

Eskan Bank has become a catalyst for private sector growth in the financing and construction sectors. The Bank is working closer than ever with private developers, landowners and commercial banks to reduce the burden on the government and lay the foundation for a sustainable social housing model for the Kingdom 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, providing choices in financing for all Bahrainis, and most importantly supporting the Ministry in reducing the number of Bahrainis on the national housing waiting list.

#### **Award Winning Designs**

Eskan Bank is bringing quality and innovation in design and construction to the forefront; positioning the Kingdom of Bahrain as a benchmark for quality social housing development. Through new sustainable designs and pioneering vertical community concepts, the Bank is transforming the way people think about social housing. The Bank's achievements in providing landmark community developments to the citizens of Bahrain have been recognized. In 2016, MEED awarded Danat Al Madina development with the 'Best Design & Best Development in the GCC', an accolade that has encouraged the Bank to reach new heights towards sustainable development success.





Eskan Bank has become a catalyst for private sector growth in the financing and construction sectors. The Bank is working closer than ever with private developers, landowners and commercial banks to reduce the burden on the government and lay the foundation for a sustainable social housing model for the Kingdom of Bahrain.



Infrastructure in Bandar Al Seef is scheduled to begin in the near future after completion of land reclamation. More details could be found in the report of Eskan Properties Company B.S.C. in the section of the subsidiaries of this Annual Report.



BUSINESS REVIEW (CONTINUED)



In 2016 the Bank was also recognized by International Banker for 'Best Customer Service in the Middle East'. The award underscores Eskan's efforts in proactively analysing and defining gaps and addressing these through the provision of innovative products such as 'Tomoooh', 'Pari Passu'.



**Social housing beneficiaries can now acquire a higher priced home while being able to shop around for the best additional mortgage rate from participating banks. Pari Passu allows higher income beneficiaries to avail of a social housing loan from the Ministry of Housing and then top up the loan by seeking market-competitive rates from private sector banks as per the preferred bank's criteria.**

#### Award Winning Service

In 2016 the Bank was also recognized by International Banker for 'Best Customer Service in the Middle East'. The award underscores Eskan's efforts in proactively analysing and defining gaps and addressing these through the provision of innovative products such as 'Tomoooh', 'Pari Passu', and Mazaya that facilitate home ownership for different customer segments in Bahrain.

#### Recognised for our Community Role

In recognition by Bahrain CSR Society, Eskan Bank received Bahrain International CSR award 2015 for its collaboration with the College of Engineering, picking up the award for 'Innovative Engineering'.

#### Finding Financing Solutions Together

The Bank made great strides in facilitating the provision of financing solutions to Bahrainis with limited income in an effort to support them in their dream of owning their own home.

#### Mazaya

In 2016, there was a significant increase in the number of commercial banks that joined hands with Eskan to provide financing solutions to citizens through the Bank's Mazaya service. The demand for the service also grew with more citizens embracing the scheme. Mazaya allows citizens to avail of financing from selected banks, with the loan

being subsidized by the Government of Bahrain. The Scheme was introduced by the Ministry of Housing in October 2013 under the patronage of the Deputy of the Prime Minister, His Excellency Shaikh Khalid bin Abdulla Al Khalifa, in cooperation with the Ministry of Finance and Eskan Bank. Participating banks now 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), with Eskan Bank acting as administrator. Eskan Bank is working in coordination with the Ministry of Housing to further develop this ambitious program by increasing the numbers of financial institutions and real estate development companies involved in the scheme.

#### Pari-Passu

Social housing beneficiaries can now acquire a higher priced home while being able to shop around for the best additional mortgage rate from participating banks. Pari Passu allows higher income beneficiaries to avail of a social housing loan from the Ministry of Housing and then top up the loan by seeking market-competitive rates from private sector banks as per the preferred bank's criteria. This arrangement is possible due to Eskan Bank's evolved lending policies that allow the sharing of ownership of the title deed with banks that agrees to this "pari-passu" arrangement. The scheme

has been extremely successful, allowing banks to enter the social housing finance market and connecting them with thousands of potential customers.

#### Eskan REIT: A First for Bahrain

Eskan Bank launched the Kingdom's first ever Islamic Real Estate Investment Trust (EBREIT) in 2016 offering Bahraini and GCC investors the opportunity to invest in the Bank's developed realty projects, namely Segaya Plaza and Danaat Al Madina, and benefit from the rental income generated.

The Initial Public Offering (IPO) of the fund, the first in Bahrain since 2007, opened on November 22 and closed on December 6, achieving a 95.5% subscription. The IPO offered 144,394,499 units of the total 198,000,000 at an offer price of 100 fils per unit, totaling BD14.4 million and representing 72.9 per cent of the trust's total size of BD19.8 million.

The properties currently have an occupancy rate of over 85 per cent, and the trust intends to increase its Sharia-compliant property portfolio as and when attractive opportunities arise. The REIT targets 6.5 per cent in net distributable income payable semi-annually for a minimum subscription of BHD500, and allotment priority will be given to individual Bahraini applicants and thereafter all other investor categories on a pro rata basis.



## BUSINESS REVIEW (CONTINUED)

The trust intends to provide unit holders with steady, recurring distributions equating to a minimum of 90 per cent of net distributable income of the trust; and decreased unit holder value through the potential appreciation in the price of units derived from improved property upkeep stemming from a reserve fund dedicated to the trust.

Securities & Investment Company (SICO) is the mandated lead manager, sub-investment manager and dedicated market maker, while Bahrain Islamic Bank (BisB) has been appointed as the receiving bank. The REIT will be listed on the Bahrain Bourse on January 2, 2017, after which all investors will have the flexibility to trade their units with a dedicated market maker providing additional liquidity on an ongoing basis.

### Delivering Danaat

In 2016, Eskan Bank successfully completed and delivered to beneficiaries the 164-unit Danaat Al Seef and 84-unit Danaat Al Riffa projects. Work also started on Danaat Al Lawzi and Danaat Al Yufur, the latter being a joint venture to deliver 300 houses in the Northern Governorate, with a private sector partner providing land.

The Danaat brand has changed the perception of affordable housing in Bahrain, offering stylish and sustainable community living at its best. 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 incorporate air conditioning systems, and are available as two, three and four bedroom configurations. They feature the same open spaces concept, with play areas and a variety of services available within convenient walking distance.

The Bank achieved great success in 2016 on this front, linking government initiatives with private sector resources to replicate the success story of the Danaat brand throughout the Kingdom on a larger scale. The Bank has already gauged interest from groups of international developers and financiers to build large scale housing projects on government land, activating the partnership process, in collaboration and under the guidance of the Ministry of Housing, with international groups in order to finance the development of large residential projects. This will provide an immediate boost to the housing supply.

During 2016, the Bank took Public Private Partnerships to new heights. An agreement was signed with Al Baraka Bank and a land owner to develop the BD17 million Danaat al Baraka project, a 200 villa community in Jannusan. This pioneering initiative, whereby Eskan arranges and manages partnerships between the sources of capital and land owners in the private sector, is an important milestone towards developing sophisticated social housing projects with the private sector; effectively enhancing private sector growth and reducing the social housing burden on the Government of Bahrain. Eskan is also working on finalising the establishment of a Property and Facility Management Company which will manage the Bank's vertical developments.

### An Evolving Role

Eskan Bank remains dedicated in its role to support the Ministry of Housing towards the development of a sustainable housing model for the Kingdom of Bahrain through the provision of financial solutions that facilitate home ownership for Bahrainis. In 2016, the Bank underscored its ability in financial structuring and development management; transforming the Bank into the role of a facilitator of social housing in Bahrain. Through the mobilization of private local and international resources, whether finance or lands, the Bank will facilitate the development of future ministry housing projects.



The “Danaat” brand has changed the perception of affordable housing in Bahrain, offering stylish and sustainable community living at its best. Each new Danaat development is planned to be an improvement over its predecessor.



In 2016, ESKAN Bank successfully completed and delivered 164-unit Danaat Al Seef and 84-unit Danaat Al Riffa projects.

ESKAN Bank remains dedicated in its role to support the Ministry of Housing towards the development of a sustainable housing model for the Kingdom of Bahrain through the provision of financial solutions that facilitate home ownership for Bahrainis.



## BUSINESS REVIEW (CONTINUED)

### A Part of the Community

#### Collaborating with a New generation of Engineers

Eskan Bank is more than just a bank; it is a part of the Bahraini community. The bank's dedication to adding real value to the lives of the citizen's of Bahrain was recognized at the 'Bahrain International Conference on Social Responsibility and Sustainability' held under the auspices of the Minister of Energy, Dr. Abdul Hussain bin Ali Mirza. Eskan Bank was awarded "Excellence in Community Partnership" for its annual collaboration with College of Engineering from the University of Bahrain.

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**The bank's dedication to adding real value to the lives of the citizen's of Bahrain was recognized at the 'Bahrain International Conference on Social Responsibility and Sustainability' held under the auspices of the Minister of Energy, Dr. Abdul Hussain Mirza. Eskan Bank was awarded «Excellence in Community Partnership» for its annual collaboration with College of Engineering from the University of Bahrain.**

The annual "Eskan Bank Award for Creative Engineering" between the Bank and the University focuses on identifying challenges in Bahrain's social housing sector and collaborating with the Engineering students to develop innovative, forward thinking solutions. The subject of the 3<sup>rd</sup> version of the Academic year 2015/2016 is "Vertical Communities Towards Sustainable Lifestyle".

#### Working Together to Support Awareness

In 2016, the Bank highlighted its commitment to the community through its active participation in Breast Cancer Awareness month.

A workshop was held to highlight the high prominence of breast Cancer in Bahrain and underscores the importance of the early detection of breast Cancer. Bank employees also took part in a blood donation drive, highlighting the Bank's dedication to adding value to the community.

#### In Touch with the Community

Eskan Bank organized a visit to the "National Bank of Bahrain Home for the Elderly", to express their gratitude for the valuable contributions the older generation have made to Bahrain. The visit highlights the Bank's commitment to reaching out to all members of the community and ensuring lines of communication are kept open between the Bank and the people it strives to serve.

#### Nurturing our Greatest Asset

2016 was an active year for the Human Resource (HR) division. In addition to recruitment activities, the Bank undertook a number of initiatives and programmes. These included updating the HR policies and procedures

manual in order to align with industry best practices and incorporate the recent regulatory requirements of the Central Bank of Bahrain, enhancing the Performance Management System (PMR) in terms of process circular and overall rating, and reviewing the salary scale of the Bank. The department also implemented a new archive storage system to accommodate 39,000 hanging files and 4,200 box files, and provided quality training and development opportunities to its employees.

The Bank maintained its focus on transparency, ensuring enhanced communication between staff and leadership through Initiatives that included the application of a cross board fair and adequate Bonus & Merit Increase distribution methodology, the implementation of Internal Awareness sessions, in order to increase awareness on HR policy manual updates, and the implementation of new Job Rotation and Internship training programme through the hosting of University students and fresh graduates.

Aligned with the 2016 manpower strategy, HRD recruited a number of high quality candidates, however many internal job vacancies were filled by reallocating existing staff underscoring the success of our succession Planning programme, part of which included the enrollment of 'high flyer' staff in Tamkeen and BIBF programmes. The total number of staff in December 2016 for Eskan Bank was 142 (2015: 143), Eskan Bank Properties, 38 (2015: 43). The Bank maintained a 94% Bahranization level for the 3<sup>rd</sup> consecutive year.

During the reporting period, the Bank also enhanced the existing online Performance Management System (PMR) to ensure adequate numerical



weightage of Objectives and overall rating of performance categories, in addition to full fledged Admin control by HRD. Salaries payment and other Benefit reimbursement have also been streamlined through the utilization of the new EFTS system.

During the year, 563 BIBF and Tamkeen approved training courses were attended by 95.2% of Eskan Bank staff. Internal awareness sessions were also conducted. These included Anti Money Laundering (AML), Operational Risk Management, Amended HR policy, Mind & Mapping, Measures for Dealing with Disabled Customers, in addition to Customer Service Skills training. The Bank also conducted a sign language course for customer service employees.

The Bank maintained a 94% Bahrainization level for the 3<sup>rd</sup> consecutive year.

### Reallocating Jidali Branch

In an effort to make customer's lives easier and offer even more convenience, the Bank reallocated Jidali branch to Danat-Al Madina. The new bigger b, will offer citizens all Ministry of Housing services, in addition to Eskan Bank financial products and services.

### Towards Tomorrow

As we move forward into 2017 and beyond, Eskan Bank remains committed to supporting the Ministry of Housing in its noble endeavor to enhance the lives of all Bahrainis; securing their right to live in a safe, sustainable and positively energized community.

The Bank is unwavering in its commitment to achieve this by shaping innovative financial and developmental solutions guided by the Wise leadership of Bahrain and with the invaluable support of the Ministries and our private sector partners.

In the coming years, we will remain focused on delivering tangible results to the people of Bahrain. We will do this by further enhancing our public and private sector relationships, both locally and internationally, enhancing our existing product and service offerings to meet the needs of all of our customer segments, and implement initiatives that increase the awareness and understanding of these products and services to our customers. Above all, Eskan Bank will ensure that our core values of respect, integrity, ownership and innovation will continue to direct us in everything we do.



## AWARDS AND RECOGNITION

**The Bank strives to be a benchmark for innovation, service excellence and ethical business practices that add real value to the community.**

The Bank strives to be a benchmark for innovation, service excellence and ethical business practices that add real value to the community. In 2016, our efforts towards this noble mission were recognized and rewarded. From quality and innovation in affordable and sustainable design and construction, to superior service and community initiatives, Eskan Bank received accolades across all fronts.

### **Best Customer Service provider in the Middle East**

For second year in a row, Eskan Bank was awarded the 'International Banking Award'. This year's award was awarded to the Bank for its excellence in customer service, enabling the Bank to play a leading role in supporting the national housing strategy and improving the quality of life of citizens benefiting from housing services.

### **"Bahrain International Award for Social Responsibility" for its annual "Engineering Innovation Award"**

Eskan won the Bahrain International Social Responsibility Award (CSR) 2015, launched by the Bahrain Society for Social Responsibility for the first time last year.

The Bank won the "Excellence in Community Partnership" category for the "Eskan Bank Award for Creative Engineering" project organized annually by the Bank in cooperation with the University of Bahrain.

### **Quality Awards for Projects (MEED)**

Eskan Property Company, a wholly-owned subsidiary of Eskan Bank, has won three national awards from MEED Quality Award for Enterprise 2016, in partnership with Mashreq Bank in the United Arab Emirates.

The company was awarded the "Sustainable Enterprise Award", the "Residential Projects Award" and the "Multi-Purpose Projects Award" for "Danat Al Madinah" project.





1. Dr. Khaled Abdullah, General Manager of Eskan Bank receives the Bahrain International Social Responsibility Award for the annual “Eskan Bank Award for Creative Engineering”
2. Dr. Khalid Abdullah, General Manager, Eskan Bank, receives The Best Customer Service Provider Award in the Middle East
3. Mr. Ahmed Tayara, Deputy General Manager and Chief Operating Officer, received the Bahrain International Social Responsibility Award during the Bahrain International Conference on Social Responsibility and Sustainability
4. “Med” Award for the quality of projects 2016



## PROJECT PORTFOLIO

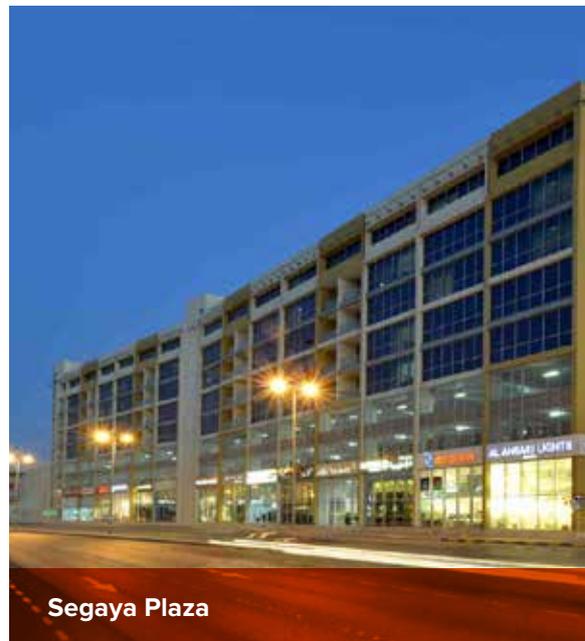
### Eskan Bank projects



#### Project Name

#### Completion status

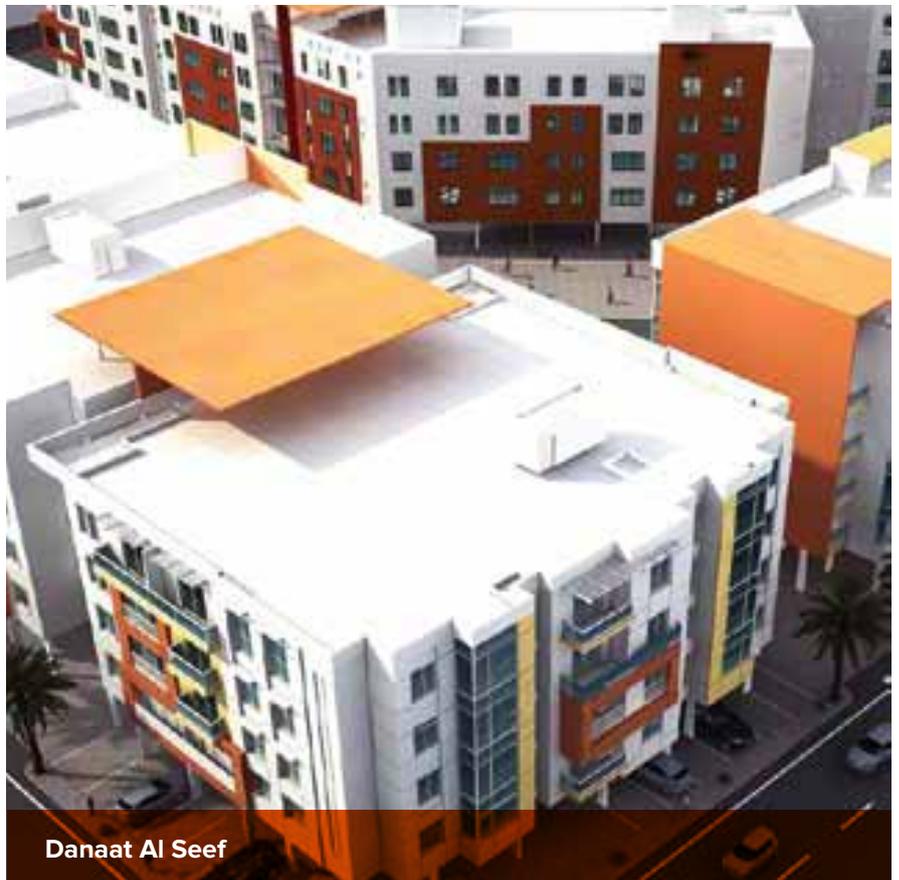
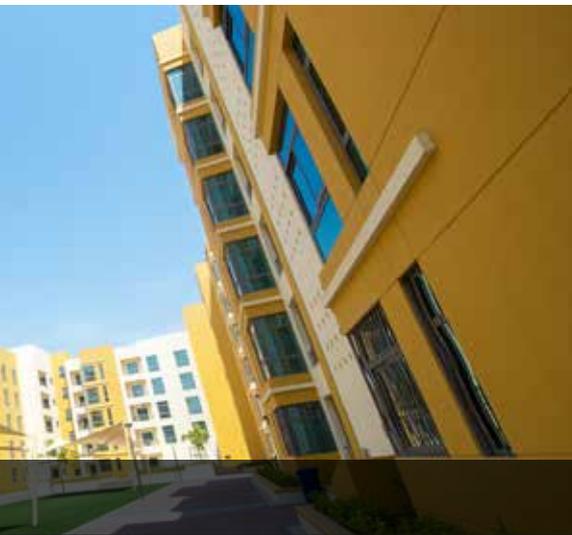
Danaat Al Madina	Completed
Segaya Plaza	Completed
Hamad Town Villas	Completed
Danaat Al Seef	Completed
Danaat Al Riffa	Completed
Danaat Al Lawzi	June 2018
Danaat Al Baraka	June 2018
Danaat Al Yafoor	June 2018
Danaat Al Hamala	TBD
Danaat Al Sayah	TBD
Seef Greens	TBD



MEASURING OUR  
SUCCESS ON YOURS



Danaat Al Lawzi



Danaat Al Seef



## SUBSIDIARIES, ASSOCIATES AND STRATEGIC INVESTMENTS

### Subsidiaries

#### **Eskan Properties Company B.S.C.**

The Bank owns 100% in Eskan Properties Company which is registered 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.

#### **Eskan RMBS Company B.S.C.**

The Bank owns 100% in Eskan RMBS Company which is registered in the Kingdom of Bahrain, whose principal activities are to issue Asset Backed private debt securities for the purpose of securitization of housing loans.

#### **Dannat Al Luzi B.S.C**

The Bank owns 55.88% in Dannat Al Luzi which was established in 2014, registered in the Kingdom of Bahrain and whose principal activities include management and development of private property, buying and selling of properties, and property development, leasing, management and maintenance.

### Associates

#### **Al Ebdaa Bank B.S.C.**

During 2009, Al Ebdaa Bank B.S.C. 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.

#### **Bahrain Property Musharaka Trust (BPMT)**

Established in 2011 with a total value of BHD 23.3 million to build two projects, namely Segaya Plaza and Danaat Al Madina mix use. The Bank's ownership in BPMT was 42.98%. Upon selling the affordable apartments in Danaat Al Madina mix use, Segaya Plaza along with the commercial part of Danaat Al Madina were the seeding asset of a new listed Real Estate Investment Trust (REIT).

#### **Eskan Bank Realty Income Trust (EBRIT)**

EBRIT is the first listed Real Estate Investment Trust in Bahrain. Established by the Bank during the last quarter of 2016. With a total value of BD 19.8 million, the Bank holds 22.46% of EBRIT units. The inaugural property of EBRIT includes Segaya Plaza along with the commercial parts of Danaat Al Madina.

### 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.

Eskan Bank holds a 3% 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 Qamber**  
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

**Mr. Hani Nayem**  
Head of Internal Audit

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

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

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

**Mr. Fadhel Hashemi**  
Acting Senior Manager of Remedial  
& Collection

### 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

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. With the reduction in the oil prices and the resultant downgrade in the sovereign ratings, the geopolitical risk is also becoming significant for the Bank. 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 real estate property development and investment banking. 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. The Internal Audit function complements the Bank's risk management system by evaluating the independence and overall effectiveness of the Bank's risk management functions.

During the year, 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 Bank has a small credit risk portfolio comprising of non-subsidised mortgages and interbank placements. Appropriate policies, procedures and systems are in place to manage this risk.

### 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 from 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 has also 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 securitisation 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 are reviewed periodically. Bank has also adopted the ISO 9001:2008 standards of quality management for its policies and procedures. Further, Operational Risk tools are in place to monitor and manage the operational risks on an ongoing basis throughout the Bank.

### **Compliance**

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. The Compliance Manager, who reports to the Head of Risk, also has access to the Board of Directors through the Audit Committee.



## CORPORATE GOVERNANCE REPORT 2016

### 1. Corporate Governance Policy

Eskan Bank's "the Bank" Board of Directors "the Board" has adopted the Bank's Corporate Governance Policy which is compliant 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 Directors' remuneration (excluding His Excellency the Chairman being a minister) have been determined to be BD 8,000 annually disbursed based on the following:

- a) Decree No. 19 for the year 2014 with regards to the Remuneration of the Chairpersons and Members of Government Boards and Committees.
- b) Cabinet Decree No. 25 for the Year 2015 promulgating the Criteria and Guidelines of Disbursing the Remuneration of Chairpersons and Members of Government Boards and Committees.

The Cabinet issued Decree No. 05-2334 for the Year 2015 on Sunday 8 November 2015 with regards to suspending disbursing the remuneration of Chairpersons and Members of Government Boards and Committees, government companies and companies which the government owns more than 50% of their shares, whereby this suspension shall be applied for two budget cycles including (2015-2016) and (2017-2018).

#### • 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 2016.



## CORPORATE GOVERNANCE REPORT (CONTINUED)

### 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. Riyadh Saleh Al Saei (Vice Chairperson)
- 3- Mr. Kamal Murad Ali Murad
- 4- Mrs. 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 2016).
- 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.

##### 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 2016).
- 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 & Corporate Governance Committee

### Members:

- 1- H.E. Eng. Bassim bin Yaqob Al Hamer (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 2016).
- 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 2016

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 2016. The below schedule shows dates of meetings and attendance of Board Members:

### • Board of Directors Meetings During 2016

Members	10 Feb. 2016 (1 <sup>st</sup> Meeting)	11 May 2016 (2 <sup>nd</sup> Meeting)	31 Aug. 2016 (3 <sup>rd</sup> Meeting)	29 Dec. 2016 (4 <sup>th</sup> Meeting)
HE Eng. Bassim bin Yaqub Al Hamer (Chairman)	✓	✓	✓	✓
Mr. Mohammed Abdulrahman Hussein Bucheeri (Vice Chairman)	✓	✓	✓	✓
Mr. Yusuf Abdullah Mohammed Taqi	✓	✓	✓	✓
Dr. Zakareya Sultan Mohammed Al-Abbasi	✓	✓	✓	✓
Mr. Yusuf Saleh Sultan Khalaf	✓	✓	✓	✓
Mr. Riyadh Saleh Al Saei	✓	✓	✓	✓
Mr. Kamal Murad Ali Murad	✓	✓	✓	✓
Mrs. Najla Mohamed Al – Shirawi	✓	✓	✓	✓
Mrs. Rana Ebrahim Faqihi	✓	x	✓	x

### • Executive Committee Meetings

The Executive Committee held four meetings during 2016. The below schedule shows dates of meetings and attendance of Board Members:

Members	1 Feb. 2016 (1 <sup>st</sup> Meeting)	9 May 2016 (2 <sup>nd</sup> Meeting)	24 Aug. 2016 (3 <sup>rd</sup> Meeting)	30 Nov. 2016 (4 <sup>th</sup> Meeting)
Mr. Mohammed Abdulrahman Bucheeri (Chairperson)	✓	✓	✓	✓
Mr. Riyadh Saleh Al Saei	✓	✓	✓	✓
Mr. Kamal Murad Ali Murad	✓	✓	✓	✓
Mrs. Rana Ebrahim Faqihi	✓	x	✓	x

## CORPORATE GOVERNANCE REPORT (CONTINUED)

### • Audit Committee Meetings

The Audit Committee held four meetings during 2016. The below schedule shows dates of meetings and attendance of Board Members:

Members	9 Feb. 2016 (1 <sup>st</sup> Meeting)	3 May. 2016 (2 <sup>nd</sup> Meeting)	1 Aug. 2016 (3 <sup>rd</sup> Meeting)	26 Oct. 2015 (4 <sup>th</sup> Meeting)
Mr. Yusuf Saleh Sultan Khalaf (Chairperson)	✓	✓	✓	✓
Dr. Zakareya Sultan Mohammed Al-Abbasi	x	✓	✓	✓
Mrs. Najla Mohamed Al – Shirawi	✓	✓	✓	✓

### • Remuneration, Nomination and Corporate Governance Committee Meetings

The Remuneration, Nomination and Corporate Governance Committee held two meetings during 2016. The below schedule shows dates of meetings and attendance of Board Members:

Members	7 Feb. 2016 (1 <sup>st</sup> Meeting)	29 Dec. 2016 (2 <sup>nd</sup> Meeting)
HE Eng. Bassim bin Yaacub Al Hamer (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 (SSB) 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 Shari'a Supervisory Board members for a period of 3 years (January 2016- December 2018) vide its resolution no. 9/4 for the year 2015.

Members	Summary of Responsibilities
Sh. Dr. Nezam Yacouby (Chairperson)	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.
Sh. Dr. Abdulaziz Khalifa Al-Qassar (Vice Chairperson)	
Sh. Abdul Nasser Al-Mahmood (Executive Member)	

### • Shari'a Supervisory Board Meetings

The Shari'a Supervisory Board held four meetings during 2016. The below schedule shows dates of meetings and attendance of the Shariaa Board Members:

Members	21 Feb. 2016 (1 <sup>st</sup> Meeting)	31 May 2016 (2 <sup>nd</sup> Meeting)	25 Sep. 2016 (3 <sup>rd</sup> Meeting)	1 Dec. 2016 (4 <sup>th</sup> meeting)
Sh. Dr. Nezam Yacouby (Chairperson)	✓	✓	✓	✓
Sh. Dr. Abdulaziz Khalifa Al-Qassar (Vice Chairperson)	✓	✓	✓	✓
Sh. Abdul Nasser 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 Shari'a Supervisory Board Members. In addition, BD 2000 per annum is disbursed to Sh. Abdul Nasser Al-Mahmood the Shari'a 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 2016 was BD 13,325 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, Risk Management Committee, Asset & Liability Management Committee, IT Steering Committee, Internal Tender Committee, Human Resources Committee, New Product Committee and Investment and Credit Committee.

The need did not arise for the General Manager to disclose to the Board of Directors relatives of any approved persons occupying controlled functions within the Bank.

The General Manager issued Administrative Resolution No. (I) of 2016 on December 12<sup>th</sup>, 2016 with respect to Re-structuring the Internal Committees of Eskan Bank as follows:

### 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. General Manager – Eskan Properties Company
4. Head of Financial Institutions & Government Relations
5. Head of Property & Facility Management
6. Head of Sales & Marketing
7. Head of Legal Advisory & Corporate Secretary
8. Head of Risk Management
9. Head of Retail Banking
10. Head of Financial Control
11. Head of Internal Audit
12. Head of Human Resources & Administration
13. Head of Information Technology
14. Head of Operations
15. Senior Manager - Corporate Communications

#### 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.

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 Committee's Secretary.



## CORPORATE GOVERNANCE REPORT (CONTINUED)

### Risk Management Committee (RMC)

#### Members

The Committee shall consist of the members with the following designation:

1. General Manager (**Chairman**)
2. Chief Business Officer & Deputy General Manager
3. General Manager – Eskan Properties Company
4. Head of Risk Management
5. Head of Retail Banking
6. Head of Legal Advisory & Corporate Secretary
7. Head of Sales & Marketing
8. Head of Operations
9. 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 Committee's 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 & Liability Management Committee (ALCO)

#### Membership:

The Committee shall consist of members with the following designation:

1. General Manager (**Chairman**)
2. Chief Business Officer & Deputy General Manager
3. Head of Risk Management
4. Head of Financial Control
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 Committee's 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.



### **IT Steering Committee (ITSC)**

#### **Members:**

The Committee shall consist of members with the following designation:

1. Chief Business Officer & Deputy General Manager  
**(Chairman)**
2. Head of Retail Banking
3. Head of Financial Control
4. Head of Information Technology
5. Head of Operations
6. 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 Chief Business Officer and Deputy General Manager who will appoint the Vice Chairperson and the Committee's Secretary.

### **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. General Manager – Eskan Properties Company
4. Head of Legal Advisory & Corporate Secretary
5. Head of Retail Banking
6. Head of Human Resources & Administration
7. 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 Committee's 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.

### **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.



## CORPORATE GOVERNANCE REPORT (CONTINUED)

### New Product Committee (NPC)

The Committee shall consist of members with the following designation:

1. Chief Business Officer & Deputy General Manager  
**(Chairman)**
2. Head of Retail Banking
3. Head of Sales & Marketing
4. Head of Operations
5. Head of Information Technology
6. Compliance Manager

### Summary of responsibilities

The Committee oversees the development of new and existing client products and services for treasury, asset management, commercial banking, property development, mortgage finance, and other areas of the Bank, assesses reputation, operational, IT, Risk, Legal, Compliance, staffing and fee sharing issues and approves such products and services.

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 Business Officer and Deputy General Manager who will appoint the Vice Chairperson and the Committee's Secretary.

### Internal Tender Committee

The Committee shall consist of members with the following designation:

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

### Summary of responsibilities

The Committee reviews and oversees all the internal tender related matters of EB & subsidiaries, and issues approvals for internal tenders to be selected, in addition to approving the renewal of contracts.

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 Committee's Secretary.

The Committee Members have been duly appointed by virtue of the approval issued by the Tender & Auctions Board.



### Investment & Credit Committee (ICC)

The Committee shall consist of members with the following designation:

1. General Manager (Chairman)
2. Chief Business Officer & Deputy General Manager
3. General Manager – Eskan Properties Company
4. 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 Committee's Secretary.

#### • 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 2016 was BD 909,103.

### 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.

### Summary of responsibilities

The Committee's amended Terms of Reference shall be submitted for BoD approval in 2017, as the Committee's role and responsibilities are to be amended to reflect its new mandate.



## SHARI'A BOARD OF DIRECTORS



**Shaikh Dr. Nezam  
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 for 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 Dr. 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

27<sup>th</sup> Jamada II 1438 BC coinciding 26 March 2017

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 his companions

To the shareholder of Eskin Bank

Assalam Alaikum Wa Rahmat Allah Wa Barakatuh

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

During the year ended 31 December 2016, 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 with specific Fatwas, rulings and guidelines issued by us.

We believe that ensuring the conformity of the Bank's activities with the provision 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 test basis of each type of Islamic products transactions, the relevant documentations and procedures carried out by the Bank in concluding Islamic transactions.

We planned and preformed our review directly through the Internal Shari'a Reviewer 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 31 December 2016 that we have reviewed complies with the Islamic Shari'a Rules and Principles.

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

Sh. Dr. Nezam Mohammed Saleh Yacouby  
Chairman

Sh. Dr. Abdul Aziz Khalifa Al Qassar  
Vice Chairman

Sh. Abdul Nasser Omar Al Mahmood  
Executive Member

## **FINANCIAL STATEMENTS**

As at 31 December 2016

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## INDEPENDENT AUDITORS' REPORT

Report to the Shareholders of ESKAN BANK B.S.C. (c)

### Report on the Audit of 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 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other information

Other information consists of the Chairman's report, set out on page(s) 10 to 11 that was obtained at the date of this auditor's report. The Board of Directors is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as the Board of Directors determines is necessary to enable the preparation of

consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

### Auditor's Responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated

financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with Board of Directors' / Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### Report on Other Legal and Regulatory Requirements

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

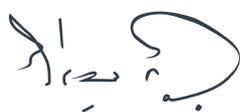
- a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements;
- c) we are not aware of any violations 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 the CBB directives or regulations and associated resolutions or the terms of the Group's memorandum and articles of association during the year ended 31 December 2016 that might have had a material adverse effect on the business of the Group or on its consolidated financial position; and
- d) satisfactory explanations and information have been provided to us by Management in response to all our requests.

Partner's registration no. 115  
28 February 2017  
Manama, Kingdom of Bahrain

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 BD	2015 BD
<b>ASSETS</b>			
Cash and bank balances	5	81,990,957	69,328,350
Investments	6	4,756,950	4,756,950
Loans	7	479,006,322	460,092,125
Investment in associates	8	3,408,418	6,911,010
Investment properties	9	44,549,755	31,996,018
Development properties	10	20,757,041	22,219,173
Other assets	11	2,337,213	1,960,326
<b>TOTAL ASSETS</b>		<b>636,806,656</b>	<b>597,263,952</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Deposits from financial and other institutions		35,500,000	3,002,875
Government accounts	12	272,215,356	237,808,209
Term loans	13	69,000,000	109,000,000
Other liabilities	14	29,263,539	25,554,884
<b>TOTAL LIABILITIES</b>		<b>405,978,895</b>	<b>375,365,968</b>
<b>EQUITY</b>			
Share capital	15	108,300,000	108,300,000
Contribution by shareholder		13,950,389	1,509,579
Statutory reserve		54,461,896	54,461,896
Retained earnings		47,450,568	50,988,785
Equity attributable to Bank's shareholders		224,162,853	215,260,260
Non-controlling interest		6,664,908	6,637,724
<b>TOTAL EQUITY</b>		<b>230,827,761</b>	<b>221,897,984</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>636,806,656</b>	<b>597,263,952</b>



Basim Bin Yacob Al Hamer

Minister of Housing  
Chairman of Eskan Bank



Dr. Khalid Abdulla

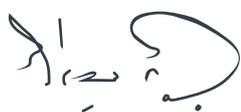
General Manager

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 BD	2015 BD
Management charges		15,442,931	14,520,403
Interest income	16	2,441,058	2,254,626
Income from properties	17	3,165,522	449,853
Net share of profit of associates	8	1,773,029	1,131,306
Other income		440,486	308,861
<b>TOTAL INCOME</b>		<b>23,263,026</b>	<b>18,665,049</b>
Staff costs		(4,804,790)	(4,992,822)
Other expenses	18	(1,554,652)	(1,573,331)
Interest expense		(387,990)	(400,280)
Provision for impairment	19	(26,627)	(251,327)
<b>TOTAL EXPENSES</b>		<b>(6,774,059)</b>	<b>(7,217,760)</b>
<b>PROFIT FOR THE YEAR</b>		<b>16,488,967</b>	<b>11,447,289</b>
Other comprehensive income		-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>16,488,967</b>	<b>11,447,289</b>
Attributable to:			
Equity shareholders of the parent		16,461,783	11,440,587
Non-controlling interest		27,184	6,702
		<b>16,488,967</b>	<b>11,447,289</b>



Basim Bin Yacob Al Hamer

Minister of Housing  
Chairman of Eskan Bank



Dr. Khalid Abdulla

General Manager

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Equity attributable to Bank's shareholders					Non-controlling interest BD	Total equity BD
	Share capital BD	Contribution by shareholder BD	Statutory reserve BD	Retained earnings BD	Total BD		
At 1 January 2016	108,300,000	1,509,579	54,461,896	50,988,785	215,260,260	6,637,724	221,897,984
Dividend	-	-	-	(20,000,000)	(20,000,000)	-	(20,000,000)
Transfer of land (note 9)	-	12,440,810	-	-	12,440,810	-	12,440,810
Total comprehensive income	-	-	-	16,461,783	16,461,783	27,184	16,488,967
<b>At 31 December 2016</b>	<b>108,300,000</b>	<b>13,950,389</b>	<b>54,461,896</b>	<b>47,450,568</b>	<b>224,162,853</b>	<b>6,664,908</b>	<b>230,827,761</b>
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 9)	-	338,962	-	-	338,962	-	338,962
Total comprehensive income	-	-	-	11,440,587	11,440,587	6,702	11,447,289
Transfer to Shareholder (note 9)	-	(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

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	2016 BD	2015 BD
<b>OPERATING ACTIVITIES</b>			
Profit for the year		16,488,967	11,447,289
Adjustments for:			
Net share of profit of associates	8	(1,773,029)	(1,131,306)
Impairment provision on loans	7	119,266	251,327
Reversal of investment properties impairment provision	9	(142,000)	-
Gain on sale of development properties	17	(2,653,628)	-
Development cost written off	10	49,361	-
Depreciation	18	414,890	318,570
Operating profit before working capital changes:		12,503,827	10,885,880
Decrease in placements with banks		24,706,601	12,773,149
Increase in loans		(19,033,463)	(25,573,350)
Increase in other assets		(198,160)	(47,806)
Increase (decrease) in deposits from financial and other institutions		32,497,125	(45,104,308)
Increase in other liabilities		3,793,844	1,491,158
Net cash flows from (used in) operating activities		54,269,774	(45,575,277)
<b>INVESTING ACTIVITIES</b>			
Purchase of equipment		(411,272)	(345,906)
Investment in associate - capital repayment	8	8,090,728	3,330,955
Investment in an associate		(2,815,107)	-
Investment in development properties	10	(5,988,872)	(6,068,052)
Proceeds from sale of development properties		9,816,810	-
Sale of equipment		-	392
Net cash flows from (used in) investing activities		8,692,287	(3,082,611)
<b>FINANCING ACTIVITIES</b>			
(Repayment) proceeds of term loans		(40,000,000)	50,000,000
Dividend paid		(20,000,000)	-
Net movement in Government accounts		34,407,147	(13,650,910)
Net cash flows (used in) from financing activities		(25,592,853)	36,349,090
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>37,369,208</b>	<b>(12,308,798)</b>
Cash and cash equivalents at 1 January	5	34,509,840	46,818,638
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	5	<b>71,879,048</b>	<b>34,509,840</b>
<b>Cash and cash equivalents comprise:</b>			
Cash and cash equivalents	5	71,879,048	34,509,840
		<b>71,879,048</b>	<b>34,509,840</b>
<b>Non-cash activities</b>			
Transfer between investment and development properties		238,461	2,441,066
Transfer to the Shareholder	9.2	-	17,989,048
Investment properties (land contribution by the shareholder)	9	12,440,810	338,962

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

## 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 20 February 2017.

## 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 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 comprehensive 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 2016	Ownership for 2015	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>Dannat Al Luzi B.S.C (c)</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

### 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 2016.

##### 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 statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. Since the Group is an existing IFRS preparer and is not involved in any rate-regulated activities, this standard does not apply.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 3. ACCOUNTING POLICIES (continued)

#### 3.1. Summary of significant accounting policies (continued)

##### *Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests*

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 Business Combinations principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

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 applied prospectively. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the year.

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

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a 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 applied prospectively and do not have any impact on the Group, given that it has not used a revenue-based method to depreciate its non-current assets.

##### *Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants*

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41 Agriculture. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are applied retrospectively and do not have any impact on the Group as it does not have any bearer plants.

##### *Amendments to IAS 27: Equity Method in Separate Financial Statements*

The amendments 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 their separate financial statements have to apply that change retrospectively. These amendments do not have any impact on the Group's consolidated financial statements.

##### *Annual Improvements 2012-2014 Cycle*

These improvements include:

##### *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 the 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 is 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 need not 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 is applied retrospectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.1. Summary of significant accounting policies (Continued)

##### *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 is applied prospectively.

##### *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 is applied retrospectively.

These amendments do not have any impact on the Group.

##### *Amendments to IAS 1 Disclosure Initiative*

The amendments to IAS 1 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 do not 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 Consolidated Financial Statements. 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 Investments in Associates and Joint Ventures 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 are applied retrospectively and do not have any impact on the Group as the Group does not apply the consolidation exception.

#### **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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.1. Summary of significant accounting policies (Continued)

##### 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.

##### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.1. Summary of significant accounting policies (Continued)

##### Fair values (Continued)

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.

###### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.1. Summary of significant accounting policies (Continued)

##### Impairment of financial assets (Continued)

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.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.1. Summary of significant accounting policies (Continued)

##### Recognition of income and expense (Continued)

###### *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.

##### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 3. ACCOUNTING POLICIES (continued)

#### 3.1. Summary of significant accounting policies (Continued)

##### 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.

##### 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 has performed a preliminary impact assessment with respect to the classification and impairment assessment of its financial instruments and plans to adopt the new standard on the required effective date. 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*

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 Leases).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.2. Prospective changes in accounting policies (Continued)

##### Trade date accounting (Continued)

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The Bank does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

##### *Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

##### *IAS 7 Disclosure Initiative – Amendments to IAS 7*

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of amendments will result in additional disclosure provided by the Group.

##### *IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the Group.

##### *IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2*

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. These amendments are not expected to have any impact on the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.2. Prospective changes in accounting policies (Continued)

##### Trade date accounting (Continued)

###### *IFRS 16 Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 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. CASH AND BANK BALANCES

	2016 BD	2015 BD
<b>Cash and bank balances</b>		
Cash	166,667	164,224
Balances with banks	1,218,182	4,124,148
Balances with the Central Bank of Bahrain	1,502,060	3,627,934
	<b>2,886,909</b>	7,916,306
<b>Short term placements</b> (with an original maturity of 90 days or less)		
Placements with banks and other institutions	27,843,344	9,393,534
Placements with the Central Bank of Bahrain	41,148,795	17,200,000
	<b>68,992,139</b>	26,593,534
Total cash and cash equivalents	<b>71,879,048</b>	34,509,840
<b>Placements</b> (with an original maturity of more than 90 days)		
Placements with banks and other institutions	1,622,055	-
Placements with the Central Bank of Bahrain	8,489,854	34,818,510
	<b>10,111,909</b>	34,818,510
Total cash and bank balances	<b>81,990,957</b>	69,328,350

### 6. INVESTMENTS

The following represents available for sale equity investments:

	2016 BD	2015 BD
Naseej B.S.C.	3,272,728	3,272,728
Southern Area Development Company B.S.C.(c)	1,215,854	1,215,854
Bahrain Aluminium Extrusion Co. B.S.C.(c) (net of provision of BD 100,000 (2015: BD 100,000))	268,368	268,368
	<b>4,756,950</b>	4,756,950

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 7. LOANS

	2016 BD	2015 BD
<b>(i) Social loans</b>		
Loans	514,462,033	482,859,659
Less: Provisions for 50% subsidy under Amiri Decree No. 18/1977 (d (v))	(49,553,799)	(43,879,618)
	<b>464,908,234</b>	<b>438,980,041</b>
<b>(ii) Commercial loans</b>		
Gross Loans	15,544,388	22,439,118
Less: Provision for impairment	(1,446,300)	(1,327,034)
	<b>14,098,088</b>	<b>21,112,084</b>
<b>Total loans</b>	<b>479,006,322</b>	<b>460,092,125</b>

Loans stated at a carrying amount of BD 30 million (2015: BD 33 million) are secured as guarantee against the RMBS bonds issued (note 13).

#### a) Age analysis of past due but not impaired loans

	2016				Total BD
	Up to 30 days BD	31 to 60 days BD	61 to 90 days BD	Above 90 days BD	
Social loans	-	19,649,773	5,331,269	29,456,720	54,437,762
Commercial loans	2,233,789	222,054	163,323	-	2,619,166
	<b>2,233,789</b>	<b>19,871,827</b>	<b>5,494,592</b>	<b>29,456,720</b>	<b>57,056,928</b>
	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
	<b>3,167,023</b>	<b>16,543,415</b>	<b>5,530,122</b>	<b>24,856,781</b>	<b>50,097,341</b>

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.

#### b) Age analysis of impaired loans

	2016				Total BD
	3-6 Months BD	6-12 Months BD	1-3 Years BD	3-5 Years BD	
Commercial loans	228,358	449,390	976,333	674,098	2,328,179
	2015				Total BD
	3-6 Months BD	6-12 Months BD	1-3 Years BD	3-5 Years BD	
Commercial loans	294,837	426,931	641,001	463,162	1,825,931

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 7. LOANS (CONTINUED)

#### c) Impairment provision for commercial loans

	2016			
	Opening balance BD	Charge for the year BD	Write- backs BD	Closing balance BD
<b>General Provision</b>				
Commercial loans	213,253	-	(70,848)	142,405
<b>Specific Provision</b>				
Commercial loans	1,113,781	265,417	(75,303)	1,303,895
At 31 December	1,327,034	265,417	(146,151)	1,446,300

	2015			
	Opening balance BD	Charge for the year BD	Write- backs BD	Closing balance BD
<b>General Provision</b>				
Commercial loans	253,035	-	(39,782)	213,253
<b>Specific Provision</b>				
Commercial loans	822,672	367,856	(76,747)	1,113,781
At 31 December	1,075,707	367,856	(116,529)	1,327,034

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

#### 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.
- (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.

In implementing the 2002 Reduction, referred to in (iii) above, 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.

- (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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 8. INVESTMENT IN ASSOCIATES

	2016 BD	2015 BD
At 1 January	6,911,010	9,110,659
Investment in an associate	2,815,107	-
Capital repayment (non cash: BD 2,815,107)	(8,090,728)	(3,330,955)
Net share of profit	1,773,029	1,131,306
<b>At 31 December</b>	<b>3,408,418</b>	<b>6,911,010</b>

The principal associates of the Group are:

Name	Country of Incorporation	Carrying Value	
		2016 BD	2015 BD
Bahrain Property Musharaka Trust Fund	Kingdom of Bahrain	593,311	6,911,010
Eskan Bank Reality Income Trust	Kingdom of Bahrain	2,815,107	-
Ebdaa Bank	Kingdom of Bahrain	-	-
		<b>3,408,418</b>	<b>6,911,010</b>

Name	Nature of activities	Ownership for	
		2016	2015
Bahrain Property Musharaka Trust Fund	Development of two real-estate projects in the Kingdom of Bahrain.	42.98%	42.98%
Eskan Bank Reality Income Trust (EBRIT)	A real estate investment trust operating and managing two real estate assets.	22.46%	-
Ebdaa Bank	Providing micro-financing to low-to-middle income Bahrainis.	20%	20%

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

	2016 (unaudited) BD	2015 (unaudited) BD
<b>Summarised statement of financial position</b>		
Current assets*	2,204,945	20,011,535
Current liabilities	(824,511)	(1,695,471)
Exclude fair value reserve	-	(1,178,826)
<b>Net assets</b>	<b>1,380,434</b>	<b>17,137,238</b>
Proportion of the Group's ownership	42.98%	42.98%
Group's ownership in equity	593,311	7,365,585
Other adjustments	-	(454,575)
<b>Carrying amount of the investment</b>	<b>593,311</b>	<b>6,911,010</b>

\* Includes cash and cash equivalents of BD 1,449 thousand (31 December 2015: BD 8,928 thousand).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 8. INVESTMENT IN ASSOCIATES (CONTINUED)

	2016 (unaudited) BD	2015 (unaudited) BD
<b>Summarised statement of profit and loss</b>		
Total income	7,732,220	3,393,096
Total expenses	(1,011,334)	(680,775)
<b>Total comprehensive income</b>	<b>6,720,886</b>	2,712,321
<b>Group's net share of profit</b>	<b>2,888,637</b>	1,165,756
Exclude fair value reserve unrealized	(1,393,757)	-
Other adjustments	278,149	(34,450)
<b>Share of profit for the year</b>	<b>1,773,029</b>	1,131,306

The Group has no share of any contingent liabilities or capital commitments, as at 31 December 2016 and 2015 related to its associates.

During the year, the Group received in kind capital repayment from Bahrain Property Musharaka Trust in the form of equity shares within EBRIT. The Bank currently owns 22.46% within EBRIT, which is a real estate investment trust operating and managing two real estate assets, Segaya Plaza and Danaat Al Madina (retail and commercial component).

The following table illustrates the summarised financial information of the Group's investment in EBRIT:

	2016 (unaudited) BD
<b>Summarised statement of financial position</b>	
Non-current assets	19,800,000
<b>Net assets</b>	<b>19,800,000</b>
Proportion of the Group's ownership	22.46%
Group's ownership in equity	4,447,080
Other adjustments	(1,631,973)
<b>Carrying amount of the investment</b>	<b>2,815,107</b>

### 9. INVESTMENT PROPERTIES

	2016 BD	2015 BD
Opening balance at beginning of the year	31,996,018	42,604,353
Transferred from development properties	238,461	2,441,066
Additions during the year (note 9.1)	12,440,810	338,962
Depreciation charge for the year	(182,345)	(112,981)
Other adjustments	(85,189)	-
Transfer to Shareholder (note 9.2)	-	(13,275,382)
Reversal of impairment	142,000	-
	<b>44,549,755</b>	31,996,018

#### Note 9.1

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 9. INVESTMENT PROPERTIES (CONTINUED)

#### Note 9.2

During 2015, 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:

	2016 BD	2015 BD
Land at Bander Al-Seef	29,296,874	16,856,064
Land at Sanabis	2,571,508	2,571,508
Land at Hamad town	2,045,219	2,045,219
Land at Jaw	1,938,783	1,938,783
Land at Saar	1,903,251	1,903,251
Land at Busayteen	628,000	628,000
Land at Salmabad	109,631	109,631
Land at Safra	99,522	99,522
Land at Zallaq	89,000	89,000
Land at Muharraq	23,519	23,519
Shops (accumulated depreciation BD 1,144,877 (2015 BD 962,532))	5,844,448	5,873,521
	<b>44,549,755</b>	32,138,018
Impairment allowance	-	(142,000)
	<b>44,549,755</b>	31,996,018

The fair value of investment properties, based on independent market valuations, as at 31 December 2016 was BD 194,092 thousand (2015: BD 176,635 thousand). During the year, land with a fair value of BD 12,441 thousand (2015: BD 339 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.

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 2016 and 31 December 2015. 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 2016 and 31 December 2015.

### 10. DEVELOPMENT PROPERTIES

	2016 BD	2015 BD
Opening balance at beginning of the year	22,219,173	18,592,187
Additions during the year	5,988,872	6,068,052
Properties sold during the year	(7,163,182)	-
Costs written off during the year	(49,361)	-
Transferred to investment properties	(238,461)	(2,441,066)
<b>At 31 December</b>	<b>20,757,041</b>	22,219,173

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 11. OTHER ASSETS

	2016 BD	2015 BD
Equipment and other assets (net book value)	849,385	670,658
Management fee and interest receivable	508,267	576,036
Receivables	429,381	341,876
Staff loans	286,588	216,235
Prepayments and advances	263,592	155,521
	<b>2,337,213</b>	<b>1,960,326</b>

### 12. 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.

These accounts are mainly affected by the following:

- 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;
- Reduction decrees issued by the Government from time to time;
- Write off and waivers, death benefit write offs; and
- Any other payments / transactions undertaken by the Bank on behalf of MOH / MOF in relation to housing projects.

### 13. TERM LOANS

	2016 BD	2015 BD
Syndicated bank term loan	60,000,000	100,000,000
RMBS bonds	9,000,000	9,000,000
<b>At 31 December</b>	<b>69,000,000</b>	<b>109,000,000</b>

The syndicated bank term loan bears interest repayable monthly at offer rate determined by the syndicate plus a margin of 2.25% (2015: 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 3,189 thousand (2015: BD 1,793 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 1.692% (2015: 1.639% The RMBS bonds, repayable by October 2017, are secured against certain social loans issued by the Bank (note 7).

	2016 BD	2015 BD
Term loans maturing in less than 1 year	49,000,000	40,000,000
Term loans maturing in more than 1 year	20,000,000	69,000,000
	<b>69,000,000</b>	<b>109,000,000</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 14. OTHER LIABILITIES

	2016 BD	2015 BD
Unearned income for 50% subsidy under Amiri Decree (note 7)	18,950,587	16,739,023
Current accounts	4,597,256	5,181,070
Accrued expenses	2,041,258	1,137,313
Contractor retentions	987,850	575,929
Advance from pre-sales	814,614	-
Employee savings scheme	721,737	578,634
Employee benefits	273,643	204,192
Accrued interest payable on term loans	231,604	298,686
Acquisition of a subsidiary consideration payable	9,463	301,835
Other liabilities	635,527	538,202
	<b>29,263,539</b>	<b>25,554,884</b>

### 15. SHARE CAPITAL

	Number of shares	2016 BD
<b>31 December 2016</b>		
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
	<b>Number of shares</b>	<b>2015 BD</b>
<b>31 December 2015</b>		
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

### 16. INTEREST INCOME

	2016 BD	2015 BD
Interest income on commercial loans	1,370,054	1,858,219
Interest income on placements with financial and other institutions	1,071,004	396,407
	<b>2,441,058</b>	<b>2,254,626</b>

### 17. INCOME FROM PROPERTIES

	2016 BD	2015 BD
Gain on sale of development properties	2,653,628	-
Rental income - net	511,894	449,853
	<b>3,165,522</b>	<b>449,853</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 18. OTHER EXPENSES

	2016 BD	2015 BD
Depreciation	414,890	318,570
Computer maintenance	269,553	227,648
Premises	253,294	234,775
Marketing cost	130,701	233,391
Legal and professional	194,211	275,790
Directors remuneration	91,955	69,437
Transportation and communication	77,950	72,304
Electricity	49,516	42,094
Insurance	20,459	22,557
Others	52,123	76,765
	<b>1,554,652</b>	<b>1,573,331</b>

### 19. PROVISION FOR IMPAIRMENT

	2016 BD	2015 BD
Impairment provision on loans	119,266	251,327
Write off of development costs (note 10)	49,361	-
Reversal of impairment against investment properties	(142,000)	-
	<b>26,627</b>	<b>251,327</b>

### 20. COMMITMENTS AND CONTINGENCIES

	2016 BD	2015 BD
Housing loan commitments approved by MOH (note 20.1)	8,735,518	91,383,786
Capital commitments	2,282,596	6,298,715
Commercial Loan commitments	97,668	91,875
Lease commitments not later than one year	72,442	175,108
Lease commitments later than one year but not later than five years	-	72,922
	<b>11,188,224</b>	<b>98,022,406</b>

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 (2015: 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. During the year, as per the directives of the MOH, loan commitments relating to customers prior to 2015, who did not approach the Bank where fully cancelled.

### 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, including the Board of Directors, in the ordinary course of business. Balances and transactions with Government, Board of Directors and investments in associates are disclosed on the face of the consolidated statement of financial position and consolidated statement of comprehensive income and the notes therein.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 21. RELATED PARTY TRANSACTIONS (CONTINUED)

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:

	2016 BD	2015 BD
Short term employee benefits	704,866	697,548
Long term employee benefits	51,217	40,503
	<b>756,083</b>	<b>738,051</b>

### 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 2016	Available- for-sale BD	Amortised cost/ Loans and receivables BD	Total BD
<b>Financial assets</b>			
Investments	4,756,950	-	4,756,950
Loans	-	479,006,322	479,006,322
Other assets	-	1,226,537	1,226,537
	<b>4,756,950</b>	<b>480,232,859</b>	<b>484,989,809</b>

Financial liabilities	Amortised cost BD	Total BD
Deposits from financial and other institutions	35,500,000	35,500,000
Government accounts	272,215,356	272,215,356
Term loans	69,000,000	69,000,000
Other liabilities	28,268,159	28,268,159
	<b>404,983,515</b>	<b>404,983,515</b>

At 31 December 2015	Available- for-sale BD	Amortised cost/ Loans and receivables BD	Total BD
<b>Financial assets</b>			
Investments	4,756,950	-	4,756,950
Loans	-	460,092,125	460,092,125
Other assets	-	1,135,764	1,135,764
	<b>4,756,950</b>	<b>461,227,889</b>	<b>465,984,839</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 22. CLASSIFICATION OF FINANCIAL INSTRUMENTS (CONTINUED)

	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

### 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 Head of Risk.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 24. RISK MANAGEMENT (CONTINUED)

#### Risk management framework (Continued)

##### 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.

##### 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 2016 is BD 464,908,234 (31 December 2015: BD 438,980,041).

##### 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 2016 BD	Gross maximum exposure 2015 BD
Balances and placements with financial institutions	81,824,290	69,164,126
Loans - commercial loans	14,098,088	21,112,084
Other receivables	1,226,537	1,135,764
	97,148,915	91,411,974

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 24. RISK MANAGEMENT (CONTINUED)

#### Risk Mitigation (Continued)

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

There were no renegotiated loans during either the year ended 31 December 2016 or 31 December 2015.

#### 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 2016 was BD 51,140,709 (31 December 2015: BD 55,646,444).

#### 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 2016 or 31 December 2015.

#### 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 BD	Past due but not impaired BD	Individually impaired BD	31 December 2016 BD
Balances and placements with financial institutions	81,824,290	-	-	81,824,290
Loans - Commercial loans	10,597,043	2,619,166	2,328,179	15,544,388
Other receivables	1,226,537	-	-	1,226,537
	93,647,870	2,619,166	2,328,179	98,595,215

	Neither past due nor impaired BD	Past due but not impaired BD	Individually impaired BD	31 December 2015 BD
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

#### v) Concentration risk

Concentration risk arises when a number of counter parties 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.

#### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 24. RISK MANAGEMENT (CONTINUED)

#### Risk Mitigation (Continued)

##### 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 2016 BD	Changes in basis points (+/-)	Effect on net profit (+/-)
<b>Assets</b>			
Balances and placements with financial institutions	79,104,048	100	791,040
Loans - commercial loans	14,098,088	100	140,981
<b>Liabilities</b>			
Deposits from financial and other institutions	35,500,000	100	(355,000)
Term loans	9,000,000	100	(90,000)
<b>Total</b>			<b>487,021</b>

	31 December 2015 BD	Changes in basis points (+/-)	Effect on net profit (+/-)
<b>Assets</b>			
Balances and placements with financial institutions	61,412,044	100	614,120
Loans - commercial loans	21,112,084	100	211,121
<b>Liabilities</b>			
Deposits from financial and other institutions	3,002,875	100	(30,029)
Term loans	9,000,000	100	(90,000)
<b>Total</b>			<b>705,212</b>

##### 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.

##### 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 does not actively invest in private equity entities for trading purpose. Most of the investments are strategic in nature and the Group manages this risk through 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 2016) 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 (2015: 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 2016 and 2015. The effect of decrease in the value of individual investments is expected to be equal and opposite to the effect of an increase.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 24. RISK MANAGEMENT (CONTINUED)

#### 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 2016 and 31 December 2015 based on contractual undiscounted repayment obligations.

	Less than 3 Months BD	3 to 12 Months BD	Over 1 Year BD	Total BD
<b>At 31 December 2016</b>				
Deposits from financial and other institutions	35,514,067	-	-	35,514,067
Term loans	550,005	50,606,742	20,370,744	71,527,491
<b>Total</b>	<b>36,064,072</b>	<b>50,606,742</b>	<b>20,370,744</b>	<b>107,041,558</b>
	Less than 3 Months BD	3 to 12 Months BD	Over 1 Year BD	Total BD
<b>At 31 December 2015</b>				
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
<b>Total</b>	<b>3,288,093</b>	<b>43,009,927</b>	<b>71,262,629</b>	<b>117,560,649</b>

#### 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.

### 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:

	2016 BD	2015 BD
Total eligible capital	224,102,400	215,477,565
<b>Total regulatory capital (A)</b>	<b>224,102,400</b>	<b>215,477,565</b>
<b>Total Risk-weighted exposure (B)</b>	<b>168,962,000</b>	<b>142,026,021</b>
<b>Capital adequacy ratio (A/B)</b>	<b>132.63%</b>	<b>151.72%</b>
<b>Minimum requirement</b>	<b>12.50%</b>	<b>12.50%</b>

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 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:

	Less than 12 months BD	Over 12 Months BD	Total BD
<b>At 31 December 2016</b>			
<b>Assets</b>			
Cash and cash equivalents	81,990,957	-	81,990,957
Investments	-	4,756,950	4,756,950
Loans	21,626,156	457,380,166	479,006,322
Investment in associates	593,311	2,815,107	3,408,418
Investment properties	-	44,549,755	44,549,755
Development properties	7,904,065	12,852,976	20,757,041
Other assets	1,212,150	1,125,063	2,337,213
	<b>113,326,639</b>	<b>523,480,017</b>	<b>636,806,656</b>
<b>Liabilities</b>			
Deposits from financial and other institutions	35,500,000	-	35,500,000
Government accounts	-	272,215,356	272,215,356
Term loans	49,000,000	20,000,000	69,000,000
Other liabilities	11,440,509	17,823,030	29,263,539
	<b>95,940,509</b>	<b>310,038,386</b>	<b>405,978,895</b>
Net liquidity surplus	<b>17,386,130</b>	<b>213,441,631</b>	<b>230,827,761</b>
	Less than 12 months BD	Over 12 Months BD	Total BD
<b>At 31 December 2015</b>			
<b>Assets</b>			
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
	<b>97,869,474</b>	<b>499,394,478</b>	<b>597,263,952</b>
<b>Liabilities</b>			
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
	<b>51,699,156</b>	<b>323,666,812</b>	<b>375,365,968</b>
Net liquidity surplus	<b>46,170,318</b>	<b>175,727,666</b>	<b>221,897,984</b>

### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 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.

Ijara 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.

#### *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:

	2016 BD (unaudited)	2015 BD (unaudited)
Ijara muntahia bittamleek - net	248,641,557	225,118,465
Ijarah income receivables	222,889	214,889
Wakala placements	13,965,399	-
Wakala income receivable	12,241	-
Placements with financial institutions	7,065,796	9,507,426
Income receivable on placements	34,040	20,751
	<b>269,941,922</b>	<b>234,861,531</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

### 28. ADDITIONAL SUPPLEMENTARY INFORMATION - ISLAMIC BANKING (UNAUDITED) (CONTINUED)

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

	2016 BD (unaudited)	2015 BD (unaudited)
Wakala takings	9,000,000	-
Wakala Profit payable	2,382	-
Commodity Murabaha	12,500,000	-
Commodity Murabaha profit payable	5,435	-
	<b>21,507,817</b>	-

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

	2016 BD (unaudited)	2015 BD (unaudited)
Income from Ijara Muntahia Bittamleek - net	7,774,279	6,604,412
Income from wakala and placements	322,709	91,506
Less: profit paid on Wakala	(63,882)	(62,296)
	<b>8,033,106</b>	6,633,622

### 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

As at 31 December 2016

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## PILLAR-III DISCLOSURES

As at 31 December 2016

### 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 2016, 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 **Dannat Al Luzi 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 at 31st December 2016. 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.
- During 2016, the Bank received in kind capital repayment from Bahrain Property Musharaka Trust in the form of equity shares within **EBRIT**. The Bank currently owns 22.46% within EBRIT, which is a real estate investment trust operating and managing two real estate assets, Segaya Plaza and Danaat Al Madina (retail and commercial component).

#### 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%
Eskan Bank Reality Income Trust (EBRIT)	Kingdom of Bahrain	22.46%	200%
Dannat Al Luzi B.S.C	Kingdom of Bahrain	55.88%	50%
<b>Interest in Associate deducted from the capital</b>			
Al Ebdaa Bank B.S.C. (c)	Kingdom of Bahrain	20%	N/A

## PILLAR-III DISCLOSURES

As at 31 December 2016

### 2. FINANCIAL PERFORMANCE AND POSITION

In 2016, the Bank achieved steady growth and maintained its profitability during the year despite the challenges faced due to the decline in the oil prices.

The performance for the year is the result of the Bank's focus on meeting its business objectives, 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 decreased significantly from 35.9% in 2015 to 28% in 2016. The Bank continued to make a general loan loss provisions in line with its prudent approach to risk.

The Bank has completed three housing projects comprising of 266 units on its own lands at Hamad Town, Seef and Riffa. It has also disbursed BHD 42 million of social loans during 2016 which reflects the Bank's commitment to stay true to its core objectives which is in partnering with the Ministry of Housing towards achieving the housing sector objectives of the Kingdom. The shareholders' equity at BHD 231 million at the end of 2016 higher by 4% compared to BHD 221 million as at 31<sup>st</sup> December 2015. During the year, the Board approved a cash dividend of BD 20 million to the shareholder out of the retained earnings of the Bank. Liquidity continues to be comfortable with liquid assets (Cash and balances with central banks and placement with financial institutions) representing 13% of the total assets.

#### a. Asset Growth & Quality:

- **Quantity:** The total Balance Sheet of the Bank stood at BHD 637 million as at 31<sup>st</sup> December 2016 compared to BHD 597 million as at the previous year end. The Bank's loans and advances as at 31<sup>st</sup> December 2016 stood at BHD 479 million, which reflects a growth of 4% as compared to 2015.
- **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 2.3 million as at 31<sup>st</sup> December 2016.
- **Land and Development Property Assets:** In 2016, the Bank completed the development of 266 housing units on its three owned lands at Hamad Town, Seef and Riffa. These units are offered for sale primarily to the housing beneficiaries of MOH. The other lands and investment property are continued to be held at cost. There was nil impairment provision for these assets as of December 2016.
- **Other Investments:** The other banking assets are mainly in inter-bank 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 strong capital adequacy ratio, with the CAR of 132.63% as of 31<sup>st</sup> December 2016.
- **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.

## PILLAR-III DISCLOSURES

As at 31 December 2016

### 2. FINANCIAL PERFORMANCE AND POSITION (CONTINUED)

#### a. Asset Growth & Quality (Continued)

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

	2016	2015	2014	2013	2012
<b>Earnings</b>					
Net Interest Income	17,496	16,375	15,446	14,227	12,751
Other Income	5,379	1,890	1,123	627	774
Operating Expenses	6,359	6,566	5,717	4,871	4,973
Properties Write off	-	-	-	1638	-
Impairment Allowance	27	251	372	325	224
Net Income	16,489	11,447	10,480	8,020	8,328
<b>Financial Position</b>					
Total Assets	636,807	597,264	610,731	576,192	533,423
Loans	479,006	460,092	434,770	400,202	355,750
Total Liabilities	405,979	375,366	382,630	365,842	329,324
Non-controlling interest	6,665	6,638	6,631	-	-
Shareholders' Equity	224,163	215,260	221,470	210,351	204,099
<b>Earnings: Ratios (Per Cent)</b>					
Return on Equity*	7.36%	5.32%	4.59%	3.81%	4.08%
Return on Assets	2.59%	1.92%	1.72%	1.39%	1.56%
Cost-to-income ratio	27.80%	35.9%	34.5%	32.8%	36.8%
Net Interest Margin	98%	98%	96%	95%	82%
<b>Capital:</b>					
Shareholders Equity as per cent of Total Assets	35.20%	36.04%	36.26%	36.51%	38.26%
Total Liabilities to Shareholders Equity	181.11%	174.38%	172.77%	173.92%	161.35%

\*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):

	31 December 2016	31 December 2015
Net profit for the year	197,327	113,141
Total assets	1,313,571	1,425,981
Total equity	990,313	792,987

- **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.

## PILLAR-III DISCLOSURES

As at 31 December 2016

### 2. FINANCIAL PERFORMANCE AND POSITION (CONTINUED)

#### a. Asset Growth & Quality (Continued)

Table 4: Financial highlights (in BHD)

	31 December 2016	31 December 2015
Net profit for the year	853,033	987,188
Total assets	20,885,511	19,805,844
Total equity	9,636,822	8,783,789

#### • Dannat Al Luzi

On 27 July 2014, upon satisfaction of all regulatory requirements, the Group invested BD 8.4 million in Dannat Al Luzi 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 5: Financial highlights (in BHD)

	31 December 2016	31 December 2015
Net profit for the year	62,608	14,189
Total assets	15,141,968	15,200,148
Total equity	15,105,200	15,043,592

### 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 own and other land banks 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

## PILLAR-III DISCLOSURES

As at 31 December 2016

### 4. CORPORATE GOVERNANCE AND TRANSPARENCY (CONTINUED)

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

Appointed as Chairman of Eskan Bank in 2011

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

More than 33 years of work experience

**Chairman:** Tender Board

#### ii. Mr. Mohamed A.R. Hussain Bucheeri

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

Appointed in 2011

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.

More than 35 years, work experience

Board Member: Bank of Bahrain & Kuwait (BBK), Investcorp Saudi Arabia Financial Investment Co., The K Hotel, gulf union insurance and reinsurance.

#### iii. Dr. Zakareya Sultan Al Abbasi

Member (Independent Non-Executive Director)

Appointed in August 2011

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

More than 32 years work experience

Chief Executive Officer: Social Insurance Organization.

Board Member: Bank of Bahrain and Kuwait (BBK), Asset Management Company (Osool) (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

Over 35 years of experience in the banking and financial services sector.

A member of the UK's Association of Chartered Certified Accountants (ACCA) since 1983.

**Founder & Managing Director:** Vision Line Consulting.

**Board member:** Bank of Bahrain and Kuwait (BBK), SICO bank.

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

## PILLAR-III DISCLOSURES

As at 31 December 2016

### 6. BOARD OF DIRECTORS (CONTINUED)

#### v. Mr. Yousif Abdulla Taqi

Member (Independent Non-Executive Director)

Appointed in August 2011

A Certified Public Accountant (CPA),

More than 30 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).

#### 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.

More than 31 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. Mrs. Rana Ebrahim Faqih

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.

More than 14 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.

## PILLAR-III DISCLOSURES

As at 31 December 2016

### 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.

More than 14 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.

**More than 20 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-four 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.

## PILLAR-III DISCLOSURES

As at 31 December 2016

### 7. EXECUTIVE MANAGEMENT TEAM OF ESKAN BANK (CONTINUED)

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

Mr. Ahmad Tayara has over twenty-one 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.

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

Mr. Aref Qamber has over twenty-eight 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 position in 2013 and his service with the Bank ended on 30 November 2016.

#### iv. Mr. Eyad Obaid, General Manager / Eskan Properties Company

Mr. Eyad Obaid has over thirty-four 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.

#### v. Mrs. Prita Tauro, Head of Risk Management

Mrs. Prita Tauro has over fifteen 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 ICAI (India), Chartered Financial Analyst (CFA) from CFA Institute (USA) and Professional Risk Manager (PRM) from PRIMIA (USA). She has been part of the Risk Management function in Eskan Bank since 2007.

She assumed the present position in 2015.

#### vi. Mr. Tariq Al Jalahma, Head of Retail Banking

Mr. Tariq Al Jalahma has over thirty-five 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.

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

Mr. Hani Nayem has over Sixteen 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.

## PILLAR-III DISCLOSURES

As at 31 December 2016

### 7. EXECUTIVE MANAGEMENT TEAM OF ESKAN BANK (CONTINUED)

#### viii. Ms. Parween Ali, Head of Sales & Marketing

Ms. Parween Ali has over twenty-one 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.

#### ix. Mrs. Samar Agaiby, Head of Financial Institutions & Government Programs

Mrs. Samar Agaiby has over twenty-six 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.

#### x. Mr. Adnan Fathalla Janahi, Head of Human Resources & Administration

Mr. Adnan Fathalla Janahi has over twenty-two 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.

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

Mr. Aqeel Mayoof has over twenty-two 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. Deepak Patel, Head of Operations

Mr. Deepak Patel has over seventeen 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 and MBA from Sikkim Manipal 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.

## PILLAR-III DISCLOSURES

As at 31 December 2016

### 7. EXECUTIVE MANAGEMENT TEAM OF ESKAN BANK (CONTINUED)

#### xiii. Mr. Muhammed Saeed Butt, Head of Financial Control

Mr. Muhammed Saeed Butt has over sixteen years of experience within the financial services sector. During the course of his career he has worked for Reputable Financial Institutions such as Ernst & 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.

#### xiv. Mrs. Amal Al Aradi, Head of Property Management / Eskan Properties Company

Mrs. Amal Al Aradi has over thirty 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.

#### xv. Mr. Fadhel Al Hashemi, Acting Senior Manager of Remedial & Collection Department

Mr. Fadhel Al Hashemi has over sixteen 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 to 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 in 2016.

#### xvi. Mr. Fadhel Asbool, Treasury Senior Manager

Mr. Fadhel Asbool has over twenty-eight 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.

#### xvii. Mrs. Haifa Al Madani, Head of Legal and Corporate Secretary Department

Mrs. Haifa Al Madani has over nineteen 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.

#### xviii. Mrs. Hana Buhejji, Senior Manager of Public Relations & Corporate Communications

Mrs. Hana Buhejji has over twenty-eight 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.

## PILLAR-III DISCLOSURES

As at 31 December 2016

### 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 2016. 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.

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

## PILLAR-III DISCLOSURES

As at 31 December 2016

### 8. ADDITIONAL GOVERNANCE MEASURES (CONTINUED)

Total value of remuneration awards for the current fiscal year

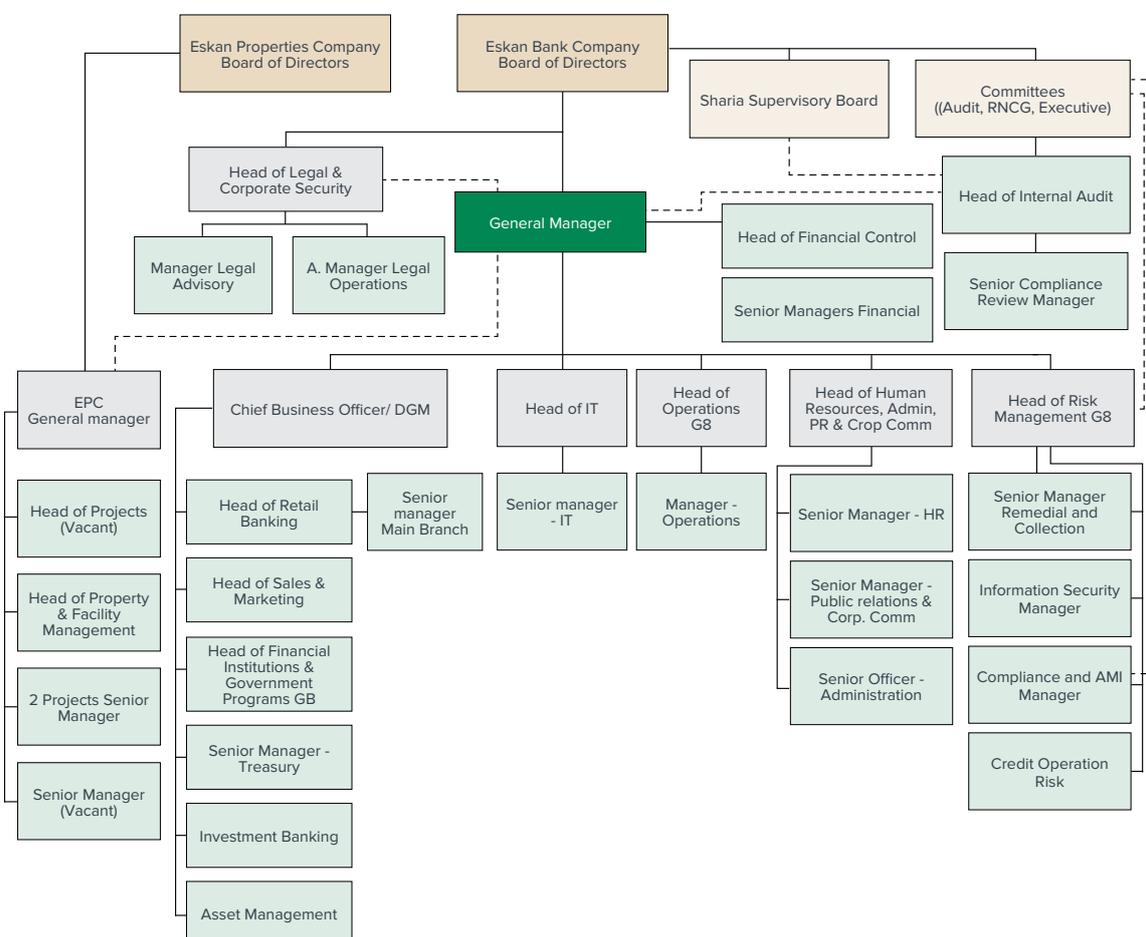
(Amt. in BHD)

	2016		2015	
	Approved Persons	Other Staff	Approved Persons	Other Staff
<b>Fixed remuneration</b>				
• Cash-based	880,386	1,491,047	1,557,032	2,471,685
• Shares and share-linked instruments	Nil	Nil	Nil	Nil
• Other	Nil	Nil	Nil	Nil
<b>Variable remuneration</b>				
• Cash-based	256,665	356,302	210,226	560,774
• Shares and share-linked instruments	Nil	Nil	Nil	Nil
• Other	14,556	1,805,834	Nil	Nil
<b>Grand Total</b>	<b>4,804,790</b>		<b>4,799,717</b>	

### 9. ORGANISATION CHART

The organisation structure of the Bank is as follows:

Proposed Eskan Bank (ED) Organization Structure - 2017



## PILLAR-III DISCLOSURES

As at 31 December 2016

### 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.

### 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 6: CAPITAL STRUCTURE

The following table summarizes the eligible capital after deductions for Capital Adequacy Ratio (CAR) calculation as of 31 December 2016.

	Cet1	At1	T2
<b>Components of capital</b>			
<b>Tier 1 Capital</b>			
Common Equity Tier 1 ( CET1)			
Issued and fully paid ordinary shares	108,300	-	-
Legal / statutory reserves	54,462	-	-
Retained profit brought forward	47,428	-	-
Others	13,950	-	-
<b>Total CET 1 Capital prior to the regulatory adjustments</b>	<b>224,140</b>	-	-
Less:			
Intangibles other than mortgage servicing rights	180		
<b>Total CET 1 Capital after the regulatory adjustments</b>	<b>223,960</b>	-	-
<b>Other Capital ( AT1 &amp; T2)</b>			
General loan loss provisions	-	-	142
<b>Net Available Capital</b>	<b>223,960</b>	-	<b>142</b>
<b>Total Capital</b>			<b>224,102</b>

## PILLAR-III DISCLOSURES

As at 31 December 2016

### 11. CAPITAL (CONTINUED)

Following are Capital Adequacy Ratios for total capital and Tier 1 capital as of 31 December 2016 :

<b>CET1 Capital Adequacy Ratio</b>	132.55%
<b>T1 Capital Adequacy Ratio</b>	132.55%
<b>Total Capital Adequacy Ratio</b>	132.64%

Following are the total risk weighted exposures for each category of risk the Bank is exposed to as of 31 December 2016 :

Credit Risk Weighted Exposures	133,712
Operational Risk Weighted Exposures	35,245
Market Risk Weighted Exposures	-
<b>Total Risk Weighted Exposures</b>	<b>168,957</b>

#### 11.2 Capital Adequacy

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.

## PILLAR-III DISCLOSURES

As at 31 December 2016

### 13. CREDIT RISK (CONTINUED)

#### 13.1 Overview of Credit Risk Management (Continued)

The Bank uses external ratings from Standard & Poor's, 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	Capital Intelligence	Risk Weight
AAA to AA-	AAA to AA-	Aaa to Aa3	AAA to AA-	20%
A+ to A-	A+ to A-	A1 to A3	A+ to A-	50%
BBB+ to BBB-	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	50%
BB+ to B	BB+ to B	Ba1 to B3	BB+ to B	100%
CCC+ to D	CCC+ to D	Caa1 to C	C+ to D	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 2016 was BHD 2.3 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 7: 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 *	13,543	11,508	4,406	29,457
Retail mortgage commercial loans	678	976	674	2,328
	<b>14,221</b>	<b>12,484</b>	<b>5,080</b>	<b>31,785</b>

**Table 8: Movement in provisions (in BHD thousands)**

	Opening balance	Charge for the year	Write off/ write back	Closing balance
<b>General Provision</b>				
Retail mortgage commercial loans **	213	-	(71)	142
<b>Specific Provision</b>				
Retail mortgage commercial loans	1,114	265	(75)	1,304
	<b>1,327</b>	<b>265</b>	<b>(146)</b>	<b>1,446</b>

\* 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.

The entire past due and provision balance as at 31<sup>st</sup> December 2016 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 25 thousands.

## PILLAR-III DISCLOSURES

As at 31 December 2016

### 13. CREDIT RISK (CONTINUED)

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

**Table 9: Capital Requirements – Standard Portfolio (in BHD thousands)**

The following table summarises the capital requirements by type of standard portfolio as of 31 December 2016:

	* Gross Exposures	Risk Weighted Value	** Capital Charge
<b>Standard Portfolio</b>			
Cash items	167	-	-
Sovereign Portfolio	519,962	-	-
Banks Portfolio	25,180	5,036	630
Residential Retail Portfolio	14,290	10,980	1,373
Equity Portfolio	1,484	2,226	278
Real estate Portfolio	71,648	113,538	14,192
Other Exposures	1,932	1,932	242
	<b>634,663</b>	<b>133,712</b>	<b>16,714</b>

\*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 10: Assets - Funded, Unfunded and Average Exposures (in BHD thousands)**

The following table summarises the amount of gross funded and unfunded credit exposure and average gross funded and unfunded exposures as of 31 December 2016 :

	Gross Exposures	* Average Exposures
<b>Funded Exposure</b>		
Cash and cash equivalents	81,991	81,900
Investments	4,757	4,757
Loans	479,006	472,444
Investment in associates	3,408	5,628
Investment properties	44,550	35,132
Development properties	20,757	24,400
Other assets	2,337	2,170
	<b>636,806</b>	<b>626,431</b>
<b>Unfunded Exposure</b>		
Loan related	8,833	46,287
Lease commitments	72	139
Capital Commitments	2,283	3,268
	<b>11,188</b>	<b>49,694</b>

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

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

## PILLAR-III DISCLOSURES

As at 31 December 2016

### 13. CREDIT RISK (CONTINUED)

**Table 11: 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 2016 :

	Kingdom of Bahrain	Total
Cash and cash equivalents	81,991	81,991
Investments	4,757	4,757
Loans	479,006	479,006
Investment in associates	3,408	3,408
Investment properties	44,550	44,550
Development properties	20,757	20,757
Other assets	2,337	2,337
	<b>636,806</b>	<b>636,806</b>

The Group considers the above geographical disclosure to be the most appropriate as the Group's activities are conducted in the Kingdom of Bahrain.

**Table 12: Sector-wise Distribution of Exposures (in BHD thousands)**

	Banks and financial institutions	Real estate and construction	Residential mortgage	Tourism	Other	Total
<b>Funded Exposures</b>						
Cash and cash equivalents	81,991	-	-	-	-	<b>81,991</b>
Investments	-	3,273	-	1,216	268	<b>4,757</b>
Loans	-	-	479,006	-	-	<b>479,006</b>
Investment in associates	-	3,408	-	-	-	<b>3,408</b>
Investment properties	-	44,550	-	-	-	<b>44,550</b>
Development properties	-	20,757	-	-	-	<b>20,757</b>
Other assets	-	215	-	-	2,122	<b>2,337</b>
	<b>81,991</b>	<b>72,203</b>	<b>479,006</b>	<b>1,216</b>	<b>2,390</b>	<b>636,806</b>
<b>Unfunded Exposures</b>						
Loan related	-	-	8,833	-	-	<b>8,833</b>
Lease commitments	-	-	-	-	72	<b>72</b>
Capital Commitment	-	2,283	-	-	-	<b>2,283</b>
	-	<b>2,283</b>	<b>8,833</b>	-	<b>72</b>	<b>11,188</b>

## PILLAR-III DISCLOSURES

As at 31 December 2016

### 13. CREDIT RISK (CONTINUED)

#### 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 2016.

**Table 13: Intra-group transactions as of 31 December 2016 (In BHD Thousands)**

The following table summarises intra-group transactions as of 31 December 2016 :

	Eskan Bank	RMBS Co	Eskan Property Co.	Dannat Al Luzi	Total
<b>Assets</b>					
Balances with Banks	-	-	948	-	<b>948</b>
Inter Bank Deposits	-	8,053	709	-	<b>8,762</b>
Investments in subsidiaries	8,652	-	-	-	<b>8,652</b>
Other Assets	2,349	11,846	255	-	<b>14,450</b>
	<b>11,001</b>	<b>19,899</b>	<b>1,912</b>	-	<b>32,812</b>
<b>Liabilities and Equity</b>					
Non-Bank Deposits	8,762	-	-	-	<b>8,762</b>
Current Accounts	948	-	-	-	<b>948</b>
Other Liabilities	12,060	2,166	183	33	<b>14,442</b>
Share Capital & Reserves	8	1	250	8,401	<b>8,660</b>
	<b>21,778</b>	<b>2,167</b>	<b>433</b>	<b>8,434</b>	<b>32,812</b>

#### 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 2016.

### 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.

## PILLAR-III DISCLOSURES

As at 31 December 2016

### 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.

### 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 14: Residual Contractual Maturity Breakdown of Assets and Liabilities (in BHD thousands)**

The following table summarises the residual contractual maturity breakdown of the whole credit portfolio as of 31 December 2016, broken down by major types of credit exposure.

	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	42,114	26,017	8,251	5,609	-	-	-	-	-	-	81,991
Investments	-	-	-	-	-	268	4,489	-	-	-	4,757
Loans	63	1,750	3,533	5,386	10,895	44,829	46,825	120,301	173,511	71,913	479,006
Investment in associates	-	-	-	-	593	-	2,815	-	-	-	3,408
Investment property	-	-	-	-	-	-	-	-	44,550	-	44,550
Development property	-	-	7,904	-	-	12,853	-	-	-	-	20,757
Other assets	517	41	385	175	94	404	721	-	-	-	2,337
<b>Total Assets</b>	<b>42,694</b>	<b>27,808</b>	<b>20,073</b>	<b>11,170</b>	<b>11,582</b>	<b>58,354</b>	<b>54,850</b>	<b>120,301</b>	<b>218,061</b>	<b>71,913</b>	<b>636,806</b>
Deposits from financial and other institutions	16,000	19,500	-	-	-	-	-	-	-	-	35,500
Government accounts	-	-	-	-	-	-	-	-	-	272,215	272,215
Term loans	-	-	-	20,000	29,000	20,000	-	-	-	-	69,000
Other liabilities	4,742	568	1,958	2,283	1,890	6,072	4,800	3,600	3,351	-	29,264
<b>Total Liabilities</b>	<b>20,742</b>	<b>20,068</b>	<b>1,958</b>	<b>22,283</b>	<b>30,890</b>	<b>26,072</b>	<b>4,800</b>	<b>3,600</b>	<b>3,351</b>	<b>272,215</b>	<b>405,979</b>
<b>Mismatch</b>	<b>21,952</b>	<b>7,740</b>	<b>18,115</b>	<b>(11,113)</b>	<b>(19,308)</b>	<b>32,282</b>	<b>50,050</b>	<b>116,701</b>	<b>214,710</b>	<b>(200,302)</b>	<b>230,827</b>
<b>Cumulative Mismatch</b>	<b>21,952</b>	<b>29,692</b>	<b>47,807</b>	<b>36,694</b>	<b>17,386</b>	<b>49,668</b>	<b>99,718</b>	<b>216,419</b>	<b>431,129</b>	<b>230,827</b>	<b>230,827</b>

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.

## PILLAR-III DISCLOSURES

As at 31 December 2016

### 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 15: Operational Risk**

<b>Operational Risk (in BHD thousands)</b>	<b>Amount</b>
Average Gross income	18,797
Risk Weighted Exposures	35,245
<b>Capital Charge (@12.5%)</b>	<b>4,406</b>

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

## PILLAR-III DISCLOSURES

As at 31 December 2016

### 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 16: 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	3,408	3,408	852

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)**

Analysis of the Group'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 Group's net profit and equity:

	1-7 Days	7 Days - 1 Month	1-3 Months	3-6 Months	6-12 Months	Total
<b>LIABILITIES</b>						
Deposits from financial and other institutions	16,000	19,500	-	-	-	35,500
Term Loans	-	-	-	9,000	-	9,000
<b>Rate sensitive Liabilities</b>	<b>16,000</b>	<b>19,500</b>	<b>-</b>	<b>9,000</b>	<b>-</b>	<b>44,500</b>
<b>ASSETS</b>						
Balances and placements with financial institutions	39,227	26,017	8,251	5,609	-	79,104
<b>Loans - commercial loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,098</b>	<b>14,098</b>
<b>Rate sensitive Assets</b>	<b>39,227</b>	<b>26,017</b>	<b>8,251</b>	<b>5,609</b>	<b>14,098</b>	<b>93,202</b>
<b>Mismatch</b>	<b>23,227</b>	<b>6,517</b>	<b>8,251</b>	<b>(3,391)</b>	<b>14,098</b>	<b>48,702</b>
	4	19	60	135	270	
<b>Change in Basis Points (+/- 200)</b>	<b>5</b>	<b>7</b>	<b>27</b>	<b>(25)</b>	<b>209</b>	<b>222</b>

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 23,050 (2015: BHD 21,550) mainly comprise those for the audits of the consolidated financial statements of the Group. Fees for the non-audit services of BHD 45,750 (2015: BHD 35,900 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.