



SHAPING A BETTER FUTURE

2017 ANNUAL REPORT



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"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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**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

Bahrain's leading provider of residential mortgages



▼ PROFILE

Established in 1979 to provide mortgages for low-to-medium incomes citizens in the Kingdom of Bahrain, Eskan Bank (the “Bank”) has evolved to become the Ministry of Housing’s strategic partner in the creation and delivery of a comprehensive and sustainable housing solution for Bahrain.

Wholly-owned by the Government of Bahrain, and with an authorised share capital of BD 400 million and paid-up capital of BD 108.3 million, the Bank operates under a restricted conventional retail banking license issued and regulated by the Central Bank of Bahrain. At the end of 2017, the Bank posted a net income of BD 21.5 million and total assets stood at BD738 million.

The progression of Eskan Bank has seen the Bank play an ever growing and vital role as it supports the social agenda of Bahrain’s Economic Vision 2030. In particular, together with the provision of innovative social housing services in partnership with a network of Bahraini banks, the Bank is collaborating with Government entities and invigorating the private sector as it facilitates the timely construction of pioneering community developments that provide quality homes to Bahrainis whilst driving sustainable economic growth for the Kingdom.

▼ VISION

Lead the provision of 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

Ownership: The Eskan team take responsibility for achieving successful outcomes and are accountable for the end result.

Respect: Respect is weaved into the way we treat our employees, the level of service we deliver to our customers, and the high quality of our solutions.

Innovation: At Eskan, we continuously strive to do things better, and this drives innovation in our thinking, our policies, our procedures, and in our products and services.

Integrity: We are guided by a moral compass and implement ethical principles and practices in our relationships with employees, partners and customers, and in everything we do.



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.

The Year in Review

Shaping Sustainable Solutions for Bahrain



Operational Review

The year 2017 was characterized by collaboration and transformation. The Bank's evolution from, mainly a provider of subsidized social housing services with governmental financial support, to the Ministry of Housing's strategic partner and financial engineer, to an entity that is leveraging its own capabilities in order to make a real contribution to the country's social and economic agenda.

Although the Bank remains steadfast in its mission to support the Ministry of Housing in providing quality homes for Bahrainis, its expanded role meant that stronger ties were forged with private sector players in a year of intense and successful collaboration.

The business environment remained challenging in 2017, with tight liquidity and continued regional geopolitical instability depressing business confidence, however despite this less than conducive business backdrop, the Bank underscored its agility and became a stronger entity through a successful accounting reshuffling that resulted in a more robust balance sheet. The Bank is now better positioned to navigate the market's existing and future challenges.

Financial Review

Eskan Bank has posted positive financial results, with a total net income for 2017 of BD21.5 million, a substantial increase on the previous year representing an increase of 31% (2016: BD16.5 million). Total equity stood at BD262.4 million (2016: BD230.8 million), while the return on equity stood at 8.2%. Total expenses increased by 20% compared to the previous year, Total operating costs, excluding the 0.8 million early retirement scheme stood at BD6.4 million with a growth of only 1% based on a successful department wide cost rationalization process, while total income grew by 27%, contributing to a drop in the cost-to-income ratio to 25%, compared with 28% in 2016.

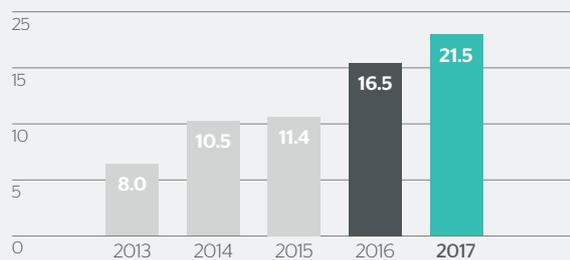
Financial Highlights

2017 was a year of milestone successes



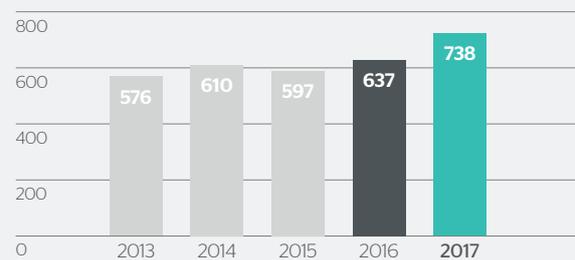
Net Income (BD Million)

BD 21.5 m



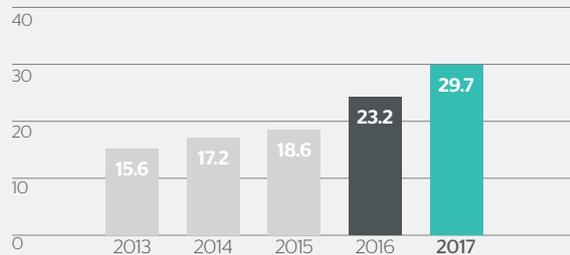
Total Assets (BD Million)

BD 738 m



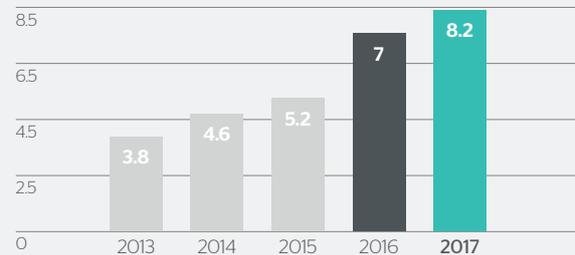
Operating Income (BD Million)

BD 29.7 m



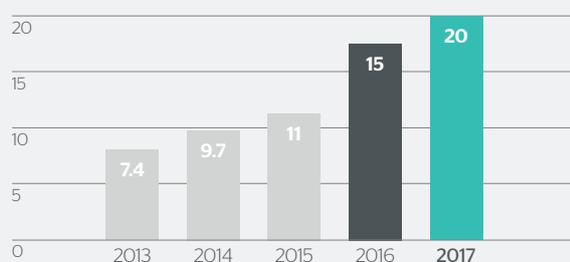
Return on Equity (%)

8.2%



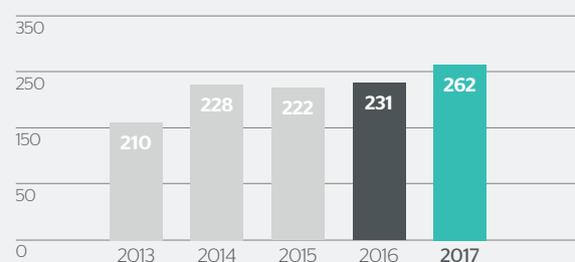
Earnings per Share (BD)

BD 20



Total Equity (BD Million)

BD 262 m



Board of Directors



1



2



3



4



5



6



7



8



9



10

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 the Audit Committee.

4. Mr. Yusuf Abdulla Taqi

Member (Independent Non-Executive
Director) and Member of Executive
Committee

5. Yusuf Saleh Khalaf

Independent Non-Executive Director
until 30 August 2017, and previously
Chairperson of the Audit Committee

6. Dr. 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. Najla Mohammed Al Shirawi

Independent Non-Executive Director and
Chairperson of Audit Committee

8. Mrs. Rana Ebrahim Faqihi

Independent Non-Executive Director and
Member of Executive Committee

9. Mr. Kamal Murad Ali Murad

Independent Non-Executive Director and
Member of Executive Committee

10. Sheikh Ahmed Bin Isa Al Khalifa

Independent Non-Executive Director and
Vice Chairperson of the Audit Committee
since August 2017

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

Chairman's Statement

On behalf of the Board of Directors, it is my pleasure to present the annual report and consolidated financial statements of Eskan Bank for the year ended 31 December 2017.

2017 saw a continued focus on Private Public Partnerships (PPP's) as the Bank seeks to deliver holistic, cost effective housing solutions that reduce the Ministry of Housing's waiting list, relieve reliance on government finances, protect our environment, and encourage long term social and economic prosperity for the people of Bahrain.

Over the last few years, the Bank has innovated in the provision of social housing solutions, shifting its focus from the provision of subsidized loans and capital-intensive housing built on Eskan Bank financed land, to becoming a key facilitator in the development of pioneering housing projects. These projects are being built on private land with private sector funds, and I am pleased to say that the Bank's proven track record of success in this regard has greatly enhanced private sector confidence in the Bank, resulting in Eskan Bank fast becoming the Kingdom's preferred real estate development partner when it comes to social housing.

I am also pleased to report that, despite numerous challenges, including a rigorous reorganization of government funding, the Bank, while remaining

focused on directing its financial strength towards the speedy delivery of social housing projects, achieved positive financial results in 2017.

The Bank posted a total net income for 2017 of BD21.5 million (2016: BD16.5 million). These positive results are attributable in part to an agreement between the Ministry of Housing and Eskan Bank, whereby financial receivables from Ministry allocated villas were transferred as Bank assets and duly recorded on the 2017 balance sheet. This enabled the Bank to book an additional income of BD 7.3 million for the fiscal year to post a growth of 27.5% in the total income. Total operating costs, excluding the 0.8 million Early Retirement Scheme stood at BD6.4 million with a growth of only 1% based on a successful department wide cost rationalization process.

As of 31 December 2017, total equity of the Bank stood at BD262.4 million (2016: BD230.8 million), while the return on equity stood at 8.2%. The Bank's total balance sheet grew to BD738 million at the end of 2017, compared to BD637 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.



Over the last few years, the Bank has innovated in the provision of social housing solutions, shifting its focus from the provision of subsidized loans and capital-intensive housing built on Eskan Bank financed land, to becoming a key facilitator in the development of pioneering housing projects.

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.

In addition, I express my appreciation to our management and staff for their continued 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 Eskin Bank

General Manager's Report

Eskan Bank is well equipped to face any challenges that the coming years will bring and support our shared vision of a prosperous Bahrain for generations to come.



2017 was a productive and successful year for Eskan Bank. Rigorous research was conducted, new building technologies were explored, the Bank's financing structures were further enhanced, and, through the Bank's real estate development arm Eskan Properties Company BSC (c) (EPC) and in collaboration with the Ministry of Housing, 694 homes were delivered to Bahraini families.

The Bank posted positive results, with an encouraging net income for 2017 of BD21.5 million, a growth of 31% on last year's results (2016: BD16.5 million). This growth in 2017 reflects the achievements in terms of signing a strategic MOU with the Ministry of Housing, successful completion of sale of projects, and monitoring of operating costs growth with improving cost to income ratio for the Bank. The balance sheet was substantially strengthened, due to this strategic MOU signed with the Ministry. Liquidity position remained healthy as the Bank successfully repaid BD 9 Million for final tranche of RMBS and finalized renewal of the BD 100 Million syndicated loan at flexible terms in line with strategic requirements of the Bank.

Dr. Khalid Abdulla
General Manager

A key focus for the Bank in the last fiscal year was encouraging citizens to purchase apartments in 'vertical communities through the 'Tomoooh' financing scheme. In 2017, the success of that initiative was apparent with apartments in the Danaat Al Seef and Danaat Al Riffa vertical community projects in high demand. Testament to this was the sale of 248 total apartments sold in these communities. Construction on the Danaat Al Lawzi project progressed well with 25% of construction on the total villas completed in 2017. The Mazaya scheme also enjoyed steady progress during the year, with 2383 citizens taking full advantage of the Scheme since inception with a value of approximately BD 190 million in loans disbursed by the participant banks, underscoring the achievement of Ministry of Housing and the Bank's strategy to encourage collaboration and drive growth in the financial sector by joining hands with local banks.

The first semi-annual distribution of the Eskan Bank Realty Income Trust ("EBRIT") fund was successfully distributed to investors in the third quarter of 2017 with 3% (6% annual yield) distributed which met the Bank's expectation of the fund's performance.

Aligned with our mission to create a more sustainable social housing solution for the Kingdom of Bahrain, the Bank explored the redevelopment of existing housing assets on Ministry of Housing land during the year - a solution that is set to offer a number of valuable economic, environmental and societal benefits. Economically, a focus on existing Ministry assets is cost effective, as these older communities already have existing infrastructure in place, and, by implementing newer, energy saving building techniques, the Bank will support the Ministry of Electricity & Water (EWA) in curbing fiscal deficits, whilst also encouraging environmental sustainability.

The upgrade of the housing developments will further serve to beautify Bahrain while providing families living in these developments with higher quality homes.

Moving forward the Bank will continue to improve operational effectiveness, explore ways to innovatively structure debt, and create community-based, state of the art, sustainable structures that are affordable, and meet the needs of the people of Bahrain.

Key to the achievements and milestones that were reached in 2017, and that we continue to strive toward, is the hard work and dedication of the Eskan Bank employees. Their commitment to serving the country and its citizens with professionalism is honorable, and I extend my sincere gratitude to them.

The management and Board remain confident that, together with continued governmental and private sector collaboration, Eskan Bank is well equipped to face any challenges that the coming years will bring and support our shared vision of a prosperous Bahrain for generations to come.



Moving forward the Bank will continue to improve operational effectiveness, explore ways to innovatively structure debt, and create community-based, state of the art, sustainable structures that are affordable, and meet the needs of the people of Bahrain.

A better way to live



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.



Review of Operations

Housing Developments

EPC achieved a number of milestones during the reporting period. Construction was completed on Danaat Al Riffa. The project, which is located at El Istiqlal Avenue in North Riffa, consists of 3 residential buildings that comprise 84 apartments. Construction on the Danaat Al Lawzi project, a tie-up with a private sector landowner to build 303 villas and a community center located at Al Lawzi area west of Hamad Town, also progressed well with 25% of construction on the total villas completed. Danaat Al Seef and Danaat al Riffa homes were delivered to beneficiary families in 2017.

The year saw EPC Ink a deal with Kuwait Finance House (KFH-Bahrain) for the Development Management of Danaat Baytik at Ishbiliya, a project consisting of 18, four-story buildings and 460 apartments. The design is in the final stage with work expected to commence in 2018. In addition, concept designs for Danaat Al Hooraa and Danaat Al Estiqlal, the first redevelopments of existing Ministry of Housing projects, were finalized, as was the design of the Al Ramli development, the Busaiteen Shopping Center, and Danaat Al Baraka. Work is expected to start on these in 2018.

Mazaya

Eskan Bank continued to work closely with Bahrain's banks and real estate developers to enhance Mazaya and elevate awareness of its benefits to the public. In particular, and in its role as the financial execution arm of the Ministry of Housing, the Bank closely collaborated with the Ministry to optimize Mazaya to serve a larger segment of beneficiaries. Mazaya, which allows citizens to avail of a government subsidized mortgage from participating banks, continues to benefit beneficiaries on the Ministry's waiting list, reduce the financial burden on government resources, and drive growth in the Kingdom's financial sector.

Eskan Bank REIT (EBRIT)

Eskan Bank pioneered the structuring of the Kingdom's first Listed Real Estate Investment Trust ("REIT") known as Eskan Bank Realty Income Trust ("EBRIT") in 2016. In January 2017, EBRIT was listed on the Bahrain Bourse, and throughout the reporting period, the units maintained their value with minimum fluctuations and volatility in price. The first semi-annual distribution of 6% annual yield was distributed to investors in the third quarter of 2017, meeting the Bank's expectation of the fund's performance.

Human Resources

In 2017 the Bank implemented a thorough individual Training need analysis ("TNA") of the team to ensure the full and effective utilization of each employee's potential and creative talent. A renewed focus was placed on training and development so that employees were well equipped to take advantage of the bank's internal succession planning opportunities. 149 employees representing 93% of total headcount participated in various training courses during 2017, while ties were also strengthened between the Bank and Tamkeen in relation to empowering more staff with specialized professional degrees. A number of employees also took advantage of the Bank's early retirement scheme, where it has been successfully implemented in achieving cost rationalization and effective utilization of existing manpower and via employee redeployment and internal hiring.



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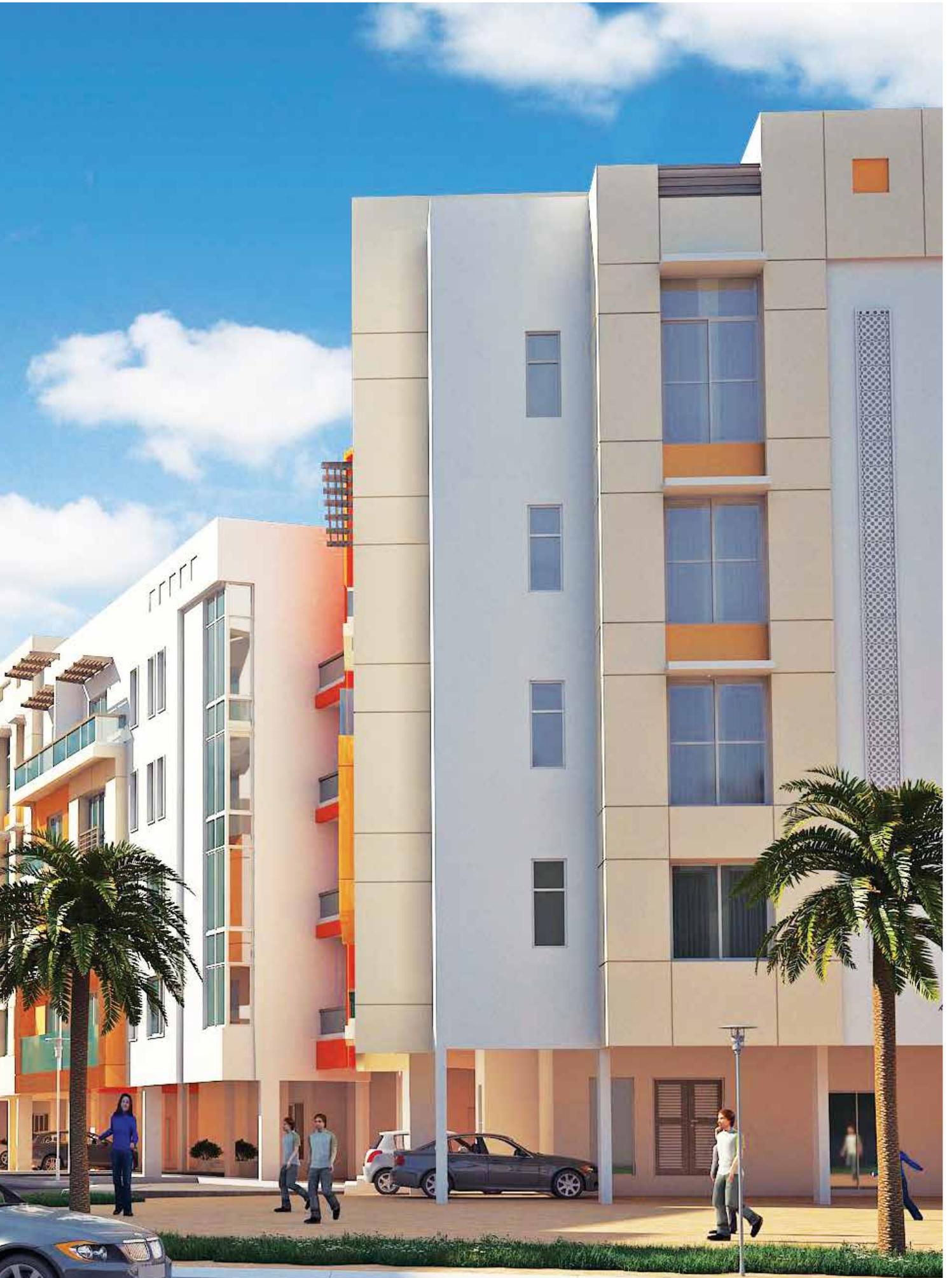


A better way to build



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.



Review of Operations (continued)



Eskan Bank implemented of a new core banking system which automated a number of manual processes.



The EPM (Enterprise Project Management) system was successfully implemented. The system, which will track the Bank's real estate projects from inception to completion.



Danaat Al Lawzi

Construction on the Danaat Al Lawzi project, a tie-up with a private sector landowner to build 303 villas and a community center located at Al Lawzi area west of Hamad Town, also progressed well with 25% of construction on the total villas completed.

Sales & Marketing

Eskan Bank's Sales and Marketing Division remained active in 2017. The Bank participated in the Gulf Property Show, and produced creative marketing collateral for the Danat Al Lawzi project. The year saw the team preparing to go to market on a number of projects with streamlining of policies and procedures and the conducting of sales training.

Risk Management

The Risk Management division manages the Risk Management, Compliance, Information Security, Business Continuity Management (BCM), and Remedial Collections and Collateral Management activities of the Bank.

2017 was a productive year for the division with an overall focus to improve the processes and procedures of the Bank, and a particular emphasis on streamlining the real estate development business. The EPM (Enterprise Project Management) system was successfully implemented. The system, which will track the Bank's real estate projects from inception to completion and beyond, will facilitate the generation of reports that can be used to further improve the way things are done. A comprehensive, process based operational risk management assessment was also carried out, with all Bank policies and procedures rigorously reviewed during the reporting period. In addition, new Risk Appetite and Risk Tolerance statements were crafted in line with the evolving strategy of the Bank.

In terms of Compliance, an extensive exercise was conducted whereby all Bank regulations were detailed with their related requirements, processes and controls documented.

The Bank also progressed towards implementation of IFRS 9 regulatory changes to be completed in the first quarter of 2018.

Information Security was enhanced with the implementation of the new Core Banking System which has substantially improved the reporting and capturing of information. Another key achievement of the division included the successful implementation of a frequency based, Inventory Identification System which handles the title deeds - including an archive of more than 20,000 plus documents - for the Bank. Aligned with its mission to continuously improve quality, ISO 9001 recertification and ISM certification was completed. The Bank is working towards BCM certification of ISO 22301 as we move into 2018.

Corporate Social Responsibility

Eskan Bank is synonymous with Corporate Social Responsibility (CSR) and as such remained an active community member during 2017. Emphasizing its ongoing support of Bahrain's youth, the Bank sponsored the University of Bahrain's Engineering Award, and continued to bridge the gap between schools and universities and the workforce through its annual summer traineeship program.

Operational Excellence

The Bank remains committed to operational excellence and as such further streamlined internal processes and procedures in 2017. This included, amongst other initiatives, the implementation of a new core banking system which automated a number of manual processes. Business Process Reengineering was also a key focus, resulting in the analysis of existing processes at an intra-department and inter department level.

A better way to work



The Bank remains committed to operational excellence and as such further streamlined internal processes and procedures in 2017. This included, amongst other initiatives, the implementation of a new core banking system which automated a number of manual processes. Business Process Reengineering was also a key focus, resulting in the analysis of existing processes at an intra-department and inter department level.



Project portfolio

Eskan Bank projects

Project Name

Completion status

1. Danaat Al Madina
2. Segaya Plaza
3. Hamad Town Villas
4. Danaat Al Seef
5. Danaat Al Riffa

Completed



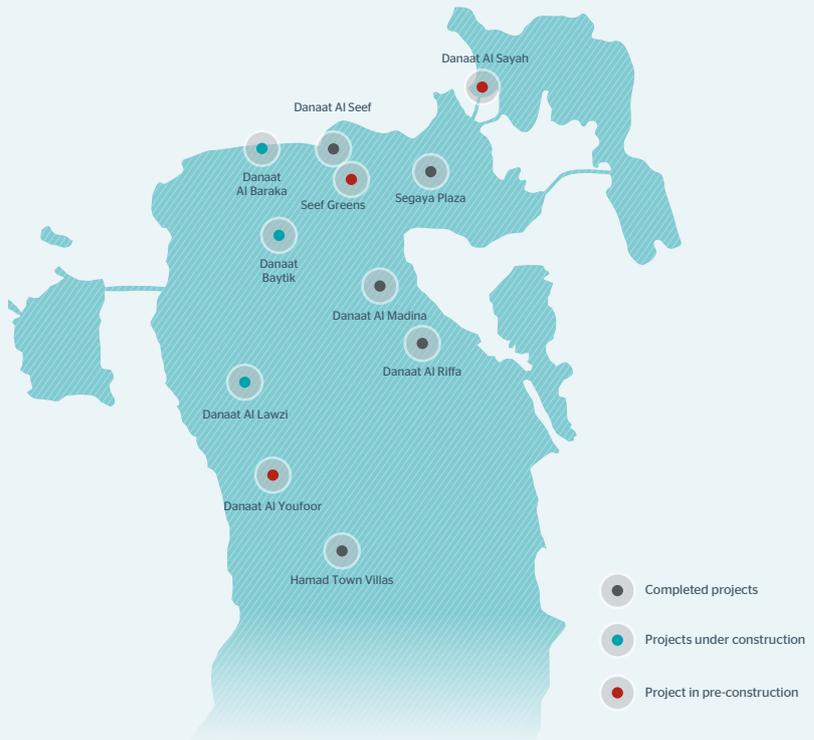
6. Danaat Al Lawzi
7. Danaat Al Baraka
8. Danaat Baytik

2018



9. Danaat Al Sayah
10. Seef Greens
11. Danaat Al Youfoor

TBD



- Completed projects
- Projects under construction
- Project in pre-construction



Danaat Al Madina



Segaya Plaza



Danaat Al Lawzi



Danaat Al Seef



Danaat Al Riffa

Subsidiaries, Associates and Strategic Investment

Subsidiaries

Eskan Properties Company B.S.C. (EPC)

Eskan Properties Company wholly owned by the Bank, was established to execute the various housing and community projects being taken up by the Bank. Principal activities of the company are to carry out all operations in relation to development management, operation and maintenance for all types of real estate owned by the Bank, governmental institutions and ministries or other private sector entities.

Eskan RMBS Company B.S.C.

The Bank owns 100% in Eskan RMBS Company whose principal activities are to issue Asset Backed private debt securities for the purpose of securitization of housing services. With the final payment of BD 9 million completed in October 2017, the Company has fully repaid its debt of BD 30 million and it is under liquidation.

Dannat Al Lawzi B.S.C

Danat Al Lawzi was established in 2014 for the purpose of developing an affordable housing project in Hamad Town, in collaboration with the private sector.

Development work on the project, commenced in 2017, with anticipated handover date in 2019 and should deliver:

- 303 affordable villas
- A community centre featuring:
 - Super market
 - Restaurants
 - Related amenities
- A walkway adjacent to Al Lawzi Lake
- All necessary primary, secondary and tertiary infrastructure

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 Bahraini families. The Bank provides beneficiaries with an opportunity to start a new business, become financially independent and enhance their quality of life. Eskan Bank is a founding shareholder of Ebdaa Bank, holding a 20% stake.

Bahrain Property Musharaka Trust (BPMT)

Bahrain Property Musharaka Trust was established in 2011 with a total value of BHD 23.3 million to initially build two projects, namely Segaya Plaza and Danaat Al Madina mixed use development. Eskan Bank's ownership in BPMT is 42.98%. Upon the sale of the apartments in Danaat Al Madina mixed use development, Segaya Plaza, along with the commercial part of Danaat Al Madina were transferred as the seed assets the listed Eskan Bank Realty Income Trust (EBRIT).

Eskan Bank Realty Income Trust (EBRIT)

EBRIT is the first listed Real Estate Investment Trust in Bahrain which was established by Eskan Bank during the last quarter of 2016. EBRIT has a total value of BD 19.8 million, with the Bank holding 33.2% of EBRIT units. The inaugural property of EBRIT includes Segaya Plaza along with the commercial parts of the Danaat Al Madina development. Eskan Bank as investment manager of EBRIT is seeking to add more properties to the Trust and has been active in seeking additional opportunities to grow and diversify the portfolio of assets.

Strategic Investment:

Naseej

Eskan Bank is a founding shareholder of Naseej. Naseej 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. Naseej has achieved delivery of houses in Madina Al Shamalia in 2017

Executive Management

Dr. Khalid Abdulla

General Manager

Mr. Ahmad Tayara

Chief Business Officer and Deputy
General Manager

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, Administration
& Corporate Communication

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 Al Asbool

Senior Manager, Treasury

Mr. Fadhel Hashemi

Senior Manager of Remedial
& Collection

Eskan Properties Company (EPC):**Mr. Eyad Obaid**

General Manager

Mrs. Amal Al Aradi

Head of Property & Facility Management

Mr. Hasan Abdulrahim

Senior Project Manager

Corporate Governance Report 2017

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 chairman of the Board must ensure that each new director receives a formal and tailored induction to ensure his contribution to the board from the beginning of the term and should review the board's role and duties with the directors, particularly covering legal and regulatory requirements. The 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 authorised 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.

Additionally, the bank is required to obtain the board approval for unbudgeted revenue expenditures and capital expenditures transactions with a value exceeding BD 100,001. Furthermore, the bank shall obtain the board approval for acquisition of real estate transactions and project costs transactions with a value exceeding BD 300,001. Project costs are specified as consultancy costs, construction costs and other costs. If the original project cost itself is expected to exceed by 10% or more of the initially approved project cost or BD 1,000,000 whichever is lower, the matter should be referred to the Executive Committee, Board of Directors or chairman for their approval. The Bank is also subject to the supervision and scrutiny of the National Audit Court.

3. Board of Directors Information

• Board composition

Eskan Bank's Board has been appointed by virtue of Cabinet Decree No. 14 of 2015 dated 8 March 2015, amended by virtue of Cabinet Edict No. 18 of 2017, 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, whereby in accordance with the said Cabinet Decrees eight members of leading Bahraini banking and finance professionals have been appointed for a period of 3 years which may be renewed, 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.

No remuneration was paid to the Board of Directors during 2017.

• 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, appointing of external auditors and the implementation of corporate ethics and the code of conduct. Beside this, the board of directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and 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 & Conflict of Interest

The Bank has adopted Code of Conduct and other internal policies and guidelines designed to guide all employees and directors through best practices in compliance with all laws, rules and regulations that govern the Bank's business operations. The Code of Conduct contains rules on conduct, ethics and on avoiding conflict of interest applicable to all the employees and directors of the Bank. The Bank has an annual declaration of Conflict of Interest statement for Board members, whereby each director has the responsibility to disclose any material interest related to business transactions and agreements. The need did not arise for the General Manager to disclose to the Board of Directors relatives of any approved persons occupying approved person in controlled functions within the Bank. During Board Meetings held in 2017, 6 directors have abstained from voting on 7 proposals submitted during the said meetings due to them being members of the board of directors or members of the executives management of parties related to the proposals.

• Annual 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 2017.

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- Dr. 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 2017).
- Majority of the Members are required to attend the meetings to ensure a quorum.
- Concerned Chiefs, Heads and Managers are invited to attend the meetings (If required).

Summary of responsibilities:

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

Corporate Governance Report 2017 (continued)

Audit Committee

Members:

- 1- Mr. Yusuf Saleh Sultan Khalaf (Chairman) *¹
- 2- Mrs. Najla Mohamed Al – Shirawi (Chairman) *²
- 3- Dr. Zakaria Sultan Mohammed Al-Abbasi
- 4- Sh. Ahmed bin Issa Al-Khalifa*³

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 three meetings during 2017 due to the resignation of Mr. Yusuf Khalaf on April 6th, 2017 which was accepted by virtue of Cabinet Decree No. 18 of 2017 dated 30 August 2017 appointing Sh. Ahmed bin Issa Al-Khalifa as his replacement in Eskan Bank's Board of Directors.)
- 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.

*¹ Mr. Yusuf Khalaf submitted his resignation from Eskan Bank Board of Directors on April 6th, 2017, and his resignation was accepted by the Cabinet by virtue of Cabinet Decree No. 18 of 2017 dated 30 August 2017 with regards to replacing a member of Eskan Bank's Board of Directors.

*² Mrs. Najla Al-Shirwai has been appointed as Chairman of the Audit Committee upon the resignation of the previous Chairman.

*³ Sh. Ahmed bin Issa Al-Khalifa has been appointed as a member in Eskan Bank's Board of Director's by virtue of Cabinet Decree No. 18 of 2017 dated 30 August 2017 with regards to replacing a member of Eskan Bank's Board of Directors, and was subsequently appointed as a member of the Audit Committee during Eskan Bank's Board of Director's 3rd Meeting 2017 held on September 19th, 2017.

Remuneration, Nomination & Corporate Governance Committee

Members:

- 1- H.E. Eng. Bassim bin Yaqob Al Hamer (Chairman)
- 2- Mr. Yusuf Abdullah Mohammed Taqi
- 3- Dr. Riyad 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 2017).
- 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 2017

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 2017. The below schedule shows dates of meetings and attendance of Board Members:

• Board of Directors Meetings During 2017

Members	23 March 2017 (1st Meeting)	24 May 2017 (2nd Meeting)	19 Sep. 2017 (3rd Meeting)	13 Dec. 2017 (4th Meeting)
HE Eng. Bassim bin Yaqub Al Hamer (Chairman)	✓	✓	✓	✓
Mr. Mohammed Abdulrahman Hussein Bucheeri (Vice Chairman)	✓	✓	✓	✓
Mr. Yusuf Abdullah Mohammed Taqi	✓	x	✓	✓
Dr. Zakaria Sultan Mohammed Al-Abbasi	✓	✓	✓	✓
Mr. Yusuf Saleh Sultan Khalaf ^{*1}	x	x	NA	NA
Dr. Riyadh Saleh Al Saei	✓	✓	✓	✓
Mr. Kamal Murad Ali Murad	x	✓	✓	✓
Mrs. Najla Mohamed Al – Shirawi	✓	✓	✓	✓
Mrs. Rana Ebrahim Faqihi	✓	✓	✓	✓
Sh. Ahmed bin Issa Al-Khalifa ^{*2}	NA	NA	✓	✓

^{*1} Mr. Yusuf Khalaf submitted his resignation from Eskan Bank Board of Directors on April 6th, 2017, and his resignation was accepted by the Cabinet by virtue of Cabinet Decree No. 18 of 2017 dated 30 August 2017 with regards to replacing a member of Eskan Bank's Board of Directors.

^{*2} Sh. Ahmed bin Issa Al-Khalifa has been appointed as a member in Eskan Bank's Board of Director's by virtue of Cabinet Decree No. 18 of 2017 dated 30 August 2017 with regards to replacing a member of Eskan Bank's Board of Directors.

• Executive Committee Meetings

The Executive Committee held four meetings during 2017. The below schedule shows dates of meetings and attendance of Board Members:

Members	7 March 2017 (1st Meeting)	8 May 2017 (2nd Meeting)	28 Aug. 2017 (3rd Meeting)	29 Nov. 2017 (4th Meeting)
Mr. Mohammed Abdulrahman Bucheeri (Chairperson)	✓	✓	✓	✓
Dr. Riyadh Saleh Al Saei	✓	✓	✓	✓
Mr. Kamal Murad Ali Murad	✓	✓	x	✓
Mrs. Rana Ebrahim Faqihi	✓	✓	✓	x

• Audit Committee Meetings

The Audit Committee held three meetings during 2017 due to the resignation of Mr. Yusuf Khalaf on April 6th, 2017 which was accepted by virtue of Cabinet Decree No. 18 of 2017 dated 30 August 2017 appointing Sh. Ahmed bin Issa Al-Khalifa as his replacement in Eskan Bank's Board of Directors. The below schedule shows dates of meetings and attendance of Board Members:

Members	6 Feb. 2017 (1st Meeting)	7 May. 2017 (2nd Meeting)	12 Nov. 2017 (3rd Meeting)
Mr. Yusuf Saleh Sultan Khalaf (Chairperson)	✓	x	NA
Mrs. Najla Mohamed Al – Shirawi ^{*1}	✓	✓	✓
Dr. Zakareya Sultan Mohammed Al-Abbasi	✓	✓	✓
Sh. Ahmed bin Issa Al-Khalifa	NA	NA	✓

^{*1} Mrs. Najla Al-Shirwai has been appointed as Chairman of the Audit Committee upon the resignation of the previous Chairman.

Corporate Governance Report 2017 (continued)

• Remuneration, Nomination and Corporate Governance Committee Meetings

The Remuneration, Nomination and Corporate Governance Committee held two meetings during 2017. The below schedule shows dates of meetings and attendance of Board Members:

Members	15 March 2017 (1st Meeting)	22 November 2017 (2nd Meeting)
HE Eng. Bassim bin Yaacub Al Hamer (Chairperson)	✓	✓
Mr. Yusuf Abdullah Mohammed Taqi	✓	x
Dr. Riyad Saleh Al Saei	✓	✓

The Remuneration, Nomination and Corporate Governance Committee held two meetings during 2016.

• Remuneration, Nomination and Corporate Governance Committee

No remuneration was paid to the Remuneration, Nomination & Corporate Governance Committee during 2017 and 2016.

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
Dr. Sh. Nezam Yacouby (Chairperson)	The Shari'a Supervisory Board is an independent body responsible for directing, reviewing and supervising the Islamic activities in Eskan Bank in order to ensure that they are in compliance with Shari'a rules and principles.
Dr. Sh. 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 2017. The below schedule shows dates of meetings and attendance of the Shari'a Board Members:

Members	21 February 2017 (1st Meeting)	17 May 2017 (2nd Meeting)	26 September 2017 (3rd Meeting)	5 December 2017 (4th meeting)
Dr. Sh. Nezam Yacouby (Chairperson)	✓	✓	✓	✓
Dr. Sh. 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 2017 was BD 13,340 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, and Human Resources Committee.

During 2017, the General Manager has disclosed to the Board of Directors on an annual basis relatives of any approved persons occupying controlled functions within the Bank.

The General Manager issued Administrative Resolution No. (1) of 2016 on December 12th, 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

Secretary - Information Security Manager

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

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.

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

Secretary - Manager- 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.

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.

Corporate Governance Report 2017

(continued)

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

Secretary - Manager Financial Control Department

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.

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

Secretary - Information Security Manager

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.

Summary of responsibilities:

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

Human Resources Committee (HRC)

Members:

The Committee shall consist of members with the following designation:

1. General Manager (**Chairman**)
2. Chief Business Officer & Deputy General Manager
3. 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

Secretary - Senior Manager - Human Resources

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.

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.

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

Secretary - Assistant Manager - Sales & Marketing

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.

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.

Corporate Governance Report 2017

(continued)

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 & Administration
5. Head of Legal Advisory & Corporate Secretary

Secretary – Senior Officer – Administration Department

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.

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

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.

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

Secretary – Senior Officer - Investment & Corporate Banking Department

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.

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.

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 2017 was BD 1,101,740.

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.

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

for the year ended 31 December 2017

18th Jamada II 1439 BC coinciding 06 March 2018

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 2017, we have reviewed the principles and contracts relating to the transactions and applications conducted by the Bank through 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.

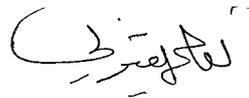
We conducted our review, which included examining on test basis of each type of Islamic products transactions, the relevant documentations and procedures carried out by the Bank in concluding Islamic transactions.

We planned and preformed our review directly through the Internal Shari'a Auditor 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,

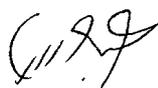
Contracts, transactions and dealings related to Islamic products entered into by the Bank during year ended 31 December 2017 that we have reviewed complies with the Islamic Shari'a Rules and Principles.

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 2017

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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

Opinion

We have audited the consolidated financial statements of Eskan Bank BSC © (the "Bank") and its subsidiaries (together the "Group"). Which comprise the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group in accordance with International Financial Reporting Standards (IFRS).

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 auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with 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 IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The comparative financial statements of the Group as at and for the year ended 31 December 2016 were audited by another auditor whose audit report thereon dated 28 February 2017 expressed an unmodified opinion on those financial statements.

Other information

The board of directors is responsible for the other information. The other information obtained at the date of this auditors' report is the Chairman's report set out on page 08 to 09.

Our opinion on the consolidated financial statements does not cover the other information and we do not cover the other information and we don't 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 IFRS, and for such internal control as board of directors deems 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, 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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditors' 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 board of directors.
- Conclude on the appropriateness of 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 auditors' 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 auditors' 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 statement represent the underlying transaction 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 the board of directors 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 Volume 1 of the Central Bank of Bahrain (CBB) Rule Book, we report that we are not aware of any violations during the year of the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1, applicable provisions of Volume 6 an CBB directives) or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position.



KPMG Fakhro

Partner Registration No. 100
20 March 2018

Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	2017 BD	2016 BD
ASSETS			
Cash and bank balances	5	39,662,784	64,852,308
Investments	6	10,028,899	21,895,599
Loans	7	609,863,432	479,006,322
Investment in associates	8	5,573,093	3,408,418
Investment properties	9	53,506,966	44,549,755
Development properties	10	16,195,907	20,757,041
Other assets	11	3,570,779	2,337,213
TOTAL ASSETS		738,401,860	636,806,656
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from financial and other institutions		20,500,000	35,500,000
Customer current accounts		3,634,590	4,597,256
Government accounts	12	415,673,987	291,165,943
Term loans	13	30,000,000	69,000,000
Other liabilities	14	6,228,651	5,715,696
TOTAL LIABILITIES		476,037,228	405,978,895
EQUITY			
Share capital	15	108,300,000	108,300,000
Contribution by shareholder		23,945,680	13,950,389
Statutory reserve		54,461,896	54,461,896
Retained earnings		68,976,426	47,450,568
Equity attributable to Bank's shareholders		255,684,002	224,162,853
Non-controlling interest		6,680,630	6,664,908
TOTAL EQUITY		262,364,632	230,827,761
TOTAL LIABILITIES AND EQUITY		738,401,860	636,806,656



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 2017

	Notes	2017 BD	2016 BD
Interest income	16	25,251,005	17,883,989
Income from properties	17	3,477,914	3,165,522
Net share of profit of associates	8	228,603	1,773,029
Other income		701,015	440,486
TOTAL INCOME		29,658,537	23,263,026
Staff costs	18	(5,715,208)	(4,804,790)
Other expenses	19	(1,493,440)	(1,554,652)
Interest expense		(576,815)	(387,990)
Provision for impairment	20	(331,494)	(26,627)
TOTAL EXPENSES		(8,116,957)	(6,774,059)
PROFIT FOR THE YEAR		21,541,580	16,488,967
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		21,541,580	16,488,967
Attributable to:			
Equity shareholders of the parent		21,525,858	16,461,783
Non-controlling interest		15,722	27,184
		21,541,580	16,488,967



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 2017

	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 2017	108,300,000	13,950,389	54,461,896	47,450,568	224,162,853	6,664,908	230,827,761
Transfer of land (note 9)	-	9,995,291	-	-	9,995,291	-	9,995,291
Total comprehensive income	-	-	-	21,525,858	21,525,858	15,722	21,541,580
At 31 December 2017	108,300,000	23,945,680	54,461,896	68,976,426	255,684,002	6,680,630	262,364,632
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
At 31 December 2016	108,300,000	13,950,389	54,461,896	47,450,568	224,162,853	6,664,908	230,827,761

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Notes	2017 BD	2016 BD
OPERATING ACTIVITIES			
Profit for the year		21,541,580	16,488,967
Adjustments for:			
Net share of profit of associates	8	(228,603)	(1,773,029)
Impairment provision on loans	7	231,494	119,266
Impairment provision on investments	9	100,000	-
Reversal of investment properties impairment provision	9	-	(142,000)
Gain on sale of development properties	17	(2,906,270)	(2,653,628)
Development cost written off	10	-	49,361
Depreciation	19	323,400	414,890
Operating profit before working capital changes:		19,061,601	12,503,827
Decrease / (increase) in placements with banks		269,082	(1,622,055)
Decrease / (increase) in loans		8,299,640	(19,033,463)
Increase in other assets		(1,163,619)	(376,534)
(Decrease) / increase in deposits from financial and other institutions		(15,000,000)	32,497,125
Decrease in customer current accounts		(962,666)	(1,499,206)
Increase in other liabilities		512,955	5,293,050
Net cash flows from operating activities		11,016,993	27,762,744
INVESTING ACTIVITIES			
Purchase of equipment		(266,375)	(232,898)
Investment in associate - capital repayment	8	-	8,090,728
Investment in associate - dividend received	8	197,479	-
Investment in an associate		(2,133,551)	(2,815,107)
Investment in development properties	10	(2,222,238)	(5,988,872)
Decrease in Investment in debt		11,766,700	17,679,861
Proceeds from sale of development properties		10,600,750	9,816,810
Net cash flows from investing activities		17,942,765	26,550,522
FINANCING ACTIVITIES			
Repayment of term loans		(39,000,000)	(40,000,000)
Dividend paid		-	(20,000,000)
Net movement in Government accounts		(14,880,200)	34,407,147
Net cash flows used in financing activities		(53,880,200)	(25,592,853)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(24,920,442)	28,720,413
Cash and cash equivalents at 1 January	5	63,230,253	34,509,840
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	5	38,309,811	63,230,253
Cash and cash equivalents comprise:			
Cash and bank balances	5	1,529,811	2,886,909
Short term placements (with an original maturity of 90 days or less)	5	36,780,000	60,343,344
		38,309,811	63,230,253

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

Notes to the Consolidated Financial Statements

As at 31 December 2017

1. REPORTING ENTITY

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's shares are fully owned by the Government of Bahrain in accordance with the Articles of Association.

Activities

The Bank's principal activities include administering 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. As an administrator, it 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. However, no funds were allocated for the years 2017 and 2018. 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 consolidated financial statements include results of the Bank and its subsidiaries (together "The Group") and these were approved by the Board of Directors on 20 March, 2018.

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").

Accounting convention

The consolidated financial statements have been prepared under the historical cost convention.

The consolidated financial statements are presented in Bahraini Dinars (BD), which is also 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

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Non-controlling interests

NCI are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Equity accounted investees

The Group's interests in equity-accounted investees comprise interests in associates.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

Interests in associates are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

Notes to the Consolidated Financial Statements

As at 31 December 2017

2. BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (continued)

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

Subsidiaries	Ownership for 2016	Ownership for 2017	Year of incorporation/ acquisition	Country of incorporation/ acquisition
Eskan RMBS Company B.S.C.(c) (RMBS)	100%	100%	2007	Kingdom of Bahrain
RMBS's principal activities are to issue Asset Backed private debt securities for the purpose of securitisation of housing loans.				
Eskan Properties Company B.S.C.(c) (EPC)	100%	100%	2007	Kingdom of Bahrain
The principal activity of the Company is to carry out projects for development of properties on behalf of the Eskan Bank (the "Parent Company"), and to provide services such as property development data and studies, property management and leasing and other consultancy services in local property matters.				
Dannat Al Luzi B.S.C (c)	56%	56%	2014	Kingdom of Bahrain
Management and development of private property, buying and selling of properties on behalf of the Company and property development, leasing, management and maintenance.				

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.

3. SIGNIFICANT ACCOUNTING POLICIES

a. Adoption of new accounting standards, amendments and interpretations.

i. New standards, interpretations and amendments effective 1 January 2017

There are no new standards, amendments and interpretations, which became effective as of 1 January 2017, that are relevant to the Bank.

ii. New standards, amendments and interpretations issued but not yet effective:

The following standards and interpretations have been issued and are expected to be relevant to the Bank in future periods, with effective dates on or after 1 January 2018.

Annual Improvements to IFRSs 2012-2014 Cycle - various standards.

The annual improvements to IFRSs to 2014-2016 cycles include certain amendments to various IFRSs. earlier application is permitted (along with the special transitional requirement in each case), in which case the related consequential amendments to other IFRSs would also apply.

IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The Bank will adopt IFRS 9 on 1 January 2018 and will not restate the comparative information. IFRS 9 will replace IAS 39 Financial Instruments: Recognition and Measurement and introduces new requirements for the classification and measurement of financial assets and financial liabilities, a new model based on expected credit losses for recognising loan loss provisions ("ECL") and provides for simplified hedge accounting by aligning hedge accounting more closely with an entity's risk management methodology.

The Bank estimates the IFRS 9 transition amount will reduce shareholders' equity by approximately BD 12.5 million as at 1 January 2018. The estimated impact relates primarily to the increase in the allowance for credit losses under the new impairment requirements. The Bank continues to revise, refine and validate the impairment models and related process controls which may change the actual impact on adoption.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Bank is currently assessing the impact of this standard and does not expect to have a significant impact on its financial statements from adoption of this standard.

Notes to the Consolidated Financial Statements

As at 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Cash and cash equivalents

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

c. Placements with Banks

Placements with Banks are financial assets which are placed through interbank and have fixed or determinable payments with fixed maturities that are not quoted in an active market. Placements are usually for short term and are stated at amortised cost less provision for impairment, if any.

d. Financial assets

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. It also includes receivables for housing units allocated by MOH to the beneficiaries.

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

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.

These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, interest income and foreign currency differences on debt instruments, are recognised in OCI and accumulated in the fair value reserve. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to profit or loss where there is no reliable measure of fair value, the investments are carried at cost less impairment.

Impairment of financial assets

Financial assets measured at amortised cost

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. Collective assessment is carried out by grouping together assets with similar risk characteristics.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss.

Notes to the Consolidated Financial Statements

As at 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. 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.

f. 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.

g. 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 not 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.

h. Deposits from financial and other institutions and term loans

These financial liabilities are carried at amortised cost.

i. 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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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.

j. Income recognition

Interest income

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

Rental income

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

Notes to the Consolidated Financial Statements

As at 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j. Income recognition (continued)

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.

k. Employee benefits

(i) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Post-employment benefits

Pensions and other social benefits for Bahraini employees are covered by the Social Insurance Organisation scheme, which is a "defined contribution scheme" in nature, and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. Contributions by the Bank are recognised as an expense in income statement when they are due.

Expatriate employees on fixed contracts are entitled to leaving indemnities payable under the Bahraini Labour Law, based on length of service and final remuneration. Provision for this unfunded commitment has been made by calculating the notional liability had all employees left at the reporting date.

These benefits are in the nature of "defined benefit scheme" and any increase or decrease in the benefit obligation is recognised in the income statement.

(ii) Post-employment benefits

The Bank also operates a voluntary employees saving scheme under which the Bank and the employee contribute monthly on a fixed percentage of salaries basis. The scheme is managed and administered by a board of trustees who are employees of the Bank. The scheme is in the nature of a defined contribution scheme and contributions by the Bank are recognised as an expense in the income statement when they are due.

l. 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.

m. 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.

n. Investment properties

Investment properties held for rental, or for capital appreciation purposes, or both, are classified as investment in real estate. Investment properties are carried at cost less depreciation and impairment allowances, if any. Cost includes expenditure that is directly attributable to the acquisition of the investment property. Investment property includes plots of land held for housing project development in future, capital appreciation purposes, and community shops held for earning rentals.

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.

o. 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.

p. 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.

Notes to the Consolidated Financial Statements

As at 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q. 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.

r. 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.

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. The classification of each investment reflects management intention in relation to each investment and is subject to different accounting treatment based on such classification. (refer to note 3)

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 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 impairment, the Group makes judgements about the net realisable value of collateral. (refer to note 3 d)

Impairment losses on unquoted investments

For unquoted investments carried at cost, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the estimated recoverable amount is assessed to be below the cost of the investment.

Where fair values are not readily available and the investments are carried at cost, the recoverable amount of such investment is estimated to test for impairment.

In making this judgment, the Bank evaluates among other factors, evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. It is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of the investments within the next financial year due to significant changes in the assumptions underlying such assessments.

Net realisable value of development property

Development property is stated at lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated selling expenses. The management engaged independent valuers to estimate the residual value of the development property based on estimated market selling prices for similar properties. Net realisable value estimates are made at a specific point in time, based on market conditions and information about the expected use of development property. These estimates involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events. It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the development property.

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As at 31 December 2017

5. CASH AND BANK BALANCES

	2017 BD	2016 BD
Cash and bank balances		
Cash	102,090	166,667
Balances with banks	306,469	1,218,182
Balances with the Central Bank of Bahrain	1,121,252	1,502,060
	1,529,811	2,886,909
Short term placements (with an original maturity of 90 days or less)		
Placements with banks and other institutions	9,980,000	27,843,344
Placements with the Central Bank of Bahrain	26,800,000	32,500,000
	36,780,000	60,343,344
Total cash and cash equivalents	38,309,811	63,230,253
Placements (with an original maturity of more than 90 days)		
Placements with banks and other institutions	1,352,973	1,622,055
	1,352,973	1,622,055
Total cash and bank balances	39,662,784	64,852,308

6. INVESTMENTS

	2017 BD	2016 BD
The following represents available for sale equity investments:		
Investment in Equity - Available for sale		
Naseej B.S.C.	3,272,728	3,272,728
Southern Area Development Company B.S.C.(c) (net of provision of BD 100,000.	1,115,854	1,215,854
Bahrain Aluminium Extrusion Co. B.S.C.(c) (net of provision of BD 100,000 (2016: BD 100,000))	268,368	268,368
	4,656,950	4,756,950
Investment in Debt - Held to maturity		
Treasury bills	2,715,999	10,072,853
Sukuk	2,655,950	7,065,796
	5,371,949	17,138,649
	10,028,899	21,895,599

7. LOANS

	2017 BD	2016 BD
(i) Social loans		
Gross Loans	829,274,324	514,462,033
Less: Provisions for subsidy and waiver	(229,758,464)	(49,553,799)
	599,515,860	464,908,234
(ii) Commercial loans		
Gross Loans	12,025,366	15,544,388
Less: Provision for impairment	(1,677,794)	(1,446,300)
	10,347,572	14,098,088
Total loans	609,863,432	479,006,322

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As at 31 December 2017

7. LOANS (CONTINUED)

a) Age analysis of past due but not impaired loans

	2017				
	Up to 30 days BD	31 to 60 days BD	61 to 90 days BD	Above 90 days BD	Total BD
Social loans	93,871	30,050,352	9,011,231	52,062,272	91,217,726
Commercial loans	1,387,526	282,387	373,713	-	2,043,626
	1,481,397	30,332,739	9,384,944	52,062,272	93,261,352

	2016				
	Up to 30 days BD	31 to 60 days BD	61 to 90 days BD	Above 90 days BD	Total 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
	2,233,789	19,871,827	5,494,592	29,456,720	57,056,928

None of the above past due loans are considered to be impaired and the credit risk for social loans does reside with the Government of Kingdom of Bahrain.

b) Age analysis of impaired loans

	2017					Total BD
	3-6 Months BD	6-12 Months BD	1-3 Years BD	3-5 Years BD	5-10 Years BD	
Commercial loans	309,712	372,612	1,071,312	658,155	129,508	2,541,299

	2016					Total BD
	3-6 Months BD	6-12 Months BD	1-3 Years BD	3-5 Years BD	5-10 Years BD	
Commercial loans	228,358	449,390	976,333	674,098	-	2,328,179

c) Impairment provision on commercial loans

	2017		
	Opening balance BD	Net charge for the year BD	Closing balance BD
Collective Provision	1,446,300	231,494	1,677,794
	1,446,300	231,494	1,677,794

	2016		
	Opening balance BD	Net charge for the year BD	Closing balance BD
Collective Provision	1,327,034	119,266	1,446,300
	1,327,034	119,266	1,446,300

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

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7. LOANS (CONTINUED)

d) Social loans

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

- (i) Under a Cabinet decision issued in April 1992, a reduction of 25% ("1992 Reduction") was granted on monthly instalments with effect from 1 May 1992, and subsequently restricted to social loans granted prior to 31 December 1998.
- (ii) On 16 December 2000, an additional reduction of 25% ("2000 Reduction") was granted on monthly instalments for social loans that were outstanding as of 15 December 2000.
- (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 housing units.

8. INVESTMENT IN ASSOCIATES

	2017 BD	2016 BD
At 1 January	3,408,418	6,911,010
Investment in an associate	2,133,551	2,815,107
Capital repayment	-	(8,090,728)
Dividend received	(197,479)	-
Net share of profit	228,603	1,773,029
At 31 December	5,573,093	3,408,418

The principal associates of the Group are:

Name	Country of Incorporation	Carrying Value	
		2017 BD	2016 BD
Bahrain Property Musharaka Trust Fund - Under liquidation	Kingdom of Bahrain	442,266	593,311
Eskan Bank Reality Income Trust	Kingdom of Bahrain	5,130,827	2,815,107
		5,573,093	3,408,418

Name	Nature of activities	Ownership for	
		2017	2016
Bahrain Property Musharaka Trust Fund	Development of 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 real estate assets.	33.23%	22.46%

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As at 31 December 2017

8. INVESTMENT IN ASSOCIATES (CONTINUED)

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

	2017 (unaudited) BD	2016 (unaudited) BD
Summarised statement of financial position		
Current assets*	1,160,716	2,204,945
Current liabilities	(131,739)	(824,511)
Net assets	1,028,977	1,380,434
Proportion of the Group's ownership	42.98%	42.98%
Group's ownership in equity	442,266	593,311
Other adjustments	-	-
Carrying amount of the investment	442,266	593,311

* Includes cash and cash equivalents of BD1,160 thousand (31 December 2016: BD1,449 thousand).

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

	2017 (unaudited) BD	2016 (unaudited) BD
Summarised statement of financial position		
Non-current assets	19,700,000	19,800,000
Current assets	897,956	-
Current liabilities	(247,578)	-
Net assets	20,350,378	19,800,000
Proportion of the Group's ownership	33.23%	22.46%
Group's ownership in equity	6,762,800	4,447,080
Other adjustments	(1,631,973)	(1,631,973)
Carrying amount of the investment	5,130,827	2,815,107

Shares of Eskin Bank Reality Income Trust are listed on the Bahrain Stock Exchange and its quoted price as on 31 December 2017 was BD 0.101. The fair value of the investment based on this quoted price is BD 6.42 million.

9. INVESTMENT PROPERTIES

	2017 BD	2016 BD
Balance at 1 January	44,549,755	31,996,018
Transferred from development properties	-	238,461
Additions during the year (note 9.1)	9,995,291	12,440,810
Depreciation charge for the year	(126,972)	(182,345)
Transferred to development properties (note 10)	(911,108)	-
Other adjustments	-	(85,189)
Reversal of impairment	-	142,000
Balance at 31 December	53,506,966	44,549,755

Note 9.1

* Additions during the period represent 3 plots of land contributed by the Government of the Kingdom of Bahrain as equity contribution. The plots were recognised at the fair value on the date of transfer as determined by independent external real estate valuers based on sales comparison approach.

Notes to the Consolidated Financial Statements

As at 31 December 2017

9. INVESTMENT PROPERTIES (CONTINUED)

Investment properties comprise the following:

	2017 BD	2016 BD
Land at Bander Al-Seef	29,296,874	29,296,874
Land at Sanabis	2,571,508	2,571,508
Land at Hamad town	11,757,402	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
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 1,271,849 (2016 BD 1,144,877))	5,717,476	5,844,448
	53,506,966	44,549,755
Impairment allowance	-	-
	53,506,966	44,549,755

The fair value of investment properties, based on independent market valuations, as at 31 December 2017 was BD 189,624 thousand (2016: BD 194,092 thousand).

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 2 of the fair value hierarchy as at 31 December 2017 and 31 December 2016. 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 2017 and 31 December 2016.

10. DEVELOPMENT PROPERTIES

	2017 BD	2016 BD
Balance at 1 January	20,757,041	22,219,173
Additions during the year	2,222,238	5,988,872
Properties sold during the year	(7,694,480)	(7,163,182)
Transferred from investment properties (note 9)	911,108	-
Costs written off during the year	-	(49,361)
Transferred to investment properties	-	(238,461)
Balance at 31 December	16,195,907	20,757,041

11. OTHER ASSETS

	2017 BD	2016 BD
Equipment and intangibles (net book value)	919,332	849,385
Interest receivable	695,900	508,267
Receivable from sale of development properties	534,442	-
Balance with investment manager	443,364	-
Staff loans	328,811	286,588
Dividend receivable	35,541	-
Prepayments and advances	168,286	263,592
Other receivables	445,103	429,381
	3,570,779	2,337,213

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As at 31 December 2017

12. GOVERNMENT ACCOUNTS

The Bank's transactions with the MOH and MOF are recorded in a single account "Government Account" and are non-interest bearing.

	Note	2017 BD	2016 BD
Opening Balance		291,165,943	254,547,232
Social loan budgetary support	(a)	-	28,333,334
Waiver reimbursements	(b)	4,166,667	6,833,333
Collections from beneficiaries	(c & d)	5,401,879	18,203,290
Waivers and subsidies		(21,228,068)	(18,576,299)
Reduction and write off decrees	(c & f)	(6,545,290)	(3,871,797)
Rental subsidy - net impact	(g)	(83,949)	151,725
Mazaya subsidy - net impact	(h)	895,937	(7,896)
Payment to Government	(i)	(10,000,000)	-
Houses and flats	(j)	333,420,984	15,611,163
Movement in Provision for subsidy and waivers	(k)	(180,204,665)	(7,080,596)
Others	(i)	(1,315,451)	(2,977,546)
Ending balance		415,673,987	291,165,943

Note 12.1

- a) Monthly budgetary support received from the MOF for disbursement of new social housing loans. The MOF has indicated that there will not be budgetary support for the years 2017 and 2018;
- b) Annual waiver reimbursement for 2006 Reduction Decree.
- c) Collection of installments from beneficiaries of social housing units (villas) until March 2017 (Note 12.2)
- d) Collection of rental installments from beneficiaries of MOH rental flats;
- e) Installment reduction decrees issued by the MOH from time to time;
- f) Write offs and waivers approved by MOH;
- g) Funds received for disbursement of monthly rental subsidy based on MOH approved list;
- h) Funds received for disbursement of monthly Mazaya subsidy based on MOH approved list; and
- i) Any other payments, expenses / transactions undertaken by the Bank on behalf of MOF / MOH.
- J) Until March 2017, financial receivables for social housing units (villas) granted by Ministry of Housing (MOH) to Bahraini nationals were managed by the Bank as off- balance sheet portfolio. Following the signing of an MOU between the Bank and the MOH, with effect from April 2017, total present value of receivable from customers for these housing units has been recorded as assets of the Bank and credited to the Government Account. Accordingly, BD 320 million of housing units has been recognized in loans with a corresponding credit to the Government account by end of 2017. The Bank also recognized interest income of BD 7.3 million on these loans during the year 2017 starting from the month of April.
- K) Also, in line with the MOU, with a purpose to achieve a consistent accounting treatment for both waivers and subsidies, the Bank has revised how it accounts for waivers (Reduction Decree 2006, Reduction Decree 2011) granted by the Government of Bahrain to the borrowers. Previously such waivers were recognized as and when each installment was paid by the borrower. Following the signing of the MOU, the Bank now accounts for waivers adjustment upfront by reducing it from the loan portfolio and a corresponding amount is reduced from the government account. Accordingly, BD 120 million of waivers has been reduced from the loan portfolio with a corresponding amount reduced from the Government account as of 31st December 2017.
- l) Represents payments to Ministry of Finance vide Board resolution dated 23 March 2017.

Notes to the Consolidated Financial Statements

As at 31 December 2017

13. TERM LOANS

	2017 BD	2016 BD
Syndicated bank term loan *	30,000,000	60,000,000
RMBS bonds **	-	9,000,000
At 31 December	30,000,000	69,000,000

* The syndicated bank term loan bears interest repayable monthly at bibor plus a margin of 3.5% (2016: 2.25%). The syndicated term loan comprise of BD 50 million term loan facility and BD 50 million revolving loan facility. The term loan facility is repayable semi-annually starting June 2019, the revolving facility is repayable as a bullet repayment by June 2021. During the year, interest expense amounting to BD 2,027 thousand (2016: BD 3,189 thousand) on the syndicated bank term loan was charged to the Government account.

** The RMBS bonds were fully repaid in October 2017.

	2017 BD	2016 BD
Current portion of term loan	-	49,000,000
Non-current portion of term loan	30,000,000	20,000,000
	30,000,000	69,000,000

14. OTHER LIABILITIES

	2017 BD	2016 BD
Accrued expenses	2,791,416	2,041,258
Contractor retentions	663,242	987,850
Advances for customers	835,174	814,614
Employee savings scheme	887,337	721,737
Employee benefits	296,902	273,643
Accrued interest payable on term loans	120,650	231,604
Outstanding consideration for acquisition of a subsidiary	9,463	9,463
Facility management fees	361,458	205,690
Other liabilities	263,009	429,837
	6,228,651	5,715,696

15. SHARE CAPITAL

	Number of shares	2017 BD
31 December 2017		
Authorised ordinary share capital of BD 100 each	4,000,000	400,000,000
Issued and fully paid up ordinary share capital of BD 100 each	1,083,000	108,300,000
	Number of shares	2016 BD
31 December 2016		
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

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16. INTEREST INCOME

	2017 BD	2016 BD
Interest income on social loans	23,218,888	15,442,931
Interest income on commercial loans	961,984	1,370,054
Interest income on placements with financial and other institutions	1,070,133	1,071,004
	25,251,005	17,883,989

17. INCOME FROM PROPERTIES

	2017 BD	2016 BD
Gain on sale of development properties	2,906,270	2,653,628
Rental income - net	571,644	511,894
	3,477,914	3,165,522

18. STAFF COSTS

	2017 BD	2016 BD
Salaries and benefits	4,915,208	4,722,404
Early retirement scheme	800,000	82,386
	5,715,208	4,804,790

19. OTHER EXPENSES

	2017 BD	2016 BD
Depreciation and amortization	323,400	414,890
Information technology	218,916	286,401
Premises	279,789	253,294
Marketing cost	102,989	130,701
Legal and professional	276,726	194,211
Directors remuneration	99,020	91,955
Transportation and communication	81,156	77,950
Electricity	63,453	49,516
Insurance	15,359	20,459
Others	32,632	35,275
	1,493,440	1,554,652

20. PROVISION FOR IMPAIRMENT

	2017 BD	2016 BD
Impairment provision on loans (note 7 c)	231,494	119,266
Impairment provision on Investments	100,000	-
Write off of development costs (note 10)	-	-
Reversal of impairment against investment properties	-	(142,000)
	331,494	(22,734)

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21. COMMITMENTS AND CONTINGENCIES

	2017 BD	2016 BD
Housing loan commitments approved by MOH (note 20.1)	9,861,854	8,735,518
Capital commitments	16,991,938	2,693,686
Commercial Loan commitments	79,845	97,668
Lease commitments not later than one year	211,671	72,442
Lease commitments later than one year but not later than five years	309,035	-
	27,454,343	11,599,314

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 322,988 (2016: BD 944,418). Total claims against the bank amount to BD 3,403.

Note 21.1

Each year, MOH issues social loan decrees for the approved beneficiaries in coordination with the bank. Social loans that remain undisbursed at the end of the year are disclosed as a commitment.

22. 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.

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, Head of Finance, Head of Risk and other senior management.

The significant related party transactions and balances included in this consolidated financial statements are as follows:

	31 December 2017			
Assets	Associates	Directors	Key management	Subsidiaries
Loans	-	92,679	66,900	-
Development Properties	-	-	-	71,605
Investment Properties	-	-	-	344
Investments in Associates	5,573,093	-	-	-
Investments in subsidiaries	-	-	-	8,651,900
Other Assets	86,915	-	43,662	2,403,110
Liabilities				
Non-Bank Deposits	-	-	-	812,307
Current Accounts	1,161,956	525	706	346,504
Other Liabilities	-	-	149,769	12,491,323

	31 December 2017			
Income / (expenses)	Associates	Directors	Key management	Subsidiaries
Net share of profit of associates	228,603	-	-	-
Fees and commission	15,000	-	-	333,849
Staff cost	-	-	799,675	-
Directors' and Shari'ah board remuneration and sitting fees	-	99,020	-	-

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22. RELATED PARTY TRANSACTIONS (CONTINUED)

	31 December 2016			
	Associates	Directors	Key management	Subsidiaries
Assets				
Loans	-	36,511	71,731	-
Development Properties	-	-	-	42,736
Investment Properties	-	-	-	344
Investments in Associates	3,408,418	-	-	-
Investments in subsidiaries	-	-	-	8,651,900
Other Assets	214,840	-	64,514	2,349,000
Liabilities				
Non-Bank Deposits	-	-	-	8,762,000
Current Accounts	1,448,666	605	219	948,000
Other Liabilities	-	-	124,100	12,060,000

	31 December 2016			
	Associates	Directors	Key management	Subsidiaries
Income / (expenses)				
Net share of profit of associates	1,773,029	-	-	-
Fees and commission	-	-	-	268,000
Staff cost	-	-	756,083	-
Directors' and Shari'ah board remuneration and sitting fees	-	91,955	-	-

23. 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 2017	Available-for-sale BD	Loans and receivables BD	Total BD
Financial assets			
Investments	10,028,899	-	10,028,899
Loans	-	609,863,432	609,863,432
Other assets	-	2,483,161	2,483,161
	10,028,899	612,346,593	622,375,492
		At amortised cost BD	Total BD
Financial liabilities			
Deposits from financial and other institutions		20,500,000	20,500,000
Government accounts		415,673,987	415,673,987
Term loans		30,000,000	30,000,000
Customer current accounts		3,634,590	3,634,590
Other liabilities		2,329,589	2,329,589
		472,138,166	472,138,166

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23. CLASSIFICATION OF FINANCIAL INSTRUMENTS (CONTINUED)

At 31 December 2016	Available- for-sale BD	Loans and receivables BD	Total BD
Financial assets			
Investments	21,895,599	-	21,895,599
Loans	-	479,006,322	479,006,322
Other assets	-	1,224,236	1,224,236
	21,895,599	480,230,558	502,126,157

	At amortised cost BD	Total BD
Financial liabilities		
Deposits from financial and other institutions	35,500,000	35,500,000
Government accounts	291,165,943	291,165,943
Term loans	69,000,000	69,000,000
Customer current accounts	4,597,256	4,597,256
Other liabilities	2,420,524	2,420,524
	402,683,723	402,683,723

24. 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.

25. 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.

Risk Management Committee

The responsibility of the Risk Management 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.

Notes to the Consolidated Financial Statements

As at 31 December 2017

25. RISK MANAGEMENT (CONTINUED)

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.

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 2017 is BD 599,515,860 (31 December 2016: BD 464,908,234).

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. Commercial loans have been discontinued by the bank.

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 2017 BD	Gross maximum exposure 2016 BD
Balances and placements with financial institutions	39,560,694	64,685,641
Loans - commercial loans	10,347,572	14,098,088
Other receivables	2,483,161	1,226,537
	52,391,427	80,010,266

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

There were no renegotiated loans during either the year ended 31 December 2017 or 31 December 2016.

Notes to the Consolidated Financial Statements

As at 31 December 2017

25. RISK MANAGEMENT (CONTINUED)

Risk concentration of the maximum exposure to credit risk

The maximum credit exposure to any client, or counterparty, or group of closely related counterparties as of 31 December 2017 was BD 33,293,296 (31 December 2016: BD 51,140,709).

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.

The Group did not take possession of any collateral as a result of a default during either the year ended 31 December 2017 or 31 December 2016.

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 2017 BD
Balances and placements with financial institutions	39,560,694	-	-	39,560,694
Loans - Commercial loans	7,440,441	2,043,626	2,541,299	12,025,366
Other receivables	2,483,161	-	-	2,483,161
	49,484,296	2,043,626	2,541,299	54,069,221

	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	64,685,641	-	-	64,685,641
Loans - commercial loans	10,597,043	2,619,166	2,328,179	15,544,388
Other receivables	1,226,537	-	-	1,226,537
	76,509,221	2,619,166	2,328,179	81,456,566

v) Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar economic activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Group's assets and liabilities are concentrated in the Kingdom of Bahrain.

b) Market risk

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

i) Management of market risks

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

ii) Interest rate risk

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

Notes to the Consolidated Financial Statements

As at 31 December 2017

25. RISK MANAGEMENT (CONTINUED)

ii) Interest rate risk (Continued)

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 2017 BD	Changes in basis points (+/-)	Effect on net profit (+/-)
Assets			
Placements with financial institutions	38,132,973	100	381,330
Loans - commercial loans	10,347,572	100	103,476
Liabilities			
Deposits from financial and other institutions	20,500,000	100	(205,000)
Term loans	30,000,000	100	(300,000)
Total			(20,194)

	31 December 2016 BD	Changes in basis points (+/-)	Effect on net profit (+/-)
Assets			
Placements with financial institutions	79,104,048	100	791,040
Loans - commercial loans	14,098,088	100	140,981
Liabilities			
Deposits from financial and other institutions	35,500,000	100	(355,000)
Term loans	69,000,000	100	(690,000)
Total			(112,979)

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 2017) 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 (2016: 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 2017 and 2016. The effect of decrease in the value of individual investments is expected to be equal and opposite to the effect of an increase.

c) Liquidity Risk

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

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

Notes to the Consolidated Financial Statements

As at 31 December 2017

25. RISK MANAGEMENT (CONTINUED)

Analysis of liabilities

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2017 and 31 December 2016 based on contractual undiscounted repayment obligations.

	Less than 3 Months BD	3 to 12 Months BD	Over 1 Year BD	Total BD
At 31 December 2017				
Deposits from financial and other institutions	44,932,643	-	-	44,932,643
Term loans	531,875	1,317,708	34,274,167	36,123,750
Total	47,760,615	1,317,708	34,274,167	81,056,393
	Less than 3 Months BD	3 to 12 Months BD	Over 1 Year BD	Total BD
At 31 December 2016				
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
Total	36,064,072	50,606,742	20,370,744	107,041,558

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.

26. 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, issue new capital, or get new land as equity contribution from the Government. 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:

	2017 BD	2016 BD
Total eligible capital	255,504,236	224,102,400
Total regulatory capital (A)	255,504,236	224,102,400
Total Risk-weighted exposure (B)	191,428,020	168,962,000
Capital adequacy ratio (A/B)	133.47%	132.63%
Minimum requirement	12.50%	12.50%

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 2017

27. MATURITY PROFILE OF ASSETS AND LIABILITIES

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

At 31 December 2017	Less than 12 months BD	Over 12 Months BD	Total BD
Assets			
Cash and bank balance	39,662,784	-	39,662,784
Investments	6,031,853	3,997,046	10,028,899
Loans	28,948,567	580,914,865	609,863,432
Investment in associates	442,266	5,130,827	5,573,093
Investment properties	-	53,506,966	53,506,966
Development properties	202,107	15,993,800	16,195,907
Other assets	1,890,395	1,680,384	3,570,779
	77,177,972	661,223,888	738,401,860
Liabilities			
Deposits from financial and other institutions	20,500,000	-	20,500,000
Customer current accounts	3,634,590	-	3,634,590
Government accounts	38,645,237	377,028,750	415,673,987
Term loans	-	30,000,000	30,000,000
Other liabilities	3,492,544	2,736,107	6,228,651
	66,272,371	409,764,857	476,037,228
Net liquidity surplus	10,905,601	251,459,031	262,364,632

At 31 December 2016	Less than 12 months BD	Over 12 Months BD	Total BD
Assets			
Cash and bank balance	64,852,308	-	64,852,308
Investments	17,138,649	4,756,950	21,895,599
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
	113,326,639	523,480,017	636,806,656
Liabilities			
Deposits from financial and other institutions	35,500,000	-	35,500,000
Customer current accounts	4,597,256	-	4,597,256
Government accounts	-	291,165,943	291,165,943
Term loans	49,000,000	20,000,000	69,000,000
Other liabilities	4,443,253	1,272,443	5,715,696
	93,540,509	312,438,386	405,978,895
Net liquidity surplus	19,786,130	211,041,631	230,827,761

Notes to the Consolidated Financial Statements

As at 31 December 2017

28. FUTURE FUNDING REQUIREMENTS

The Group's continued operations are dependent upon annual collections from the mortgage portfolio and the continued support of the MOF, and the Government of the Kingdom of Bahrain.

29. 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:

	2017 BD (unaudited)	2016 BD (unaudited)
Ijara muntahia bittamleek - net	236,908,303	248,641,557
Ijara income receivables	263,269	222,889
Wakala placements	11,332,973	13,965,399
Wakala income receivable	15,192	12,241
Placements with financial institutions	2,410,007	7,065,796
Income receivable on placements	16,559	34,040
	250,946,303	269,941,922

Notes to the Consolidated Financial Statements

As at 31 December 2017

29. ADDITIONAL SUPPLEMENTARY INFORMATION - ISLAMIC BANKING (UNAUDITED) (CONTINUED)

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

	2017 BD (unaudited)	2016 BD (unaudited)
Wakala takings	8,000,000	9,000,000
Wakala Profit payable	5,758	2,382
Commodity Murabaha	2,000,000	12,500,000
Commodity Murabaha profit payable	3,267	5,435
	10,009,025	21,507,817

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

	2017 BD (unaudited)	2016 BD (unaudited)
Income from Ijara Muntahia Bittamleek - net	8,557,878	7,774,279
Income from wakala and placements	217,595	322,709
Less: profit paid on Wakala	(259,936)	(63,882)
	8,515,537	8,033,106

Pillar-III Disclosures

31st December, 2017

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Pillar-III Disclosures

31st December, 2017

1. INTRODUCTION

This report has been prepared in accordance with Public disclosure Module of Volume 1 of the Central Bank of Bahrain Rule Book ("PD Module").

The disclosures in this report should be read in conjunction with the disclosures set out in the annual consolidated financial statements for the year ended 31st December 2017 for the purpose of disclosure requirement under PD Module.

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:

• Eskan RMBS Company ("RMBS")

The Bank owns 100% RMBS, whose principal activities are to issue Asset Backed private debt securities for the purpose of securitization of housing services. With the final payment of BD 9 million completed in October 2017, the Company has fully repaid its debt of BD 30 million and it is under liquidation as of 31 December 2017.

- In 2007, the Bank set up a Special Purpose Vehicle ("SPV") subsidiary for the purpose of issuing bonds. The issue of BD 30 million of residential mortgage backed securities was considered as a stimulating initiative for the development of the Bahraini securities market.

The proceeds of the RMBS bonds have been utilised to fund the commercial activities of the Bank. RMBS' registered and paid up share capital is BD 1,000, with the Bank holding a 100% stake in the Company.

The Company has accomplished its principal objective upon maturity of the RMBS Bonds on 8 October 2017. Accordingly, in March 2018, the Board of Directors resolved to liquidate the Company.

• Eskan Properties Company B.S.C. ("EPC")

EPC wholly owned by the Bank was established to execute the various housing and community projects being taken up by EPC and the Bank. Principal activities of the company are to carry out all operations in relation to development management, Sales and Marketing, Property and Facility Management for all types of real estate owned by the Bank, governmental institutions and ministries or other private sector entities.

• Dannat Al Luzi B.S.C

Dannat Al Luzi was established in 2014 for the purpose of developing an affordable housing project in Hamad Town, in collaboration with the private sector. Development work on the project commenced in 2017, with an anticipated handover date in 2019, and should deliver:

- 303 affordable villas
- A community centre featuring:
 - Super market
 - Restaurants
 - Related amenities
- A walkway adjacent to Al Lawzi Lake
- All necessary primary, secondary and tertiary infrastructure

The Bank holds a 55.88% stake in Dannat Al Luzi.

c) Associate companies of the Bank:

• Bahrain Property Musharaka Trust ("BPMT")

BPMT was established in 2011, with the primary aim of developing two real estate projects, namely Segaya Plaza and Danaat Al Madina. EB raised BD 23.3 million of equity, as well as BD 7.0 million of financing to fund the development of the properties. Eskan Bank hold a 42.98% stake in BPMT.

Segaya Plaza, along with the commercial assets of Danaat Al Madina were utilized as the seed assets of the listed Eskan Bank Realty Income Trust. The company is under liquidation as of 31 December 2017.

• Eskan Bank Realty Income Trust ("EBRIT")

EBRIT, established in Q4 2016 by Eskan Bank, is the first listed Real Estate Investment Trust in Bahrain. EBRIT has a total value of BD 19.8 million, of which 33.2% is held by the Bank. The inaugural properties of EBRIT include Segaya Plaza along with the commercial components of Danaat Al Madina. Eskan Bank, as EBRIT's Investment Manager, is seeking to add more properties to the Trust and has been active in seeking additional opportunities to grow and diversify the portfolio of assets.

Pillar-III Disclosures

31st December, 2017

1. INTRODUCTION (CONTINUED)

d) Treatment of subsidiaries and associates for capital adequacy calculation:

e) 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 Realty Income Trust (EBRIT)	Kingdom of Bahrain	33.23%	200%
Dannat Al Luzi B.S.C	Kingdom of Bahrain	55.88%	50%

2. FINANCIAL PERFORMANCE AND POSITION

During 2017, the Bank achieved steady growth and maintained its profitability during the year despite numerous challenges, including a rigorous reorganization of government funding. 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 posted a total net income for 2017 of BD21.5 million (2016: BD16.5 million). These positive results are attributable in part to an agreement between the Ministry of Housing and Eskan Bank, whereby financial receivables from Ministry allocated villas were transferred as Bank assets and duly recorded on the 2017 balance sheet. This enabled the Bank to book an additional income of BD 7.3 million for the fiscal year to post a growth of 27.5% in the total income. Total operating costs, excluding the BD 0.8 million Early Retirement Scheme stood at BD 6.4 million with a variance of only 1% from last year based on successful department wide cost rationalization process. As a result, the Bank's cost-to-income ratio decreased from 28% in 2016 to 25% in 2017. The Bank continued to make a general loan loss provisions in line with its prudent approach to risk.

As of 31 December 2017, total equity of the Bank stood at BD262.4 million (2016:BD230.8 million), while the return on equity stood at 8.2%. The Bank's total balance sheet grew to BD738 million at the end of 2017, compared to BD637 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.

f) Asset Growth & Quality:

- **Assets growth:** The total Balance Sheet of the Bank stood at BHD 738 million as at 31st December 2017 compared to BHD 637 million as at the previous year end. The Bank's loans and advances as at 31st December 2017 stood at BHD 610 million, which reflects a growth of 27% as compared to 2016.
- **Assets 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 as its guaranteed by the Government of Bahrain. On the other hand, in case of the commercial 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 were BHD 2.5 million as at 31st December 2017.
- **Money market instruments:** The other banking assets are mainly inter-bank placements with reputed banks in the Kingdom of Bahrain.
- **Investments portfolio:** The Bank has investment in Naseej, Southern Area Development Company (SADC), Sukuk, Treasury Bills and other small legacy investments.

Capital Adequacy Ratio (CAR):

- **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

31st December, 2017

2. FINANCIAL PERFORMANCE AND POSITION (CONTINUED)

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

	2017	2016	2015	2014	2013	2012
Earnings						
Net Interest Income	24,674	17,496	16,375	15,446	14,227	12,751
Other Income	4,408	5,379	1,890	1,123	627	774
Operating Expenses	7,209	6,409	6,566	5,717	4,871	4,973
Properties Write off	-	-	-	-	1,638	-
Impairment Allowance	331	(23)	251	372	325	224
Net Income	21,542	16,489	11,447	10,480	8,020	8,328
Financial Position						
Total Assets	738,402	636,807	597,264	610,731	576,192	533,423
Loans	609,863	479,006	460,092	434,770	400,202	355,750
Total Liabilities	476,037	405,979	375,366	382,630	365,842	329,324
Non-controlling interest	6,681	6,665	6,638	6,631	-	-
Shareholders' Equity	255,684	224,163	215,260	221,470	210,351	204,099
Earnings: Ratios (Per Cent)						
Return on Equity	8.43%	7.36%	5.32%	4.73%	3.81%	4.08%
Return on Assets	2.92%	2.59%	1.92%	1.72%	1.39%	1.56%
Cost-to-income ratio	24.8%	28.0%	35.9%	34.5%	32.8%	36.8%
Net Interest Margin	98%	98%	98%	96%	95%	82%
Capital:						
Shareholders Equity as per cent of Total Assets	34.63%	35.20%	36.04%	36.26%	36.51%	38.26%
Total Liabilities to Shareholders Equity	186.18%	181.11%	174.38%	172.77%	173.92%	161.35%

g) 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 2017	31 December 2016
Net profit for the year	57,686	197,327
Total assets	1,521,481	1,313,571
Total equity	1,048,000	990,313

Pillar-III Disclosures

31st December, 2017

2. FINANCIAL PERFORMANCE AND POSITION (CONTINUED)

• RESIDENTIAL MORTGAGE BACKED SECURITIES COMPANY ("RMBS")

Table 4: Financial highlights (in BHD)

	31 December 2017	31 December 2016
Net profit for the year	523,911	853,033
Total assets	12,504,085	20,885,511
Total equity	10,160,733	9,636,822

• 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"), equating to 55.88% of the issued capital. Dannat Al Luzi is a special purpose vehicle established specifically for the aim of developing an affordable housing project in Hamad Town. 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)

	2017 December 31	2016 December 31
Net profit for the year	35,633	62,608
Total assets	15,166,315	15,141,968
Total equity	15,140,833	15,105,200

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

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 Eskin 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.

Pillar-III Disclosures

31st December, 2017

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

In compliance with HC module of the CBB Rulebook with regards to the appointment of board of directors the following board members have been appointed by the council of minister resolution No. 14 for 2015 regarding structuring of Board members of Eskan Bank.

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 and re-appointed in 2015

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 40 years, work experience

Board Member: Bank of Bahrain & Kuwait (BBK), Gulf Union Insurance & Reinsurance Co., Investcorp Saudi Arabia Financial Investment Co., The K Hotel.

iii. Dr. Zakareya Sultan Al Abbasi

Member (Independent Non-Executive Director)

Appointed in 2011 and re-appointed in 2015

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

More than 30 years work experience

Previous Position: 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. Yousif Abdulla Taqi

Member (Independent Non-Executive Director)

Appointed in 2011 and re-appointed in 2015

A Certified Public Accountant (CPA),

More than 31 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).

Pillar-III Disclosures

31st December, 2017

6. BOARD OF DIRECTORS (CONTINUED)

v. 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

vi. Dr. Riyad 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., USA.
- 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.
- Doctorate degree in Business Administration (DBA), Durham University, United Kingdom.
More than 25 years work experience in the financial sector.
Board Member: Tadhmon Capital BSC, Bahrain.
- Previous Positions: Executive Director Investment Placement at Arcapita Bank (B.S.C.) (1998-2010), Assistant Vice President Merchant Banking at Gulf International Bank ("GIB") B.S.C. (1996-1998), Deputy Manager - Commercial Banking at Arab Banking Corporation ("ABC") B.S.C. (1984-1995).

vii. Mrs. Najla Mohammed Al-Shirawi

Independent Non-Executive Director, & Chairperson 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: SICO B.S.C. (c), Bahrain

Chairperson: SICO Funds Services Company (SFS) B.S.C. (c), and SICO UAE Ltd.

Board Member: Deposit Protection Scheme Board, Bahrain Institute of Banking & Finance, Bahrain Association of Banks.

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.

Pillar-III Disclosures

31st December, 2017

6. BOARD OF DIRECTORS (CONTINUED)

viii. Mrs. Rana Ebrahim Faqih

Independent Non-Executive Director, & Member of Executive Committee

Appointed in 2015

Qualifications:

- BA International Business Management United Kingdom
 - MA International Business Management United Kingdom
- More than (14) years work experience.

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

Assistant Undersecretary: Public Revenue Development - Ministry of Finance, Kingdom of Bahrain

ix. 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 Massachusetts.
 - Masters in Global Financial Analysis from the Bentley College, Waltham Massachusetts.
- More than 15 years, work experience

Currently holds the position of Head of Investments, 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, Binaa Al Bahrain BSC Closed, Lama Real Estate WLL, Al Bilad Real Estate Investment Co W.L.L.

x. Sh. Ahmed bin Issa Al-Khalifa

Independent Non-Executive Director, & Member of the Audit Committee

Appointed in 2017

Qualifications:

- Bachelor in Financial Management from New York Institute of Technology, Bahrain.
- Masters in Business Administration from De Paul University, USA

More than 8 years, work experience

Currently holds the position of Director of Human resources & Finance at the Urban Planning and Development Authority

Previously held the position of Chief of Financial Resources at the Ministry of Housing.

Member of the Finance Committee at Bahrain Polytechnic, Board Member of the Bahrain Royal Equestrian and Endurance Federation and Director of Bahrain Olympic Football team.

Pillar-III Disclosures

31st December, 2017

7. EXECUTIVE MANAGEMENT TEAM OF ESKAN BANK

i. **Dr. Khalid Abdulla**, General Manager

Dr. Khalid Abdulla has over thirty-five 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 as an Economist.

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 & Served on the Board of Trustees of 'MENA Investment Center'.

- Dr. Khaled plays an active role in many Societies and institutions such as being a founding member of Bahrain Economic Society and Bahrain Competitiveness council, Board member and Head of Audit Committee at LMRA and Board member of Naseej.
- He assumed the present position in 2013.

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

Mr. Ahmad Tayara has over twenty-two 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 and Retail 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. Eyad Obaid**, General Manager / Eskan Properties Company

Mr. Eyad Obaid has over thirty-five 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.

Mr. Eyad Obaid is an active board member in Southern Tourism Company (STC), Bahrain Property Development Association (BAPDA) and Bahrain Society of engineers.

He assumed the present position in 2015.

iv. **Mrs. Prita Tauro**, Head of Risk Management

Mrs. Prita Tauro has over sixteen 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 and her service with the Bank ended on 31 December 2017.

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

Mr. Tariq Al Jalahma has over thirty-six 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 and his service with the Bank ended on 31 December 2017.

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

Mr. Hani Nayem has over seventeen 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.

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31st December, 2017

7. EXECUTIVE MANAGEMENT TEAM OF ESKAN BANK (CONTINUED)

vii. Ms. Parween Ali, Head of Sales & Marketing

Ms. Parween Ali has over twenty-two 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.

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

Mrs. Samar Agaiby has over twenty-seven 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.

ix. Mr. Adnan Fathalla Janahi, Head of Human Resources, Administration & Corporate Communication.

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 2017.

x. 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.

xi. Mr. Deepak Patel, Head of Operations

Mr. Deepak Patel has over eighteen 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.

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

Mr. Muhammed Saeed Butt has over seventeen years of experience in the banking industry and audit & assurance services. During the course of his career he has worked for reputable organizations such as Ernst & Young in Pakistan and prior to joining Eskan Bank, he was Manager Investments & Finance at Al Zayani Investments in Bahrain.

Mr. Muhammed Saeed is a Fellow Chartered Accountant (FCA) from the Institute of Chartered Accountants of Pakistan. 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.

Pillar-III Disclosures

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7. EXECUTIVE MANAGEMENT TEAM OF ESKAN BANK (CONTINUED)

xiii. Mrs. Amal Al Aradi, Head of Property & Facility Management / Eskan Properties Company

Mrs. Amal Al Aradi has over thirty one 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.

xiv. Mr. Fadhel Al Hashemi, Senior Manager of Remedial & Collection Department

Mr. Fadhel Al Hashemi has over seventeen 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 has been with Eskan Bank since 2014 under the capacity of Remedial & Collection Manager and Acting Senior Manager Remedial & Collection in 2016.

He assumed the present position in 2017.

xv. Mr. Fadhel Asbool, Treasury Senior Manager

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

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

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

He assumed the present position in 2014.

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

Mrs. Haifa Al Madani has over twenty 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.

xvii. 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 and her service with the Bank ended on 30 June 2017.

xviii. Mrs. Marjan Dashti, Compliance Manager and MLRO

Mrs. Marjan Dashti has over thirteen years of experience in the compliance field in Banking, Capital Markets and Telecommunications. She also has similar experience in Anti-Money laundering field. Prior to joining Eskan Bank, she worked with Batelco and the Bahrain Borse.

Mrs. Marjan holds an MBA from the University College of Bahrain, Bsc. in Law from the University of Bahrain and International Diploma in Compliance from International Compliance Association (ICA).

She assumed her present position in 2008.

Pillar-III Disclosures

31st December, 2017

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:

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 RNCGC reviews the remuneration policy including the remuneration structure of the employees at least annually with an objective of maintaining a competitive advantage in the market based on the salary surveys and secondary market sources of information. No changes were made to the policy during the year.

The remuneration packages for all staff (including approved persons) include fixed and variable remuneration in the form of cash and other minor fringe benefits. The fixed component of the remuneration is significant portion of the total remuneration.

Variable remuneration (Bonus)

Employees' bonus entitlement including approved persons are aligned to the Bank's performance, performance of the department 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.

As per the remuneration policy of the Bank, risk alignment and adjustment to the variable remuneration should be carried out in coordination and with the support of the risk management and financial control function as they provide the technical competency and independence to ensure appropriate risk alignment and adjustment for variable remuneration. However, in 2017, the Bank did not provide any risk based remuneration for its employees.

The performance measures of staff in risk management, internal audit, operations, financial controls, AML, compliance functions and approved persons in these functions are 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 2017. 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.

Status of compliance with CBB's Corporate Governance guidelines (High Level Controls Module)

The Banks are required to comply with the High Level Controls (HC) Module of the CBB Rulebook, which became effective from 1st January 2011 with full compliance mandated by the financial year end 2012. The HC Module contains both Rules and Guidance; Rules must be complied with, but Guidance may either be complied with or noncompliance explained by way of an annual report to the shareholders and to the CBB. Certain guidance in relation to the appointment of the board of directors have not been complied by the Bank during 2017. This is due to the fact that Board of Directors of the Bank was appointed as per the Council of Ministers resolution No. 14 for 2015, in accordance with Article 11 of Legislative Decree No. 4 of 1979 with respect to the Establishment of ESKAN Bank amended by Law No. 75 of 2006. Since ESKAN Bank's Board of Directors' formation and structure are determined by virtue of ESKAN Bank's Establishment Law and hence Bank's Establishment Law shall prevail in case of any discrepancy arising between its provisions and the CBB Rulebook.

HC 1.313 states that no director of a bank should hold more than 3 directorships in public companies in Kingdom of Bahrain, with the provision that no conflict of interest may exist, and the Board should not propose the election or re-election of any director who does. one of the Bank's Directors, Mr. Mohamed A.R. Hussain Bucheeri holds more than 3 directorships in public companies in Bahrain. However, the Board is of the opinion that this does not impact the effectiveness and efficiency of the Board of Directors, as the director provides adequate attention to their responsibilities and there are no conflict of interests between their other directorships and that of the Bank since any board member with a conflict of interest shall absent themselves from any discussion or decision making that involves a subject where they are incapable of providing objective advice, or which involves a subject or proposed transaction.

Pillar-III Disclosures

31st December, 2017

8. ADDITIONAL GOVERNANCE MEASURES (CONTINUED)

HC 1.4.6 states that the Chairman of the Board of Directors should be an independent director. The Bank's Chairman and Minister of Housing, Mr. Basim bin Yacob Al Hamer is not treated as an independent director, taking into account the business transactions that the Bank has with the Ministry of Housing. The Board is of the view that this does not compromise the high standards of corporate governance that the Bank maintains.

HC-1.8.2 states that the Board should establish a Corporate Governance Committee of at least three independent members and HC-1.8.5 allows combination of committees. The Bank has combined the responsibility of the Corporate Governance Committee with that of the Remuneration and Nomination, which has three members two of whom are independent. The Board is of the view that this does not compromise the high standards of corporate governance as the Remuneration, Nomination & Corporate Governance Committee has sufficient resources and time to discharge its duties and holds sufficient number of meetings to fulfill its responsibility.

The table below reflects the total amount of remuneration paid to the employee of the Bank.

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

	2017		2016	
	Approved Persons*	Other Staff	Approved Persons	Other Staff
Fixed remuneration				
• Cash-based	904,420	1,810,056	880,386	1,491,047
• Shares and share-linked instruments	Nil	Nil	Nil	Nil
• Other	Nil	Nil	Nil	Nil
Variable remuneration				
• Cash-based	245,676	345,368	256,665	356,302
• Shares and share-linked instruments	Nil	Nil	Nil	Nil
Other Benefits				
• Other Benefits	630,711	1,650,351	14,556	1,805,834
Grand Total	5,586,582		4,804,790	

*Includes approved persons in Business Lines, Risk Management, Internal Audit, Operations, Financial Control, AML and Compliance Function.

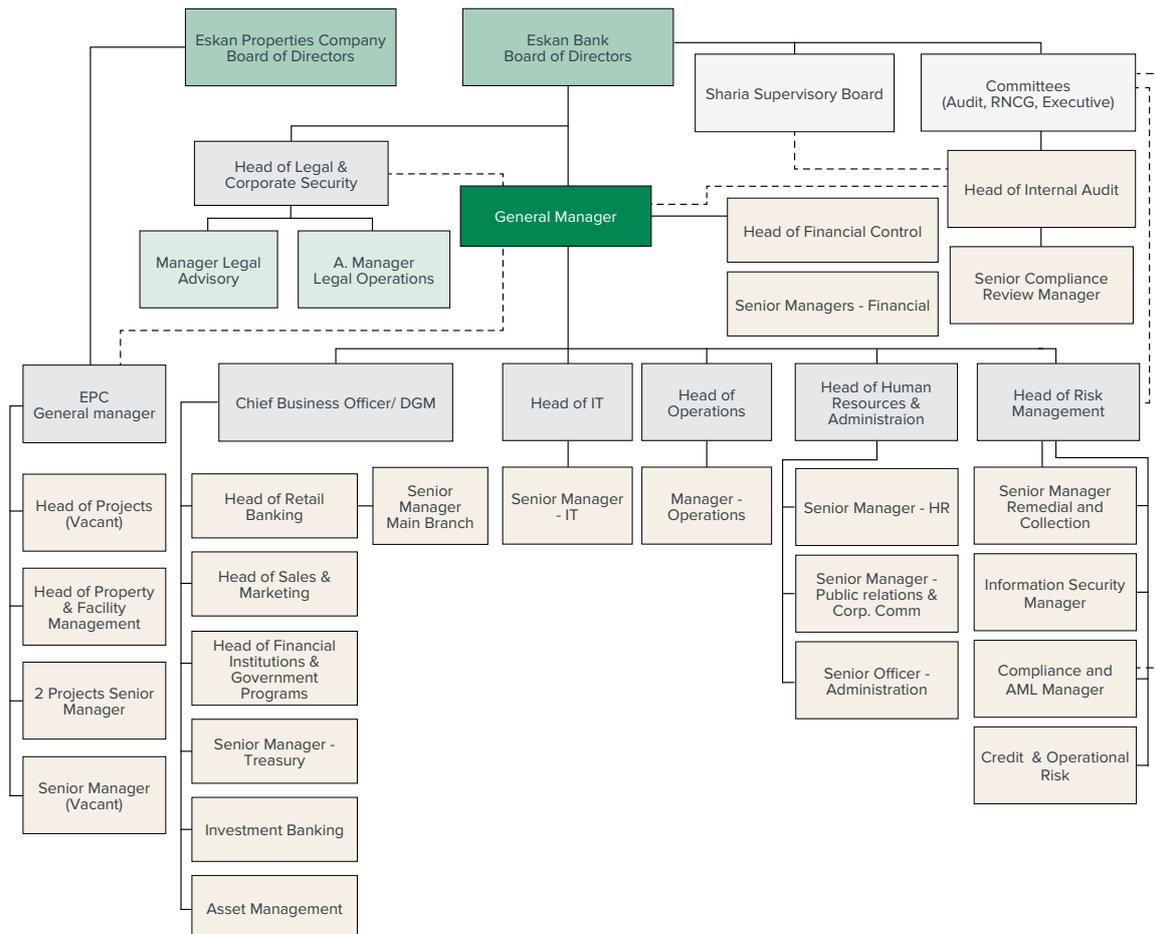
Eskan Bank has introduced the Early Retirement Scheme in 2017. The bank has paid BHD 475,410 to 17 employees who have utilised the said above scheme. The highest amount paid to a single person was BD 70,000 .

Pillar-III Disclosures

31st December, 2017

9. ORGANISATION CHART

Eskan Bank Organisation Structure-2017



The Board has established reporting lines within the management structure that demonstrate segregation of duties as shown above.

10. COMMUNICATION STRATEGY

At the end of each financial year, the Consolidated Financial Statements of the Group are reviewed by the audit committee and presented to the Board for approval. Before end of the year, annual budget is reviewed by the Executive Committee and presented to the Board for approval that is subsequently sent to the Ministry of Finance to be presented 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.

Pillar-III Disclosures

31st December, 2017

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 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 II 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.

There are no restrictions on the transfer of funds or regulatory capital within the Group.

Table 6: CAPITAL STRUCTURE

The following table summarizes the eligible capital after deductions for Capital Adequacy Ratio (CAR) calculation as of 31 December 2017.

	CET1	AT1	T2
Components of capital			
Tier 1 Capital			
Common Equity Tier 1 (CET1)			
Issued and fully paid ordinary shares	108,300	-	-
General reserves	23,946	-	-
Legal / statutory reserves	54,462	-	-
Retained profit brought forward	47,428	-	-
Current interim profits	21,626	-	-
Total CET 1 Capital prior to the regulatory adjustments	255,762	-	-
Less:			
Intangibles other than mortgage servicing rights	362	-	-
Total CET 1 Capital after the regulatory adjustments	255,400	-	-
Other Capital (AT1 & T2)			
General loan loss provisions	-	-	105
NET AVAILABLE CAPITAL	255,400	-	105
TOTAL CAPITAL		-	255,505

The CBB Capital Adequacy Rules provides guidance on the risk measurements for the calculation of capital requirements. Conventional bank licenses are required to meet the following minimum CAR requirements:

	Components of consolidated CARs		Capital conservation buffer (CCB)	CAR including CCB
	Optional	Minimum Ratio Required		
Common Equity Tier 1 (CET1)		6.5%		9.0%
Additional Tier 1 (AT1)	15%		2.5% comprising of CET1	
Tier 1 (T1)		8.0%		10.5%
Tier 2 (T2)	2%			
Total Capital		10.0%		12.5%

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11. CAPITAL (CONTINUED)

Following are Capital Adequacy Ratios for total capital and Tier 1 capital as of 31 December 2017 :

CET1 Capital Adequacy Ratio	133.42%
T1 Capital Adequacy Ratio	133.42%
Total Capital Adequacy Ratio	133.47%

Following are the total risk weighted exposures for each category of risk the Bank is exposed to as of 31 December 2017:

Credit Risk Weighted Exposures	148,291
Operational Risk Weighted Exposures	43,138
Market Risk Weighted Exposures	-
Total Risk Weighted Exposures	191,429

12. 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.

13. 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.

14. CREDIT RISK

14.1 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.

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

Pillar-III Disclosures

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14. CREDIT RISK (CONTINUED)

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%

14.2 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 2017 was BHD 2.5 million.

Table 7: Past Due Loans and other assets - Aging Analysis (in BHD thousands)

	3 months up to 1 year	1 up to 3 years	Over 3 years	Total
Retail mortgage social loans *	22,723	16,251	13,089	52,062
Retail mortgage commercial loans	682	1,071	788	2,541
Other assets	773	187	55	1,015
	24,178	17,509	13,932	55,618

Table 8: Movement in provisions (in BHD thousands)

	Opening balance	Charge for the year	Write off/ write back	Closing balance
Collective Provision				
Retail mortgage commercial loans **	1,446	525	(293)	1,678
	1,446	525	(293)	1,678

* 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 31st December 2017 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 19 thousands.

Restructuring concessions mainly related to deferral of loan installments to assist customers overcome temporary cash crunch situations or to realign the repayment with the borrowers'/projects' revised cash flow projections and amending the terms of loan covenants. Due to nature of concessions (ie approved by MOH), there was no impact on the Bank's current provisions on loans and advances. However, it is expected to have impact on the Government accounts in accordance with the Memorandum of Understanding with the MOH with effect from 1 January 2018.

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31st December, 2017

14. CREDIT RISK (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 2017:

	* Gross Exposures	Risk Weighted Value	** Capital Charge
Standard Portfolio			
Cash items	102	-	-
Claims on sovereign	636,016	-	-
Claims on Banks	8,262	1,652	207
Claims on investment firms	443	222	28
Mortgage	9,498	7,124	890
Past due exposure	994	994	124
Equity investments	1,420	2,130	266
All other holdings of real estate	63,814	127,628	15,954
Claims on corporate	11,856	5,928	741
Other assets	2,614	2,614	327
	735,019	148,292	18,537

* 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 2017 :

	Gross Exposures	* Average Exposures
Funded Exposure		
Cash and bank balances	39,663	58,881
Investments	10,029	6,075
Loans	609,863	509,182
Investment in associates	5,573	5,707
Investment properties	53,507	54,238
Development properties	16,196	15,400
Other assets	3,571	3,518
	738,402	653,001
Unfunded Exposure		
Loan related	9,942	8,575
Lease commitments	521	469
Capital Commitments	16,992	5,236
	27,455	14,280

* 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

31st December, 2017

14. 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 2017 :

	Kingdom of Bahrain	Total
Cash and bank balances	39,663	39,663
Investments	10,029	10,029
Loans	609,863	609,863
Investment in associates	5,573	5,573
Investment properties	53,507	53,507
Development properties	16,196	16,196
Other assets	3,571	3,571
	738,402	738,402

The Group considers the above geographical disclosure to be the most appropriate as the Groups 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
Funded Exposures						
Cash and bank balances	39,663	-	-	-	-	39,663
Investments	5,372	3,273	-	1,116	268	10,029
Loans	-	-	609,863	-	-	609,863
Investment in associates	-	5,573	-	-	-	5,573
Investment properties	-	53,507	-	-	-	53,507
Development properties	-	16,196	-	-	-	16,196
Other assets	-	107	-	-	3,464	3,571
	45,035	78,656	609,863	1,116	3,732	738,402
Unfunded Exposures						
Loan related	-	-	9,942	-	-	9,942
Lease commitments	-	-	-	-	521	521
Capital Commitment	-	16,992	-	-	-	16,992
	-	16,992	9,942	-	521	27,455

14.3 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 2017.

Pillar-III Disclosures

31st December, 2017

14. CREDIT RISK (CONTINUED)

Table 13: Intra-group transactions as of 31 December 2017 (In BHD Thousands)

The following table summarises intra-group transactions as of 31 December 2017:

	Eskan Bank	RMBS Co	Eskan Property Co.	Dannat Al Luzi	Total
Assets					
Balances with Banks	-	-	347	-	347
Inter Bank Deposits	-	-	812	-	812
Development Properties	72	-	-	137	208
Investment properties	0,34	-	-	-	0,34
Investments in subsidiaries	8,652	-	-	-	8,652
Other Assets	2,403	12,458	47	-	14,908
	11,127	12,458	1,206	137	24,928
Liabilities and Equity					
Non-Bank Deposits	812	-	-	-	812
Current Accounts	347	-	-	-	347
Other Liabilities	12,491	2,339	53	21	14,409
Share Capital & Reserves	77	1	347	8,440	8,865
	13,727	2,340	400	8,461	24,928

14.4 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 2017.

15. 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.

Valuation of the Collaterals

Residential Mortgage Loans (Commercial):

The valuation of collateral is carried out, initially, by an external evaluator, at the time of approval and thereafter, and is undertaken for impaired loans (NPA) once in three years, unless the amount outstanding is less than BD 5,000 in which case the valuation may be taken at intervals stipulated at the discretion of the Management Risk Committee. There is no necessity of taking a fresh external valuation of performing loans unless the same is mandated by the Regulatory Authorities.

Pillar-III Disclosures

31st December, 2017

15. CREDIT RISK MITIGATION (CONTINUED)

Residential Mortgage Loans (Social):

The collateral obtained is of eligible land/ house, in accordance with the social loans scheme, at the time of disbursement. In case of Purchase Loans, valuation is carried out, by an external evaluator, at time of disbursal. There is no requirement for valuation of land/ property post disbursal.

16. 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.

17. 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 repayments from the Loan Portfolio, syndicated loan and the long term nature of the Government Account.

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.

17.1 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 2017, 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 bank balances	26,429	10,763	1,881	590	-	-	-	-	-	-	39,663
Investments	99	1,394	2,541	300	1,697	478	3,519	-	-	-	10,029
Loans	2,551	2,165	4,351	6,584	13,298	52,660	59,033	146,819	237,706	84,697	609,863
Investment in associates	-	-	442	-	-	-	5,131	-	-	-	5,573
Investment property	-	-	-	-	-	-	-	-	53,507	-	53,507
Development property	-	-	202	-	-	15,994	-	-	-	-	16,196
Other assets	771	45	918	43	113	783	897	-	-	-	3,571
Total Assets	29,851	14,367	10,335	7,517	15,108	69,915	68,580	146,819	291,213	84,697	738,402
Deposits from financial and other institutions	10,000	10,500	-	-	-	-	-	-	-	-	20,500
Customer current accounts	3,635	-	-	-	-	-	-	-	-	-	3,635
Government accounts	-	-	-	25,901	12,745	6,936	-	-	-	37,093	415,674
Term loans	-	-	-	-	-	30,000	-	-	-	-	30,000
Other liabilities	82	438	1,032	621	1,320	2,736	-	-	-	-	6,229
Total Liabilities	13,716	10,938	1,032	26,522	14,065	39,672	-	-	-	370,093	476,037
Misma Tch	16,135	3,429	9,303	(19,005)	1,044	30,243	68,580	146,819	291,213	(285,396)	262,364
Cumulative Misma Tch	16,135	19,564	28,867	9,862	10,906	41,149	109,729	256,547	547,761	262,365	262,365

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

31st December, 2017

18. MARKET RISK

18.1 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.

19. OPERATIONAL RISK

19.1 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 and control operational risks arising from pending legal actions.

The Legal Department manages and mitigates the operational risks arising from legal action of the Bank through prompt review and advice on transaction documents and regular review of standard documentation to ensure the Bank's interests are protected. Furthermore, they negotiate with counterparties/lawyers, keep abreast of latest developments in domestic and international banking laws, as well as corporate and other laws and regulations, and initiate corrective action when the Bank's business is likely to be affected.

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

The following table summarises the amount of exposures subject to basic indicator approach of operational risk and related capital requirements as of 31 December, 2017:

Year	2015	2016	2017
Gross income	18,310	21,512	29,198
Average Gross income			23,007
Multiplier			12.5
Eligible portion for purpose of the calculation			287,583
Total operation risk weighted exposures			15%
Minimum capital requirement (12.5%)			43,138
			5,392

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

Pillar-III Disclosures

31st December, 2017

20. EQUITY POSITIONS IN THE BANKING BOOK

The Equity position as at 31 December 2017 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	4,657	4,657	1,078
Investments in associates	5,573	5,573	1,393
Held to maturity	5,372	5,372	0

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.

21. 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
LIABILITIES						
Deposits from financial and other institutions	10,000	10,500	-	-	-	20,500
Rate sensitive Liabilities	10,000	10,500	-	-	-	20,500
ASSETS						
Balances and placements with financial institutions	26,426	12,157	4,422	890	581	44,477
Loans - commercial loans	-	-	10,348	-	-	10,348
Rate sensitive Assets	26,426	12,157	14,770	890	581	54,825
Mismatch	16,426	1,657	14,770	890	581	34,325
	4	19	60	135	270	
Change in Basis Points (+/-200)	4	2	49	7	9	69

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.

22. AUDIT FEES

Information relating to the fees paid to external auditors for audit and non-audit services including the 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 disclosure requirements are maintained at the Bank and available upon request. KPMG Fakhro were appointed as the external auditors of the Bank in May 2017 by following the tender process as the Bank is fully owned by the Government of Bahrain and should be in compliance with the tender process for such appointment. The evaluation for the appointment of the external auditors was reviewed and recommended by the Audit Committee and approved by the Board of Directors.

23. CBB Penalties

The CBB penalties imposed upon the Bank during the year amounted to BD 550 detailed as follows:

- BD 400 regarding Bahrain Credit Reference Bureau records
- BD 70 regarding mixing old notes mixed with new notes
- BD 80 regarding Electronic Fund Transfer Services penalties charges

Composition of Capital Disclosure Requirements

31st December, 2017

Step 1: Balance sheet under the regulatory scope of consolidation

Step 2: Reconciliation of published financial balance sheet to regulatory reporting as at 31 December 2017

Particulars	FS	PIR	Ref
ASSETS			
Cash and balances at central banks	33,395	33,395	
Placements with banks and similar financial institutions	11,639	8,262	
Financial assets at fair value through profit and loss	-	-	
Loans and advances to banks and non-banks	609,758	609,968	
of which general provisions	105	-	a
Held-to-maturity and available-for-sale investments	4,657	4,657	
Investment properties	53,507	53,507	
Interest in unconsolidated subsidiaries and associated companies	5,573	13,974	
Interest receivable	696	686	
Property, plant, and equipment (PPE)	316	316	
Other Assets	18,152	6,772	
of which: intangible assets deducted from regulatory capital	603	362	b
Total Assets (3.1 to 3.10 inclusive)	738,401	731,899	
NON-CAPITAL LIABILITIES			
Deposits from banks	20,500	20,506	
Deposits from non-banks	3,634	3,628	
Certificates of deposits issued	-	-	
Debt securities in issue	-	-	
Financial liabilities at fair value through profit and loss	-	-	
Term borrowings	30,000	30,000	
Securities sold under repos	-	-	
Dividend payable	-	-	
Interest payable	121	121	
Other liabilities	421,782	421,777	
Total non-capital items (2.1 to 2.10 inclusive)	476,037	476,032	
CAPITAL LIABILITIES			
Paid up share capital (net of treasury shares)	108,300	108,300	c
Share premium	-	-	
Legal reserve	54,462	54,462	d
General (disclosed) reserves	23,946	23,946	e
Retained earnings/(losses) brought forward	47,450	47,428	f
Net (loss) for the current period	-	-	
Net profit for the current period	21,526	21,626	g
Innovative capital instruments	-	-	
Minority interest in subsidiaries' share capital	6,681	-	
Fx translation adjustment	-	-	
Fixed assets revaluation reserves	-	-	
Collective impairment provision	-	105	a
Hybrid (debt/equity) capital instruments	-	-	
Subordinated debts	-	-	
Fair value changes on available-for-sale investments	-	-	
Fair value changes of cash flow hedges	-	-	
Short-term subordinated debts	-	-	
Total capital items (1.1 to 1.17 inclusive)	262,364	255,867	
Total capital and non-capital items (1.18 + 2.11)	738,401	731,899	

Composition of Capital Disclosure Requirements

31st December, 2017

Step 3: Composition of Capital Common Template (transition) as at 31 December 2017

	Component of regulatory capital reported by bank	Amounts subject to pre 2015 treatment	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2
Common Equity Tier 1 capital: instruments and reserves			
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	108,300	c
2	Retained earnings	47,428	f
3	Accumulated other comprehensive income (and other reserves)	100,034	d+e+g
4	Not Applicable		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)		
6	Common Equity Tier 1 capital before regulatory adjustments	255,762	
Common Equity Tier 1 capital: regulatory adjustments			
7	Prudential valuation adjustments		
8	Goodwill (net of related tax liability)		
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-	b
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)		
11	Cash-flow hedge reserve		
12	Shortfall of provisions to expected losses		
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)		
14	Not applicable		
15	Defined-benefit pension fund net assets		
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)		
17	Reciprocal cross-holdings in common equity		
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)		
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)		
20	Mortgage servicing rights (amount above 10% threshold)		
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)		
22	Amount exceeding the 15% threshold		
23	of which: significant investments in the common stock of financials		
24	of which: mortgage servicing rights		
25	of which: deferred tax assets arising from temporary differences		

Composition of Capital Disclosure Requirements

31st December, 2017

	Component of regulatory capital reported by bank	Amounts subject to pre 2015 treatment	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2
Common Equity Tier 1 capital: instruments and reserves			
26 National specific regulatory adjustments			
REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	362		b
OF WHICH: [INSERT NAME OF ADJUSTMENT]			
OF WHICH: ...			
27 Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions			
28 Total regulatory adjustments to Common equity Tier 1	362	362	
29 Common Equity Tier 1 capital (CET1)	255,400		
Additional Tier 1 capital: instruments			
30 Directly issued qualifying Additional Tier 1 instruments plus related stock surplus			
31 of which: classified as equity under applicable accounting standards			
32 of which: classified as liabilities under applicable accounting standards			
33 Directly issued capital instruments subject to phase out from Additional Tier 1			
34 Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)			
35 of which: instruments issued by subsidiaries subject to phase out			
36 Additional Tier 1 capital before regulatory adjustments	-		
Additional Tier 1 capital: regulatory adjustments			
37 Investments in own Additional Tier 1 instruments			
38 Reciprocal cross-holdings in Additional Tier 1 instruments			
39 Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)			
40 Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)			
41 National specific regulatory adjustments			
42 Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions			
43 Total regulatory adjustments to Additional Tier 1 capital			
44 Additional Tier 1 capital (AT1)			
45 Tier 1 capital (T1 = CET1 + AT1)	255,400		
Tier 2 capital: instruments and provisions			
46 Directly issued qualifying Tier 2 instruments plus related stock surplus			

Composition of Capital Disclosure Requirements

31st December, 2017

	Component of regulatory capital reported by bank	Amounts subject to pre 2015 treatment	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2
Common Equity Tier 1 capital: instruments and reserves			
47	Directly issued capital instruments subject to phase out from Tier 2		
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)		
49	of which: instruments issued by subsidiaries subject to phase out		
50	Provisions	105	a
51	Tier 2 capital before regulatory adjustments	105	
	Tier 2 capital: regulatory adjustments		
52	Investments in own Tier 2 instruments		
53	Reciprocal cross-holdings in Tier 2 instruments		
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold) .		
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		
56	National specific regulatory adjustments		
	REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT		
57	Total regulatory adjustments to Tier 2 capital	105	
58	Tier 2 capital (T2)	105	
59	Total capital (TC = T1 + T2)	255,505	
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT		
60	Total risk weighted assets	191,429	
	Capital ratios		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	133.4%	
62	Tier 1 (as a percentage of risk weighted assets)	133.4%	
63	Total capital (as a percentage of risk weighted assets)	133.5%	
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement expressed as a percentage of risk weighted assets)	9.0%	
65	of which: capital conservation buffer requirement	2.5%	
66	of which: bank specific countercyclical buffer requirement (N/A)	NA	
67	of which: D-SIB buffer requirement (N/A)	NA	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	133.4%	
	National minima including CCB (if different from Basel 3)		
69	CBB Common Equity Tier 1 minimum ratio	9.0%	
70	CBB Tier 1 minimum ratio	10.5%	

Composition of Capital Disclosure Requirements

31st December, 2017

	Component of regulatory capital reported by bank	Amounts subject to pre 2015 treatment	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2
Common Equity Tier 1 capital: instruments and reserves			
71 CBB total capital minimum ratio	12.5%		
Amounts below the thresholds for deduction (before risk weighting)			
72 Non-significant investments in the capital of other financials			
73 Significant investments in the common stock of financials			
74 Mortgage servicing rights (net of related tax liability)			
75 Deferred tax assets arising from temporary differences (net of related tax liability)			
Applicable caps on the inclusion of provisions in Tier 2			
76 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	105		a
77 Cap on inclusion of provisions in Tier 2 under standardised approach	1,854		
78 N/A			
79 N/A			
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2020 and 1 Jan 2024)			
80 Current cap on CET1 instruments subject to phase out arrangements			
81 Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)			
82 Current cap on AT1 instruments subject to phase out arrangements			
83 Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)			
84 Current cap on T2 instruments subject to phase out arrangements			
85 Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)			

Composition of Capital Disclosure Requirements

31st December, 2017

Disclosure template for main feature of regulatory capital instruments

1	Issuer	Eskan Bank B.S.C (c)
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	Not applicable
3	Governing law(s) of the instrument	All applicable laws and regulations of the Kingdom of Bahrain
Regulatory treatment		
4	Transitional CBB rules	Not applicable
5	Post-transitional CBB rules	Not applicable
6	Eligible at solo/group/group & solo	Solo & Group
7	Instrument type (types to be specified by each jurisdiction)	Equity Share
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	BD 108,300
9	Par value of instrument	BD 100
10	Accounting classification	Shareholders' equity
11	Original date of issuance	1979 , 2011
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity date
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
Coupons / dividends		
17	Fixed or floating dividend/coupon	Dividends as decided by the shareholders.
18	Coupon rate and any related index	Not applicable
19	Existence of a dividend stopper	Not applicable
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Not applicable
24	If convertible, conversion trigger (s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down feature	Not applicable
31	If write-down, write-down trigger(s)	No
32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not applicable
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	Not applicable