Enriching lives

Annual Report 2018

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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

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

Wholly-owned by the Government of Bahrain, the Bank is the Ministry of Housing's strategic partner and financial advisor, working together towards the creation of a world class housing solution that not only facilitates the right of Bahraini citizens to a quality family home in a safe community strengthening the fabric of our society, but does so in a way that is sustainable; bolstering the financial position of the Government, driving innovation and economic growth. .

Joining hands with the Government, a network of Bahraini banks and other private sector businesses, the Bank has successfully designed a fully rounded solution that is supporting the social agenda of Bahrain's Economic Vision 2030.

The exceptional nature of Eskan Bank being socially driven bank shines more due to its ability to succeed amidst challenging times. The Bank has evolved to become a facilitator that connects financiers, landlords, developers and homebuyers in an innovative and comprehensive ecosystem constantly being optimized to ensure a housing solution that is a global benchmark that results in more than just the delivery of cement roofs and walls, but also homes of exceptional quality and design nestled in vibrant communities.

Today the Bank is contributing more than ever to the housing agenda. As we move towards the future, our focus will remain at this junction on optimizing Government resources while exploring smarter business models in our never-ending quest to better support it in meeting the housing needs of our citizens and enriching their lives.

1979

Established in 1979 to provide mortgages for low-to-medium incomes citizens in the Kingdom of Bahrain

BD 814.7m

The Bank has provided mortgages totalling BD 814.7 million

56,386

56,386 Bahraini families benefited from Eskan Bank mortgage loans.

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:** Our team takes 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 quality of our solutions.
- **Innovation:** We continuously strive to do things better, in the creation and delivery of 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.

Danaat Al Lawzi

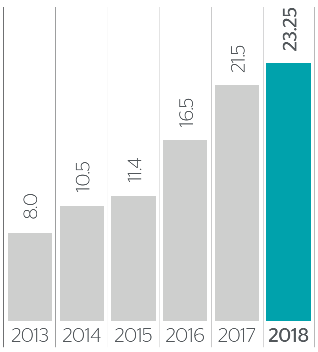
303 quality homes nestled in greenery and with magnificent views of the Al Lawzi lake make Danaat Al Lawzi a Global Benchmark for Social Housing.

Financial Highlights

While remaining focused on directing its financial strength towards the speedy delivery of social housing projects, Eskan Bank achieved positive financial results in 2018.

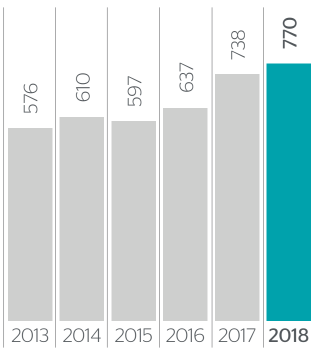
Net Income (BD Million)

BD 23.25



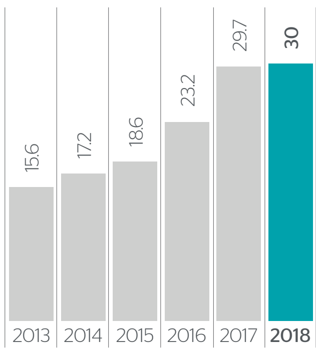
Total Assets (BD Million)

BD 770



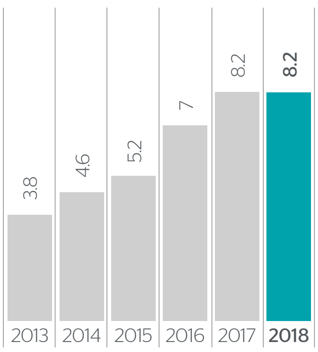
Operating Income (BD Million)

BD 30



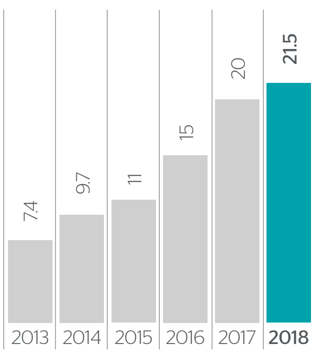
Return on Equity (%)

8.2%



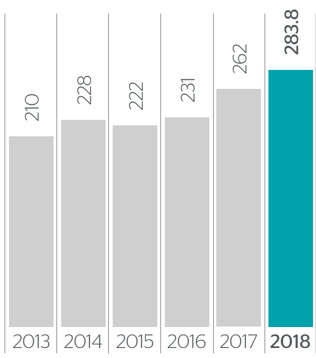
Earnings per Share (BD)

BD 21.5



Total Equity (BD Million)

BD 283.8



Operational Highlights

Adapting & Evolving

An auction model was also created during the year which will mobilize government land and private sector resources towards developing social housing units.

Optimal Information Security

Recertification of ISO 27001:2013 standard for the Information Security Management System was achieved, covering the Bank's Headquarters in addition to the Danaat Al Madina and Diplomatic branch.

Global Benchmark

Stronger Ministry, a stronger Private Sector and a stronger Eskan Bank. Together, we are building the foundation of a housing system that will become a global benchmark for quality, efficiency and community.

Doing 'More with Less'

Eskan Bank singed agreements with financial institution to finance beneficiaries wishing to purchase units in the Danaat al Lawzi project through Mazaya. These include Al Salam Bank, Al Baraka Bank, Bahrain Islamic Bank, Kuwait Finance House-Bahrain and Ithmaar Bank.

Delivering More

In 2018, Danaat Al Lawzi ("DAL") project witnessed the official inauguration under the patronage of H.E. Shaikh Nasser Bin Hamad Al Khalifa during the month of March.

Delivering with Efficiency

In 2018, the Credit Administration Department was formed for better control and monitoring of the credit, collateral management and administration functions..

Chairman's Statement

We prepare to deliver optimized financial products, services and projects that are designed to enrich more lives and make the dream of homeownership an accessible reality for every Bahraini citizen.

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 2018.

2018 was an intensive year of collaboration between the Bank, the government and the private sector as we prepare to deliver optimized financial products, services and projects that are designed to enrich more lives and make the dream of homeownership an accessible reality for every Bahraini citizen.

As the Ministry of Housing's strategic partner, Eskan Bank provides a unique and challenging social role. We strive to support the Ministry in significantly reducing the social housing waiting list - a list that increases by 3,500 per year - through access to affordable financing, and the timely provision of comfortable, quality family homes. This challenge requires us to work together, think differently - and think ahead - so that we have a financially sustainable and environmentally viable housing solution that will serve the generations of Bahrainis yet to come, a comprehensive system that not only empowers and strengthens our community, but also reduces the burden on our Government and drives private sector growth.

I am pleased to say that we are on track to achieve this goal. Today, as a result of our cooperative efforts, we have a stronger Ministry, a stronger Private Sector and a stronger Eskan Bank. Together, we are building the foundation of a housing system that will become a global benchmark for quality, efficiency and community.

During the reporting period and underscoring His Majesty King Hamad bin Isa Al Khalifa's commitment to providing housing that meet the needs of citizens across the Kingdom, His Royal Highness Prince Salman bin Hamad Al Khalifa the Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister, issued a directive to distribute an additional 5,000 housing units before the end of 2018. Eskan Bank mobilized its workforce and fully supported the Ministry in the implementation of the distribution timetable within the specified duration. This latest directive, the sixth in the last two years, has resulted in a total distribution of 25,000 housing units to Bahraini citizens as part of the Government Action Plan (GAP2014-2018).

Notwithstanding a reshuffling of the business in order to support the delivery of social housing projects, the Bank while remaining focused on directing its financial strength towards the speedy delivery of social housing projects, achieved positive financial results again in 2018.

The Bank posted a total net income for 2018 of BD 23.25 million (2017: BD21.5 million). These positive results are attributable in part to Eskan Bank's Early Retirement Scheme, which positively impacted the bottom line during the reporting period. Total expenses stood at BD 6.44 million, representing a saving of 17% emphasizing the successful Bank wide cost rationalization campaign. As of 31 December 2018, total equity of the Bank stood at BD 283.8 million (2017: BD262.4 million), while the return on equity stood at 8.2%. The Bank's total balance sheet grew to BD 770 million at the end of 2018, compared to BD738 million at the end of the previous year. Capital adequacy ratio is significantly higher than the minimum requirement by CBB.

On behalf of the Board of Directors, I take this opportunity to express 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 Eskan Bank

Danaat Al Baraka

The design phase of Danaat Al Baraka, a project that underscores the evolution of Eskan Bank from an investor and developer to a facilitator of quality social housing, is complete. EPC is the Development Manager and the Eskan Bank is the Investment manager of the Project, which comprises 211 housing units in Jannusan in the Northern Region of Bahrain. Danaat Al Baraka will be developed in partnership with investors from the private sector with Al Baraka Islamic Bank BSC (c) financing the BHD 17 million project. Construction is set to begin early in 2019.

General Manager’s Message

We are working together to implement a national housing agenda where innovative thinking in financing, design and construction fuses to bring exceptional homes to citizens.

Eskan Bank is contributing more than ever to the shaping and implementation of a self-sustainable, fully rounded, national housing solution.

A solution where the Bank has joined hands with the Ministry and private sector through pioneering partnerships that are positively impacting the Kingdom both socially and economically.

We are working together to implement a national housing agenda where innovative thinking in financing, design and construction fuses to bring exceptional homes to citizens.

Danaat Al Lawzi is a stunning example. The project, a tie-up with a private sector landowner to build 303 villas and a community center in the Al Lawzi area west of Hamad Town, is earmarked for completion in 2019 and is already garnering positive local interest and international attention for quality and ingenuity. 75% of the project is being built for beneficiaries of ‘Mazaya’, the social housing finance scheme between the Ministry of Housing and private sector banks which has been extremely successful in providing more citizens with access to financing whilst bolstering the private financial sector.

Danaat Al Baraka is a BHD 17 million project that is being developed in partnership with a landlord from the private sector and Al Baraka Islamic Bank BSC (c). The Project is a perfect example of Eskan Bank’s mission to develop quality, social housing whilst removing the burden on public funds. Construction of the 211 housing units in Jannusan, in the Northern Region of Bahrain, is set to begin early in 2019.

Underscoring the success of PPP’s, Mazaya has grown, effectively replacing social loans and reducing the burden on government.

In addition to financing innovations, and aligned with the private sector appetite, an auction model was also created during the year which will mobilize government land and private sector resources towards developing social housing units. This new PPP structure will be launched as a pilot program in 2019.

Smaller PPP’s, in the form of landlord tie ups, continued throughout the year, as did research into the feasibility of rejuvenating existing Ministry of Housing buildings in our continued effort to beautify Bahrain.

Highlighting our mission to operate at the highest international levels of effectiveness and efficiency, processes and procedures continued to be streamlined during the year through a bank wide Business Process Reengineering initiative.

This has allowed the Bank to invest more time into doing additional work with our existing human resources and during the reporting period this included supporting the Ministry in the delivery of additional housing units as per Royal directives.

In conclusion, I would like to acknowledge the guidance and support that we continue to receive from our shareholder, the Government of Bahrain and our Chairman and Directors. I also offer my thanks to the private sector for their increasing participation in the social housing sector, and to our management and staff for their dedication and professionalism. I look forward to sharing further achievements in 2019.

Dr. Khalid Abdulla
General Manager

Board of Directors

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

Chairman of Remuneration, Nomination and Corporate Governance Committee

Mr. Mohammed A.R. Hussain Bucheeri
Vice Chairman and Chairman of Executive Committee

Independent Non-Executive Director

Mr. Yusuf Abdulla Taqi
Independent Non-Executive Director

Member of Remuneration, Nomination and Corporate Governance Committee

Dr. Zakareya Sultan Al Abbasi
Independent Non-Executive Director

Member of the Audit Committee

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

Mrs. Najla Mohammed Al Shirawi
Independent Non-Executive Director

Chairperson of Audit Committee

Mrs. Rana Ebrahim Faqihi
Independent Non-Executive Director

Member of Executive Committee

Mr. Kamal Murad Ali Murad
Independent Non-Executive Director

Member of Executive Committee

Sheikh Mohammed Bin Ibrahim Al Khalifa
Independent Non-Executive Director

Member of the Audit Committee

Danaat Baytik

Danaat Baytik is a joint venture between EB and Kuwait Finance House offering a series of low-rise apartment buildings consisting of 216 units in Ishbiliya Village. The project is in the design stage and will be developed in phases.

Meeting the needs of the people of Bahrain.

Eskan Bank continued in partnership with Ministry of Housing to work closely with Bahrain's banks and real estate developers to enhance Mazaya and elevate awareness of its benefits to the public.

Financial Performance

With a steadfast focus on reducing the financial burden on the Government whilst enhancing the profitability of the private sector, Eskan Bank continued to perform well in 2018, testament to its focus on cost rationalization, liquidity management and a proactive and cautious approach to new investments. Notably, the Bank's efficiency drive witnessed Eskan Bank become the most efficient bank in Bahrain in terms of cost to income ratio.

Notwithstanding a reshuffling of the business in order to support the delivery of social housing projects, the Bank posted a total net income of BD23.25 million (2017: BD21.5 million). These positive results are attributable in part to Eskan Bank's Early Retirement Scheme, part of a series of measures launched by the Government's Fiscal Balance Program designed to streamline government revenues and increase private sector growth, which positively impacted the bottom line during the reporting period. Total expenses stood at BD6.44 million, representing a saving of 17% emphasizing the successful Bank wide cost rationalization efforts.

As of 31 December 2018, total equity of the Bank stood at BD 283.8 million (2017: BD262.4 million), while the return on equity stood at 8.2%. The Bank's total balance sheet grew to BD770 million at the end of 2018, compared to BD738 million at the end of the previous year. Capital adequacy ratio improved to 145.6%, with the balance sheet continuing to boast healthy liquidity.

Going forward, 2019 will see elevated collaboration with the Ministry of Housing, in particular in terms of synergy when issuing decrees, careful liquidity management, proactive cost rationalization and a focus on growing Bank assets.

Financial Control

The Financial Control Department (FCD) plays a pivotal role in financial reporting, budgeting, business planning, strategic analysis, payment control and internal control. During the reporting period, FCD successfully implemented various regulatory and financial reporting requirements. This included the successful implementation of the new IFRS 9 requirements in addition to the assessment of IFRS 15. The department also completed the preparation for VAT implementation, ensuring compliance with new laws & regulations. The year saw the department complete the requirements of the CBB Inspection related to Financial Control without any significant issues and also enhance the reporting pack for the Ministry of Housing, resulting in better coordination and decision making.

In collaboration with the IT team, FCD enhanced an existing payment processing system and implemented paperless workflow, with significant improvements in turnaround time. The Finance Manual and related procedures were also aligned with the new Core Banking System, which improved the department's delegation and transparency. During the year FCD also supported the timely completion of the statutory liquidation of the Bank entities RMBS and BPMT.

Financial institutions & Government Programs

In collaboration with the Ministry of Housing and various government and semi-government entities, during 2018, the Financial Institutions & Government Programs Department undertook intensive research and initiatives to lay the foundations for more effective and efficient ways of delivering sustainable social housing financing solutions. As the Ministry of Housing's strategic partner,

Eskan Bank continued in partnership with Ministry of Housing to work closely with Bahrain's banks and real estate developers to enhance Mazaya and elevate awareness of its benefits to the public.

FORGING PARTNERSHIPS

The year also saw collective efforts to optimize Mazaya, the social housing finance scheme whereby Beneficiaries have the opportunity to own their dream home through a real estate finance facility provided by private sector banks and the mortgage installment subsidized by the Government of Bahrain.

the focus remained on organized innovation in terms of Public Private Partnerships (PPP's). In tandem with the Ministry and associated Government entities new structures of PPP's were explored aimed at enticing the private sector to further support the Ministry in the delivery of social housing services so it can move towards becoming a regulator rather than a direct provider. Aligned with private sector appetite, a government land bidding auction model (the "Model") has been shaped that will mobilize government land and private sector resources for the development of social housing projects. This new Model will be launched through a pilot project in 2019.

The year also saw collective efforts to optimize Mazaya, the social housing finance scheme whereby Beneficiaries have the opportunity to own their dream home through a real estate finance facility provided by private sector banks and the mortgage installment subsidized by the Government of Bahrain with the beneficiary still contributing the usual 25% of his monthly salary. The focus of the year was on enhancing and re-engineering Mazaya in 2019 with intense work going in to IT infrastructure development requirements and developing processes and collateral such as manuals to ensure that the processing time is minimized for efficiency and to enable citizens to move into their news homes in less ten 6 months..

Underscoring our successful efforts to join hands with the private sector, the year saw more private sector financial institutions formalize their commitment to supporting social housing financing solutions by signing to finance developments off plan through the Mazaya program.

Among the banks to sign agreements in 2018 to finance beneficiaries wishing to purchase units in the Danaat Al Lawzi project through Mazaya were Al Salam Bank, Al Baraka Bank, Bahrain Islamic Bank, Kuwait Finance House-Bahrain and Ithmaar Bank.

Retail Banking

In 2018, Retail Banking rolled out a new system for Mazaya which has further automated operations and, in line with Mazaya processes and procedures, enhanced accuracy and improved turnaround times through more effective monitoring and reporting.

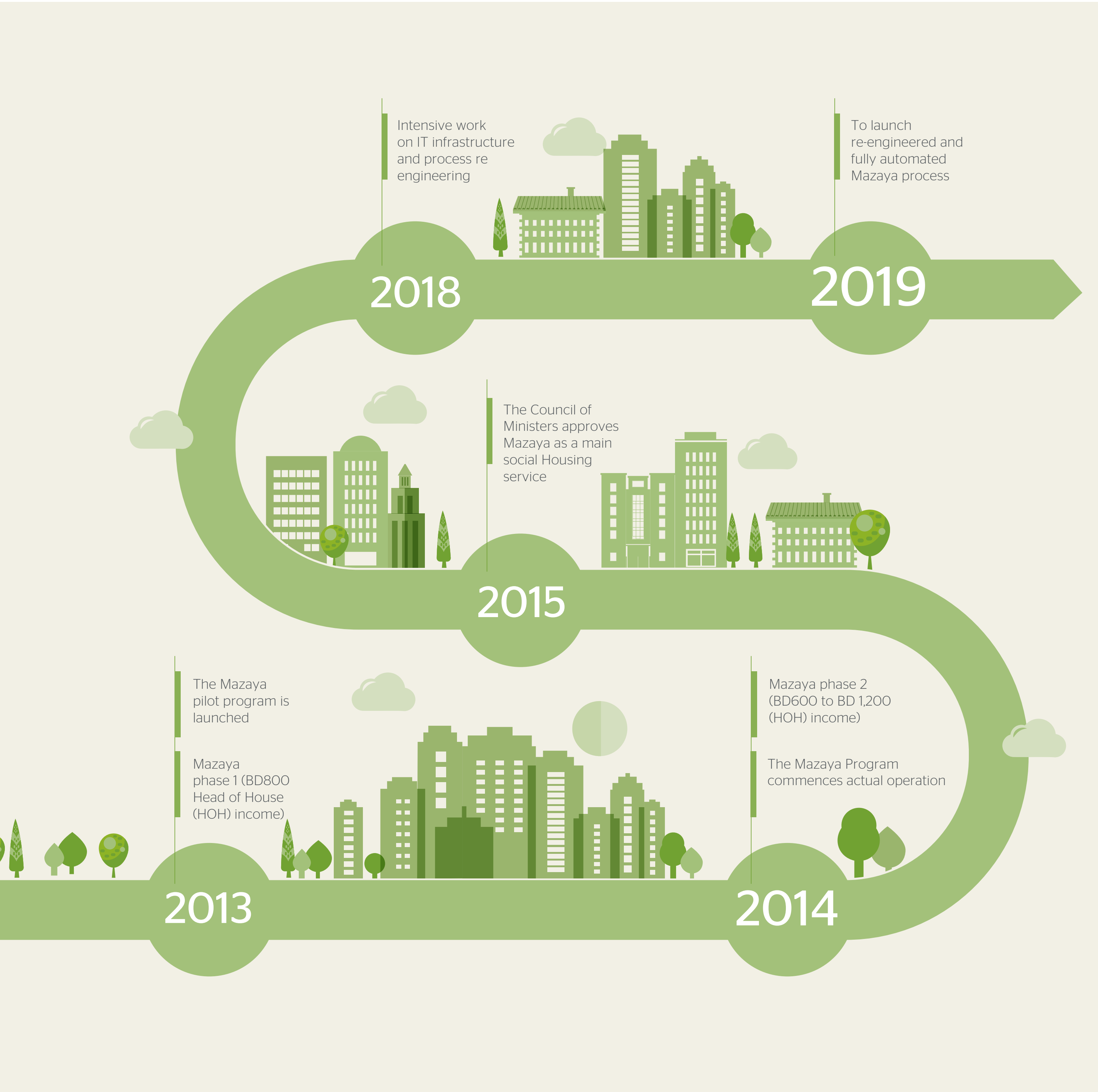
The system will facilitate better coordination between the Bank, the Ministry of Housing, and the seven private sector financial institutions participating in Mazaya whilst serving the growing customer base - which is expected to double in 2019. This is testament to the success of Mazaya as a tool to drive growth in Bahrain's banking industry and real estate market, whilst empowering Bahraini citizens to own their dream homes. Additionally, the solution is effective in reducing the Ministry of Housing waiting list and Social Housing loans (up to BD15 million dispersed in 2018).

During the year, Retail Banking also continued to enhance its other product offering and provide additional value-added services to its customers. This included the provision of fire insurance, inspections, title deed requests, settling of loans and other post loans services.

Launched in 2013, Mazaya continues to reduce the need for social loans and driving competition in the private sector. 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.

Mazaya:
Evolving
a Sustainable
Solution

Mazaya Infographic



Marketing

In 2018, Danaat Al Lawzi ("DAL") project witnessed the official inauguration under the patronage of H.E. Shaikh Nasser Bin Hamad Al Khalifa during the month of March. The project is comprised of 303 spacious villas under construction in Hamad Town (Al Lawzi Area) and is expected to be delivered in 2019. Sales and Marketing ("S&M") officially launched DAL in October 2018 whereby the team managed to engage with 5 Islamic local banks (Kuwait Finance House, Bahrain Islamic Bank, Ithmaar Bank, Al Salam Bank and Al Baraka Islamic Bank) to finance Mazaya beneficiaries willing to purchase villas within the project.

Moreover, Eskan Bank ("EB") participated in two exhibitions namely Gulf Property Show in April 2018 and the Bahrain International Property Exhibition in November 2018 in order to showcase DAL and promote EB's upcoming project Danaat Baytik ("DB"). DB is a joint venture between EB and Kuwait Finance House offering a series of low-rise apartment buildings consisting of 216 units in Ishbiliya Village.

During the year, S&M continued strategizing and executing related marketing functions and activities for the above-mentioned projects, as well as EB's upcoming projects. Additionally, S&M embarked on a detailed research initiative regarding residential supply in the entire Kingdom of Bahrain that culminated in the production of a periodic report on a semi-annual basis with the aspiring goal to become the reference of choice when it comes to accurate and rich statistics about the residential sector.

Projects & Property Management

Projects

In 2018, Eskan Properties Company (EPC) remained focused on building beautiful homes that have become global benchmarks for quality, community-based and affordable social housing. In order to remain at the cutting edge of design and construction innovation and facilitate pioneering projects, EPC is exploring new construction techniques globally with a focus on enhanced project and environmental sustainability, reduced project and end users' costs, time saving, and best use of available space. In addition, the social impact of design and construction techniques will also be explored to ensure that we not only build projects that last, but also communities that thrive in them.

Highlights of the reporting period include reaching 60% construction completion on the Danaat Al Lawzi villas. The 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, is nearing completion with finalization earmarked for August 2019. Sales have already begun on the internationally acclaimed project, which has received a lot of interest from potential buyers. The project villas will be sold to Mazaya beneficiaries.

Danaat Al Lawzi

303 quality homes nestled in greenery and with magnificent views of the Al Lawzi lake make Danaat Al Lawzi a Global Benchmark for Social Housing.

Danaat Al lawzi Community Center

A service center, consisting of 13 shops and an anchor super market will service the Danaat Al Lawzi community.

Danaat Al Baraka

The design phase of Danaat Al Baraka, a project that underscores the evolution of Eskan Bank from an investor and developer to a facilitator of quality, social housing, is complete. EPC is the Development Manager of the Project, which comprises 211 housing units in Jannusan in the Northern Region of Bahrain. Danaat Al Baraka will be developed in partnership with investors from the private sector with Al Baraka Islamic Bank BSC (c) financing the BHD 17 million project. Construction is set to begin early in 2019.

Bandar Al Seef

Studies for Bandar Al Seef, a mixed-use development which is part of the Northshore project known as the Bander Al Seef, also continued during the year.

Three community developments, which serve social housing projects commenced construction in 2018. These developments, which are managed by EPC's Projects and Facilities Management Division include two community projects in Hamad Town.

Property & Facility Management

Aligned with growth in vertical community developments in Bahrain, the need for Property & Facilities Management ("PFM") services has grown substantially. PFM, in line with Government directives to ensure optimal usage of resources, is growing capabilities and further extending its services with a vision to include full-fledged facilities management services to the Ministry of Housing portfolio of vertical developments. PFM achieved a number of milestones towards this goal in 2018, and as such a pilot program to deliver a full property management solution for of 414 apartments in Salmabad is earmarked to be launched in the coming year.

PFM continued to work closely with the Ministry of Housing throughout the year to provide a number of facilities management services in house. The department has already effectively managed Danaat Al Seef and Danaat Al Riffa buildings, which were delivered to beneficiary families in 2017, achieving promising results.

During the reporting period, the department also provided full assistance to set up the Home Owners Association (HOA) of said projects and went on further to offer training to the HOA Board of Directors in two separate meetings that were convened at the Bank premises. Focus was on the importance and role of the Associations to serve the public through the effective management, operation, and maintenance of the common areas of the projects in order to preserve their integrity and strengthen the communities living there.

Our developments encourage a better way to live, connecting people to community and nature, enabling happier, healthier lifestyles.

BUILDING COMMUNITIES

Asset Management

Eskan Bank Realty Income Trust ("EBRIT" or the "Trust"), the first Sharia-compliant Real Estate Investment Trust ("REIT") remains the only REIT to be listed on the Bahrain Bourse.

2018 was a challenging year for EBRIT in respect of a slowing economy, with downward pressure on retail rents as more supply is coming to the market exceeding demand. The Trust had to use additional, encouraging measures to ensure tenant retention. Additionally, operating cost increased due to EWA hikes in tariffs on commercial properties. With a subsidy top up from the Bank, EBRIT distributed the interim dividends of 3% for both the second half of 2017, and the first half of 2018 yielding an annualized 6% return as projected.

Risk Management & Compliance

The Risk Management & Compliance Department reports to the Audit Committee of the Board. The Division manages Risk Management, Compliance, Information Security, Business Continuity Management, Credit Administration and Remedial and Collections.

During the reporting period, the Bank's Risk Management Framework was enhanced in line with the latest Central Bank of Bahrain guidelines. The department also successfully implemented the new IFRS 9 requirement. The Remedial department is in the process of testing the new "Collections system" - which, once deployed, will improve the efficiency of collections facilitating better control oversight.

In 2018, the Credit Administration Department was formed for better control and monitoring of the credit, collateral management and administration functions.

The Bank's Risk Management is proactive in identifying, assessing and quantifying key existing risks, emerging risks and risk drivers and managing it in line with the Risk Management Framework. The fundamental principle underlying the Risk Management Framework is to ensure that accepted risks are within the Board approved risk appetite. The Framework defines the risk culture to ensure the best practices and achieves a balance between business and risk appetite. This is achieved through the Bank's policies covering credit, market, operational, information security, strategic and reputational risks. The Framework also covers the roles and responsibilities of the Board, Risk Management Committee and senior management.

The efficiency of the Bank's Risk Management Framework is independently assessed and reviewed through internal audits, external audits and Central Bank of Bahrain (CBB) inspections. Periodic risk control self-assessments are also carried out with a view to enhance risk control functions. In addition, policies and procedures are periodically reviewed.

While the ownership of various risks across the bank lies with the business and support heads, the implementation of the Framework group-wide, is the responsibility of the Risk Management Department. The Department assists the business in identifying risks, risk owners and evaluating and mitigating risks by conducting periodic Risk Self-Assessment Control Sessions.

Compliance

The Bank has an independent unit to oversee Compliance and Anti- Money Laundering functions as well as to ensure adherence to applicable laws, rules and regulations.

Compliance is responsible for promoting sound compliance standards in the Bank for which appropriate policies are formulated and regulatory requirements are being met to ensure the activities of the Bank comply, in terms of due diligence and reporting, with CBB regulations.

In 2018, an extensive exercise was conducted whereby all applicable regulations were detailed with their related requirements, processes and controls documented. While compliance with applicable regulatory requirements is an ongoing process, the Bank is conscious of its responsibilities in observing all regulatory provisions and best international practices in its functioning.

Compliance with CBB anti-money laundering requirements and measures is an integral function of the Compliance department. As per CBB requirements, the anti-money laundering function is audited by the external and internal auditors, and copies of the reports are presented to the Board Audit Committee. The CBB also performs periodic inspections of the Bank's compliance with anti-money laundering regulations. The Bank ensures that all applicable regulations of Central Bank of Bahrain is complied with and non- compliance, if any, is detected, reported and addressed in a timely manner.

Internal Audit

The Internal Audit Department works to maintain a high level of corporate governance and risk management by providing independent, objective assurance and consulting activities designed to add value and improve the bank's operations. The Division supports the Bank in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Eskan Bank is a unique bank that has high exposure to the public and as such has a high reputational risk. As such the Internal Audit continued to work closely with the Risk Management department to elevate the awareness of risk management throughout the Bank and implement a Risk-based audit plan.

Information Technology

2018 was a productive year for the Bank's Information Technology division.

GAP Analysis was completed as part of Phase II in the implementation of the new Core Banking System – Phase I went live in 2017. Aligned with an organization wide efficiency focus, a number of technological initiatives were implemented during 2018 designed to further elevate the way the Bank conducts business. A key initiative was the in-house development of a Correspondence Management System, (CMS), which has enhanced communication and collaboration within the Bank. The System has successfully created a seamless workflow environment where all activities are tracked, and processes are standardized. A unified email signature was also implemented while a Virtual Machine Manager (VMM) has provided a unified data management experience across all departments. A SAN Storage Migration project was also conducted which has enhanced the management of storage and allowed for dynamic reallocation of storage resources.

The IT team also created an Extracts Reporting System that is customized to meet the needs of the Bank's in-house users; empowering faster data collection and internal dissemination. In preparation for VAT implementation in 2019 and to ensure compliance, the Division customized the existing Core Banking System, as well as the existing Request for Expenditure (RFE). For Danaat Al Lawzi and Danaat Al Baraka projects, IT team customized the RFE system to provide paperless expenses-approval workflows and provided an automated sales system for Danaat Al Lawzi.

In collaboration with the Operations Department, IT implemented the RTGS (Real Time Gross Settlement) private SWIFT system as per the Central bank of Bahrain's requirements, in addition to implementing and automating IFRS9, allowing users to easily extract information and work more effectively.

Information Security

The Bank achieved a number of milestones towards optimal Information Security in 2018. Testimony to the Bank's steadfast drive towards continuous improvement in information security, recertification of ISO 27001:2013 standard for the Information Security Management System was achieved, covering the Bank's Headquarters in addition to the Danaat Al Madina and Diplomatic branches. A Security Scorecard Solution was also introduced, while controls for email communication were strengthened with the implementation of a Sender Policy Framework. The Bank is in the process of implementing a cloud-based security information and event management solution that leverages artificial intelligence to effectively manage the information and cyber security risks facing the bank. During the reporting period the information security policies and procedures were reviewed and updated to ensure full compliance with the CBB's regulatory requirements for cyber security.

Business Continuity

In terms of Business continuity, the Bank achieved ISO 22301:2012 certification standard for the Bank's business continuity management system. A comprehensive Business Impact Analysis was conducted on Bank processes in order to identify changes to the critical business processes. Business Recovery documents were updated for 19 critical business processes during the exercise. Parallel Testing exercises were conducted at the business continuity management command centre in Danaat Al Madina to test and validate the effectiveness of the Bank's recovery initiatives.

Quality

The Bank's focus on quality remains rigorous and consistent. Recertification of ISO 9001:2015 standard for the Bank's quality management system was achieved. As part of the annual internal quality audits, process non-conformance to established policies, procedures and ISO 9001:2015 standards were identified, monitored and managed to ensure adequate measures are taken to address non-conformity effectively and to ensure all of the Bank's processes are documented and implemented in order to achieve consistent performance.

Operations

2018 saw the Department further enhance collaboration between the Bank, Ministry of Housing and Private Sector banks, Regulators and Auditors, whilst working closely with the Retail Banking Division and the Ministry of Housing to further streamline the allocation of housing units and related processes and procedures.

Doing more with less, the Division's efforts were focused on Business Process Reengineering (BPR) and empowering existing resources to take higher responsibilities to ensure the Bank operates at utmost efficiency and effectiveness. All Bank processes and procedures were aligned with the new Core Banking System implemented in 2017, which has improved turnaround times. Underscoring the Bank's ability to elevate quality while at the same time reducing costs, the International Organization for Standardization (ISO) validated that all of the Bank's processes and procedures adhered to the stringent global quality standards.

Moving towards 2019, the division will continue to design and implement solutions that will enhance Bank operations. In particular, a new solution will be employed to improve the payment of rental subsidies by using data to directly credit beneficiary's accounts by EFTS

Aligned with a mission to support a healthier workforce and society, the Bank also, in collaboration with the Ministry of Health, launched an awareness campaign for the early detection of chronic non - communicable diseases.

Human Resources

The Human Resources department supported the Bank in reaching even higher heights of efficiency in 2018, whilst remaining focused on delivering optimal levels of quality, operational effectiveness and training and development. Aligned with this focus, the department took full advantage of training programs offered by Tamkeen, which effectively reduced training costs whilst providing access to more quality development opportunities for a larger number of employees. Individual Training Needs Analysis (TNA) initiatives also continued which are designed to maximize on the Bank's existing human capital to achieve the Bank's strategic objectives. Eskan's Early Retirement Scheme, which was initiated in 2017, remained a very successful program, supporting cost rationalization, enhancing succession planning schemes, and positively impacting the Bank's financial position.

Corporate Communications

The Corporate Communications Department continued to support the Bank and its subsidiaries, ensuring effective internal communications whilst opening lines of communication and understanding between the Bank, its partners and the community. In 2018, the Division facilitated a number of events and initiatives. These included the awarding of the 5th Creative Engineering Award. The annual award, which this year was under the theme "Optimum space, Beautiful living", paves the way for future engineers, cultivates the spirit of constructive competition, and boosts creativity and innovation, and encourages Bahraini youth to play a major role in the national housing and urban development scheme. Three winners were awarded at a ceremony held under the patronage of HE the Minister of Housing and Chairman of the Board of Eskan Bank, Eng. Basim bin Yacob Al-Hamer out of the 85 projects submitted by students of the Faculty of Engineering at the University of Bahrain.

As well as initiatives that bridge the gap between academia and career, the Division championed programs that support community issues such as health and charitable causes. Under the theme "Save Life, Donate Blood", the Bank, in collaboration with the King Hamad University Hospital Blood Bank and Yousef Khalil Al Moayyed Real Estate (Al Moayyed Tower), launched a blood donation campaign. The drive, which was held at Al Moayyed Tower, saw employees from the Bank, its subsidiaries and clients, as well as employees from Al Moayyed Tower, generously donate their time and blood.

Aligned with a mission to support a healthier workforce and society, the Bank also, in collaboration with the Ministry of Health, launched an awareness campaign for the early detection of chronic non - communicable diseases. During Ramadan, the Corporate Communications Department organized an employee Health Awareness Workshop entitled, "Your Health in Ramadan" where Consultants from the Ministry of Health held talks on how to stay healthy in Ramadan. Supporting the Dream Society, a charitable organization which makes the wishes of kids with incurable diseases come true, Eskan Bank held their annual "Dish of Goodness" campaign. Bank employees, and employees from neighboring offices participated in the event which included the sale of various dishes, and live, open air cooking shows demonstrating the preparation of traditional dishes from different countries.

At Eskan Bank, we strongly believe that we are not just building homes for today, but building a sustainable future for generations to come.

BUILDING SUSTAINABILITY

Subsidiaries, Associates and Strategic Investment

Subsidiaries

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

The Bank owns 100% in Eskan Properties Company which is registered in the Kingdom of Bahrain, to successfully execute the various housing and community projects being taken up. The main objectives are to carry out all operations in relation to development management, operation and maintenance for all types of real estate owned by the Bank, governmental institutions and ministries or others.

Eskan RMBS Company B.S.C.

The Bank owned 100% in Eskan RMBS Company which was registered in the Kingdom of Bahrain with principal activities to issue Asset Backed private debt securities for the purpose of securitization of housing loans. The Company was liquidated in August of 2018.

Danaat Al Lawzi Company B.S.C

The Bank owns 55.88% in Danaat at Al Lawzi. The Company was established in 2014 and registered in the Kingdom of Bahrain with the principal activities including the management and development of private property, the buying and selling of properties, and property development, leasing, management and maintenance.

Associates

Al Ebdaa Bank B.S.C.

During 2009, Al Ebdaa Bank B.S.C. was established and began disbursing micro-finance to low and middle-income 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 was 42.98%. Upon the sale of the apartments in Danaat Al Madina mixed use development,and Segaya Plaza, along with the commercial part of Danaat Al Madina were the seeding assets of a new listed Real Estate Investment Trust (REIT). Bahrain Property Musharaka Trust was liquidated in November of 2018.

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 33.97% of EBRIT units. The inaugural property of EBRIT includes Segaya Plaza along with the commercial parts of the Danaat Al Madina development.

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.

Executive Management

Dr. Khalid Abdulla
General Manager

Mr. Ahmad Tayara
Chief Business Officer and Deputy General Manager

Ms. Parween Ali
Head of Retail Banking

Mrs. Samar Agaiby
Head of Financial Institutions and Government Relations

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

Mr. Muhammed Saeed Butt
Head of Financial Control

Mr. Vijayan Govindarajan
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

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

Mr. Eyad Faisal
Senior Project Manager

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 Commerce and Tourism 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. 20 of 2018 dated 15 July 2018, 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) consist of Board setting fees which has been capped at BD 8,000 annually 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.

c) Eskan Bank BOD resolution made during the first meeting for 2018 took place on 11 April 2018, with regards to Disbursing the sitting fees of attending the BOD and its committees meetings for the members, and addenda EB BOD resolution by circulation number 10 for the year 2018 regarding the mechanism of disbursing the said sitting fees for the members

During the year, the bank paid setting fees of BD222,000 to the Board of Directors excluding his excellency Chairman of the Board for attending Board and Board Committees meetings for the period from March 2015 up to 31 December 2018 as per Board of Directors resolution number 13/1 of 2018.

The amount paid to the Remuneration, Nomination & Corporate Governance Committee was BD6,500 for the same period mentioned above.

- **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. In addition 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; EB executive management have periodically review the policy.

- **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 General Manager disclosed to the Board of Directors that there are no relatives of any approved persons occupying approved person in-controlled functions within the Bank.

  During Board Meetings held in 2018, 2 directors have abstained from voting on 2 proposals submitted during the said meetings, due to personal interests, or being members of the board of directors, or the executive management of the parties related to the proposals. Additionally, there were no significant issues which were raised regarding the Bank's business, other than the issues which were referred to in the Special NAC Report Investigation Committee terms of reference stated herein below.

- **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, Corporate secretary has circulated the performance evaluation form for year 2018 to the board members, for evaluate the performance of board of directors and committees for the year 2018, and it has been scheduled to discuss the presented Forms during the board meetings.

4. Board Committees

The Board has three committees with specific delegated responsibilities which include: the Executive Committee, Audit Committee, and Remuneration, Nomination and Corporate Governance Committee. During 2018, a special Board Level Committee was formed to investigate the audit points raised in the National Audit Court's Report 2016/2017..

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

Executive Committee	
Members: 1- Mr. Mohammed Hussein Bucheeri (Chairperson) 2- Mr. Riyad Saleh Al Saei (Vice Chairperson) 3- Mr. Kamal Murad Ali Murad 4- Mrs. Rana Ebrahim Faqihi	**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 2018). • 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. The Committee is specifically delegated with recommending to the board or taking decisions relating to broad policy and planning matters relating to the administration of the Bank, Review strategy, annual budget forecasts, performance vis-a-vis budgets and the budget variances, review any major change which is expected to have a significant economic impact on the organization, approve lending decisions, and taking on of funded and non-funded financial risk exposures and financial outlays, specific provisioning of doubtful debts or the write-offs up to its Delegated Authority, where the credit risk lies with the Bank, delegation of Financial Authority, and provide oversight and good governance of the investment activities of the Bank.

Audit Committee

Members:

1- Mrs. Najla Mohamed Al – Shirawi (Chairman)
2- Dr. Zakaria Sultan Mohammed Al-Abbasi
3- Sh. Mohamed bin Ibrahim Al-Khalifa
4- Sh. Ahmed bin Issa Al-Khalifa*[1]

Summary terms of reference:

- The committee is formed with a minimum of three members, which consists mostly of independent non-executive members to be appointed by the Board.
- A minimum number of four meetings are required to be held each year, (the Committee held four meetings during 2018)
- 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] Sh. Mohamed bin Ibrahim Al-Khalifa has been appointed a member in Eskan Bank's Board of Director's as replacement for Sh. Ahmed bin Issa Al-Khalifa, by virtue of Cabinet Decree No. 20 of 2018 with regards to reappointing 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 2nd Meeting 2018 held on dated 12 September 2018.

Remuneration, Nomination & Corporate Governance Committee

Members:

1- H.E. Eng. Bassim bin Yaqob Al Hamer (Chairman)
2- Mr. Yusuf Abdullah Mohammed Taqi
3- Mr. 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 2018).
- 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.

4. Board Committees (continued)

Special NAC Report Investigation Committee	
Members: 1- Mrs. Najla Mohamed Al – Shirawi (Chairman) 2- Dr. Zakaria Sultan Mohammed Al-Abbasi 3- Sh. Ahmed bin Issa Al-Khalifa*[1]	**Summary terms of reference:** • The committee is formed exceptionally with a membership of three members. • 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 primary function of the committee is to investigate the audit points raised in the National Audit Court's Report 2016/2017, by scrutinizing the Bank's operations, identifying the gaps, and recommending new procedures in order to avoid any future audit points. Accordingly the Committee submitted a report on its findings and recommendations to the Legal and Legislative Affairs Ministerial Committee.

*1 Sh. Ahmed bin Issa Al-Khalifa continued as a member of Eskan Bank's Board of Directors until the issuance of Cabinet Decree No. 20 of 2018 with regards to reappointing of Eskan Bank's Board of Directors dated 15 July 2018..

5. Board Meetings and Attendance 2018

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 2018. The below schedule shows dates of meetings and attendance of Board Members:

- **Board of Directors Meetings During 2018**

Members	11 April 2018 (1st Meeting)	12 Sep. 2018 (2nd Meeting)	3 Nev. 2018 (3rd Meeting)	19 Dec. 2018 (4th Meeting)
HE Eng. Bassim bin Yaqub Al Hamer (Chairman)	✓	✓	✓	✓
Mr. Mohammed Abdulrahman Hussein Bucheeri (Vice Chairman)	✓	✓	✓	✓
Mr. Yusuf Abdullah Mohammed Taqi	✓	✓	✓	✓
Dr. Zakaria Sultan Mohammed Al-Abbasi	✓	✓	✓	✓
Mr. Riyad Saleh Al Saei	✓	✓	✓	✓
Mr. Kamal Murad Ali Murad	✓	✓	✓	x
Mrs. Najla Mohamed Al – Shirawi	✓	✓	✓	✓
Mrs. Rana Ebrahim Faqihi	✓	✓	✓	✓
Sh. Mohamed bin Ibrahim Al-Khalifa*2	NA	✓	✓	✓
Sh. Ahmed bin Issa Al-Khalifa*2	✓	NA	NA	NA

*2 Sh. Mohamed bin Ibrahim Al-Khalifa has been appointed a member in Eskan Bank's Board of Director's as replacement for Sh. Ahmed bin Issa Al-Khalifa, by virtue of Cabinet Decree No. 20 of 2018 with regards to reappointing 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 2nd Meeting 2018 held on dated 12 September 2018.

5. Board Meetings and Attendance 2018 (continued)

- **Executive Committee Meetings**

The Executive Committee held four meetings during 2018, the below schedule shows dates of meetings and attendance of Board Members:

Members	8 April 2018 (1st Meeting)	12 June 2018 (2nd Meeting)	6 Nov. 2018 (3rd Meeting)	2 Dec. 2018 (4th Meeting)
Mr. Mohammed Abdulrahman Bucheeri (Chairperson)	✓	✓	✓	✓
Mr. Riyad Saleh Al Saei	✓	✓	✓	✓
Mr. Kamal Murad Ali Murad	✓	✓	✓	✓
Mrs. Rana Ebrahim Faqihi	✓	✓	✓	x

- **Audit Committee Meetings**

The Audit Committee held Four meetings during 2018, the below schedule shows dates of meetings and attendance of Board Members:

Members	14 Feb. 2018 (1st Meeting)	13 May 2018 (2nd Meeting)	4 Nov. 2018 (3rd Meeting)	6 Dec. 2018 (4th Meeting)
Mrs. Najla Mohamed Al – Shirawi (Chairperson)	✓	✓	✓	✓
Dr. Zakareya Sultan Mohammed Al-Abbasi	✓	✓	✓	✓
Sh. Mohamed bin Ibrahim Al-Khalifa *3	NA	NA	✓	✓
Sh. Ahmed bin Issa Al-Khalifa *3	✓	✓	NA	NA

*3 Sh. Mohamed bin Ibrahim Al-Khalifa has been appointed a member in Eskan Bank's Board of Director's as replacement for Sh. Ahmed bin Issa Al-Khalifa, by virtue of Cabinet Decree No. 20 of 2018 with regards to reappointing 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 2nd Meeting 2018 held on dated 12 September 2018.

- **Remuneration, Nomination and Corporate Governance Committee Meetings**

The Remuneration, Nomination and Corporate Governance Committee held two meetings during 2018. The below schedule shows dates of meetings and attendance of Board Members:

Members	4 April 2018 (1st Meeting)	3 November 2018 (2nd Meeting)
HE Eng. Bassim bin Yaacub Al Hamer (Chairperson)	✓	✓
Mr. Yusuf Abdullah Mohammed Taqi	✓	✓
Mr. Riyad Saleh Al Saei	✓	✓

The Remuneration, Nomination and Corporate Governance Committee held two meetings during 2017.

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 Islamic 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 2018. The below schedule shows dates of meetings and attendance of the Shariaa Board Members:

Members	6 march 2018 (1st Meeting)	8 May 2018 (2nd Meeting)	4 Sep. 2018 (3rd Meeting)	4 Dec. 2018 (4thmeeting)
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 2018 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 Group business. The General Manager is responsible for the day-to-day performance and operations of the Bank, and is supported by a well-qualified and experienced Management Team. The Bank's day-to-day operations are guided by a number of management committees which have been formed by virtue of Administration Decisions with respect to Restructuring of Eskan Bank's Internal Committees issued by the General Manager. Eskan Bank's Internal Committees include the Management Committee, Risk Management Committee, Asset & Liability Management Committee, IT Steering Committee, Internal Tender Committee, Human Resources Committee, Investment & Credit Committee and the New Product Committee.

The General Manager has disclosed to the Board of Directors that he doesn't have any relatives of any approved persons occupying controlled functions within the Bank or with any of the board members.

7. Management (continued)

The General Manager issued Administrative Resolution No. (2) of 2018 on May 27th, 2018 with respect to Re-structuring the Internal Committees of Eskan Bank as follows:

Management Committee	Summary of responsibilities:
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 Legal Advisory & Corporate Secretary 7. Head of Risk Management 8. Head of Retail Banking 9. Head of Financial Control 10. Head of Internal Audit 11. Head of Human Resources & Administration 12. Head of Information Technology 13. Head of Operations 14. Assistant Manager - Corporate Communications **Secretary** - Information Security Manager The Committee will be chaired by the General Manager who will appoint the Vice Chairperson.	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)	Summary of responsibilities:
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 Operations 8. 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.	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.

7. Management (continued)

Asset & Liability Management Committee (ALCO)	Summary of responsibilities:
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.	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)	Summary of responsibilities:
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.	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.

7. Management (continued)

Human Resources Committee (HRC)	Summary of responsibilities
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 Retail Banking 5. Head of Human Resources, Administration & corporate Communication 6. Head of Legal Advisory & Corporate Secretary 7. Head of Information Technology **Secretary**: Senior Manager - Human Resources The General Manager may appoint any other member upon his discretion. Only attending members are allowed to vote. The Committee will be chaired by the General Manager who will appoint the Vice Chairperson.	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.

Investment & Credit Committee (ICC)	Summary of responsibilities
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 5. Head of Financial Control **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 General Manager who will appoint the Vice Chairperson.	Review, approve, and recommend to the Executive Committee and Board of Directors all proposals for investments and credit activities in relation to joint ventures, private equity, and real estate developments (excluding social loans activities), in line with the approved authority matrix.

7. Management (continued)

Internal Tender Committee	Summary of responsibilities
The Committee shall consist of members with the following designation: 1. General Manager **(Chairman)** 2. Chief Business Officer & Deputy General Manager 3. General Manager – Eskan Properties Company 4. Head of Human Resources 5. Head of Legal Advisory & Corporate Secretary **Secretary** – Assistant Manager – 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.	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.

New Product Committee (NPC)	Summary of responsibilities
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 Operations 4. Head of Information Technology 5. 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.	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.

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 2018 was BD 1,506,852.

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 2018

04th Jamada II 1440 BC coinciding 10 February 2019

Praise be to Allah, and May peace and blessing be upon Prophet Mohammed, his family and his companions

To the shareholder of Eskan 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 2018, 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 performed 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 2018 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

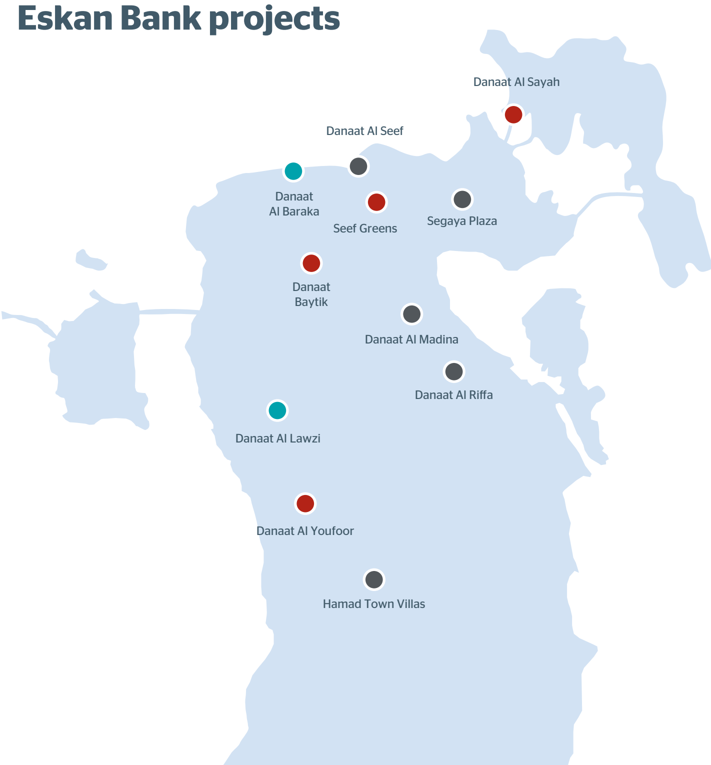
Sh. Dr. Abdul Aziz Khalifa Al Qassar
Vice Chairman

Sh. Abdul Nasser Omar Al Mahmood
Executive Member

Project Portfolio

01. Danaat Al Lawzi
02. Segaya Plaza
03. Danaat Al Madina
04. Danaat Al Seef
05. Al Lawzi

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	2018
8. Danaat Baytik 9. Danaat Al Sayah 10. Seef Greens 11. Danaat Al Youfoor	TBD

Completed projects

Projects under construction

Projects in pre-construction

Financial Statements

As at 31 December 2018

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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 (c) (the "Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, 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 as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended 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 the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

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 pages 8 to 9.

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

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

Responsibilities of the board of directors for the consolidated financial statements

The board of directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

We communicate with 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 CBB and Financial Institutions Law No. 64 of 2006 (as amended), the CBB Rule Book (Volume 1, applicable provisions of Volume 6 and 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

KPMG Fakhro

Partner Registration No. 213

25 February 2019

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 BD	*2017 BD
ASSETS			
Cash and bank balances	5	18,082,226	39,662,784
Investments	6	9,285,324	10,028,899
Loans	7	632,511,060	609,863,432
Investment in associates	8	5,253,983	5,573,093
Investment properties	9	51,018,308	53,506,966
Development properties	10	23,822,299	16,195,907
Other assets	11	29,742,478	3,570,779
TOTAL ASSETS		769,715,678	738,401,860
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from financial and other institutions		10,500,000	20,500,000
Customer current accounts		1,861,950	3,634,590
Government accounts	12	394,946,168	415,673,987
Term loans	13	73,700,000	30,000,000
Other liabilities	14	4,892,655	6,228,651
TOTAL LIABILITIES		485,900,773	476,037,228
EQUITY			
Share capital	15	108,300,000	108,300,000
Contribution by shareholder		22,006,897	23,945,680
Statutory reserve		54,461,896	54,461,896
Fair value reserve		8,366	-
Retained earnings		92,385,719	68,976,426
Equity attributable to Bank's shareholder		277,162,878	255,684,002
Non-controlling interest		6,652,027	6,680,630
TOTAL EQUITY		283,814,905	262,364,632
TOTAL LIABILITIES AND EQUITY		769,715,678	738,401,860

* The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition method chosen, comparative information are not restated. See note 3 for further details.

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

Dr. Khalid Abdulla
General Manager

The attached notes 1 to 28 form part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 BD	2017 BD
Interest income	16	27,563,825	25,251,005
Income from properties	17	1,114,950	3,477,914
Net share of profit from investment in associates	8	295,171	228,603
Other income		1,060,824	701,015
TOTAL INCOME		30,034,770	29,658,537
Staff costs	18	(4,587,693)	(5,715,208)
Other expenses	19	(1,566,479)	(1,493,440)
Interest expense		(288,355)	(576,815)
TOTAL EXPENSES		(6,442,527)	(7,785,463)
Profit before provision for impairment		23,592,243	21,873,074
Net impairment loss	20	(342,400)	(331,494)
PROFIT FOR THE YEAR		23,249,843	21,541,580
OTHER COMPREHENSIVE INCOME			
Items that will not be classified to profit or loss:			
Fair value through other comprehensive income (equity instruments)		208,366	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		23,458,209	21,541,580
Profit attributable to:			
Equity shareholder of the parent		23,272,079	21,525,858
Non-controlling interest		(22,236)	15,722
		23,249,843	21,541,580
Total other comprehensive income attributable to:			
Equity shareholder of the parent		23,480,445	21,525,858
Non-controlling interest		(22,236)	15,722
		23,458,209	21,541,580

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

Dr. Khalid Abdulla
General Manager

The attached notes 1 to 28 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Equity attributable to Bank's shareholder							
	Share capital BD	Contribution by shareholder BD	Statutory reserve BD	Fair value reserve BD	Retained earnings BD	Total BD	Non-controlling interest BD	Total equity BD
As at 1 January 2018	108,300,000	23,945,680	54,461,896	-	68,976,426	255,684,002	6,680,630	262,364,632
Adjustment on initial adoption of IFRS 9 as at 1 January 2018 (note 3 (a))	-	-	-	(200,000)	(10,639,350)	(10,839,350)	(6,367)	(10,845,717)
Adjusted balance at 1 January 2018	108,300,000	23,945,680	54,461,896	(200,000)	58,337,076	244,844,652	6,674,263	251,518,915
Total comprehensive income								
Profit for the year	-	-	-	-	23,272,079	23,272,079	(22,236)	23,249,843
Other comprehensive income	-	-	-	208,366	-	208,366	-	208,366
				208,366	23,272,079	23,480,445	(22,236)	23,458,209
Transfer to Shareholder (note 9)	-	(1,938,783)	-	-	-	(1,938,783)	-	(1,938,783)
Expected credit loss on social housing loans borne by the Government as on 1 January 2018 (note 3 (a))	-	-	-	-	10,776,564	10,776,564	-	10,776,564
As at 31 December 2018	**108,300,000**	**22,006,897**	**54,461,896**	**8,366**	**92,385,719**	**277,162,878**	**6,652,027**	**283,814,905**
As 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								
Profit for the year	-	-	-	-	21,525,858	21,525,858	15,722	21,541,580
Other comprehensive income	-	-	-	-	-	-	-	-
	-	-	-	-	21,525,858	21,525,858	15,722	21,541,580
As 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

The attached notes 1 to 28 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 BD	2017 BD
OPERATING ACTIVITIES			
Profit for the year		23,249,843	21,541,580
Adjustments for:			
Net share of profit of associates	8	(295,171)	(228,603)
Net impairment loss	20	342,400	331,494
Gain on sale of development properties	17	(508,214)	(2,906,270)
Depreciation and amortization	19	339,273	323,400
Operating profit before working capital changes:		23,128,131	19,061,601
Decrease in placements with banks (original maturity more than 90 days)		1,352,973	269,082
Decrease in loans		24,830,629	22,127,715
Decrease / (Increase) in other assets		663,459	(1,163,619)
(Increase) / decrease in development properties		(7,118,178)	8,378,512
Decrease in deposits from financial and other institutions		(10,000,000)	(15,000,000)
Decrease in customer current accounts		(1,772,640)	(962,666)
(Decrease) / increase in other liabilities		(1,335,996)	512,955
Net cash generated from operating activities		29,748,378	33,223,580
INVESTING ACTIVITIES			
Purchase of equipment		(174,813)	(266,375)
Proceeds from liquidation of an associate		460,635	-
Dividend received from an associate		295,648	197,479
Investment in an associate		(142,002)	(2,133,551)
Decrease in investment in debt		951,941	11,766,700
Net cash generated from investing activities		1,391,409	9,564,253
FINANCING ACTIVITIES			
Repayment of term loans		(10,000,000)	(39,000,000)
Proceeds from term loans		53,700,000	-
Net movement in Government accounts		(95,061,083)	(28,708,275)
Net cash used in financing activities		(51,361,083)	(67,708,275)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(20,221,296)	(24,920,442)
Cash and cash equivalents at 1 January	5	38,309,811	63,230,253
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	5	18,088,515	38,309,811
Cash and cash equivalents comprise*:			
Cash and bank balances	5	1,288,515	1,529,811
Short term placements (with an original maturity of 90 days or less)	5	16,800,000	36,780,000
		18,088,515	38,309,811

* Cash and cash equivalents at 31 December 2018 is gross of the expected credit loss of BD 6,289.

The attached notes 1 to 28 form part of these consolidated financial statements.

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 granting 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 25 February 2019.

2 BASIS OF PREPARATION

a) Statement of compliance The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS").

b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention except for investments classified as fair value through other comprehensive income which are measured at fair value.

The principal accounting policies applied in the preparation of these consolidated financial statements have been consistently applied to all the years presented except as described in note 3 (a).

c) Functional and presentation currency

The consolidated financial statements are presented in Bahraini Dinars (BD), which is also the functional currency of the Group.

d) Basis of presentation

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 27.

e) New standards, amendments and interpretations effective from 1 January 2018

The Group has adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' from 1 January 2018. Refer to note 3(a).

f) New standards, amendments and interpretations issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after

1 January 2019 and early adoption is permitted; however the Group has not early adopted the following new or amended standards in preparing these consolidated financial statements.

IFRS 16 Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

The Group does not expect to have a significant impact on its consolidated financial statements from adoption of this standards.

g) 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. The following are the principal subsidiaries of the Group that are consolidated:

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

Subsidiaries	Ownership for 2018	Ownership for 2017	Year of incorporation/ acquisition	Country of incorporation/ acquisition
Eskan RMBS Company B.S.C.(c) ('RMBS') (Liquidated on August 2018) RMBS's principal activities are to issue Asset Backed private debt securities for the purpose of securitisation of housing loans.	-	100%	2007	Kingdom of Bahrain
Eskan Properties Company B.S.C.(c) ('EPC') 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.	100%	100%	2007	Kingdom of Bahrain
Dannat Al Luzi B.S.C (c) Management and development of private property, buying and selling of properties on behalf of the Company and property development, leasing, management and maintenance.	56%	56%	2014	Kingdom of Bahrain

h) 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

The accounting policies have been consistently applied by the Group and are consistent with those applied in the previous year except as described in 3 (a).

a. Adoption of new accounting standards:

The Group initially adopted IFRS 9 ***"Financial instrument"*** (see A) and IFRS 15 "***Revenue from Contracts with Customers"*** (see B) from 1 January 2018.

(A) IFRS 9 – "Financial Instruments"

The Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the consolidated financial statements as of and for the year ended 31 December 2017.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings of the current period.

The adoption of IFRS 9 has resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Changes in Accounting Policies

Set out below are the details of the specific IFRS 9 transition impact disclosures for the Group. The key changes to the Group's accounting policies resulting from the adoption of IFRS 9 are summarised below. Since the comparative financial information has not been restated, the accounting policies in respect of the financial instruments for comparative periods are based on IAS 39 as disclosed in the audited consolidated financial statements as of and for the year ended 31 December 2017.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost (AC), fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-for-trading, held-to-maturity, available-for-sale and loans and receivables.

IFRS 9 removes the requirement contained in IAS 39 relating to bifurcation of an embedded derivative from an asset host contract. However, entities are still required to separate derivatives embedded in financial liabilities where they are not closely related to the host contract.

ii) Impact of adopting IFRS 9

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

The impact from the adoption of IFRS 9 as at 1 January 2018 has resulted in decrease in retained earnings by BD 10.6 million as a result of the following:

	Retained earnings BD	Fair value reserve BD
Closing balance under IAS 39 (31 December 2017)	68,976,426	-
Impact on reclassification and re measurements:		
Investments securities (equity) from available - for - sale to those measured at fair value through other comprehensive income	200,000	(200,000)
	200,000	(200,000)

Impact on recognition of expected credit losses	Retained earnings BD	Fair value reserve BD
Investments	-	-
Bank balances	(11,102)	-
Loans - commercial loans	(51,684)	-
Loans - social loans	(10,776,563)	-
	(10,839,349)	-
Opening balance under IFRS 9 on date of initial application of 1 January 2018	58,337,077	(200,000)

iii) Classification and Measurement of Financial Instruments

The Group performed a detailed analysis of its business models for managing financial assets as well as analysing their cash flow characteristics. The below table reconciles the original measurement categories and carrying amounts of financial assets in accordance with IAS 39 and the new measurement categories under IFRS 9 as at 1 January 2018.

Financial assets	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 BD	Re-measurement BD	Re-classification BD	New carrying amount under IFRS 9 BD
Bank balances	Loans and receivables	Amortised cost	39,662,784	(11,102)	-	39,651,682
Debt securities	Held to maturity	Amortised cost	5,371,949	-	-	5,371,949
Investments in equity	Available for sale	FVOCI	4,656,950	-	-	4,656,950
Loans	Loans and receivables	Amortised cost	609,863,432	(10,828,248)	-	599,035,183
			659,555,115	(10,839,350)	-	648,715,765

iv) Expected credit loss

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt instruments at FVOCI, but not to equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

The following table reconciles the closing impairment loss for financial assets in accordance with IAS 39 as at 31 December 2017 to the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

	Carrying value at 31 December 2017 BD	Impact of ECL BD	Carrying value at 1 January 2018 BD
Bank balances	39,662,784	11,102	39,651,682
Investments in debt securities	5,371,949	-	5,371,949
Loans - social loans	599,515,859	10,776,564	588,739,295
Loans - commercial loans	10,347,573	51,684	10,295,889
	654,898,165	10,839,351	644,058,815

	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 January	690,276	2,656,828	9,170,040	12,517,144
Transfer to Stage 1	1,556,277	(960,983)	(595,294)	-
Transfer to Stage 2	(23,497)	306,736	(283,239)	-
Transfer to Stage 3	(12,152)	(613,672)	625,824	-
Net transfers	1,520,628	(1,267,919)	(252,709)	-
Charge for the period (net)	(1,364,097)	821,068	21,622,492	21,079,463
Write-off	(1,423)	(108,898)	(2,374,137)	(2,484,458)
Closing balance as at 31 December	845,384	2,101,079	28,165,686	31,112,149

B) IFRS 15 - Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Group initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients.The timing or amount of the Group's revenue recogniton from contracts with customers was not impacted by the adoption of IFRS 15.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances held with banks and 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 and liabilities

Applicable from 1 January 2018

i. Recognition and initial measurement

Trade receivables and debt securities are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

ii. Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt security; FVOCI – equity security; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt security is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity security that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on a security-by-security basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within hat business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Assessment whether contractual cash flows are solely payments of principal and interest:

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features; prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, arising from changes in fair value including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt securities at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity securities at FVOCI	These assets are subsequently measured at fair value. Gains and losses are recognised in OCI and are never reclassified to profit or loss. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Financial assets and liabilities (continued)

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Impairment of financial assets and commitment to finance

The Group recognises loss allowances for ECLs on:

- financial assets measured at amortised cost;
- debt securities measured at FVOCI; and
- commitments.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs.

Significant increase in credit risk

When determining whether the credit risk of a financial asset has increased significantly since initial recognition when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of investment grade.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

The Group recognises loss allowances for ECL on social loans, commercial loans, balances with banks, debt securities and commitments.

The Group applies a three-stage approach to measuring expected credit losses (ECL) on financial assets carried at amortised cost. Financial assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12 month ECL: includes financial assets that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses ('ECL') are recognized and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). 12-month ECL are the expected credit losses that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12 months.

Stage 2: Life time ECL - not credit impaired: includes financial assets that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognized, but interest revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial asset. Expected credit losses are the weighted average credit losses with the probability of default ('PD') as the weight.

Stage 3 Life time ECL - credit impaired: includes financial instruments that have objective evidence of impairment at the reporting date. This stage has obligors that already are impaired (defaulted). However, regulatory requirements for credit impaired accounts will continue to apply under Stage 3.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

ECL is a probability-weighted estimate of credit losses. It is measured as follows:

(i) Exposures subject to credit risk that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);

(ii) Exposures subject to credit risk that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;and

(iii) Undrawn commitments to finance: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive.

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

• significant financial difficulty of the borrower or issuer;

• a breach of contract such as a default or being more than 90 days past due;

• the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise; or it is probable that the borrower will enter bankruptcy or other financial reorganization.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the gross carrying amount when the financial asset is 1 year past due is written off based on historical experience of recoveries of similar assets. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Financial assets and liabilities (continued)

Restructured exposures

If the terms of an exposures subject to credit risk are renegotiated or modified or an existing exposures subject to credit risk is replaced with a new one due to financial difficulties of the borrower, the exposures subject to credit risk should be derecognized and ECL is calculated using the cash shortfalls from the existing exposures subject to credit risk that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing exposures subject to credit risk.

Applicable before 1 January 2018.

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.

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

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.

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.

Held to maturity investments

Held-to-maturity investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank positively intends, and is able, to hold until maturity. Held to maturity investments are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method, less any impairment losses.

Impairment of financial assets

Financial assets measured at amortised cost

The Group considers evidence of impairment for these assets as a collective level. Collective assessment is carried out by grouping together assets with similar risk characteristics. 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.

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 consolidated 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.

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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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.

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.

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 d).

Judgment

Classification of financial assets

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

Impairment of financial assets

Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimate

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:

Applicable from1 January 2018

Inputs, assumptions and techniques used for estimating impairment

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures expected credit loss using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

The Group employs statistical models to analyse the data collected and generate estimates of PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties.

Applicable before1 January 2018

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.

5 CASH AND BANK BALANCES

	2018 BD	2017 BD
Cash and bank balances		
Cash in hand	137,286	102,090
Balances with banks	643,115	306,469
Balances with the Central Bank of Bahrain	508,114	1,121,252
Placements with banks and other institutions	5,000,000	11,332,973
Placements with the Central Bank of Bahrain	11,800,000	26,800,000
	18,088,515	39,662,784
Less: impairment loss	(6,289)	-
	18,082,226	39,662,784
(Less: Placements (with an original maturity of more than 90 days	-	(1,352,973)
Total cash and cash equivalents	18,082,226	38,309,811

6 INVESTMENTS

Investments comprise the following:

31 December 2018	FVOCI	Amortised cost	Total
Investment in Equity securities			
Total Investment in Equity securities FVOCI	4,656,950	-	4,656,950
Add: Fair value movement	208,366	-	208,366
	4,865,316	-	4,865,316
Investment in Debt securities			
Treasury bills	-	614,058	614,058
Sukuk	-	3,805,950	3,805,950
	-	4,420,008	4,420,008
Total investments	4,865,316	4,420,008	9,285,324

31 December 2017	Available for sale	Held to maturity	Total
Investment in Equity securities			
Naseej B.S.C.(c)	3,272,728	-	3,272,728
Southern Tourism Company B.S.C.(c) (net of provision of BD 100,000)	1,115,854	-	1,115,854
Bahrain Aluminium Extrusion Co. B.S.C.(c) (net of provision of BD 100,000)	268,368	-	268,368
	4,656,950	-	4,656,950
Investment in Debt securities			
Treasury bills	-	2,715,999	2,715,999
Sukuk	-	2,655,950	2,655,950
	-	5,371,949	5,371,949
Total investments	4,656,950	5,371,949	10,028,899

7 LOANS

		2018 BD	2017 BD
(i) Social loans			
Gross loans		879,504,016	829,274,324
Less: Provisions for subsidy and waiver	note 12 (k)	(226,514,156)	(229,758,464)
Less: impairment loss	note 12 (l)	(29,573,059)	-
		623,416,801	599,515,860
(ii) Commercial loans			
Gross Loans		10,627,060	12,025,366
Less: impairment loss		(1,532,801)	(1,677,794)
		9,094,259	10,347,572
Total loans		632,511,060	609,863,432

7 LOANS (CONTINUED)

(iii) Following table shows the stage wise exposures to social and commercial loans and movment in ECL as at 31 December 2018:

(a) Social loans:

	Stage 1 BD	Stage 2 BD	Stage 3 BD	Total BD
Exposure subject to ECL 31 December 2018				
Social loans	572,104,385	27,308,013	53,577,462	652,989,860
Expected credit loss				
At 1 January 2018	631,960	2,615,274	7,529,330	10,776,564
Net transfer between stages	1,449,258	(1,361,888)	(87,369)	-
Write off during the year	(1,423)	(108,898)	(2,374,137)	(2,484,458)
(Release) / charge for the year	(1,261,905)	821,950	21,720,908	21,280,953
At 31 December 2018	817,890	1,966,438	26,788,732	29,573,059
Net carrying value as of 31 December 2018	**571,286,495**	**25,341,575**	**26,788,730**	**623,416,801**

(b) Commercial loans:

	Stage 1 BD	Stage 2 BD	Stage 3 BD	Total BD
Exposure subject to ECL 31 December 2018				
Commercial loans	5,689,658	1,776,403	3,160,999	10,627,060
Expected credit loss				
At 1 January 2018	47,214	41,554	1,640,710	1,729,478
Net transfer between stages	71,370	93,969	(165,340)	-
Write off during the year	-	-	-	-
Release for the year	(97,379)	(882)	(98,416)	(196,677)
At 31 December 2018	21,205	134,641	1,376,954	1,532,801
Net carrying value as of 31 December 2018	**5,668,453**	**1,641,762**	**1,784,045**	**9,094,259**
Total net carrying value as at 31 December 2018	**576,954,948**	**26,983,337**	**28,572,775**	**632,511,060**

c) Social loans

Social loans are stated after writing woff 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

	2018 BD	2017 BD
At 1 January	5,573,093	3,408,418
Additional investment in an associate	142,002	2,133,551
Liquidation of investment in associate	(460,635)	-
Dividend received	(295,648)	(197,479)
Net share of profit	295,171	228,603
At 31 December	5,253,983	5,573,093

The principal associates of the Group are:

Name	Country of Incorporation	Carrying Value 2018 BD	Carrying Value 2017 BD
Bahrain Property Musharaka Trust Fund (liquidated in November 2018)	Kingdom of Bahrain	-	442,266
Eskan Bank Reality Income Trust	Kingdom of Bahrain	5,253,983	5,130,827
		5,253,983	5,573,093

Name	Nature of activities	Ownership for 2018	Ownership for 2017
Bahrain Property Musharaka Trust Fund (liquidated in November 2018)	Development of real-estate projects in the Kingdom of Bahrain.	-	42.98%
Eskan Bank Reality Income Trust (EBRIT)	A real estate investment trust operating and managing real estate assets.	33.97%	33.23%

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

	2018 (unaudited) BD	2017 (unaudited) BD
Summarised statement of financial position		
Non-current assets	17,750,000	19,700,000
Current assets	822,294	897,956
Current liabilities	(253,537)	(247,578)
Net assets	18,318,757	20,350,378
Proportion of the Group's ownership	33.97%	33.23%
Group's ownership in equity	6,223,478	6,762,800
Other adjustments	(969,495)	(1,631,973)
Carrying amount of the investment	5,253,983	5,130,827

Shares of Eskan Bank Reality Income Trust are listed on the Bahrain Stock Exchange and its quoted price as on 31 December 2018 was 92.52 fils (2017: 101 fils). The fair value of the investment based on this quoted price is BD 6.2 million (2017: BD 6.42 million)

9 INVESTMENT PROPERTIES

	2018 BD	2017 BD
Balance at 1 January	53,506,966	44,549,755
Additions during the year (note 9.1)	-	9,995,291
Depreciation charge for the year	(128,950)	(126,972)
Transferred to development properties (note 10)	-	(911,108)
Impairment loss	(420,925)	-
Transferred to shareholder (note 9.2)	(1,938,783)	-
Balance at 31 December	51,018,308	53,506,966

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.

Note 9.2

During the year, based on the instruction from the MOH, the Bank transferred land worth BD 1.9 million to the shareholder. The corresponding amount has been adjusted from the contribution by shareholder in the consolidated statement of changes in equity.

Investment properties comprise the following:

	2018 BD	2017 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	11,757,402
Land at Jaw	-	1,938,783
Land at Saar	1,903,251	1,903,251
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 1,400,799		
(2017 BD 1,271,849))	5,588,526	5,717,476
	51,439,233	53,506,966
Impairment loss	(420,925)	-
	51,018,308	53,506,966

9 INVESTMENT PROPERTIES (CONTINUED)

	2018 BD	2017 BD
Vacant land:		
Cost	45,850,707	47,789,490
Impairment loss	(420,925)	-
	45,429,782	47,789,490
Shops:		
Cost	6,989,325	6,989,325
Accumulated Depreciation	(1,400,799)	(1,271,849)
	5,588,526	5,717,476
	51,018,308	53,506,966

The fair value of investment properties, based on independent market valuations, as at 31 December 2018 was BD 154,496 thousand (2017: BD 189,624 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 2018 and 31 December 2017. 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 2018 and 31 December 2017.

10 DEVELOPMENT PROPERTIES

	2018 BD	2017 BD
Balance at 1 January	16,195,907	20,757,041
Additions during the year	7,828,504	2,222,238
Properties sold during the year	(202,112)	(7,694,480)
Transferred to development properties (note 9)	-	911,108
Balance at 31 December	23,822,299	16,195,907

11 OTHER ASSETS

	2018 BD	2017 BD
Receivable from MOH	27,299,460	203,940
Equipment and intangibles (net book value)	883,822	919,332
Interest receivable	543,133	695,900
Receivable from sale of development properties	14,598	534,442
Balance with investment manager	346,996	443,364
Staff loans	369,477	328,811
Dividend receivable	-	35,541
Prepayments and advances	141,161	168,286
Other receivables	143,831	241,163
	29,742,478	3,570,779

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	2018 BD	2017 BD
At 1 January		415,673,987	291,165,943
Social loan budgetary support	(a)	-	-
Waiver reimbursements	(b)	5,000,000	4,166,667
Collections from beneficiaries of MOH houses	(c)	-	4,739,588
Collection from MOH rental flats	(d)	834,936	662,291
Reduction and write off decrees	(e & f)	(7,687,651)	(6,545,290)
Rental subsidy – net impact	(g)	540,207	(83,949)
Mazaya subsidy – net impact	(h)	(6,274,548)	895,937
Payment to Government	(i)	(10,000,000)	(10,000,000)
MOH houses and flats	(j)	97,127,152	333,420,984
Waiver decree and military subsidies	(k)	(17,186,543)	(201,432,733)
Impairment loss for social loans (see note 7 iii(a))	(l)	(29,573,059)	-
Accounting write off- Social loans	(m)	(23,465,137)	-
Payment on behalf of MOH - Diyaar Project	(n)	(25,969,906)	-
Others	(o)	(4,073,270)	(1,315,451)
At 31 December		394,946,168	415,673,987

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 reimbursement received for 2006 waiver decree.

c) Collection of installments from beneficiaries of social housing units (houses) up to 31 March 2017 (see note j below).

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 on case basis.

g) (Disbursement) / reimbursement net received for monthly rental subsidy to beneficiaries based on MOH approved list.

h) (Disbursement) / reimbursement net received for monthly Mazaya subsidy to beneficiaries based on MOH approved list.

i) Represents payments to Ministry of Finance vide Board resolution dated 23 March 2017.

j) In line with memorandum of understanding (MOU) signed with MOH dated 23 December 2017, receivables from MOH housing units (houses and flats) allocated to beneficiaries have been booked on-balance sheet with corresponding impact to government account with effect from 1 April 2017.

k) In line with MOU with MOH signed on 23 December 2017, the impact of wavier 2006 decree and wavier 2011 decree and 1977 military subsidy on principal portion of the installment have been charged against loans and corresponding amount is reduced from the government account with effect from 31 December 2017 and related interest portion of the installment is charged to government account on each installment date.

l) In line with the MOU signed with MOH on 23 December 2017, the impairment loss on social loans portfolio is borne by the Government with effect from 1 January 2018. The resultant effect is BD 10,776,562 as of 1 January 2018 and BD 29,573,059 as of 31 December 2018.

m) During the year, the bank has written off a total of BD 23.46 million of non performing loans that are not eligible for rescheduling based on their status as of 31 December 2018. This is an accounting write off and is provisional in nature as it does not entail closure of beneficiary account and all the applicable remedial procedures will continue to be applied.

n) The Bank made payment of BD 53 million towards the acquisition of social housing units based on MOH instructions out of which BD 27 million will be reimbursed by MOH during the period 2019-2021.

o) Any other payments, expenses / transactions undertaken by the Bank on behalf of MOF / MOH.

13 TERM LOANS

	2018 BD	2017 BD
Syndicated bank term loan *	70,000,000	30,000,000
Term loan - Danat Al luzi **	3,700,000	-
At 31 December	73,700,000	30,000,000

	2018 BD	2017 BD
Current portion of term loan	10,000,000	-
Non - current portion of term loan	63,700,000	30,000,000
	73,700,000	30,000,000

*The syndicated bank term loan bears interest repayable monthly at bibor plus a margin of 3.5% (2017: 3.5%). 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 3,661 thousand (2017: BD 2,027 thousand) on the syndicated bank term loan was charged to the Government account.

** Represent project financing from a Bank to develop one of its projects repayable in 4 years at interest rate of Bibor rate at 3.50% p.a. + Margin 3.50% p.a. (7.25% p.a. total profit rate) (2017: Nil) and has un drawn portion of BD 11.3 million. The financing facility is secured against the land.

14 OTHER LIABILITIES

	2018 BD	2017 BD
Accrued expenses	1,882,810	2,791,416
Contractor retentions	763,616	663,242
Advances for customers	42,080	835,174
Employee savings scheme	1,021,359	887,337
Employee benefits	331,543	296,902
Accrued interest payable on term loans	411,845	120,650
Outstanding consideration for acquisition of a subsidiary	-	9,463
Facility management fees	172,090	361,458
Other liabilities	267,312	263,009
	4,892,655	6,228,651

15 SHARE CAPITAL

	Number of shares	2018 BD
31 December 2018		
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 eac	1,083,000	108,300,000

	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

16 INTEREST INCOME

	2018 BD	2017 BD
Interest income on social loans	25,786,736	23,218,888
Interest income on commercial loans	749,773	961,984
Interest income on placements with financial and other institutions	1,027,316	1,070,133
	27,563,825	25,251,005

17 INCOME FROM PROPERTIES

	2018 BD	2017 BD
Gain on sale of development properties	508,214	2,906,270
Rental income - net	606,736	571,644
	1,114,950	3,477,914

18 STAFF COSTS

	2018 BD	2017 BD
Salaries and benefits	4,587,693	4,915,208
Early retirement scheme	-	800,000
	4,587,693	5,715,208

19 OTHER EXPENSES

	2018 BD	2017 BD
Depreciation and amortization	339,273	323,400
Information technology	185,673	218,916
Premises	272,495	279,789
Marketing cost	164,116	102,989
Legal and professional	292,397	276,726
Directors remuneration	91,380	99,020
Transportation and communication	86,593	81,156
Electricity	59,674	63,453
Insurance	14,348	15,359
Others	60,530	32,632
	1,566,479	1,493,440

20 NET IMPAIRMENT LOSS

	2018 BD	2017 BD
Charge for the year - Social Loans	(21,280,953)	-
Release / (charge) for the year - Commercial Loans	196,677	(231,494)
Charge for the year - Other receivables	(129,332)	-
Release for the year - Bank balances	11,180	-
Net impairment loss - Expected credit loss	(21,202,428)	(231,494)
Charge for the year - Investment properties	(420,925)	-
Charge for the year - Investments	-	(100,000)
	(21,623,353)	(331,494)
Reimbursement from Government on social loans, Note 12 (I)	21,280,953	-
	(342,400)	(331,494)

21 COMMITMENTS AND CONTINGENCIES

	2018 BD	2017 BD
Housing loan commitments approved by MOH (note 21.1)	**5,984,258**	9,861,854
Capital commitments	**9,298,388**	16,991,938
Commercial Loan commitments	**64,435**	79,845
Lease commitments not later than one year	**211,671**	211,671
Lease commitments later than one year but not later than five years	**97,364**	309,035
	15,656,116	27,454,343

Total claims against the Bank amount BD 131,441 (2017: BD 3,403). Based on the opinion of the Bank's legal advisors, no provision assessed by management is mentioned.

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 shareholder represented by (the MOF and the MOH) and transactions with subsidiaries, associates, key management personnel and Board of Directors, in the ordinary course of business. Balances and transactions with Government 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.

22 RELATED PARTY TRANSACTIONS (CONTINUED)

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

	31 December 2018				
	Shareholder	Associates	Directors	Key management	Subsidiaries
Assets					
Loans	-	-	88,863	38,332	-
Development properties	-	-	-	-	49,331
Investment properties	-	-	-	-	344
Investments in associates	-	5,253,983	-	-	-
Investments in subsidiaries	-	-	-	-	8,650,900
Other assets	27,299,460	7,667	-	48,712	209,437
Liabilities					
Non-Bank deposits	-	-	-	-	836,162
Current accounts	-	6,327	905	175	210,849
Government account	394,946,168	-	-	-	-
Other liabilities	-	-	71,680	166,897	600,950

	31 December 2018			
	Associates	Directors	Key management	Subsidiaries
Net share of profit of associates	295,171	-	-	-
Fees and commission	15,000	-	-	72,000
Interest Expense	-	-	-	24,034
Staff cost	-	-	937,996	-
Operating expense	-	-	-	536,025
Directors' and Shari'ah board remuneration and sitting fees	-	91,380	-	-

	31 December 2017				
	Shareholder	Associates	Directors	Key management	Subsidiaries
Assets					
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	203,940	66,096	-	43,662	2,403,110
Liabilities					
Non-Bank deposits	-	-	-	-	812,307
Current accounts	-	1,161,956	525	706	346,504
Government account	415,673,987	-	-	-	-
Other liabilities	-	-	241,860	149,769	12,491,323

	31 December 2017			
	Associates	Directors	Key management	Subsidiaries
Net share of profit of associates	228,603	-	-	-
Fees and commission	15,000	-	-	333,849
Interest Expense	-	-	-	949,635
Staff cost	-	-	799,675	-
Operating expense	-	-	-	542,825
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 2018	Amortised cost BD	FVOCI BD	Total BD
Financial assets			
Investments	4,420,008	4,865,316	9,285,324
Loans	632,511,060	-	632,511,060
Other assets	28,717,495	-	28,717,495
	665,648,563	4,865,316	670,513,879

	At amortised cost BD	Total BD
Financial liabilities		
Deposits from financial and other institutions	10,500,000	10,500,000
Government accounts	394,946,168	394,946,168
Term loans	73,700,000	73,700,000
Customer current accounts	1,861,950	1,861,950
Other liabilities	2,700,453	2,700,453
	483,708,571	483,708,571

At 31 December 2017

	Held to maturity BD	Available-for-sale BD	Loans and receivables BD	Total BD
Financial assets				
Investments	5,371,949	4,656,950	-	10,028,899
Loans	-	-	609,863,432	609,863,432
Other assets	-	-	2,483,161	2,483,161
	5,371,949	4,656,950	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

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 FVOCI investments comprise of investments in unquoted equity shares which do not have a quoted market price in an active market, and whose fair value was derived based on market approach. The investments are located in the Kingdom of Bahrain.

The Group determines the fair values of unquoted investments by using valuation methods and techniques generally recognized as standard within the industry. The inputs into these models are primarily market multiples (Price / Book, Price / sale, Enterprise value / sales). Models use observable data, to the extent practicable. However, areas such as use of market comparable, forecasted cash flows, credit risks, liquidity risks and model risks require management to make estimates.

Fair value estimates are made at a specific point in time, based on market conditions and information about the investee companies. These estimates involve uncertainties and matters of significant judgment and therefore, cannot be determined with precision. There is no certainty about future events (such as continued operating profits and financial strengths). 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 investments.

The following sensitivity analysis has been done by calculating the impact of change in key variables used for valuation (relevant market multiple) as applicable. However, these do not necessarily indicate an absolute impact on valuation as the final outcome would be determined by selecting a point estimate within the range of possible outcomes.

31 December 2018

Valuation technique	Key variable	Sensitivity	Impact on fair values
Market multiple	Price / Sale	25%	20,128
Market multiple	Enterprise value / Sale	25%	144,248
Market multiple	Price / Book	25%	926,330
Market multiple	Price / Sale	-25%	(95,271)
Market multiple	Enterprise value / Sale	-25%	(20,799)
Market multiple	Price / Book	-25%	42,075

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.

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.

Monitoring of credit risk

Generating the term structure of PD

Ageing buckets based on days past due ("Ageing buckets") are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analyzed by jurisdiction or region and by type of product and borrower as well as by ageing buckets.

The Group employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default.

Based on consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Group then uses these forecasts to adjust its estimates of PDs.

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

Using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is equal or more than 1 day past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 1 day past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy.

25 RISK MANAGEMENT (CONTINUED)

Risk management framework (continued)

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities'") to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

For financial assets modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of 12 months before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on economic experts and consideration of a variety of external actual and forecast information. the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

Key macro-economic indicators include: Oil price, Consumers purchase index (CPI), Real GDP growth, Real interest rate (RIR), Unemployment rate, Domestic credit growth, Central Government revenue as percentage of GDP and Central Government expenditure as percentage of GDP.

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

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 2018 is BD 623,416,801 (31 December 2017: BD 599,515,860).

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.

25 RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

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 2018 BD	Gross maximum exposure 2017 BD
Balances and placements with financial institutions	17,944,940	38,207,721
Loans - commercial loans	9,094,259	10,347,572
Investments in debt securities	4,420,008	5,371,949
Other receivables	1,279,106	2,483,161
	32,738,313	56,410,403

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

There were no renegotiated loans during either the year ended 31 December 2018 or 31 December 2017.

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 2018 was BD 16,728,122 (31 December 2017: BD 33,293,296).

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. Management assessed that collateral value above carrying value. 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 2018 or 31 December 2017.

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:

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt instruments at FVOCI, but not to equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

Following table shows the stage-wise exposures of each type of exposures and by aging buckets:

	2018			
A. Social loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Current	572,104,385	906,032	14,701,283	587,711,700
1 - 29 days	-	610,775	41,349	652,124
30 - 59 days	-	20,809,301	2,946,544	23,755,845
60 - 89 days	-	4,981,905	2,827,614	7,809,519
90 days - 1 year	-	-	19,680,140	19,680,140
1 year - 3 years	-	-	8,455,668	8,455,668
3 year - 5 years	-	-	3,671,106	3,671,106
More than 5 years	-	-	1,253,758	1,253,758
Gross carrying value	**572,104,385**	**27,308,013**	**53,577,462**	**652,989,860**
Expected credit loss	(817,890)	(1,966,437)	(26,788,731)	(29,573,059)
Net carrying value	**571,286,495**	**25,341,576**	**26,788,731**	**623,416,801**

25 RISK MANAGEMENT (CONTINUED)

	2018			
B. Commercial loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Current	5,689,658	85,754	460,251	6,235,663
1 - 29 days	-	1,139,147	9,676	1,148,823
30 - 59 days	-	505,124	178,876	684,000
60 - 89 days	-	46,378	-	46,378
90 days - 1 year	-	-	376,831	376,831
1 year - 3 years	-	-	933,313	933,313
3 year - 5 years	-	-	676,184	676,184
More than 5 years	-	-	525,868	525,868
Gross carrying value	**5,689,658**	**1,776,403**	**3,160,999**	**10,627,060**
Expected credit loss	(21,205)	(134,641)	(1,376,954)	(1,532,801)
Net carrying value	**5,668,453**	**1,641,762**	**1,784,045**	**9,094,259**

	2018			
C. Balances with Banks	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Current	18,088,515	-	-	18,088,515
Gross carrying value	**18,088,515**	**-**	**-**	**18,088,515**
Expected credit loss	(6,289)	-	-	(6,289)
Net carrying value	**18,082,226**	**-**	**-**	**18,082,226**

	2018			
D. Investment in debt securities	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Current	4,420,008	-	-	4,420,008
Gross carrying value	**4,420,008**	**-**	**-**	**4,420,008**
Expected credit loss	-	-	-	-
Net carrying value	**4,420,008**	**-**	**-**	**4,420,008**
Grand total	**599,457,182**	**26,983,338**	**28,572,776**	**655,013,294**

* Age analysis of past due but not impaired loans

	2017				
	Up to 30 days	31 to 60 days	61 to 90 days	Above 90 days	Total
	BD	BD	BD	BD	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

* Age analysis of impaired loans

25 RISK MANAGEMENT (CONTINUED)

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

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

	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 - social loans	508,298,134	91,217,726	-	599,515,860
Loans - commercial loans	7,440,441	2,043,626	2,541,299	12,025,366
Other receivables	2,279,221	-	-	2,279,221
	557,578,490	93,261,352	2,541,299	653,381,141

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 placements with financial institutions, loans, deposits from financial and other institutions and term loans. Interest rate risk is managed principally through monitoring interest rate gaps.

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

	31 December 2018 BD	Changes in basis points (+/-)	Effect on net profit (+/-)
Assets			
Placements with financial institutions	16,800,000	100	168,000
Loans - commercial loans	10,627,060	100	106,271
Liabilities			
Deposits from financial and other institutions	10,500,000	100	(105,000)
Term loans	73,700,000	100	(737,000)
Total			(567,729)

25 RISK MANAGEMENT (CONTINUED)

	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	12,025,366	100	120,254
Liabilities			
Deposits from financial and other institutions	20,500,000	100	(205,000)
Term loans	30,000,000	100	(300,000)
Total			(3,417)

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. Refer to note 24 for the impact of sensitivity in key variables used in valuation of investments at FVOCI.

c) Liquidity Risk

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

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

Analysis of liabilities

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2018 and 31 December 2017 based on contractual undiscounted repayment obligations.

At 31 December 2018	Less than 3 Months BD	3 to 12 Months BD	Over 1 Year BD	Total BD	Carrying value BD
Deposits from financial and other institutions	10,523,310	–	–	10,523,310	10,500,000
Term loans	1,659,327	23,475,625	58,410,669	83,545,621	73,700,000
Total	12,182,637	23,475,625	58,410,669	94,068,931	84,200,000

At 31 December 2017	Less than 3 Months BD	3 to 12 Months BD	Over 1 Year BD	Total BD	Carrying value BD
Deposits from financial and other institutions	20,522,744	–	–	20,522,744	20,500,000
Term loans	531,875	1,317,708	34,274,167	36,123,750	30,000,000
Total	21,054,619	1,317,708	34,274,167	56,646,494	50,500,000

25 RISK MANAGEMENT (CONTINUED)

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:

	2018 BD	2017 BD
Total eligible capital	278,557,123	255,504,236
Total regulatory capital (A)	278,557,123	255,504,236
Total Risk-weighted exposure (B)	191,314,035	191,428,020
Capital adequacy ratio (A/B)	145.60%	133.47%
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 FVOCI.

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 2018	Less than 12 months BD	Over 12 Months BD	Total BD
Assets			
Cash and bank balance	18,082,226	-	18,082,226
Investments	3,964,058	5,321,266	9,285,324
Loans	46,652,317	585,858,743	632,511,060
Investment in associates	-	5,253,983	5,253,983
Investment properties	-	51,018,308	51,018,308
Development properties	-	23,822,299	23,822,299
Other assets	10,663,704	19,078,774	29,742,478
	79,362,305	690,353,373	769,715,678
Liabilities			
Deposits from financial and other institutions	10,500,000	-	10,500,000
Customer current accounts	1,861,950	-	1,861,950
Government accounts	-	394,946,168	394,946,168
Term loans	20,000,000	53,700,000	73,700,000
Other liabilities	2,849,872	2,042,783	4,892,655
	35,211,822	450,688,951	485,900,773
Net liquidity surplus	44,150,483	239,664,422	283,814,905

27 MATURITY PROFILE OF ASSETS AND LIABILITIES (CONTINUED)

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

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.

I 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.

28 FUTURE FUNDING REQUIREMENTS (CONTINUED)

I ADDITIONAL SUPPLEMENTARY INFORMATION - ISLAMIC DISCLOSURES (UNAUDITED) (CONTINUED)

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:

	2018 BD (unaudited)	2017 BD (unaudited)
Ijara muntahia bittamleek - net	225,169,705	236,908,303
Ijara income receivables	186,107	263,269
Wakala placements	5,000,000	11,332,973
Wakala income receivable	7,639	15,192
Placements with financial institutions	3,560,007	2,410,007
Profit receivable on placements	58,404	16,559
	233,981,862	250,946,303

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

	2018 BD (unaudited)	2017 BD (unaudited)
Wakala placements	5,000,000	8,000,000
Wakala Profit payable	9,064	5,758
Commodity Murabaha	3,000,000	2,000,000
Commodity Murabaha profit payable	5,304	3,267
Murabaha term financing	3,700,000	-
Profit payable on Murabaha term financing	44,317	-
	11,758,685	10,009,025

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

	2018 BD (unaudited)	2017 BD (unaudited)
Income from Ijara Muntahia Bittamleek - net	8,646,952	8,557,878
Profit from wakala and placements	190,462	217,595
Less: profit on Wakala and commodity Murabaha	(189,578)	(259,936)
	8,647,836	8,515,537

Pillar-III Disclosures

31st December, 2018

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Pillar-III Disclosures

31st December, 2018

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 CBB's Basel III capital framework is based on three pillars consistent with the Basel III framework developed by the Basel Committee, as follows:-

- Pillar I: calculation of the Risk Weighted Assets (RWAs) and capital requirement.
- Pillar II: the supervisory review process, including the Internal Capital Adequacy Assessment Process (ICAAP).
- Pillar III: rules for the disclosure of risk management and capital adequacy information.

Pillar I

Pillar I prescribes the basis for the calculation of the regulatory capital adequacy ratio. Pillar I sets out the definitions and calculations of the

RWAs, and the derivation of the regulatory total capital. Capital adequacy ratios are calculated by dividing regulatory capital by the total RWAs.

Basel III focuses on increasing both the quantity and quality of banks' capital. To this end, Tier 1 capital must be the main component of capital, and its predominant form capital must be common shares and retained earnings. Deductions from capital and prudential filters generally applied at the level of common equity. The remainder of Tier 1 capital base must be comprised of instruments that are subordinated, have fully discretionary noncumulative dividends or coupons and have neither a maturity date nor an incentive to redeem. Tier 2 capital instruments have restrictions and a limit on their contribution to total regulatory capital.

Furthermore, Basel III introduced a number of capital buffers to promote the conservation of capital (capital conservation buffer or "CCB") and the build-up of adequate buffers above the minimum required capital during times of good economic conditions that can be drawn down in periods of stress (countercyclical capital buffer).

CBB's minimum required total capital adequacy ratio (including CCB) is set at 12.5 percent. The CBB also stipulates limits and minima by the on Common Equity Tier 1 Capital Ratio "CET1" of 9 percent (including CCB) and minimum Tier 1 Capital Ratio of 10.5 percent (including CCB). In the event that the total capital adequacy ratio falls below 12.5 percent, additional prudential reporting requirements apply, and a formal action plan setting out the measures to be taken to restore the ratio above the minimum required level is to be formulated and submitted to the CBB.

Pillar II

Pillar II defines the process of supervisory review of an institution's risk management framework and, ultimately, its capital adequacy.

Under the CBB's Pillar II guidelines, all banks incorporated in Bahrain are required to maintain total capital adequacy ratio above 12.5 percent.

Pillar II comprises two processes:

- an Internal Capital Adequacy Assessment Process (ICAAP), and
- a supervisory review and evaluation process.

The ICAAP incorporates a review and evaluation of risk management and capital relative to the risks to which the bank is exposed. Eskan Bank has developed an ICAAP document and it addresses all components of the Bank's risk management, from the daily management of more material risks to the strategic capital management of the Group. The projected growth in risk assets, operating profit, shareholders' equity are estimated by the bank as part of the 3 years budget approved by the Board. The Bank has adopted a Risk Appetite Framework which is reviewed periodically. The Bank also adopts a Risk Management Strategy annually covering all types of relevant risks.

The supervisory review and evaluation process represents the CBB's review of the Group's capital management and an assessment of internal controls and corporate governance. The supervisory review and evaluation process is designed to ensure that institutions identify their material risks, allocate adequate capital, and employ sufficient management processes to support such risks. The supervisory review and evaluation process also encourages institutions to develop and apply enhanced risk management techniques for the measurement and monitoring of risks in addition to the credit, market and operational risks addressed in the core Pillar I framework. Other risk types which are not covered by the minimum capital requirements in Pillar I include liquidity risk, interest rate risk in the banking book, strategic risk, concentration risk, reputational risk, and residual risk. These are covered either by capital, or risk management and mitigation processes under Pillar II.

Eskan Bank conducts stress testing as part of the ICAAP process.

Pillar III

Pillar III deals with the Market Discipline guidelines of the regulator to ensure adequate disclosure of risk management practices, corporate governance standards and capital adequacy information. The banks publishes disclosures periodically and in the Annual Report.

The disclosures comprise detailed qualitative and quantitative information.

The purpose of the Pillar III disclosure requirements is to complement the first two pillars and the associated supervisory review process. The disclosures are designed to enable stakeholders and market participants to assess an institution's risk appetite and risk exposures and to encourage all banks, via market pressures, to move toward more advanced forms of risk management.

Under the current regulations, partial disclosure consisting mainly of quantitative analysis is required during half year reporting, whereas full disclosure is required to coincide with the financial year end reporting.

1. INTRODUCTION (CONTINUED)

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:s

- **Eskan RMBS Company ("RMBS")**

RMBS is fully owned by Eskan Bank, the principal activities of RMBS is 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 started the liquidation process during the same year and accordingly, was fully liquidated during Q3 2018.

- **Eskan Properties Company B.S.C. ("EPC")**

EPC wholly owned by the Bank was established to execute 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 Eskan Bank Realty Income Trust, which is the first listed Real Estate Investment Trust in Bahrain. BPMT's liquidation was completed during Q4 2018.

- **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 net asset value of BD 18.3 million as of 31 December 2018, of which 33.97% 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.

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

e) Eskan Properties Company (EPC) is 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
Eskan Bank Realty Income Trust (EBRIT)	Kingdom of Bahrain	33.97%	200%
Dannat Al Luzi B.S.C (c)	Kingdom of Bahrain	55.88%	50%

2. FINANCIAL PERFORMANCE AND POSITION

During 2018, 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 2018 of BD23.2 million (2017: BD21.5 million). Total operating costs, stood at BD 6.1 million are 4% lower than last year, excluding the BD 0.8 million Early Retirement Scheme recorded in 2017, this was mainly due to successful department wide cost rationalization process. As a result, the Bank's cost-to-income ratio decreased from 25% in 2017 to 21% in 2018.

As of 31 December 2018, total equity of the Bank stood at BD283.8 million (2017:BD 262.4 million), while the return on equity stood at 8.2%. The Bank's total balance sheet grew to BD770 million at the end of 2018, compared to BD738 million at the end of the previous year. Capital adequacy ratio improved to 145%, while the Bank's balance sheet continues to boast healthy liquidity.

a) Asset Growth & Quality:

- **Assets growth:** The total Balance Sheet of the Bank stood at BHD 770 million as at 31st December 2018 compared to BHD 738 million as at the previous year end. The Bank's loans and advances as at 31st December 2018 stood at BHD 632.5 million, which reflects a growth of 4% as compared to 2017.
- **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
- 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 Tourism Company (STC), 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.

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

	2018	2017	2016	2015	2014
Earnings					
Net Interest Income	27,275	24,674	17,496	16,375	15,446
Other Income	2,471	4,408	5,379	1,890	1,123
Operating Expenses	6,154	7,209	6,409	6,566	5,717
Development properties written off	-	-	-	-	-
Impairment Allowance	342	331	(23)	251	372
Net Income	**23,250**	**21,542**	**16,489**	**11,447**	**10,480**
Financial Position					
Total Assets	769,716	738,402	636,807	597,264	610,731
Loans	632,511	609,863	479,006	460,092	434,770
Total Liabilities	485,901	476,037	405,979	375,366	382,630
Non-controlling interest	6,652	6,681	6,665	6,638	6,631
Shareholders Equity	277,163	255,684	224,163	215,260	221,470
Earnings: Ratios (Per Cent)					
Return on Equity	8%	8%	7%	5%	5%
Return on Assets	3%	3%	3%	2%	2%
Cost-to-income ratio	21%	25%	28%	36%	35%
Net Interest Margin	99%	98%	98%	98%	96%
Capital:					
Shareholders Equity as per cent of Total Assets	36%	35%	35%	36%	36%
Total Liabilities to Shareholders Equity	175%	186%	181%	174%	173%

2. FINANCIAL PERFORMANCE AND POSITION (CONTINUED)

b) Performance of the group companies:

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

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

Table 3: Financial highlights (in BHD):

	31st-December-18	31st-December-17
Net profit for the year	**605,978**	57,686
Total assets	**2,073,833**	1,521,481
Total equity	**1,653,978**	1,048,000

- RESIDENTIAL MORTGAGE BACKED SECURITIES COMPANY ("RMBS"):

Table 4: Financial highlights (in BHD)

	31st-December-18	31st-December-17
Net profit for the year	-	523,911
Total assets	-	12,504,085
Total equity	-	10,160,733

- 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)

	31st-December-18	31st-December-17
Net profit for the year	**(50,396)**	35,633
Total assets	**19,661,392**	15,166,315
Total equity	**15,076,008**	15,140,833

3. FUTURE BUSINESS PROSPECTS

The Bank's assets and liabilities' profile for next year would be similar to that of last year to a large extent. The major portfolio for the Bank will continue to be mortgage loans, yet social loans would be slowly discontinued and be replaced with Mazaya loans due to changes in the Ministry of Housing eligibility criteria.Another portfolio to maintain is that of 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

4. CORPORATE GOVERNANCE AND TRANSPARENCY (CONTINUED)

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

Principle Eight: The Company shall disclose its corporate governance

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

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

5. BOARD AND MANAGEMENT COMMITTEESs

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. 20 for 2018 regarding structuring of Board members of Eskan Bank.

i. H.E. Eng. Basim bin Yacob Al Hamer - Minister of Housing (Non-independent)

Appointed as Chairman of Eskan Bank since 2011

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

More than 34 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 as Board Director since 2011

Bachelor of Arts – Economics and Finance, Aleppo University – Syria

Intensive Full Credit Course at Citibank Training Center - Athens, Greece

Intermediate Credit Course at Citibank - Athens, Greece

Registered Financial Consultant by successfully completing the Series 7

Examination required by the Securities & Exchange Commission in the United States.

More than 40 years, work experience

Board Member: Bank of Bahrain & Kuwait (BBK), A.M. Yateem Brothers W.L.L., Investcorp Saudi Arabia Financial Investment Co., The K Hotel.

iii. Dr. Zakareya Sultan Al Abbasi

Member (Independent Non-Executive Director)

Appointed as a Board Member since 2011

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.

Previously 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 as a Board Member since 2011

A Certified Public Accountant (CPA),

More than 31 years of work experience

Board Member: Kuwait Finance House - Bahrain, Aluminum Bahrain B.S.B. (ALBA), Al Sorouh Management company WLL

6. BOARD OF DIRECTORS (CONTINUED)

v. Dr. Riyad Saleh Al-Saie

Independent Non-Executive Director,

Vice Chairman of the Executive Committee, and Member of the Remuneration, Nomination and Corporate Governance Committee.

Appointed since 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).

vi. Mrs. Rana Ebrahim Faqihi

Independent Non-Executive Director,

& Member of Executive Committee

Appointed since 2015

Qualifications:

- BA International Business Management - United Kingdom
- MA International Business Management - United Kingdom

More than **(15)** years work experience.

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

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

vii. Mr. Kamal Murad Ali Murad

Independent Non-Executive Director,

& Member of Executive Committee

Appointed since 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 16 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.

6. BOARD OF DIRECTORS (CONTINUED)

viii. Mrs. Najla Mohammed Al-Shirawi

Independent Non-Executive Director,

& Chairperson of Audit Committee

Appointed in since 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 Financial Brokerage 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)SICO B.S.C. (c) 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.

ix. Sh. Mohammed bin Ibrahim Al-Khalifa

Independent Non-Executive Director,

& Member of the Audit Committee

Appointed in 2018

Qualifications:

- Bachelor in Science in Business Administration from The American University of Washington D.C, USA
- Masters in Business Administration from De Paul University, USA

More than 18 years' work experience

Currently holds the position of Director of Human & Financial Resources at the Ministry of Housing

Previously held the position of Chief of Financial Affairs at the General Organisation for Youth and Sports (GOYS)

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.

Sh. Mohamed bin Ibrahim Al-Khalifa has been appointed a member in Eskan Bank's Board of Director's as replacement for Sh. Ahmed bin Issa Al-Khalifa on 15 July 2018, by virtue of Cabinet Decree No. 20 of 2018 with regards to reappointing 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 2nd Meeting 2018 held on dated 12 September 2018"

7. EXECUTIVE MANAGEMENT TEAM OF THE GROUP

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

Dr. Khalid Abdulla has over thirty-six 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 Inovest 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 & was 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-three years of experience in both Islamic and conventional banking, particularly in the areas of investment banking, capital market, real estate, private equity and retail banking. He has worked for leading financial institutions such as Ithmaar Bank, Elaf Bank and Middle East Capital Group. 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 degrees in economics from McGill University, Canada.

He assumed the present position in January 2012.

iii. **Mr. Eyad Obaid,** General Manager / Eskan Properties Company

Mr. Eyad Obaid has over thirty-six 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. **Mr. Vijayan Govindarajan,** Head of Risk Management

Mr. Vijayan Govindarajan a Banking Risk Management professional, has over forty years of experience in Banking and Financial Services Industry with over 23 years in GCC (Kingdom of Bahrain). During the course of his career, he has worked in credit and risk management functions with Khaleeji Commercial Bank, BMI Bank, Bank Muscat and ABN AMRO Bank in the Kingdom of Bahrain.

Mr. Vijayan is holding a Bachelor of Science Degree from the University of Madras, India, a Certified Associate of the Indian Institute of Bankers (CAIIB), and a member of the Professional Risk Manager's International Association (PRMIA).

He assumed the present position in 2018.

v. **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 and Shamil Bank of Bahrain.

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

He assumed the present position in 2009.

vi. **Ms. Parween Ali,** Head of Retail Banking

Ms. Parween Ali has over twenty-nine years of experience in Banking Industry, particularly in the areas of Sales and Consumer Service. Prior to joining Eskan Bank, she was Sales & 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, and Head of Sales & Marketing.

She assumed the present position as Head of Retail Banking in 2018.

7. EXECUTIVE MANAGEMENT TEAM OF THE GROUP (CONTINUED)

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

Mrs. Samar Agaiby has over twenty-eight years of experience in the field, particularly in the areas of Risk, 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 Cairo with a Bachelor degree in Economics.

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

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

She assumed the present position in 2012.

viii. 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 and Advanced Diploma in Banking Studies from BIBF.

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.

ix. 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.

x. Mr. Deepak Patel, Head of Operations

Mr. Deepak Patel has over nineteen 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.

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

Mr. Muhammed Saeed Butt has over eighteen 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.

Muhammad Saeed is FCA from the Institute of Chartered Accountants of Pakistan (ICAP) and ACA from the Institute of Chartered Accountants of England & Wales (ICAEW). 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.

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

Mrs. Amal Al Aradi has over thirty two 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.

xiii. 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.

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 remuneration (in the form of cash and other fringe benefits) and variable remuneration in the form of cash only. 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 2018, 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 there functions are based 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 2018. 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 (except in the case of poor performance of the bank) 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 2018. 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 1.4.6 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.

8. ADDITIONAL GOVERNANCE MEASURES (CONTINUED)

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 for the year of **2018**

2018

No	Category	Basic	Other Benefits / Allowances	Total Fixed Remuneration	Performance Bonus in Cash	Total Variable Remunerations	Total Fixed & Variable Remuneration
9	Members of the Board		222,000	222,000			222,000
7	Approved persons (not (included in 1,3 to 7	587,373	164,990	752,363	219,665	219,665	972,028
6	Approved persons in risk management, internal audit, operations, financial controls, AML and compliance functions	251,313	116,933	368,246	48,693	48,693	416,939
117	Other employees	1,643,798	455,636	2,099,434	352,205	352,205	2,451,639
139	Grand Total	2,482,484	959,559	3,442,043	620,563	620,563	4,062,606

The table below reflects the total amount of remuneration paid to the employee of the Bank for the year of 2017

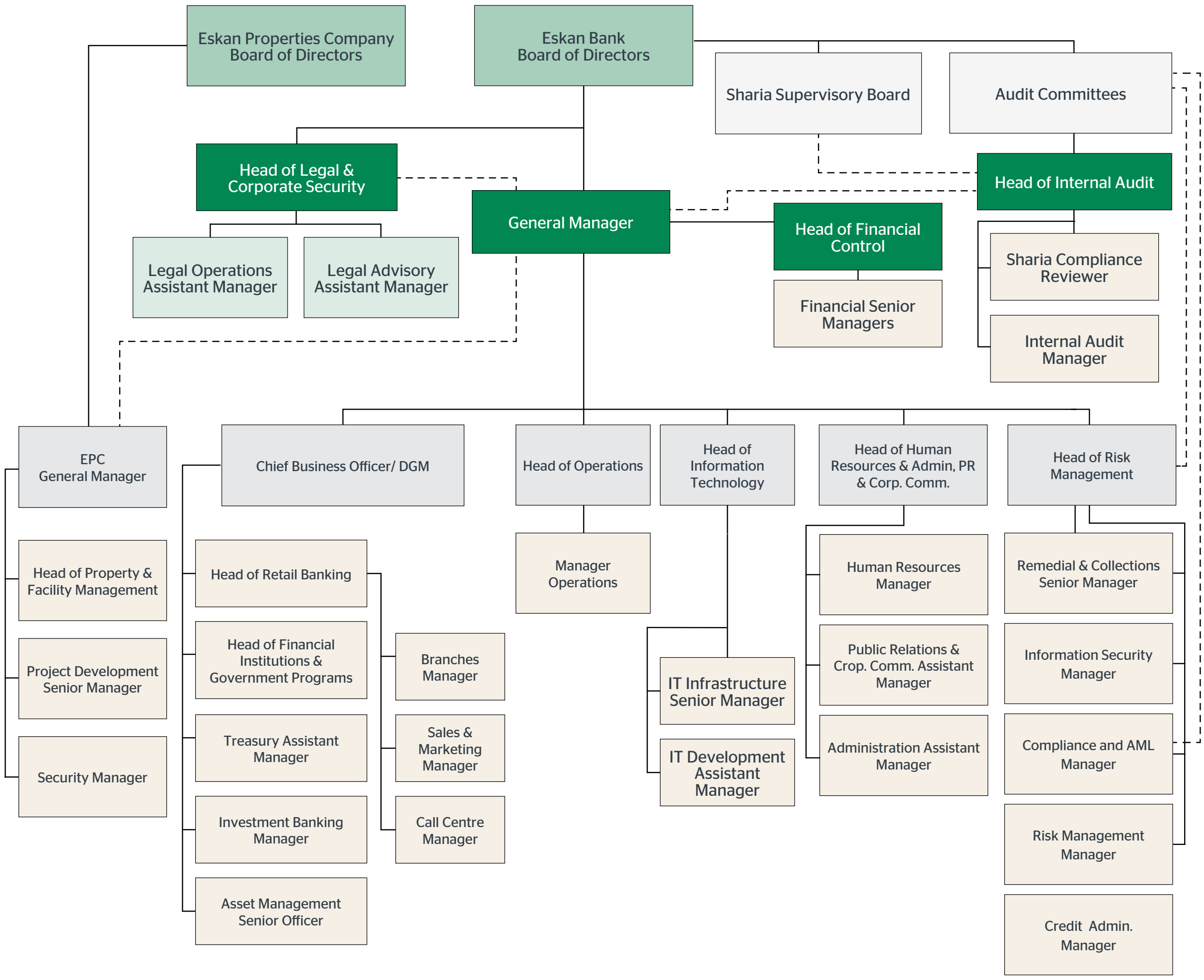
2017

No	Category	Basic	Other Benefits / Allowances	Total Fixed Remuneration	Performance Bonus in Cash	Total Variable Remunerations	Total Fixed & Variable Remuneration
8	Approved persons (not (included in 1,3 to 7	568,272	73,129	641,401	193,676	193,676	835,077
6	Approved persons in risk management, internal audit, operations, financial controls, AML and compliance functions	200,844	62,174	263,018	52,000	52,000	315,018
122	Other employees	1,563,830	246,225	1,810,056	345,368	345,368	2,155,423
136	Grand Total	2,332,946	381,529	2,714,475	591,044	591,044	3,305,519

Eskan Bank has re-introduced the Early Retirement Scheme in 2018. The Bank has paid BHD 111,466 (2017: BHD 483,806), to 4 employees (2017: 18 employees) (non approved person) who have utilized the said above scheme. The highest amount paid to a single person was BD 52,500 (2017: BD70,000)

9. ORGANISATION CHART

Eskan Bank Organisation Structure-2018



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

*There is no reporting line for Board Excutive Commiittee and Remuneration, Nomination & Corporate Governance Committee

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.

10. CAPITAL

10.1 Capital Structure

Under the CBB's Basel III capital framework, total regulatory capital consists of Tier 1 capital "T1" and Tier 2 capital "T2". T1 capital is further divided into Common Equity Tier 1 capital "CET1" and Additional Tier 1 capital "AT1".

CET1 capital consists of:

a) Issued and fully paid common shares that meet the criteria for classification as common shares for regulatory purposes,

b) isclosed reserves including: i) General reserves; ii)Legal / statutory reserves; iii) Share premium; iv) Fair value reserves arising from fair valuing financial instruments; and v) Retained earnings or losses(including net profit/ loss for the reporting period, whether reviewed or audited),

c) Common shares issued by consolidated subsidiaries and held by third parties (i.e. minority interest) that meet the criteria for inclusion in CET1, and (d) Regulatory adjustments applied in the calculation of CET1.

AT1 capital consists of:

a) Instruments issued by the bank that meet the criteria for inclusion in AT1,

b) Share premium resulting from the issue of instruments included in AT1,

c) Instruments issued by consolidated subsidiaries and held by third parties that meet the criteria for inclusion in AT1 and are not included in CET1, and

d) Regulatory adjustments applied in the calculation of AT1.

T2 capital consists of:

a) Instruments issued by the bank that meet the criteria for inclusion in T2,

b) Share premium resulting from the issue of instruments included in T2,

c) Instruments issued by consolidated subsidiaries of the bank and held by third parties that meet the criteria for inclusion in T2 capital and are not included in T1,

d) General loan loss provisions (Expected Credit Loss),

e) Asset revaluation reserves which arise from the revaluation of fixed assets and investment properties from time to time in line with the change in market values, and

f) Regulatory adjustments applied in the calculation of T2.

At present, the T2 capital of Eskan Bank consists solely of general loan loss provision (Expected Credit Loss). There are no impediments on the transfer of funds or regulatory capital within the Group other than restrictions over transfers to ensure minimum regulatory capital requirements are met for subsidiary companies.

Table 6: CAPITAL STRUCTURE

The following table summarizes the eligible capital after deductions for Capital Adequacy Ratio (CAR) calculation as of 31 December 2018.

	CET1	AT1	T2
Components of capital			
Tier 1 Capital			
Common Equity Tier 1 (CET1)			
Issued and fully paid ordinary shares	108,300	-	-
General reserves	22,007	-	-
Legal / statutory reserves	54,462	-	-
Retained profit brought forward	69,199	-	-
Current interim profits	23,314	-	-
Cumulative fair value changes on FVOCI investments (Equities)	8	-	
Total CET 1 Capital prior to the regulatory adjustments	**277,290**	-	-
Less:		-	-
Intangibles other than mortgage servicing rights	(496)	-	-
Total CET 1 Capital after the regulatory adjustments	**276,794**	-	-
Other Capital (AT1 & T2)	-	-	-
Expected Credit Losses (ECL) Stages 1 & 2 (1.25% of credit risk weighted assets)	**-**	**-**	**1,762**
NET AVAILABLE CAPITAL	**276,794**	**-**	**1,762**
TOTAL CAPITAL		**-**	**278,556**

10. CAPITAL (CONTINUED)

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

	Optional	Minimum Ratio Required	Capital conservation buffer (CCB)	CAR including CCB
Common Equity Tier 1 (CET1)		6.5%		9.0%
Additional Tier 1 (AT1)	1.5%			
Tier 1 (T1)		8.0%	2.5% comprising of CET1	10.5%
Tier 2 (T2)	2%			
Total Capital		10.0%		12.5%

Following are Capital Adequacy Ratios for total capital and Tier 1 capital as of 31 December 2018:

CET1 Capital Adequacy Ratio	**145%**
T1 Capital Adequacy Ratio	**145%**
Total Capital Adequacy Ratio	**146%**

Following are the total risk weighted exposures for each category of risk the Bank is exposed to as of 31 December 2018:

Credit Risk Weighted Exposures	140,964
Operational Risk Weighted Exposures	50,350
Market Risk Weighted Exposures	-
Total Risk Weighted Exposures	**191,314**

11. CAPITAL ADEQUACY

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

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

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

12. INTERNAL AUDIT

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

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

13. CREDIT RISK

13.1 Overview of Credit Risk Management

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and thereby cause the other party to incur a financial loss. Concentration of credit risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features, fail to meet contractual obligations, due to them being affected by changes in economic, political or other conditions.

Eskan Bank employs a range of techniques to mitigate risk in its credit portfolio. The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, assessing the creditworthiness of counterparties, source of repayment and obtainment of a security wherever necessary and appropriate.

The Bank has well defined policies and procedures for identifying, measuring, monitoring and controlling credit risk in all of the Bank's activities. All the Credit Risk Policy is reviewed by the Board of Directors. The Bank also draws up comprehensive Risk Statements annually and monitors the compliance against the BOD-approved limits. 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 transactions. As such, the Bank has established an independent control environment to monitor and enforce approved policies and limits.

The Bank has a tiered approval authority levels in place and has established management level-committees responsible for monitoring credit risk exposures 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.

13. CREDIT RISK (CONTINUED)

13.2 Definition, Assumptions and Technique for Estimating Impairment

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The Bank relies on delinquency status of accounts, expert judgement where possible, relevant historical experience and external ratings. As a backstop, the Bank considers that an increase in credit risk occurs even when the asset is 1 day past due.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that the criteria are capable of identifying significant increases in credit risk.

Probability of Default (PD)

The Bank collects performance and default information about its Credit risk exposures analysed by days-past-due. The Bank employs statistical models to analyse the data collected and generate estimates of PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, across various geographies in which the Bank has taken exposures. For most exposures, the key macro-economic indicators include: GDP growth, Unemployment, Domestic Credit growth, Oil prices, Central Government Revenue as percentage to GDP and Central Government Expenditure as percentage to GDP.

Definition of default

The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security or write-offs;
- The borrower is past due more than 90 days on any credit obligation to the Bank;
- The borrower was past due more than 90 days on any credit obligation to the Bank in the past 12 months from the reporting date

Incorporation of forward-looking information

The Bank employs statistical models to incorporate macro-economic factors on historical default rates. In case none of the above macro-economic parameters are statistically significant or the results of forecasted PD's are too much deviated from the present forecast of the economic conditions, qualitative PD overlay shall be used by management after analyzing the portfolio as per the diagnostic tool.

Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect the Expected Credit Loss (ECL) applicable to the stage 1 and stage 2 exposures which are considered as performing (Stage 3 are the exposures under default category). The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Market data is used to derive the PD for banks and sovereign counterparties.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties where such information is available or a proxy based on market data.

13. CREDIT RISK (CONTINUED)

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

The following table summarises the total past due loans including other assets and provisions disclosed by industry as of 31 December 2018:

	Below 3 months	3 months up to 1 year	1 up to 3 years	Over 3 years	Total
Retail mortgage social loans	47,825	19,680	8,456	4,925	80,885
Retail mortgage commercial loans	2,425	377	933	1,202	4,937
Other assets	131	-	129	24	284
	50,381	**20,057**	**9,518**	**6,151**	**86,107**

Past due loans and other assets breakdown by type and expected credit loss (ECL):

	Total amount	ECL stage 2	ECL stage 3
Retail mortgage social loans	80,885	1,966	26,789
Retail mortgage commercial loans	4,937	135	1,377
Other assets	284	-	-
	86,107	**2,101**	**28,166**

Impaired loans:

	Loan amount	ECL stage 3
Retail mortgage social loans	53,577	26,789
Retail mortgage commercial loans	3,161	1,377
	56,738	**28,166**

Table 8: Expected credit loss movement (in BHD thousands)

	Stage 1 & 2	Stage 3	Total
Expected credit loss as 1 January 2018	3,336	9,170	12,506
Net transfer between stages	253	(253)	-
Write off during the period	(110)	(2,374)	(2,484)
Charge/(release) for the period - Social Loans	(440)	21,721	21,281
Charge/(release) for the period - Commercial Loans	(98)	(98)	(197)
Expected credit loss as 31 December 2018	**2,940**	**28,166**	**31,106**

The Group's entire past due and provision balances as at 31 December 2018 relates to its operations in the Kingdom of Bahrain.

Restructured Assets

The accounts which are restructured due to credit reasons in past 12 months will be classified under Stage 2 for IFRS 9 reporting purposes. The 12 months period is sufficient to test the adequacy of the cash flows to test satisfactory performance under the revised terms of restructuring.

The social loans are restructured based on the instructions of the Ministry of Housing, There is no credit risk to the Group arising out of these loans. Losses, if any, arising from the impairment of such loans are borne by the Government in accordance with memorandum of association with Ministry of Housing. 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' revised cash flow projections. The defaulted social loans where there is a source of payment available are restructured by extending the tenor and keeping the total capital and interest amount equal to the original contract subject to meeting a predefine set of criteria. The total principal outstanding amount of social loans restructured during the year is BD 3.2 million and the ECL on restructured loans for the same period is BD1.4 million based on the approval received from of Ministry of Housing.

13. CREDIT RISK (CONTINUED)

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

The following table summarises the regulatory capital requirements for credit risk by type of standard portfolios that are subject to standarised approach as of 31 December 2018:

	* Gross Exposures	Risk Weighted Exposures	** Capital Charge
Standard Portfolio			
Cash items	137	-	-
Claims on sovereign	672,462	-	-
Claims on Banks	5,188	1,038	130
Claims on investment firms	347	174	22
Mortgage	7,841	5,881	735
Past due exposure	1,441	1,441	180
Equity investments	1,384	2,076	260
All other holdings of real estate *	73,198	128,888	16,111
Other assets	1,466	1,466	183
	763,464	**140,963**	**17,620**

* 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.

(a) Includes real estate exposure relating to social housing projects amounting to BD11,672 thousand which are credit risk weighted at 50% as per CBB concessions and have capital charge of BD5,836 thousand.

** Calculated at 12.5% of RWA

*** Eskan Bank uses ratings issued by Moody's, Standard and Poor's or Fitch to derive the risk weightings under the CBB's Basel III capital adequacy framework for claims on banks and other corporates.

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

The following table summarises the amount of gross funded and unfunded exposure and average gross funded and unfunded exposures as of 31 December 2018 :

	Gross Exposures	* Average Exposures
Funded Exposure		
Cash and bank balances	18,082	47,148
Investments	9,285	13,673
Loans	632,511	617,708
Investment in associates	5,254	5,517
Investment properties	51,018	52,837
Development properties	23,822	20,793
Other assets	29,744	16,732
	769,716	**774,408**
Unfunded Exposure		
Loan related	6,049	8,400
	6,049	**8,400**

* Average balances are computed based on quarter end balances.

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

13. CREDIT RISK (CONTINUED)

Table 11: Geographic Distribution of exposures (in BHD thousands)

The following table summarises the geographic distribution of exposures, broken down into significant areas by major types of exposure as of 31 December 2018 :

	Kingdom of Bahrain	Total
Cash and bank balances	18,082	18,082
Investments	9,285	9,285
Loans	632,511	632,511
Investment in associates	5,254	5,254
Investment properties	51,018	51,018
Development properties	23,822	23,822
Other assets	29,744	29,744
	769,716	**769,716**

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

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

The following table summarises the distribution of funded and unfunded exposure by industry type as of 31 December 2018:

	Government	Banks and financial institutions	Real estate and construction	Residential mortgage	Tourism	Other	Total
Funded Exposures							
Cash and bank balances	12,308	5,774	-	-	-	-	**18,082**
Investments	4,420	-	3,481	-	1,016	368	**9,285**
Loans	-	-	-	632,511	-	-	**632,511**
Investment in associates	-	-	5,254	-	-	-	**5,254**
Investment properties	-	-	51,018	-	-	-	**51,018**
Development properties	-	-	23,822	-	-	-	**23,822**
Other assets	27,375	8	134	460	-	1,767	**29,744**
	44,103	5,782	83,709	632,971	1,016	2,135	**769,716**
Unfunded Exposures							
Loan related	-	-	-	6,049	-	-	**6,049**
	-	-	-	6,049	-	-	**6,049**

13.3 Related Parties Transactions

Related party transactions are made on agreed terms basis. 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 2018.

13. CREDIT RISK (CONTINUED)

Table 13: Intra-group transactions as of 31 December 2018 (In BHD Thousands)

The Bank disclosed its intra-group transactions with its subsidiaries on stand alone basis. The following table summarises intra-group transactions as of 31 December 2018:

	Eskan Bank	Eskan Property Co.	Dannat Al Luzi	Total
Assets				
Balances with Banks	-	211	-	**211**
Inter Bank Deposits	-	836	-	**836**
Development Properties	49	-	152	**201**
Investment properties	0.34	-	-	**0.34**
Investments in subsidiaries	8,651	-	-	**8,651**
Other Assets	209	669	-	**878**
	8,910	**1,716**	**152**	**10,777**
Liabilities and Equity				
Non-Bank Deposits	836	-	-	**836**
Current Accounts	211	-	-	**211**
Other Liabilities	601	185	90	**875**
Share Capital & Reserves	31	371	8,452	**8,854**
	1,679	**556**	**8,542**	**10,777**

13.4 Large Exposures

A Large exposure is any exposure to a counterparty or a group of **closely related counterparties** which is greater than, or equal to, 10% of consolidated **capital base**. The Bank did not have any large exposure as at 31st December 2018.

14. CREDIT RISK MITIGATION

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

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

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

- First legal mortgage over real estate and property

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 shall be carried out by an external valuer, at the time of approval. A fresh external valuation of loans will be taken if the same is mandated by regulatory authorities.

- **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 shall be carried out, by an external valuer, at time of disbursal. There is no requirement for valuation of land/ property post disbursal.

15. COUNTERPARTY CREDIT RISK FOR DERIVATIVE AND FOREIGN EXCHANGE INSTRUMENTS

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

16. LIQUIDITY RISK

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

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

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

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

16.1 Management of Liquidity Risk

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

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

The 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.

	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	15,582	2,500	-	-	-	-	-	-	-	-	**18,082**
Investments	-	4,420	-	-	-	368	4,497	-	-	-	**9,285**
Loans	49	1,773	4,092	4,914	35,824	25,515	51,578	141,077	264,766	102,923	**632,511**
Investment in associates	-	-	-	-	-	-	5,254	-	-	-	**5,254**
Investment property	-	-	-	-	-	-	-	-	51,018	-	**51,018**
Development property	-	-	-	-	-	23,822	-	-	-	-	**23,822**
Other assets	484	67	458	9,043	613	18,709	370	-	-	-	**29,744**
Total Assets	**16,115**	**8,760**	**4,550**	**13,957**	**36,437**	**68,414**	**61,699**	**141,077**	**315,784**	**102,923**	**769,716**
Deposits from financial and other institutions	5,000	5,500	-	-	-	-	-	-	-	-	**10,500**
Customer current accounts	1,862	-	-	-	-	-	-	-	-		**1,862**
Government accounts	-	-	-	-	-	-	-	-	-	394,946	**394,946**
Term loans	-	-	-	10,000	10,000	50,000	3,700	-	-	-	**73,700**
Other liabilities	423	249	712	458	1,008	2,043	-	-	-	-	**4,893**
Total Liabilities	**7,285**	**5,749**	**712**	**10,458**	**11,008**	**52,043**	**3,700**	**-**	**-**	**394,946**	**485,901**
Mismatch	**8,830**	**3,011**	**3,838**	**3,499**	**25,429**	**16,371**	**57,999**	**141,077**	**315,784**	**(292,023)**	**283,815**
Cumulative Mismatch	**8,830**	**11,841**	**15,679**	**19,179**	**44,608**	**60,979**	**118,977**	**260,054**	**575,838**	**283,815**	**283,815**

17. MARKET RISK

17.1 Overview of Market Risk Management

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

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

18. OPERATIONAL RISK

18.1 Overview of Operational Risk Management

Operational risk is the exposure to loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Bank has clearly defined operations procedures for its products and services. It also has advanced computer systems that enable it to run operations with speed and accuracy.

The Bank has developed a comprehensive operational risk framework which includes identification, measurement, assessment, classification, management, and monitoring risks to control and mitigate them. The RMD conducts regular reviews of all business areas of the Bank and reports control deficiencies to the management and the BOD. It also recommends measures to mitigate operational risk and follows up on the implementation. The Bank uses an in-house developed operational risk management solution for monitoring operational risk, conducting risk and control self-assessments and capturing operational loss data in accordance with Basel III/Central Bank of Bahrain guidelines.

The Bank has a specific Business Continuity Plan ("BCP") function which is under the umbrella of Information Security. The main objective of the BCP is to ensure that in the event of full or partial disaster, the Bank should be able to continue providing essential services to customers, minimizing any adverse effects on the Bank's business, through business impact analysis, business restoration plans and procedures, for the identified critical functions.

The Bank also has a contingency plan to take care of any failure of its computer systems. Regular back-ups are made for all important datasets, and stored outside the Bank's premises. This ensures that in case of any system failure, the Bank will be able to continue its operations without losing critical data or business transactions. As part of its disaster recovery plan, the Bank has established a back-up site which would and operate during an emergency.

For regulatory reporting purposes, the Bank is currently using the Basic Indicator Approach whereby the operational risk weighted exposures and regulatory capital requirement are calculated by applying an alpha co-efficient of 15 percent to the average gross income for the preceding three financial years. The Bank uses a trigger rate of 12.5% for Capital Adequacy ratio and 12.5% for computing Operational Risk Ratio.

The following table summarises the amount of exposures pertaining to operational risk and related capital requirements as of 31 December, 2018:

			BHD 000's
Year	2016	2017	**2018**
Gross income	21,512	29,198	29,857
Average Gross income			26,856
Multiplier			12.5
			335,700
Eligible portion for purpose of the calculation			15%
Total operation risk weighted exposures			50,350
Minimum capital requirement (12.5%)			**6,294**

19. EQUITY POSITIONS IN THE BANKING BOOK

The Equity position as at 31 December 2018 comprise investments in subsidiaries and associates which are not subject to regulatory consolidation treatment for capital adequacy calculation purposes and other investments.

Table 16: Equity Position in the Banking Books (in BHD thousands)

		Gross Exposures	Privately Held	Quoted	Capital Charge
FVTOCI	(a)	4,865	4,865	-	1,078
Investments in associates	(b)	5,254	-	5,254	1,314
Investments in unconsolidated subsidiary	(c)	8,401	8,401	-	525

a) The risk weighted assets used in arriving at the capital requirements considers investment in Naseej to be risk weighted at 200% being equity investments in real estate entity, however, Investments in Southern Tourism Company and Balexco are risk weighted at 150%. Capital Charge is calculated at 12.5%.

b) Investment in associate represent exposure to real estate and hence it is risk weighted at 200% for the purpose of calculating capital requirement.

c) Investment in unconsolidated subsidiary represent real estate exposure for social housing project and hence it is risk weighted at 50% as per CBB concession.

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

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

20. INTEREST RATE RISK IN THE BANKING BOOK

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

The Bank's current interest rate sensitive assets and liabilities are limited in nature with fixed maturity dates. The Bank adopts 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:

LIABILITIES	1-7 Days	7 Days - 1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 years	Total
Deposits from financial and other institutions	5,000	5,500	-	-	-	-	10,500
Term Loans	-	-	-	10,000	10,000	50,000	70,000
Rate sensitive Liabilities	**5,000**	**5,500**	**-**	**10,000**	**10,000**	**50,000**	**80,500**
ASSETS							
Balances and placements with financial institutions	15,582	2,500		-	-	-	18,082
Investment in Debt Securities	-	4,420	-	-	-	-	4,420
Rate sensitive Assets	**15,582**	**6,920**	**-**	**-**	**-**	**-**	**22,502**
Mismatch	**10,582**	**1,420**	**-**	**(10,000)**	**(10,000)**	**(50,000)**	**(57,998)**
	4	19	60	135	270	1,440	
Change in Basis Points (+/- 200)	2	1	-	(74)	(148)	(3,945)	(4,163)

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

21. AUDIT FEES

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.

22. CBB PENALTIES

The CBB penalties imposed upon the Bank during the year amounted to BD 140 related to Electronic Fund Transfer Services.

Composition of Capital Disclosure Requirements

31st December, 2018

Step 1 & 2

Particulars	FS	PIR	Ref
ASSETS			
Cash and balances at central banks	13,088	12,445	
Placements with banks and similar financial institutions	5,000	5,188	
of which Expected Credit Loss (stage 1 & 2)	6	-	a
Loans and advances to banks and non-banks	635,451	635,451	
of which Expected Credit Loss (stage 1 & 2)	2,940	-	a
Investment at fair value through other comprehensive income	4,865	4,865	
Investments at Amortized Cost	4,420	4,420	
Investment properties	51,018	51,018	
Interest in unconsolidated subsidiaries and associated companies - Note 1	5,254	13,655	
Interest receivable	543	543	
Property, plant, and equipment (PPE)	388	264	
Other Assets	52,635	33,764	
of which: intangible assets deducted from regulatory capital	0	496	b
Total Assets (3.1 to 3.10 inclusive)	**769,716**	**761,613**	
NON-CAPITAL LIABILITIES			
Deposits from banks	10,500	10,506	
Deposits from non-banks	1,862	1,856	
Certificates of deposits issued	-	-	
Debt securities in issue	-	-	
Financial liabilities at fair value through profit and loss	-	-	
Term borrowings	73,700	70,000	
Securities sold under repos	-	-	
Dividend payable	-	-	
Interest payable	412	368	
Other liabilities	399,427	398,647	
Total non-capital items (2.1 to 2.10 inclusive)	**485,901**	**481,377**	
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	22,007	22,007	e
Retained earnings/(losses) brought forward	69,114	69,199	f
Net (loss) for the current period	-	-	
Net profit for the current period	23,272	23,314	g
Innovative capital instruments	-	-	
Minority interest in subsidiaries' share capital	6,652	-	
Fx translation adjustment	-	-	
Fixed assets revaluation reserves	-	-	
Cumulative fair value changes on FVOCI investments	8	8	h
Expected credit losses (Stages 1 & 2)	-	2,946	
of which eligible for T2	-	1,762	
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)	**283,815**	**280,236**	
Total capital and non-capital items (1.18 + 2.11)	**769,716**	**761,613**	

Composition of Capital Disclosure Requirements

31st December, 2018

Note 1: Unconsolidated legal entity for regulatory purposes

Legal entity that are included within the accounting scope of consolidation but excluded from the regulatory scope of consolidation:

Legal Entity name	Principal activities	Entity classification as per CBB Rules & Guidelines	Treatment by the Bank for regulatory purposes	Extracts of financials as at 31 December 2018 (Amount in BD 000's)	
				Total assets	Total equity
Danat Al Luzi B.S.C (c)	The principal activities of the Company include management and development of private property, buying and selling of properties on behalf of the Bank and property development, leasing, management and maintenance.	Commercial entity	Risk weighted	19,689	15,076

Step 3: Composition of Capital Common Template (transition) as at 31 December 2018

	Common Equity Tier 1 capital: instruments and reserves	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
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	108,300		c
2	Retained earnings	69,199		f
3	Accumulated other comprehensive income (and other reserves)	99,783		d+e+g
4	Not Applicable			
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)			
6	Cumulative fair value changes on FVOCI investments (Equities)	8		h
7	**Common Equity Tier 1 capital before regulatory adjustments**	**277,290**		
	Common Equity Tier 1 capital: regulatory adjustments			
8	Prudential valuation adjustments			
9	Goodwill (net of related tax liability)			
10	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-	496	b
11	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)			
12	Cash-flow hedge reserve			
13	Shortfall of provisions to expected losses			
14	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)			
15	Not applicable.			
16	Defined-benefit pension fund net assets			
17	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)			
18	Reciprocal cross-holdings in common equity			

Composition of Capital Disclosure Requirements

31st December, 2018

	Common Equity Tier 1 capital: instruments and reserves	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
19	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)			
20	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)			
21	Mortgage servicing rights (amount above 10% threshold)			
22	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)			
23	Amount exceeding the 15% threshold			
24	of which: significant investments in the common stock of financials			
25	of which: mortgage servicing rights			
26	of which: deferred tax assets arising from temporary differences			
27	National specific regulatory adjustments			
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT			
	OF WHICH: Intangibles other than mortgage servicing rights	496		b
	OF WHICH: ...			
28	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover			
	deductions			
29	**Total regulatory adjustments to Common equity Tier 1**	**496**	**496**	
30	**Common Equity Tier 1 capital (CET1)**	**276,794**		
	Additional Tier 1 capital: instruments			
31	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus			
32	of which: classified as equity under applicable accounting standards			
33	of which: classified as liabilities under applicable accounting standards			
34	Directly issued capital instruments subject to phase out from Additional Tier 1			
35	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)			
36	of which: instruments issued by subsidiaries subject to phase out			
37	**Additional Tier 1 capital before regulatory adjustments**	**-**		
	Additional Tier 1 capital: regulatory adjustments	-		
38	Investments in own Additional Tier 1 instruments			
39	Reciprocal cross-holdings in Additional Tier 1 instruments			

Composition of Capital Disclosure Requirements

31st December, 2018

	Common Equity Tier 1 capital: instruments and reserves	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
40	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)			
41	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)			
42	National specific regulatory adjustments			
43	**Total regulatory adjustments to Additional Tier 1 capital**			
44	**Additional Tier 1 capital (AT1)**	**-**		
45	**Tier 1 capital (T1 = CET1 + AT1)**	**276,794**		
	Tier 2 capital: instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus			
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	-		a
51	**Tier 2 capital before regulatory adjustments**	**-**		
	Tier 2 capital: regulatory adjustments			
52	Investments in own Tier 2 instruments			
53	Reciprocal cross-holdings in Tier 2 instruments			
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold) .			
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)			
56	National specific regulatory adjustments			
	REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT			
	Of which: Expected Credit Losses (ECL) Stages 1 & 2 (1.25% of credit risk weighted assets)	1,762		a
57	**Total regulatory adjustments to Tier 2 capital**	**1,762**		**a**
58	**Tier 2 capital (T2)**	**1,762**		
59	**Total capital (TC = T1 + T2)**	**278,556**		
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT			

Composition of Capital Disclosure Requirements

31st December, 2018

	Common Equity Tier 1 capital: instruments and reserves	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
60	**Total risk weighted assets**	**191,314**		
	Capital ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	145%		
62	Tier 1 (as a percentage of risk weighted assets)	145%		
63	Total capital (as a percentage of risk weighted assets)	146%		
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%		
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)	145%		
	National minima including CCB (if different from Basel 3)			
69	CBB Common Equity Tier 1 minimum ratio	9%		
70	CBB Tier 1 minimum ratio	10.5%		
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)	-		a
77	Cap on inclusion of provisions in Tier 2 under standardised approach			
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			

Composition of Capital Disclosure Requirements

31st December, 2018

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 Kingdom of Bahrain
	Regulatory treatment	
4	Transitional CBB rules	CET1
5	Post-transitional CBB rules	CET1
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	Shareholder 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