Serving our customers.
Serving the economy.
Serving the nation.

Annual Report 2019

2030 البحرين
BAHRAIN

بنك الإسكان
ESKAN BANK

Content

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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"

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 ("EB" or the "Bank") was established in 1979, with a unique social role to provide subsidized mortgages for low-to-middle income citizens of the Kingdom of Bahrain, as well as engage in community-related property development activities and facilities management.

The Government of Bahrain is the sole owner of the Bank which acts as the Ministry of Housing's strategic partner and financial advisor. Both work together towards the continuous development of sustainable, best industry practice social housing programs and solutions that facilitate Bahraini citizens access to a quality family home in a safe community, strengthen the fabric of our society, and drive innovation and economic growth.

The Bank, over time, has evolved to become a facilitator that connects financiers, landlords, developers and homebuyers in an innovative and comprehensive ecosystem that is constantly being optimized to ensure a housing solution that is a global benchmark.

Today the Bank is contributing more than ever to the social housing agenda. As we move forward, we will remain focused on optimizing Government resources while exploring smarter business models that better support stakeholders, meet the housing needs of our citizens, and enrich lives.

Vision, Mission and Values

Vision

Lead in the provision of innovative and sustainable housing solutions.

Mission

> Work in collaboration with the Ministry of Housing and government bodies towards achieving the housing sector objectives of the Government of Bahrain.

> Strengthen 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.

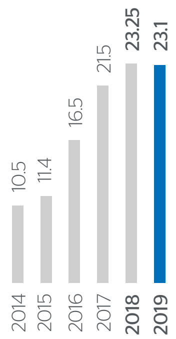
> Enhance the welfare and empower the Bank's human capital towards realizing its full potential.

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.

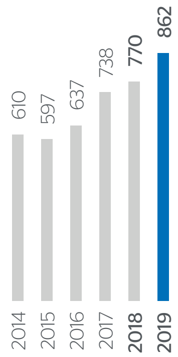
Financial Highlights

Net Income
(BD Million)



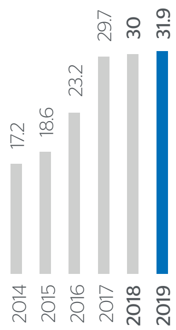
BD 23.1

Total Assets
(BD Million)



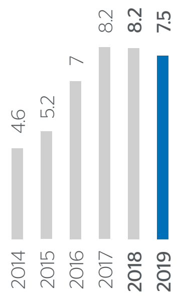
BD 862

Operating Income
(BD Million)



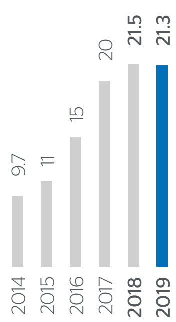
BD 31.9

Return on Equity
(%)



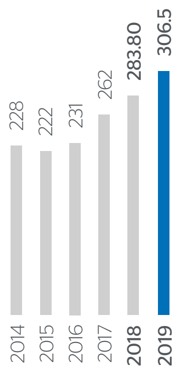
7.5%

Earnings per Share
(BD)



BD 21.3

Total Equity
(BD Million)



BD 306.5

Operational Highlights

Strengthened cooperation between the Bank, the Ministry of Housing and private sector banks is driving the Mazaya subsidized loan program and the development of new housing projects. More private sector banks committed to financing developments off plan through the Mazaya program, and an auction pilot project has been designed and rolled out towards developing a program to encourage more private sector involvement in building and selling social housing to citizens on Government land.

Serving the Nation, Together.

In cooperation with the Ministry of Housing and relevant stakeholders, the Bank expanded its financing product offerings, designing new, more flexible and empowering, social housing financing solutions with a focus on addressing the home ownership challenges of every segment of its targeted audience.

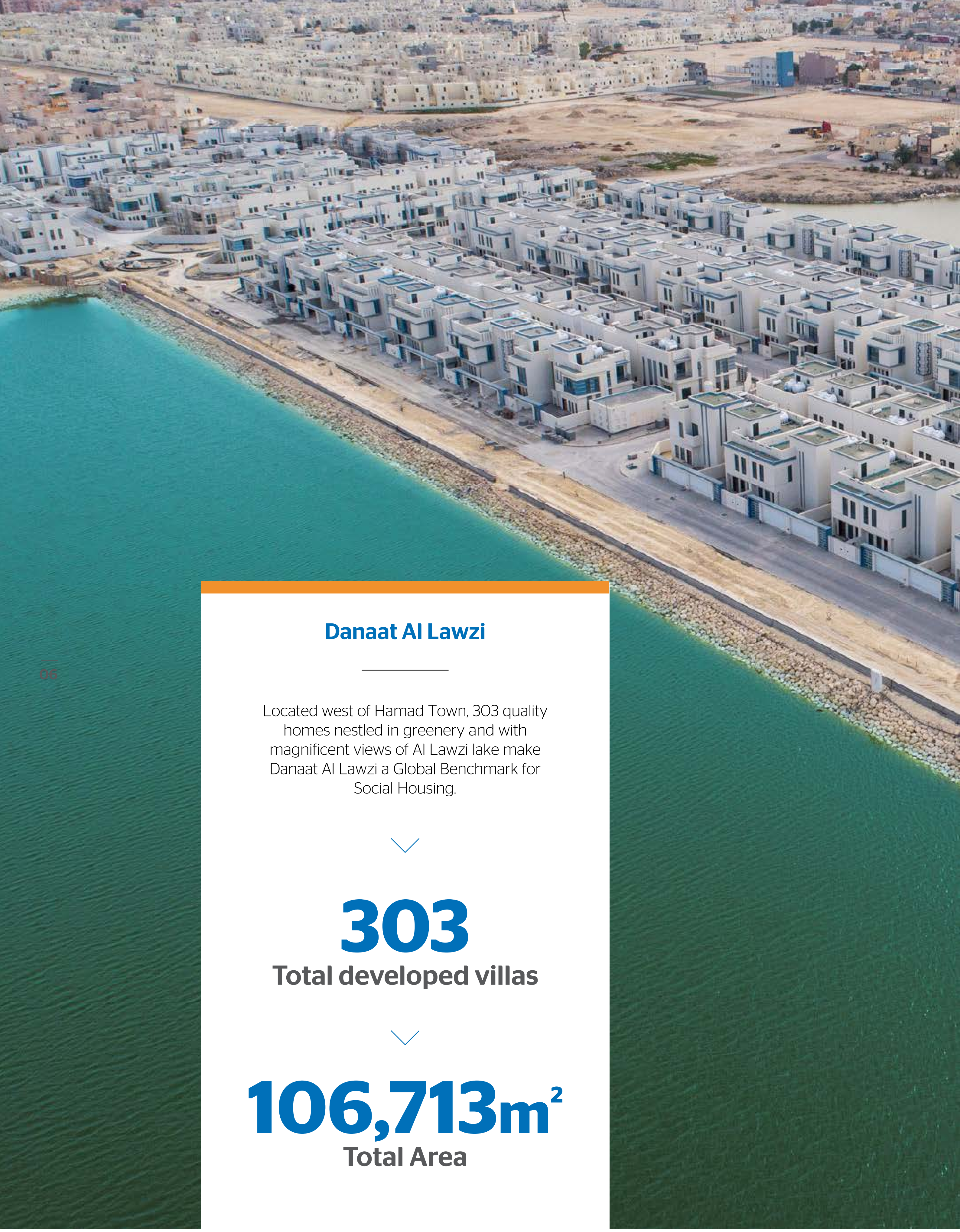
New Financing Schemes

The Bank streamlined processes to better serve the Ministry of Housing, Beneficiaries of the Mazaya Scheme, and the way it works with private sector financial institutions by automating the entire Mazaya process and rental subsidy application process. This has made the Bank more efficient; dramatically reducing processing times and ensuring Beneficiaries move into their new homes faster.

Faster & More Efficient

Construction on Danaat Al Lawzi villas is almost complete and a deal has been inked for Lulu Hypermarket to operate a supermarket built by the company to serve the community. Construction also is ahead of schedule on Danaat al Baraka; a milestone project that emphasizes Eskan Bank's evolution from an investor and developer to a facilitator of a sustainable social housing solution.

Building Communities



Danaat Al Lawzi

Located west of Hamad Town, 303 quality homes nestled in greenery and with magnificent views of Al Lawzi lake make Danaat Al Lawzi a Global Benchmark for Social Housing.

303
Total developed villas

106,713m²
Total Area

Chairman's Statement

"Eskan Bank continued to support the Ministry of Housing as its strategic financial advisory arm, focusing on serving Bahrain's citizens, driving economic growth, and facilitating the development of a sustainable social housing solution for the nation."

2019 witnessed elevated cooperation between the Bank, the Ministry of Housing and a growing network of private sector banks to ensure access to enhanced social loan offerings to Bahraini citizens, and the development of new social housing projects.

Eskan Bank continued to support the Ministry of Housing as its strategic financial advisory arm, focusing on serving Bahrain's citizens, driving economic growth, and facilitating the development of a sustainable social housing solution for the nation.

During the year, in support of the Government's strategic drive towards forging Public Private Partnerships (PPP's) and encouraging the private sector to play an increasing role in the development of a social housing model, a pioneering Auction Model Program (the "Model") was designed. The Model, which aims to mobilize government land and private sector resources, was well received by the private sector. The year saw the sector actively supporting the Kingdom's vision with more private sector financial institutions agreeing to finance developments off plan through the Mazaya program.

In line with an order by His Royal Highness Prince Salman bin Hamad Al Khalifa, Crown Prince, Deputy Supreme Commander and First Deputy Premier, and royal directives to distribute 5,000 housing units, and in step with the National Digitization Plan, Eskan Bank is digitizing its operations. In 2019, major milestones were achieved in his regard and the Bank is on track to achieve its 2020 vision of a fully digital operating platform from which to serve the nation more efficiently, effectively and faster.

As a result of our cooperative efforts, we have streamlined and enhanced workflows with the Ministry of Housing and Private Sector banks and have accelerated the booking of housing units allocated by the Ministry of Housing to Beneficiaries.

Despite maneuvering a challenging economic environment that posed a number of challenges in 2019, Eskan Bank was firm in its mission to reduce the financial burden on the Government and accelerate private sector growth.

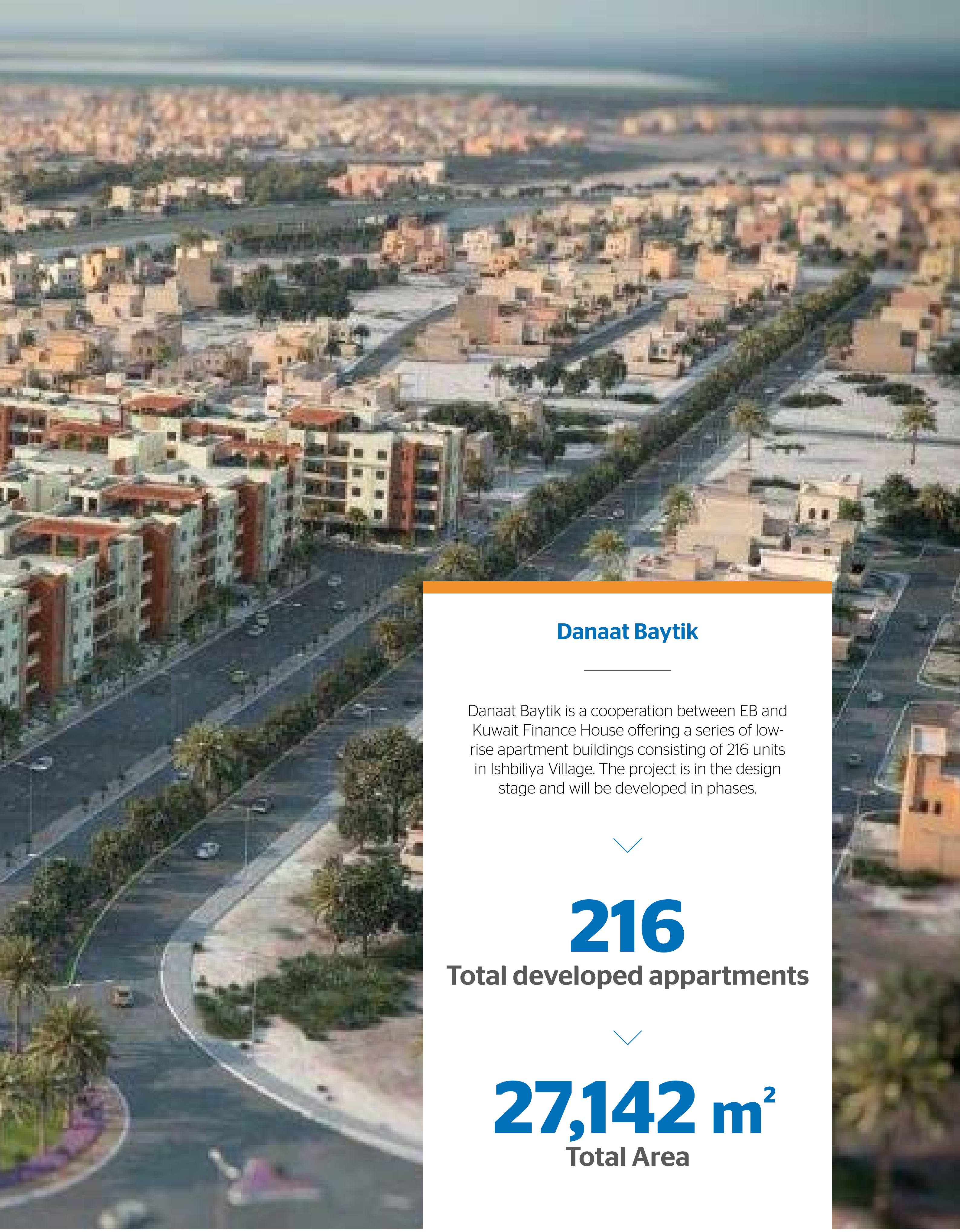
The Bank posted a total net income for 2019 of BD23.1 million (2018: BD23.2 million). Total expenses stood at BD 6.2 million, representing a decrease of 4.7% due to continued cost rationalization efforts.

As of 31 December 2019, total equity of the Bank stood at BD 306.5 million (2018: BD283.8 million), while the return on equity stood at 7.5%. The Bank's total balance sheet grew to BD862 million at the end of 2019, compared to BD770 million at the end of the previous year. Capital Adequacy Ratio remained significantly higher than the minimum requirement by CBB with the balance sheet continuing to boast healthy liquidity.

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.

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 remain directed.

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



Danaat Baytik

Danaat Baytik is a cooperation 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.

216
Total developed appartments

27,142 m²
Total Area

General Manager's Message

Eskan Bank continued to provide strategic financial advisory to the Ministry of Housing and support the Kingdom's socio-economic vision. We remained steadfast in our shared mission to provide appropriate social housing for citizens and access to suitable home financing options whilst reducing the financial burden on the Government and driving the nation's economic growth.

In cooperation with the Ministry, various government entities and the private sector, we are working to implement a national housing agenda where innovative thinking in financing, design and construction comes together to bring communities to life and provide safe, quality homes to citizens.

The Mazaya Scheme, which provides Ministry of Housing Beneficiaries with a Government subsidized real estate financing facility provided by private sector banks, was further optimized in 2019. Mazaya was designed in line with the Ministry of Housing's vision to create a support mechanism through participating banks and financial institutions in the private sector whilst also contributing to national economic growth in general and residential growth in particular.

The year underscored the Bank's unswerving commitment to citizens with the development of five new mortgage products. The new, more empowering and flexible solutions, which are set to be launched to the public in 2020, have been thoughtfully crafted to address the home ownership challenges of all segments of Bahrain society.

In order to support the Kingdom's socio-economic development vision and in coordination with the Ministry of Housing, Eskan Bank is seeking to increase the number of participating private sector real estate developers in order to meet the demand for social housing. The Auction Model Program, which is set to place its first tender in 2020 is aligned with this mission. During the year, Eskan Properties Company (EPC), together with the Ministry and other stakeholders, met with private sector developers to gain feedback on the proposed Model which received positive feedback.

Another notable achievement during the reporting period was more formalized commitment by private sector financial institutions to supporting social housing financing solutions by joining the Mazaya program. National Bank of Bahrain ("NBB") is now a key partner of the Mazaya Scheme, highlighting NBB's deep sense of responsibility in supporting national initiatives that further promote a sustainable nation.

New communities began to take shape in 2019 with progress on villa construction and infrastructure projects on track and some ahead of schedule.

As we move into a new decade, the Bank is well positioned to continue its support as the strategic financial advisory arm of the Ministry of Housing. Enhanced cooperation between the Bank, the Ministry of Housing and a growing network of private sector banks will ensure funds are available for enhanced social loan offerings and the development of new social housing projects.

I would like to acknowledge the guidance and support that we continue to receive from our Government of Bahrain, and our Chairman and Directors. I extend my gratitude to the private sector for their support in the social housing sector, and to Eskan Bank's management and staff for their dedication and professionalism. I look forward to sharing further successes in 2020.

Dr. Khalid Abdulla
General Manager

The year underscored the Bank's unswerving commitment to citizens with the development of five new mortgage products. The new, more empowering and flexible solutions, which are set to be launched to the public in 2020.

Board of Directors

Our board of directors provides strong strategic leadership and high-level oversight to help support the successful execution of Eskan Bank growth strategies.

1 H.E. ENG. BASIM BIN YACOB AL HAMER
Minister of Housing, Chairman
Chairman of Remuneration, Nomination and Corporate Governance Committee
Non-Independent Director

2 MR. MOHAMMED A.R. HUSSAIN BUCHEERI
Vice Chairman and Chairman of Executive Committee
Independent Non-Executive Director

3 MR. YUSUF ABDULLA TAQI
Board Member, Member of Remuneration, Nomination and Corporate Governance Committee
Independent Non-Executive Director

4 DR. ZAKAREYA SULTAN AL ABBASI
Board Member, Member of the Audit Committee
Independent Non-Executive Director

5 DR. RIYAD SALEH AL SAEI
Board Member, Vice Chairman of the Executive Committee, and Member of the Remuneration, Nomination and Corporate Governance Committee
Independent Non-Executive Director

6 MRS. NAJLA MOHAMMED AL SHIRAWI
Board Member, Chairperson of Audit Committee
Independent Non-Executive Director

7 MRS. RANA EBRAHIM FAQIHI
Board Member, Member of Executive Committee
Independent Non-Executive Director

8 MR. KAMAL MURAD ALI MURAD
Board Member, Member of Executive Committee
Independent Non-Executive Director

9 SHEIKH MOHAMMED BIN IBRAHIM AL KHALIFA
Board Member, Member of the Audit Committee
Independent Non-Executive Director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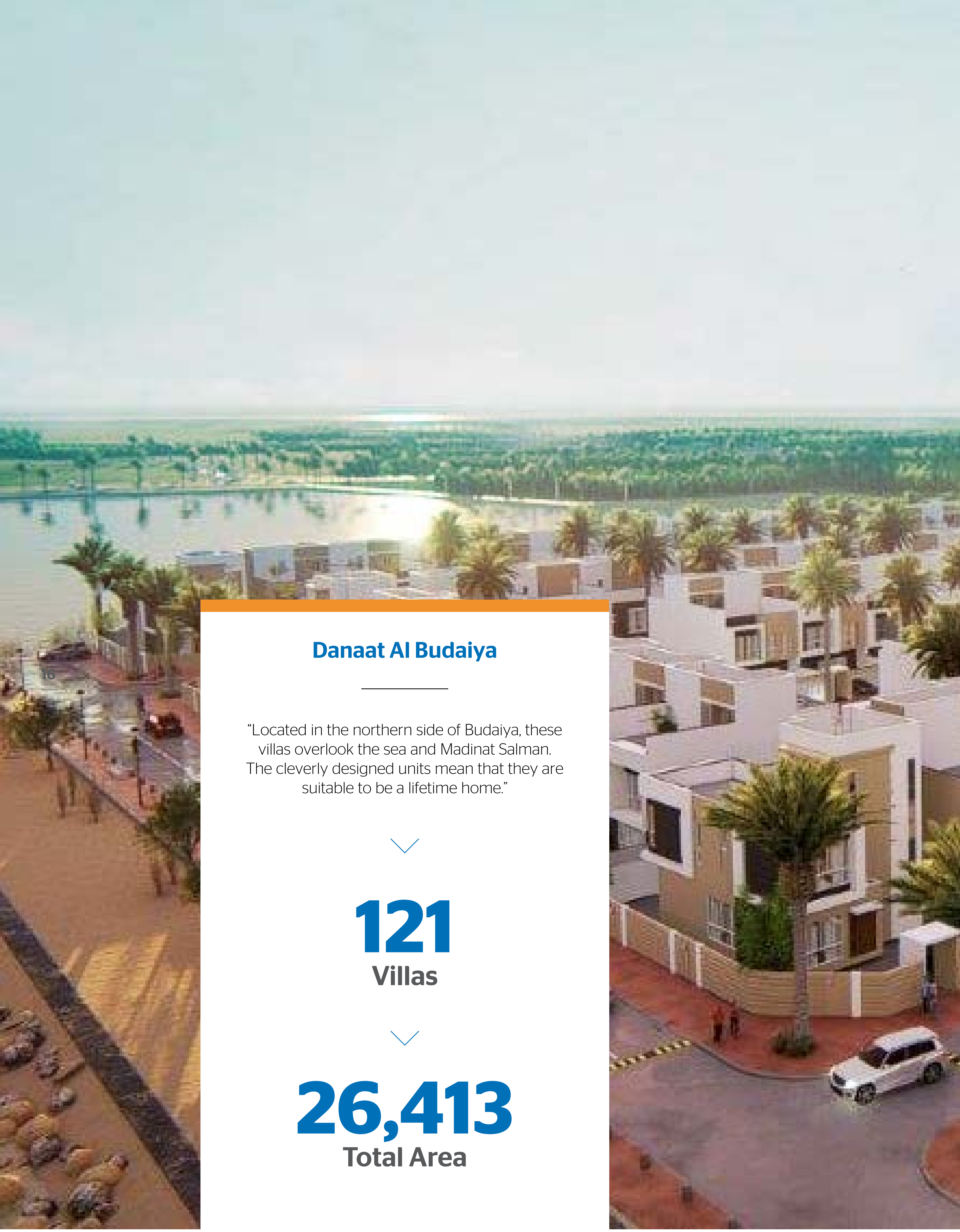


Danaat Al Budaiya

"Located in the northern side of Budaiya, these villas overlook the sea and Madinat Salman. The cleverly designed units mean that they are suitable to be a lifetime home."

121
Villas

26,413
Total Area

Review of Operations

Financial Performance

Despite maneuvering a challenging economic environment that posed a number of challenges in 2019, Eskan Bank was firm in its mission to reduce the financial burden on the Government and accelerate private sector involvement in the social housing agenda. However, factors such as a downward pressure on retail rents and an oversupply of rental properties, in addition to a delay in the delivery of Danaat Al Lawzi and increased capital expenditure by Eskan Bank's Realty Income Trust, impacted financial performance.

Notwithstanding this less than ideal scenario, the Bank focused on effective liquidity management that revolved around increasing the portfolio of social housing loans. The growth in the mortgage portfolio was partly netted by provisions on investments however the Bank's continued cost efficiency drive ensured it remained one of the most efficient banks in the Kingdom with a consistently low cost to income ratio.

Aligned with reducing financial pressure on the Government, the Bank provided financial advisory and arranged BD185 million debt the Ministry of Housing towards the acquisition of 1,406 housing units in Deerat Al Oyoun.

The Bank posted a total net income of BD23.1 million (2018: BD23.2 million). Total expenses stood at BD 6.2 million, representing a decrease of 4.7% due to continued cost rationalization efforts.

As of 31 December 2019, total equity of the Bank stood at BD 306.5 million (2018: BD283.8 million), while the return on equity stood at 7.5%. The Bank's total balance sheet grew to BD862 million at the end of 2019, compared to BD770 million at the end of the previous year, and the Capital Adequacy Ratio improved to 156.8%, with the balance sheet continuing to boast healthy liquidity.

As we move into 2020, the Bank is well positioned to continue its support as the strategic and financial advisory arm

Retail Banking focused on enhancing the effectiveness and efficiency of the Bank's retail banking services in an effort to make the process of achieving home ownership easier for citizens and to fast track the reduction of the Ministry of Housing's Beneficiaries List.

Review of Operations (continued)

of the Ministry of Housing. Elevated cooperation between the Bank, the Ministry of Housing and the arrangement of BD 150 million in new financing for the Bank will ensure funds are available for the enhanced social loan offerings and the development of new social housing projects. Income from project sales, particularly that of Danaat al Lawzi, is expected to further support the Bank's robust financial position and maintain Eskan Bank on a positive growth trajectory in the medium term.

Financial Control

The Financial Control Department (FCD) plays a pivotal role in financial & regulatory reporting, budgeting, business planning, strategic analysis, payment control and internal control. During the reporting period, FCD successfully implemented various regulatory and financial reporting requirements. FCD worked with consultants to support the timely completion of the Central Bank of Bahrain (CBB) requirements related to the implementation of the Liquidity Risk Management Module. The Department managed VAT implementation and VAT Group Registration for the Bank and its subsidiaries, and successfully submitted the Group's first VAT Return in 2019. FCD also actively supported the Bank's strategy review process through the development of various scenarios and extended its full support in initiating the Bank's new Facility Management service for Ministry of Housing buildings at multiple locations.

FCD was instrumental in assisting the Banking Division in evaluating the terms and structure of a new BD150 million financing facility. It also played a pivotal role in gaining approval for the capitalization of retained earnings for the Bank and for a subsidiary in order to strengthen Eskan Bank's stable capital base.

During the year, FCD also supported the streamlining of operational risk reporting and monitoring processes in coordination with Risk Management Department which enhanced the Bank's internal control environment.

Financial institutions & Government Programs

Eskan Bank adapts to the changing needs of the government and its citizens by continuously developing its products and services. In 2019, in cooperation with the Ministry of Housing and various government entities, the Financial Institutions & Government Programs Department utilized data gathered from its targeted audience to design sustainable social housing financing solutions with a focus on creating workable schemes that are attractive and flexible to its target audience.

The year witnessed further optimization of the Mazaya Scheme through a Business Process Reengineering (BPR) project which automated the entire Mazaya process. As well as enhancing the efficiency of the Bank, the initiative dramatically reduced processing times and ensured Beneficiaries move into their new homes much faster.

Also, and underscoring the Bank's commitment to citizens, 2019 witnessed extensive research and development of the Bank's financing products offerings, with five new mortgage products set to be launched to the targeted audience in 2020. The new, more flexible and empowering solutions, support citizens who have incomes on the lower end of the spectrum.

Private sector involvement remained a key focus during the year. The Auction Model Program, which will mobilize government land and private sector resources, placed its first tender in December 2019, while more private sector financial institutions formalized their commitment to supporting social housing financing solutions and agreeing to finance developments off plan through the Mazaya program.

Retail Banking

Aligned with the Bank's digitization journey and in line with an order by His Royal Highness Prince Salman bin Hamad Al Khalifa, Crown Prince, Deputy Supreme Commander and First Deputy Premier, and royal directives to distribute 5,000 housing units, Retail Banking focused on enhancing the effectiveness and efficiency of the Bank's retail banking services in an effort to make the process of achieving home ownership easier for citizens and to fast track the reduction of the Ministry of Housing's Beneficiaries List.

With this goal in mind, a major Business Process Re-engineering (BPO) project was conducted that successfully automated the entire process of Mazaya. The automation has effectively streamlined collaboration between Mazaya stakeholders including the Ministry of Housing, the eight participating private sector financial institutions and Beneficiaries. It has also greatly enhanced overall Bank efficiency with better utilization of resources resulting in improved turnaround times. This means citizens can now move in their new homes faster.

Retail Banking also successfully incorporated Real Estate Regulatory Authority (RERA) certifications into its System to facilitate faster processes and procedures in relation to the distribution of homes to Beneficiaries.

In addition, Retail Banking continued to enhance its other product offering and provide value-added services to its customers such as the provision of fire insurance, inspections, title deed requests, settling of loans and other post loans services.

Marketing

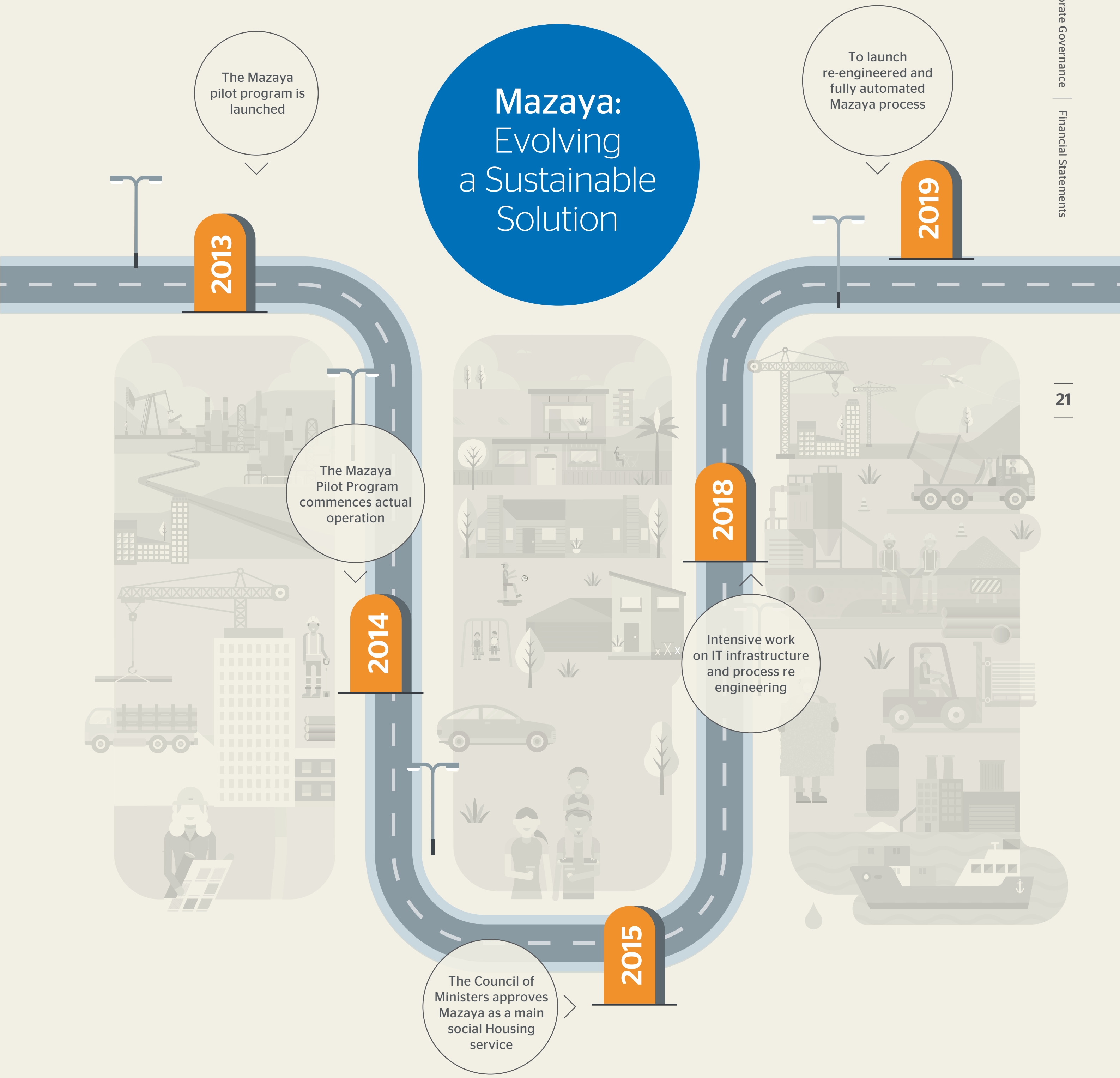
The marketing team was actively planning the launch of a number of projects during 2019, while pursuing the Marketing of other projects under construction.

During the year, marketing milestones were achieved for Danaat Al Lawzi ("DAL") project, which is comprised of 303 villas under construction in Hamad Town (Al Lawzi Area). Danaat Al Lawzi is earmarked for delivery in April 2020.

A marketing strategy and campaign was developed for Deerat Al Oyoun, a residential development located in the heart of Diyar Al Muharraq that is set to be launched in Q1 of 2020.

Mazaya Infographic

Launched in 2013, Mazaya, allows citizens to avail of a government subsidized mortgage from participating banks, and continues to benefit beneficiaries on the Ministry's waiting list, to avail of an immediate housing service.



Review of Operations (continued)

Serving our customers.

Marketing activities were also initiated for Danaat Al Baraka project. The Project, which was established and financed by Al Baraka Islamic Bank in partnership with investors from the private sector, is comprised of 211 housing units. Danaat Al Baraka is planned for delivery to owners at the end of 2020.

Projects & Property Management

Projects

2019 saw Eskan Properties Company (EPC) evolve its role as a partner with the Ministry of Housing; remaining a key player in facilitating effective Public Private Partnerships.

EPC, together with the Ministry and other stakeholders, held rounds of discussions with private sector developers to seek their feedback on the new Government Land Development Programme (the "GLDP") an auction programme for the development of the Ministry of Housing's lands. The GLDP's first auction was for 132 units at Al Lawzi project launched in 2019, was met with a very positive response.

Highlights of the reporting period include reaching 100% construction completion on the Danaat Al Lawzi villas awaiting the completion of infrastructure and finalization of a lease agreement with anchor tenant, Lulu Hypermarket. Work continues on enhancing the development's infrastructure which is projected to be completed in early 2020.

The Danaat Al Lawzi Project is a tie-up with a private sector landowner and the Bank to build 303 villas and a community center located at Al Lawzi area, west of Hamad Town. Bookings have already begun, and the project villas will be primarily sold to Mazaya beneficiaries.

Construction is ahead of schedule in Danaat Al Baraka, a milestone project that emphasizes Eskan Bank's evolution from an investor and developer to a facilitator. EPC is the Development Manager of the Project, which comprises of 211 housing units in Jannusan in the Northern Region of Bahrain.

Danaat Al Baraka is being developed in partnership between investors from the private sector and Al Baraka Islamic Bank BSC (c) with Kuwait Finance House financing part of the BHD 17 million project, which is a self-contained residential project boasting quality homes.

Three community projects, designed to serve social housing projects where completed in 2019. These community projects include 2 developments in Hamad Town and 1 in Al Lawzi these projects are managed by EPC's project and Facilities Management Division.

During the year, reclamation tenders went out for Bandar Al Sayah and Danaat Al Sayah developments, a vertical waterfront community development located west of Busaiteen in Al Sayah District. Danaat Al Sayah will feature

Review of Operations (continued)

2019 witnessed elevated cooperation between the Bank, the Ministry of Housing and a growing network of private sector banks to ensure access to enhanced social loan offerings to Bahraini citizens, and the development of new social housing projects.

Auction Model Program

During the year, in support of the Government's strategic drive towards forging Public Private Partnerships (PPP's) and encouraging the private sector to play an increasing role in the development of a social housing model, a pioneering Auction Model Program (the "Model") was designed.

Digitizing operation

In line with an order by His Royal Highness Prince Salman bin Hamad Al Khalifa, Crown Prince, Deputy Supreme Commander and First Deputy Premier, and royal directives to distribute 5,000 housing units, and in step with the National Digitization Plan, Eskan Bank is digitizing its operations. In 2019, major milestones were achieved in this regard and the Bank is on track to achieve its 2020 vision of a fully digital operating platform from which to serve the nation more efficiently, effectively and faster around 4,000 housing units in a number of 10-storey buildings serving the mid-income population, while Bandar Al Sayah will include a mix of commercial, residential, entertainment developments nestled near beautiful beaches and a canal. Reclamation work is expected to start in the 2nd Quarter of 2020.

Danaat Baytik

Danaat Baytik is a corporation between EB and Kuwait Finance House offering a series of low-rise apartment buildings consisting of 216 units in Ishbiliya Village. The project is currently in the design stage and a sales office and show flats have been constructed on site. Depending on homebuyers' interest, the project will be developed in phases.

Busaiteen shopping center

Tendered for construction in 2019 with construction set to commence early 2020 and completion mid 2021.

Al Ramli Project

Design works have commenced with construction planned to begin in the fourth quarter of 2020 on Ministry of housing land.

Danaat Al Hoora

Part of the redevelopment programme for old housing units owned by the Ministry, Daanat Al Hoora is a residential project comprised of 132 apartments housed in 10-storey buildings, with a car park for the residents and a retail area. Tendering for project design will begin early 2020.

Danaat Al Istiqlal

Comprised of 502 residential apartments, the project's design phase will start in 2020.

Bandar and Danaat Al Sayah

Reclamation works will begin in the second quarter of 2020.

Danaat Al Budaiya

A project consisting of 121 villas located opposite Medinat Salman on private sector land. Construction of Danaat al Budaiya is planned to commence in the second quarter of 2020.

Property & Facility Management

Eskan Bank through Eskan properties Company extended full-fledged facility management services to the Ministry of Housing's portfolio of vertical developments during 2019 whilst laying the foundation for the future self-sustainability of each vertical development through the establishment and education of beneficiaries Associations.

The facilities management services beingdelivered by Property & Facility Management ("PFM") has grown substantially with more than 600 units being serviced in 2019. The provision of the services, which include cleaning of common areas, lighting, security, property insurance, and maintenance services, is highly subsidized by the Government with a minimal amount being directly debited from the beneficiaries account on a monthly basis.

During the reporting period, PFM department provided full assistance to Beneficiaries Association's (BA) which it has previously set up with a focus on educating the BA Board of Directors for each development on best industry practices. An initiative designed to ensure the future self-sustainability of Ministry vertical development projects.

Asset Management

Eskan Bank Realty Income Trust ("EBRIT" or the "Trust") was listed on the Bahrain Bourse on 2 January 2017 and has since been the only publicly tradeable Real Estate Investment Trust ("REIT") in the Kingdom. The Trust owns a diversified portfolio of offices, residential apartments, and shops in two locations in Bahrain, namely Segaya, Manama and Isa Town, within the respective developments known as Segaya Plaza and Danaat Al Madina. Since its establishment as a Shari'ah-compliant REIT, the Trust has not utilized any debt, and has successfully paid out 6% in net distributions to unitholders, in each of 2017 and 2018.

2019 year was a challenging year for the Trust as the single tenant of its 105 residential apartments in Segaya Plaza terminated its lease as of May 2019, for the sake of implementing cost cutting measures. EBRIT subsequently required to initiate a comprehensive refurbishment project to the property to ensure the property stands out and attracts tenants, especially in such a competitive market. The Trust subsequently re-offered the apartments for rental in the open market within just 10 weeks, starting in August 2019.

The refurbishment included repainting the common areas and the apartments, refurnishing, upgrading appliances, and upgrading the communal facilities of the property including the roof-top swimming pool and gym area. Energy efficiency enhancements were also implemented, with a full replacement of conventional lighting to LED and the use of automatic timers.

Within five months from reintroducing the property to the market, 41 apartments have been rented out to 41 independent tenants, diluting the concentration risk of any single tenant defaults or terminations that the property was previously subjected to. Rental rates for the apartments have also remained largely in line with the rates charged to the previous tenant. The property's 15 shops witnessed some turnover in its tenants as well, stemming from the significant new supply of retail units both nearby and across Bahrain, which has resulted in an approximate 30% reduction in headline rents for these shops. Segaya Plaza maintains a 93% occupancy of the shops but headwinds continue to result in tenant turnover and pressure on unit rental rates.

With the current residential occupancy of Segaya Plaza standing at 39% and Danaat Al Madina at 86%, the Bank acting as investment manager, is focusing on additional ways to boost occupancy and to further reduce operational and overhead costs to free up funds for distribution.

Risk Management

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

During the reporting period, the Bank's Risk Management practices were strengthened and enhanced in line with the latest guidelines published by Basel Committee for Banking Supervision and the Central Bank of Bahrain (CBB).

Review of Operations (continued)

Serving the economy.

The Remedial & Collections department launched a new "Collections System" to augment collections in a timely manner and facilitate better control oversight.

The Credit Administration Department continues to provide robust 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 ("RMF"). The fundamental principle underlying the RMF is to ensure that accepted risks are within the Board approved risk appetite. The RMF 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 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.

The overall authority for risk management in the Bank is vested in the Board of Directors. A Board Audit and Risk Committee at Board level is in place to provide oversight and advice to the Board of Directors on all relevant matters. The Board authorizes appropriate credit, operational, liquidity, market and information security risk policies based on the recommendation of management. Moreover, the Bank has established various management-level committees to address different areas of risk.

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 2019, the Bank managed the implementation of the e-KYC system to enhance customer due diligence and Know Your Customer ("KYC") requirements. Compliance with applicable regulatory requirements remains an ongoing process, and the Bank is conscious of its responsibilities

Review of Operations (continued)

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 and 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.

Information Security

In line with the Bank's proactive approach to information security and it's positioning as an early adopter of a cloud-based security information and event management solution was implemented during the year. The System utilizes artificial intelligence to effectively manage the information and cyber security risks facing the bank and identifies and alerts the Bank of any abnormal activity 24/7/365. A Cloud based Security Scorecard solution was also implemented that monitors the entire Banks' Internet services and report any vulnerabilities.

During the reporting period, information security policies and procedures were reviewed and updated to ensure full compliance with the CBB's regulatory requirements for cyber security.

Underscoring its commitment to continuously elevating the Bank's Information Security system, the Bank underwent recertification of ISO 27001:2013 standard for Information Security Management.

Information Security is in the process of establishing an information security KPI & KRI dashboard modelled on ISO 27004 standard designed to monitor Bank information security and provide a snapshot of the Bank's 'Security posture' that will be clear for all internal stakeholders. Going forward, Information Security will continue to innovate and strive towards achieving optimal Information Security as we progress towards a Digital Economy.

Business Continuity

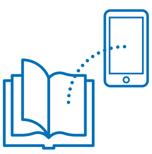
In terms of Business continuity, the Bank achieved ISO 22301:2012 certification standard for the Bank's business continuity management system. A comprehensive Business Impact Analysis was conducted on Bank processes in order to identify changes to the critical business processes. Business Recovery documents updated for the critical business processes during the exercise. Parallel Testing exercise conducted on 10 January 2019 at the business continuity management center in Danat 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. Three-year recertification cycle for ISO 9001:2015 standard for the Bank's quality management system shall start from March 2020. In preparation for the recertification, internal quality audits were carried out against the established policies, procedures and ISO 9001:2015 standard.

Utilizing the opportunity presented for recertification for ISO 9001:2015, a project initiated to integrate the thee management systems certifications towards ISO 9001:2015, 27001:2013 and 22301:2012 for which the Bank is currently certified. Integrated management system certifications shall contribute to optimized implementation of the three management systems standards at the Bank.

In 2019, the Bank managed the implementation of the e-KYC system to enhance customer due diligence and Know Your Customer ("KYC") requirements.



Information Technology

United with the National Digitization Plan and the Ministry of Housing's digital transformation journey, Information Technology drove the Bank's automation and digitization in 2019. As the Bank moves towards the digital era and a 'Cashless Economy' as mandated by the CBB, information Technology is focusing on customer first technologies that drive customer engagement and improve the efficient and effective delivery of products and services to citizens.

Information Technology Initiatives included the implementation of new systems to support the delivery of the enhanced Mazaya Scheme, including the full automation of the end to end Mazaya process, and technological enhancements to support the delivery of the new mortgage financing products.

Also aligned with a push towards automation and efficiency, an interface developed to manage the processing of rental subsidies went live in 2019 resulting in the full application process now fully automated.

The year saw issues related to the 2018 implementation of the Bank's new core banking system resolved and Phase 2 initiated. As per the Government mandate to report all salary transfers, the first phase of the Wages Protection System was completed while a new Remedial Workflow System, which automates the collections process, also went live.

Ensuring Eskan Bank is "Fintech Ready" also remained a key focus with the Bank successfully complying with regulatory requirements and becoming Open Banking ready in 2019, a substantial milestone in the Bank's digital transformation. Other cutting-edge customer technologies are planned for implementation in 2020.

Operations

In order to meet the extraordinary increase in social housing loan applications, in part driven by Royal Directives to expedite housing unit allocations, 2019 saw the Bank further automate and elevate its operations. The focus was on streamlining and enhancing workflows with the Ministry of Housing and Private Sector banks and meeting the control aspects required by Regulators and Auditors in an effort to accelerate the booking of housing units allocated by the Ministry of Housing to Beneficiaries.

As a result of the Bank's efficiency push, more is now being achieved with less resources. The Bank is managing a massive increase in social housing and a 50% increase in Mazaya applications without additional resources. This is attributable to an effective Business Process Reengineering (BPR) exercise where ten procedures were reengineered and efforts towards automation were introduced. This substantially reduced application turnaround times and enhanced the customer experience by minimizing manual processes. Facilities Management services processes were also successfully launched in August 2019.

An exercise was carried out on behalf of the Ministry of Housing to update the IBAN accounts for approximately 79,000 Beneficiaries in 27 banks in Bahrain. These will support directly crediting Ministry of Housing rental subsidy allowances to Beneficiaries bank accounts by EFTS.

During the year, major issues related to the implementation of the new Core Banking System were resolved and phase 2 was initiated, with testing now in progress. In addition, the Department also reduced Bank printing by 80% through the implementation of digital statements, an initiative that is not only more efficient, but also reduces Eskan Bank's carbon footprint towards a more sustainable bank.

The Bank has built a robust operational foundation in 2019 and is on track to achieve its 2020 vision of enabling a fully digital operating platform to better serve the citizens of Bahrain. Further enhancement will continue in 2020 to review and regularize the database to ensure customer information is up to date.

Human Resources

The Human Resources department remained a key facilitator of the Bank's strategic success in 2019 with a focus on delivering optimal levels of quality, operational effectiveness and training and development opportunities. Emphasizing the Bank's commitment to nurturing the kingdom's talent, Bahrainization levels remained at an impressive 91.3% (2018:90.8%) in 2019.

The Bank remained invested in its people with numerous training and development opportunities conducted throughout the year. A large number of employees participated in both in-house, external and online training programs with a substantial number of employees taking advantage of training programs offered by Tamkeen. In-house awareness sessions included those on Social Insurance, Recycling, Community Partnerships in the fight against drugs, and Fire Fighting and First Aid Awareness with in-house training on Information Security & Business Continuity, AML, and Individual Insurance Products also conducted. Online training was also provided to employees with new offerings of short and long courses covering various fields of learning.

During the year the Bank's Performance Appraisal System was also enhanced to provide more clarity and comprehensiveness when defining competencies. In addition, an Individual Training Needs Analysis (TNA) was completed with an Individual GAP analysis conducted for all successors, as per the Annual Succession Plan required by the Central Bank of Bahrain (CBB). Aligned with this plan, a number of positions in the Bank were filled through internal hiring.

Eskan Bank is dedicated to creating a transparent environment where employees feel supported and are encouraged to reach their full potential. The Human Resources Department designs programs that reward, recognize and engage employees. In 2019 these included 'Employee of the Month', Loyalty and Long Service Awards to name a few, as well as the Introduction of new non-cash benefits such as 2 hours leave on employee special occasions such as birthdays and anniversaries. A new initiative also provided employees with the opportunity to provide face to face feedback with the Bank's Executive Management.

The Bank's Early Retirement Scheme, which was initiated in 2017, continued to be a successful program that supported cost rationalization, enhanced succession planning schemes, and positively impacted the Bank's financial position.

Review of Operations (continued)

Serving the nation

Corporate Communications

Eskan Bank has developed a positive work environment that is conducive to collaboration, innovation and embraces change. The Bank's corporate culture is encouraged through transparency and effective communications. In 2019, the Bank's Corporate Communications Department continued to support Eskan Bank and its subsidiaries, ensuring transparency and effective communications within the Bank and between the Bank, its partners and the community.

Internally, Corporate Communications supported effective information sharing throughout all levels of the Bank via the Intranet, Newsletter and the dissemination of memos. Externally, Corporate Communications remained in touch with the public through press releases and ensuring responsiveness to feedback from the public. The Department also championed the production of a number of publications such as the annual report, calendars, diaries, and other booklets.

Various events and initiatives were also held during the year including an award ceremony for the 6th Creative Engineering Award, held under the theme "Sustainable Neighborhoods & Smart Design". The annual award, which encourages Bahrain's future Engineers and youth to play a key role in the national housing and urban development scheme, recognized three winners at an event under the patronage of HE the Minister of Housing. During the event the 7th edition of the award was also launched. Furthermore, Corporate Communications, in partnership with Human Resources, supported various employee engagement events including Long Service, 'Employee of the Month', Labor Day, Ramadan, National Day and Bahraini Women's Day. A 'Health Day' was also arranged for employees in cooperation with the Ministry of Health, the Ram Center and Al Hilal Hospital in addition to various sessions, including a drug awareness talk.

Aligned with the Bank's dedication to community investment, the Department also championed programs that support the wellbeing of the community and our more vulnerable members of society, such as a Blood Drive, in collaboration with the King Hamad University Hospital Blood Bank, and numerous sponsorships and donations.

Subsidiaries, Associates and Strategic Investment

Subsidiaries

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

The Bank owns 100% in Eskan Properties Company (EPC) which is registered in the Kingdom of Bahrain, to successfully execute the various housing and community projects being takenup. 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.

Danaat Al Lawzi Company B.S.C (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. (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 17.1% stake.

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 35.2% 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 B.S.C. (c)

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

Ahmad Tayara
Chief Business Officer and Deputy General Manager

Parween Ali
Head of Retail Banking

Samar Agaiby
Head of Financial Institutions and Government Relations

Adnan Fathalla Janahi
Head of Human Resources, Administration & Corporate Communications

Muhammed Saeed Butt
Head of Financial Control

Vijayan Govindarajan
Head of Risk Management

Deepak Patel
Head of Operations

Aqeel Mayoof
Head of Information Technology

Hani Nayem
Head of Internal Audit

Haifa Al Madani
Head of Legal and Corporate Secretary

Fadhel Hashemi
Senior Manager Remedial & Collection

Eskan Properties Company

Eyad Obaid
General Manager

Amal Al Aradi
Head of Property & Facility Management

Hasan Abdulrahim
Senior Project Manager

Eyad Faisal
Senior Project Manager

Corporate Governance Report

1. Corporate Governance Policy

Eskan Bank's "EB" or "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 "CBB" and the Decree No. (19) of 2018 concerning the issuance of the Corporate Governance Code issued by the Ministry of Industry, Commerce and Tourism in 2018. The Board also ensures that the Bank's business is conducted professionally 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 and Risk Committee regularly reviews the Bank's policies approved by the Board of Directors to ensure that the Bank's Corporate Governance Policy is constantly updated and is in-line with the new relevant laws and regulations.

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 and National Economy, Ministry of Industry, Commerce, and Tourism and the CBB.

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 existing Board has been appointed by virtue of Cabinet Decree No. 20 of 2018 dated 15 July 2018 for three years, 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 subject to renewal, in addition to the Minister of Housing as the Chairman.

• Board Member's Remunerations

The remuneration (consist the setting fees) of the chairperson and members of the Board has been regulated and disbursed pursuant to the Cabinet Decree, which has been capped at BD 8,000 on annual basis for each director, according to last paragraph at Article No. (11) of the Legislative Decree No. 4 of 1979 with respect to the establishment of the Eskan Bank amended by Law No. 75 of 2006, which stipulates that the Board's chairperson, vice chairperson and members shall be determined upon approval from the Cabinet of Ministers.

During the year 2019, the Bank has paid setting fees a total of BD 65,000/- to the chairperson and members for attending Board and Board committees meetings, including an amount of BD 3,000/- that has been paid to the chairperson and members of the Remuneration, Nomination & Corporate Governance Committee for same period.

• 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 CBB.

• 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, as well as 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, appointment of external auditors and the implementation of corporate ethics and the code of conduct. In addition, the Board is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, monitoring management and the running of the business according to the 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 review the policy on periodic basis.

• 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.

During the Board meetings took place in 2019, two (2) directors have abstained from voting on two (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.

• Annual Disclosure for Controlled Functions Persons

The Bank has maintained a requirement within the adopted Corporate Governance Policy, for the annual disclosure to the Board of Directors, regarding the employment of relatives of the approved persons occupying controlled functions within Bank.

Pursuant to this section, the General Manager has disclosed to the Board of Directors that there are no relatives of any member occupying approved person in-controlled functions within the Bank for the year 2019.

• 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 the year 2019 to the Board members, for the purpose of evaluating performance of Board of Directors and committees for the year 2019. It has been scheduled to discuss the presented forms during the upcoming board meetings.

Corporate Governance Report 2019 (continued)

4. Board Committees

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

- **Board Committees Composition, Roles and Responsibilities**

Executive Committee	
Members: 1- Mr. Mohammed Hussein Bucheeri (Chairperson) 2- Dr. 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 2019). • 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 of 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 and Risk Committee

Members:

1- Mrs. Najla Mohamed Al – Shirawi (Chairman)

2- Dr. Zakaria Sultan Mohammed Al-Abbasi

3- Sh. Mohamed bin Ibrahim Al-Khalifa

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 five meetings during the year 2019)
- At least two members are required to attend the meetings to ensure a quorum.
- General Manager and concerned Chiefs, Heads and Managers are invited to attend the meetings (if required).
- The committee should meet at least twice with the external auditor in the absence of the Bank's executive management.

Summary of responsibilities:

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

Remuneration, Nomination & Corporate Governance Committee

Members:

1- H.E. Eng. Basim bin Yacob Al Hamer (Chairman)

2- Mr. Yusuf Abdullah Mohammed Taqi

3- Dr. Riyad Saleh Al Saei

Summary terms of reference:

- The committee is formed with a minimum of three members, which consists mostly of independent non-executive members to be appointed by the Board.
- A minimum number of two meetings are required to be held each year, (the Committee held two meetings during the year 2019).
- 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. The committee also ensures to follow up with the policies, rules, and the best practices of Corporate Governance.

Corporate Governance Report 2019 (continued)

5. Board Meetings and Attendance 2019

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 the Chairman or Vice Chairman shall attend in person. The Board held four meetings during the year 2019. The below schedule shows the meetings dates and attendance of Board members:

- **Board of Directors Meetings During 2019**

Members	6 March 2019 (1st Meeting)	26 June 2019 (2nd Meeting)	2 Oct. 2019 (3rd Meeting)	10 Dec. 2019 (4th Meeting)
H.E. Eng. Basim bin Yacob Al Hamer (Chairman)	✓	✓	✓	✓
Mr. Mohammed Abdulrahman Hussein Bucheeri (Vice Chairman)	✓	✓	✓	✓
Mr. Yusuf Abdullah Mohammed Taqi	✓	✓	✓	x
Dr. Zakaria Sultan Mohammed Al-Abbasi	✓	✓	✓	✓
Dr. Riyad Saleh Al Saei	✓	✓	✓	✓
Mr. Kamal Murad Ali Murad	✓	✓	✓	✓
Mrs. Najla Mohamed Al – Shirawi	✓	✓	✓	✓
Mrs. Rana Ebrahim Faqihi	✓	x	✓	✓
Sh. Mohamed bin Ibrahim Al-Khalifa	✓	✓	x	✓

- **Executive Committee Meetings**

The Executive Committee held four meetings during the year 2019, the below schedule shows the meetings dates and attendance of Board members:

Members	12 Feb. 2019 (1st Meeting)	10 June 2019 (2nd Meeting)	30 Sep. 2019 (3rd Meeting)	2 Dec. 2019 (4th Meeting)
Mr. Mohammed Abdulrahman Bucheeri (Chairperson)	✓	✓	✓	✓
Dr. Riyad Saleh Al Saei	✓	✓	✓	✓
Mr. Kamal Murad Ali Murad	✓	✓	✓	✓
Mrs. Rana Ebrahim Faqihi*	✓	x	x	✓

*Mrs. Rana Ebrahim Faqihi did not attend two out of four of the Bank's Executive Committee meetings for the year 2019. Her absenteeism in the second meeting was due to her being on maternity leave, while the third meeting was due to her travelling on an urgent business trip related to her post as Assistant Undersecretary at the Ministry of Finance and National Economy, which does not meet the requirement of attending 75% of the meetings within the year as stipulated in section HC-1.3.6 of CBB's rulebook (volume one).

- **Audit and Risk Committee Meetings**

The Audit and Risk Committee held five meetings during the year 2019, the below schedule shows the meetings dates and attendance of Board members:

Members	17 Feb. 2019 (1st Meeting)	6 May 2019 (2nd Meeting)	29 July 2019 (3rd Meeting)	3 Nov. 2019 (4th Meeting)	10 Dec. 2019 (5th Meeting)
Mrs. Najla Mohamed Al – Shirawi (Chairperson)	✓	✓	✓	✓	✓
Dr. Zakareya Sultan Mohammed Al-Abbasi	✓	✓	✓	✓	✓
Sh. Mohamed bin Ibrahim Al-Khalifa	x	✓	✓	✓	✓

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

The Remuneration, Nomination and Corporate Governance Committee held two meetings during the year 2019. The below schedule shows the meetings dates and attendance of Board members:

Members	3 March 2019 (1st Meeting)	2 Dec. 2019 (2nd Meeting)
H.E. Eng. Basim bin Yacob Al Hamer (Chairperson)	✓	✓
Mr. Yusuf Abdullah Mohammed Taqi	✓	✓
Dr. Riyad Saleh Al Saei	✓	✓

The Remuneration, Nomination and Corporate Governance Committee also held two meetings during 2018 and an aggregated amount paid in 2018 to the committee members was BD 6,500 for the period from March 2015 up to 31 December 2018 as per board resolution.

- **Special Strategy Meeting**

A brain storming session was held on 6 January 2019, upon an an invitation from His Excellency the Chairman of the Board of Directors, where His Excellency chaired the meeting in the presence of the chairpersons of the board committees named below (*):

1. H.E. Eng. Basim bin Yacob Al Hamer - Chairman of the Board and Chairman of RNCGC;
2. Mr. Mohammed Abdulrahman Bucheeri - Chairperson of the Executive Committee; and
3. Mrs. Najla Mohamed Al – Shirawi - Chairperson of the Audit and Risk Committee,

(*) The meeting was held with the aim of discussing the Bank's future strategy, the pillars of the action plan under the current circumstances and real estate market conditions, in line with the initiatives to develop financing services for social housing, which includes the introduction of newly created types of financing solution, and the development of effective guidance for the Bank.

Corporate Governance Report 2019 (continued)

6. Shari'a Supervisory Board ("SSB")

The Bank's Board of Directors has established a "SSB", which was formed in May 2009, and has been re-appointed with the same members for additional period of 3 years. The "SSB" members were reappointed for another term starting from January 2019 to December 2021.

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

- **Shari'a Supervisory Board Meetings**

The Shari'a Supervisory Board held four meetings during the year 2019, the below schedule shows the meetings dates and attendance of the Shariaa Board Members:

Members	10 Feb. 2019 (1st Meeting)	28 April 2019 (2nd Meeting)	29 Sep. 2019 (3rd Meeting)	3 Dec. 2019 (4th meeting)
Dr. Sh. Nezam Yacouby (Chairperson)	✓	✓	✓	x
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 2019 was BD12,940 Bahraini Dinars.

7. Management

The Board appointed Dr Khalid Abdulla in the capacity of General Manager of Eskan Bank, whereby the Board delegated him with the authority to manage the 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.

Corporate Governance Report 2019 (continued)

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, Internal Control The General Manager may appoint any other member upon his discretion. In case of any member's absence, his/her direct successors shall attend on his/her behalf. The committee will be chaired by the General Manager who will appoint the Vice Chairperson.	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.

Corporate Governance Report 2019 (continued)

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 2019 was BD 1,594,069.

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 and Risk 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 and Risk 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 the Audit & Risk Committee and reports to it directly.

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

- Prof. Dr. Abdul Aziz Khalifa Al Qassar Professor of Comparative Jurisprudence at the Faculty of Sharia and Islamic Studies at Kuwait University
- He received a doctorate degree in comparative jurisprudence from the Faculty of Sharia and Law - Al-Azhar University - Cairo - Arab Republic of Egypt in 1997 AD.
- Faculty member at the Faculty of Sharia and Islamic Studies at Kuwait University from 1997 to this time
- He served as Associate Dean for Academic Affairs and Graduate Studies and Research at the Faculty of Sharia and Islamic Studies at Kuwait University from the period 2001-2005 AD
- A member of the Fatwa and Shari'a in many institutions and Islamic banks in Kuwait and abroad
- A lecturer in Islamic finance, has many research and religious studies in Islamic jurisprudence and contemporary financial transactions.

Shaikh Abdul-Nasser Omar Al Mahmood

- Head of Sharia Coordination and Implementation Department
- Over 24 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
- 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 2019

18th Jumada II 1441 BC coinciding 12 February 2020

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

To the Shareholders 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 2019, 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), and trasury department 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 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 the year ended 31 December 2019 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

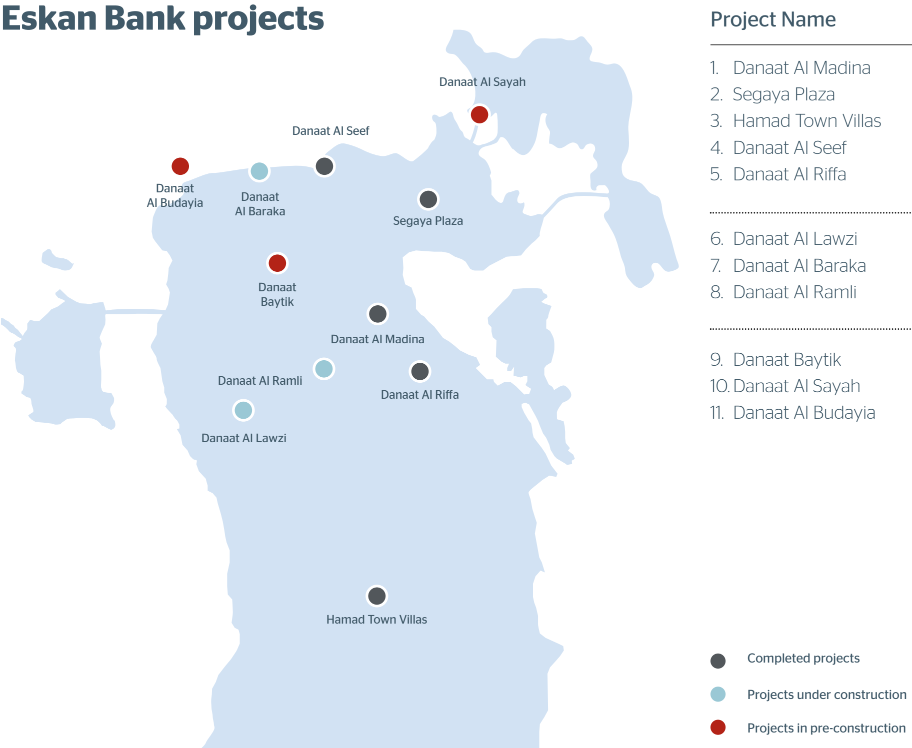
Sh. Dr. Abdul Aziz Khalifa Al Qassar
Vice Chairman

Sh. Abdul Nasser Omar Al Mahmood
Executive Member

Project Portfolio

01. Danaat Al Lawzi
02. Hamad Town Villas
03. Danaat Al Riffa
04. Danaat Al Budayia
05. Danat Baitk
06. Danaat Al Madina
07. Danaat Al Seef

Eskan Bank projects



Project Name	Completion status
1. Danaat Al Madina 2. Segaya Plaza 3. Hamad Town Villas 4. Danaat Al Seef 5. Danaat Al Riffa	Completed
6. Danaat Al Lawzi 7. Danaat Al Baraka 8. Danaat Al Ramli	2019
9. Danaat Baytik 10. Danaat Al Sayah 11. Danaat Al Budayia	TBD

Consolidated Financial Statements

As at 31 December 2019

Contents

Independent Auditors' 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 accompanying consolidated financial statements of Eskan Bank B.S.C (c) (the «Bank») and its subsidiaries (together the «Group»), which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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

26 February 2020

Consolidated Statement of Financial Position

As at 31 December 2019

	Note	2019 BD	2018* BD
ASSETS			
Cash and cash equivalents	5	30,895,317	18,082,226
Investments	6	4,869,586	9,285,324
Loans	7	710,662,336	632,511,060
Investment in associate	8	4,339,694	5,253,983
Investment properties	9	50,498,034	51,018,308
Development properties	10	29,986,294	23,822,299
Other assets	11	30,571,044	29,742,478
TOTAL ASSETS		861,822,305	769,715,678
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from financial and other institutions		10,000,000	10,500,000
Customer current accounts		2,180,596	1,861,950
Government accounts	12	467,234,756	394,946,168
Term loans	13	68,300,000	73,700,000
Other liabilities	14	7,599,604	4,892,655
TOTAL LIABILITIES		555,314,956	485,900,773
EQUITY			
Share capital	15	108,300,000	108,300,000
Contribution by the shareholder		22,006,897	22,006,897
Statutory reserve		54,461,896	54,461,896
Fair value reserve		(416,316)	8,366
Retained earnings		115,527,586	92,385,719
Equity attributable to Bank's shareholder		299,880,063	277,162,878
Non-controlling interest		6,627,286	6,652,027
TOTAL EQUITY (page 5)		306,507,349	283,814,905
TOTAL LIABILITIES AND EQUITY		861,822,305	769,715,678

*The Group has initially applied IFRS 16 at 1 January 2019 the mandatory date of initial application. Under the transition methods chosen, comparative information is not restated. See note 3 (a) 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 27 form part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	Note	2019 BD	2018 BD
Interest income	16	30,393,229	27,563,825
Income from properties	17	562,962	1,114,950
Net share of profit from investment in associate	8	184,905	393,261
Other income		738,946	1,060,824
TOTAL INCOME		31,880,042	30,132,860
Staff costs		(4,286,488)	(4,587,693)
Other expenses	18	(1,735,219)	(1,664,569)
Interest expense		(209,827)	(288,355)
TOTAL EXPENSES		(6,231,534)	(6,540,617)
Profit before provision for impairment		25,648,508	23,592,243
Net impairment loss	19	(2,531,382)	(342,400)
PROFIT FOR THE YEAR		23,117,126	23,249,843
OTHER COMPREHENSIVE INCOME			
Items that will not be classified to profit or loss:			
Fair value through other comprehensive income (equity instruments)		(424,682)	208,366
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		22,692,444	23,458,209
Profit attributable to:			
Equity shareholder of the parent		23,141,867	23,272,079
Non-controlling interest		(24,741)	(22,236)
		23,117,126	23,249,843
Total comprehensive income attributable to:			
Equity shareholder of the parent		22,717,185	23,480,445
Non-controlling interest		(24,741)	(22,236)
		22,692,444	23,458,209

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

Dr. Khalid Abdulla
General Manager

The attached notes 1 to 27 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Equity attributable to Bank's shareholder							
	Share capital BD	Contribution by the 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 2019	108,300,000	22,006,897	54,461,896	8,366	92,385,719	277,162,878	6,652,027	283,814,905
Dividend	-	-	-		-	-	-	-
Total comprehensive income						-		
Profit for the year	-	-	-	-	23,141,867	23,141,867	(24,741)	23,117,126
Other comprehensive income	-	-	-	(424,682)	-	(424,682)	-	(424,682)
As at 31 December 2019	**108,300,000**	**22,006,897**	**54,461,896**	**(416,316)**	**115,527,586**	**299,880,063**	**6,627,286**	**306,507,349**
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	-	-	-	(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
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	-	-	-	-	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

The attached notes 1 to 27 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Note	2019 BD	2018 BD
OPERATING ACTIVITIES			
Profit for the year		23,117,126	23,249,843
Adjustments for:			
Net share of profit from investment in associate	8	(184,905)	(393,261)
Net impairment loss	19	2,531,382	342,400
Gain on sale of development properties	17	-	(508,214)
Depreciation and amortization	18	539,503	339,273
Operating profit before working capital changes:		26,003,106	23,030,041
Decrease in placements with banks (original maturity more than 90 days)		-	1,352,973
Decrease in loans		5,916,563	24,830,629
Decrease in other assets		254,836	663,459
Increase in development properties		(7,092,825)	(7,118,178)
Decrease in deposits from financial and other institutions		(500,000)	(10,000,000)
Increase / (decrease) in customer current accounts		318,646	(1,772,640)
Increase / (decrease) in other liabilities		1,486,425	(1,335,996)
Net cash generated from operating activities		26,386,751	29,650,288
INVESTING ACTIVITIES			
Decrease in investment in debt securities		3,336,510	951,941
Capital repayment on investment	6	654,546	-
Dividend received from an associate		205,629	393,738
Purchase of equipment		(313,907)	(174,813)
Investment in an associate		(231,074)	(142,002)
Proceeds from liquidation of an associate		-	460,635
Net cash generated from investing activities		3,651,704	1,489,499
FINANCING ACTIVITIES			
Repayment of term loans		(20,000,000)	(10,000,000)
Proceeds from term loans		14,600,000	53,700,000
Net movement in Government accounts		(11,826,133)	(95,061,083)
Net cash used in financing activities		(17,226,133)	(51,361,083)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		12,812,322	(20,221,296)
Cash and cash equivalents at 1 January	5	18,088,515	38,309,811
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	5	30,900,837	18,088,515
Cash and cash equivalents comprise*:			
Cash and bank balances	5	639,257	780,401
Balances with Central Bank of Bahrain	5	561,580	508,114
Short term placements (with an original maturity of 90 days or less)	5	29,700,000	16,800,000
		30,900,837	18,088,515

* The balances at 31 December 2019 and 31 December 2018 are gross of the expected credit loss of BD 5,250 and BD 6,289 respectively.

The attached notes 1 to 27 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

As at 31 December 2019

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. 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 since 2017. 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 26 February 2020.

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 cost convention except for investments classified as fair value through other comprehensive income which are measured at fair value.

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 26.

e) New standards, amendments and interpretations effective from 1 January 2019

The Group has adopted IFRS 16 "Leases" from 1 January 2019. 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 2020 and early adoption is permitted; however the Group has not early adopted any new or amended standards in preparing these consolidated financial statements.

g) Basis of consolidation

(i) 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.

Loss of control

When the Group losses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any resulting gain or loss arising on the loss of control is recognised in the profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

2. BASIS OF PREPARATION (continued)

Non-controlling interest

Interests in the equity of subsidiaries not attributable to the Bank are reported in consolidated statement of financial position as non-controlling interests. Profits or losses and other comprehensive income attributable to non-controlling interests are reported in the consolidated statement of profit or loss and other comprehensive income as profit or loss and other comprehensive income attributable to non-controlling interests. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

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

Subsidiaries	Ownership for 2019	Ownership for 2018	Year of incorporation/ acquisition	Country of incorporation/ acquisition
Eskan Properties Company B.S.C.(c) ('EPC') The principal activity of the Company is to develop and manage projects for development of properties on behalf of Eskan Bank B.S.C (c) (the "Parent"), MOH and third parties, and to facility management to Ministry of Houses.	100%	100%	2007	Kingdom of Bahrain
Dannat Al Luzi B.S.C (c) Development and sale of private property in Danat Al Luzi.	56%	56%	2014	Kingdom of Bahrain

(ii) Interest in equity-accounted investees

The Group's interest in equity-accounted investees comprise in interest of associate. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

These are initially recognised at cost and the carrying amount is increased or decreased to recognise the Group's share of the profit or loss and other comprehensive income of the investees after the date of acquisition until the date such significant influence cease. Distributions received from an investee reduce the carrying amount of the interest in an associate. Adjustments to the carrying amount may also be necessary for changes in the Group's proportionate interest in the investees arising from changes in the investee's equity or impairment, if any.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the equity-accounted investees.

If the Group lost significant influence but still retains any interest in the previous equity accounted associate, then such interest is measured at fair value at the date in which significant influence is lost. Subsequently it is accounted in accordance with the Group's accounting policy for financial instruments.

(iii) Transactions eliminated / adjusted for on consolidation and equity accounting

Intra-group balances and transactions, and any unrealised gains or losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group gains on transactions between the Group and its equity-accounted investees are eliminated to the extent of the Group's interest in the investees. Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.The reporting period of the Group's subsidiaries and equity-accounted investees are identical and their accounting policies conform to those used by the Bank for like transactions and events in similar circumstances except for valuation of investment properties in the books of its equity accounted investee. Adjustments are made in the consolidated financial statements where appropriate to ensure the accounting policies of the equity-accounted investees is consistent with the policies adopted by the Group.

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 has applied IFRS 16 "Leases" from 1 January 2019. The effect of initially applying this standard is disclosed below.

IFRS 16 Leases introduces a single, on-balance sheet accounting model for lessees. It 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. The Group has adopted IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

The Group has changes its accounting policy for lease contracts as detailed below.

i) Change in accounting policy

At the inception of the contract, the Group assesses whether a contracts is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for the period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset, this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
- the Group has the right to operate the asset; or
- the Group designed the asset in a way that predetermines how and for what purpose it will be used.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of lease under IFRS 16 has been applied only to contracts entered into, or changed, on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of buildings in which it is a lessee, the Group has elected not to separate non-lease components and to account for the lease and non-lease components as a single lease component.

Measurement

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises:

- the amount of the initial measurement of the lease liability;
- any lease payment made at or before the commencement date, less any lease incentives received;
- any initial direct cost incurred by the lessee; and
- estimated cost to dismantle and to remove the underlying asset, or to restore the underlying asset or the site on which it is located.

The right-of-use asset is subsequently depreciated using the straight line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

Lease liability is measure as the present value of the future lease payments that are not paid at the commencement date. The lease payments are discounted based on the Group's incremental borrowing rate. Lease liability comprises the following:

- fixed payments, including in-substance fixed payments;
- amounts expected to be payable under a residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option;
- lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The lease liability is measured at amortised cost using the effective interest method in which lease liability is reduced by repayment of the principal amount while the finance charge component of the lease payment is charged directly to the statement of profit or loss and other comprehensive income.

It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and for leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

ii) Impact of adopting IFRS 16

The impact from the adoption of IFRS 16 as at 1 January 2019 has resulted in an increase in right-of-use asset and an increase in lease liability by BD 1,220,523.

	Other assets	Other liabilities
Closing balance under IAS 17 (31 December 2018)	277,162,878	4,892,655
Impact on adoption:		
Right-of-use asset	1,220,523	-
Lease liability	-	1,220,523
	1,220,523	1,220,523
Opening balance under IFRS 16 on date of initial application of 1 January 2019	278,383,401	6,113,178

b. Cash and cash equivalents

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

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

i. Financial assets

Initial recognition and measurement

All regular way transactions of financial assets are recognised on the settlement date i.e. the date the asset is delivered to or received from the counterparty. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Other financial assets are initially recognized on trade date, when the Group becomes party to the provision of the contract.

A financial asset is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Classification

On initial recognition, a financial asset is classified at amortised cost; fair value through other comprehensive income ("FVOCI") – debt security; FVOCI – equity security; or fair value through profit or loss (" FVTPL"), based on the business model in which a financial assets is managed and its contractual cash flows. Assessment of the business model within which the assets are held and assessment of whether the contractual term of the financial assets are solely payment of principal and interest on the principal amount outstanding required significant estimate and judgment (refer to sections "business model assessment" and " assessment whether contractual cash flow are solely payment of principal and interest" below).

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets measured at amortised cost

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.

Financial assets measured at FVOCI - debt securties

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.

Financial assets measured at FVOCI - equity securties

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.

Financial assets measured at FVPL

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 because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Financial assets and liabilities (continued)

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.

Derecognition

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.

Impairment of financial assets and loan commitment

The Group recognises loss allowances for ECL on:

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

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

- 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.

Significant increase in credit risk

When determining whether the credit risk of a financial asset has increased significantly since initial recognition when estimating ECL, 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 since initial recognition if contractual payments are past due. This assumption will always hold true unless the Bank can prove, through reasonable and fact-based information, the risk has not increased significantly after being past due.

The Group considers a financial asset to be in default when either or both of the two following events have taken place:

- 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Financial assets and liabilities (continued)

Life time ECL are the ECL that result from all possible default events over the expected life of the financial instruments or the maximum contractual period of exposure.

12-month ECL are the portion of life time ECL that result from default events on a financial instrument 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 ECL 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 loan commitments.

The Group applies a three-stage approach to measuring expected credit losses (ECL) on financial assets carried at amortised cost, debt securities at FVOCI and loan commitments. These items 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).

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Financial assets and liabilities (continued)

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost, debt securties at FVOCI and loan commitments 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.

Credit impaired financial assets are subject to cooling of period of 12 months from the first date of becoming regular in payment.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost and debt securities at FVOCI 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.

Restructured exposures

Restructured exposures due to credit risk reasons are classified as stage 2 for a minimum period of 12 months from the date the restructured facility is performing. 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.

ii) Financial liabilities

Initial recognition and measurment

Financial liabilities are initially recognized, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder. A financial liabilities is measured initially at fair value of the consideration received.

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. Impairment of non financial assets

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

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

f. Offsetting of financial instruments

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

g. Government accounts

Transactions with the MOF and the MOH are recorded by the Group as financial liabilities under caption " 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. 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.

If there is no quoted price in an active market , then the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The Group recognise transfer between levels of fair value hierarchy as of the end of reporting period during which the change has occurred.

i. Income recognition

The Group recognizes revenue to depict the transfer of promised goods or services to its customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

To determine whether to recognize revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. Income recognition (continued)

The Group often enters into transactions involving a range of the Group's services and products. In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations and customer obtain control of goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgment.

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations or if the Group has a right to an amount of consideration that is unconditional before the Group transfers a good or service to the customers and reports these amounts as deferred income in the statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

Interest income

Interest income on loans is recognised using the effective interest method, which is the rate that exactly discounts estimated future cash 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.

Rental income

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

Service income

Service income is recognised overtime when the performance obligation is satisfied and services are rendered by the Group.

Dividend income

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

Gain or loss from sale of development properties

It is recognised at point in time when the Group transfer control of the property sold to its customer and satisfies its performance obligation, i.e upon completion of property construction and hand over to the customer.

j. 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 Group are recognised as an expense in the statement of profit or loss and other comprehensive income 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 statement of profit or loss and other comprehensive income

(ii) Post-employment benefits

The Group also operates a voluntary employees saving scheme under which the Group 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 Group. The scheme is in the nature of a defined contribution scheme and contributions by the Group are recognised as an expense in the statement of profit or loss and other comprehensive income when they are due.

k. Development properties

Development properties consist of project under construction for lease and land being developed for sale in the ordinary course of business. It includes direct costs (including financing cost) incurred in bringing such land to its saleable condition. Development properties are stated at the lower of cost and net realisable value. Any projects under construction for lease purpose will be transferred to investment properties upon completion of the construction.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l. Investment properties

Investment properties held for rental, or for capital appreciation purposes, or both, are classified as investment properties. 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 properties. 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 profit or loss and other comprehensive income in the period of derecognition.

m. 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.

n. 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.

o. Statutory Reserve

In accordance with the requirements of the 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 Commercial Companies Law and following the approval of the Central Bank of Bahrain.

p. Islamic Banking

The Islamic banking activities of the Group are conducted in accordance with Islamic Shari'a principles, as approved by the Shari'a Supervisory Board.

q. Commingling of funds

The funds of Islamic operation are not commingled with the funds of the conventional operations of the Group.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, revenue, expenses and the disclosure of contingent liabilities as of the reporting date. However, uncertainty about these judgment, 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.

Such estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described below:

Judgment

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.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Judgment (continued)

Equity accounted investee

Whether the Group has significant influence over an investee. Refer to note 8 and 2 (g).

Consolidation

Whether the Group has control over an investee. Refer to note 2 (g).

Lease term

Whether the Group is reasonably certain to exercise extension options. Refer to note 3(a)

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. (refer to section "business model assessment" in note 3 d (i)).

Impairment of financial assets and loan commitment

Refer to section "impairment of financial assets and loans commitment" in note 3 d (i)..

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:

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.

Fair value measurement

Measurement of fair value instruments with significant unobservable input. Refer to note 24.

Inputs, assumptions and techniques used for estimating impairment

Refer to section "impairment of financial assets and loan commitment" in note 3 d (i).

5. CASH AND CASH EQUIVALANTS

	2019 BD	2018 BD
Cash in hand	98,440	137,286
Balances with banks	540,817	643,115
Balances with the CBB	561,580	508,114
Placements with banks and other institutions (with an original maturity of 90 days or less)	4,000,000	5,000,000
Placements with the CBB (with an original maturity of 90 days or less)	25,700,000	11,800,000
	30,900,837	18,088,515
Less: impairment loss	(5,520)	(6,289)
Total cash and cash equivalents	30,895,317	18,082,226

6. INVESTMENTS

	Equity securities FVOCI	Debt securities Amortised cost	Total
At 1 January 2019	4,865,316	4,420,008	9,285,324
Purchases during the year	-	627,548	627,548
Matured during the year	-	(3,964,058)	(3,964,058)
Less: capital repayment during the year	(654,546)	-	(654,546)
	4,210,770	1,083,498	5,294,268
Net change in fair value	(424,682)	-	(424,682)
At 31 December 2019	3,786,088	1,083,498	4,869,586

	Equity securities FVOCI	Debt securities Amortised cost	Total
At 1 January 2018	4,656,950	5,371,949	10,028,899
Purchases during the year	-	(4,915,999)	(4,915,999)
Matured during the year	-	3,964,058	3,964,058
Less: capital repayment during the year	-	-	-
	4,656,950	4,420,008	9,076,958
Net change in fair value	208,366	-	208,366
At 31 December 2018	4,865,316	4,420,008	9,285,324

7. LOANS

		2019 BD	2018 BD
(i) Social loans			
Gross loans		983,746,030	879,504,016
Less: provisions for subsidy and waiver	note 12 (i)	(247,062,750)	(226,514,156)
Less: impairment loss	note 12 (J)	(34,111,729)	(29,573,059)
		702,571,551	623,416,801
(ii) Commercial loans			
Gross loans		9,670,468	10,627,060
Less: impairment loss		(1,579,683)	(1,532,801)
		8,090,785	9,094,259
Total loans		710,662,336	632,511,060

(iii) Following table shows the stage wise exposures to social and commercial loans and movement in ECL:

31 December 2019:

(a) Social loans:

	Stage 1 BD	Stage 2 BD	Stage 3 BD	Total BD
Exposure subject to ECL				
Social loans (net of subsidy and waivers)	632,099,898	46,520,944	58,062,438	736,683,280
Expected credit loss				
At 1 January	817,889	1,966,438	26,788,732	29,573,059
Net transfer between stages	1,413,456	(735,482)	(677,974)	-
Write off during the year	(1,868)	(16,985)	(4,124,503)	(4,143,356)
(Release) / charge for the year	(1,224,575)	2,859,598	7,047,003	8,682,026
At 31 December	1,004,902	4,073,569	29,033,258	34,111,729
Net carrying value	631,094,996	42,447,375	29,029,180	702,571,551

7. LOANS (CONTINUED)

(b) Commercial loans:

	Stage 1 BD	Stage 2 BD	Stage 3 BD	Total BD
Exposure subject to ECL				
Commercial loans	4,923,617	1,539,811	3,207,040	9,670,468
Expected credit loss				
At 1 January	21,206	134,641	1,376,954	1,532,801
Net transfer between stages	122,772	(30,865)	(91,907)	-
(Release) / charge for the year	(127,564)	(60,254)	234,700	46,882
At 31 December	16,414	43,522	1,519,747	1,579,683
Net carrying value	4,907,203	1,496,289	1,687,293	8,090,785
Total net carrying value	636,002,199	43,943,664	30,716,473	710,662,336

31 December 2018:

(a) Social loans:

	Stage 1 BD	Stage 2 BD	Stage 3 BD	Total BD
Exposure subject to ECL				
Social loans (net of subsidy and waivers)	572,104,385	27,308,013	53,577,462	652,989,860
Expected credit loss				
At 1 January	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	817,890	1,966,438	26,788,732	29,573,059
Net carrying value	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				
Commercial loans	5,689,658	1,776,403	3,160,999	10,627,060
Expected credit loss				
At 1 January	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	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
Total net carrying value	576,954,948	26,983,337	28,572,775	632,511,060

7. LOANS (CONTINUED)

c) Social loans

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

(i) Under a Cabinet decision issued in April 1992, a reduction of 25% ("1992 Reduction") was granted on monthly installments 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 installments 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 installments that were due after 15 December 2000 and not to overdue installments.

(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 installments.

(v) The provision of this subsidy which was made in earlier years, represents a waiver of 50% of monthly installments relating to eligible loans covered by Amiri Decree No. 18/1977. The waivers / reductions mentioned in (iv) and (vi) 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 installments of social loans and a 25% reduction on outstanding balances of housing units and flats.

8. INVESTMENT IN ASSOCIATE

	2019 BD	2018 BD
At 1 January	5,253,983	5,573,093
Additional investment in an associate	231,074	142,002
Net share of profit	184,905	393,261
Dividend received	(205,629)	(393,738)
Impairment	(1,124,639)	-
Liquidation of investment in an associate	-	(460,635)
At 31 December	4,339,694	5,253,983

The principal associate of the Group is:

		Carrying Value	
Name	Country of Incorporation	2019 BD	2018 BD
Eskan Bank Reality Income Trust (EBRIT)	Kingdom of Bahrain	4,339,694	5,253,983
		4,339,694	5,253,983

		Ownership for	
Name	Nature of activities	2019	2018
Eskan Bank Reality Income Trust (EBRIT)	A real estate investment trust operating and managing real estate assets.	35.23%	33.97%

8. INVESTMENT IN ASSOCIATE (CONTINUED)

The following table illustrates the summarised financial information of the Group's investment in EBRIT as of 31 December:

	2019 (unaudited) BD	2018 (unaudited) BD
Summarised statement of financial position		
Non-current assets	11,891,500	17,750,000
Current assets	685,739	822,294
Current liabilities	(259,266)	(253,537)
Net assets	12,317,973	18,318,757
Proportion of the Group's ownership	35.23%	33.97%
Group's ownership in equity	4,339,694	6,223,478
Other adjustments	-	(969,495)
Carrying amount of the investment	4,339,694	5,253,983

Shares of Eskan Bank Reality Income Trust are listed on the Bahrain Stock Exchange and its quoted price as on 31 December 2019 was 62.21 fils (2018: 92.52 fils). The fair value of the investment based on this quoted price is BD 4.340 million (2018: BD 6.2 million).

9. INVESTMENT PROPERTIES

	2019 BD	2018 BD
Balance at 1 January	51,018,308	53,506,966
Depreciation charge for the year	(139,628)	(128,950)
Transferred from development properties (note 10)	928,830	-
Impairment loss	(1,309,476)	(420,925)
Transferred to shareholder	-	(1,938,783)
Balance at 31 December	50,498,034	51,018,308

Investment properties comprise the following:

	2019 BD	2018 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 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 1,540,427 (2018 BD 1,400,799))	6,377,728	5,588,526
	52,228,435	51,439,233
Impairment loss on lands	(1,730,401)	(420,925)
	50,498,034	51,018,308

9. INVESTMENT PROPERTIES (CONTINUED)

	2019 BD	2018 BD
Vacant land:		
Cost	45,850,707	45,850,707
Impairment loss	(1,730,401)	(420,925)
	44,120,306	45,429,782
Shops:		
Cost	7,918,155	6,989,325
Accumulated Depreciation	(1,540,427)	(1,400,799)
	6,377,728	5,588,526
	50,498,034	51,018,308

The fair value of investment properties, based on independent market valuations, as at 31 December 2019 was BD 141 million (2018: BD 154 million).

The valuations were performed by 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 2019 and 31 December 2018. 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 2019 and 31 December 2018.

10. DEVELOPMENT PROPERTIES

	2019 BD	2018 BD
Balance at 1 January	23,822,299	16,195,907
Additions during the year	7,092,825	7,828,504
Properties sold during the year	-	(202,112)
Transferred to investment properties (note 9)	(928,830)	-
Balance at 31 December	29,986,294	23,822,299

Development properties comprise the following:

	2019 BD	2018 BD
Projects for lease	1,152,141	1,726,545
Projects for sale	28,834,153	22,095,755
	29,986,294	23,822,300

Included in development properties costs is an amount of BD 0.489 million (2018: BD 0.097 million) that represents borrowing costs capitalised during the year using profit rate of 6.45% (2018: 7.25%).

11. OTHER ASSETS

		2019 BD	2018 BD
Receivable from MOH		27,384,740	27,299,460
Right-of-use assets	11.1	1,020,894	-
Equipment and intangibles (net book value)		797,854	883,822
Interest receivable		451,403	543,133
Staff loans		343,659	369,477
Balance with investment manager		256,403	346,996
Prepayments and advances		150,888	141,161
Other receivables		150,605	143,831
Receivable from sale of development properties		14,598	14,598
		30,571,044	29,742,478

11.1 RIGHT-OF-USE ASSETS

	2019 BD
On transition at the beginning of the year (3 a)	1,220,523
Depreciation charge for the year	(199,629)
Balance at end of year	1,020,894

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.

		2019 BD	2018 BD
At 1 January		394,946,168	415,673,987
Movement during the year:			
Waiver reimbursements	(a)	4,000,000	5,000,000
Collection from MOH rental flats	(b)	719,613	834,936
Reduction and write off decrees	(c &d)	(9,913,234)	(7,687,651)
Rental subsidy – net impact	(e)	(269,998)	540,207
Mazaya subsidy – net impact	(f)	(23,592)	(6,274,548)
Payment to Government	(g)	(10,000,000)	(10,000,000)
MOH houses and flats	(h)	146,977,130	97,127,152
Waiver decree and military subsidies	(i)	(41,830,906)	(17,186,543)
Impairment loss for social loans	(j)	(4,538,670)	(29,573,059)
Provisional Write Off	(k)	(8,202,086)	(23,465,137)
Payment on behalf of MOH - Diyaar Project	(l)	-	(25,969,906)
Others	(m)	(4,629,669)	(4,073,270)
At 31 December		467,234,756	394,946,168

12. GOVERNMENT ACCOUNTS (CONTINUED)

a) Annual reimbursement received for 2006 waiver decree.

b) Collection of rental installments from beneficiaries of MOH rental flats.

c) Installment reduction decrees issued by the MOH from time to time.

d) Write offs and waivers approved by MOH on case basis.

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

f) Net disbursement paid for monthly Mazaya subsidy to beneficiaries based on MOH approved list.

g) Represents payments to Ministry of Finance vide Board of Directors of the Bank resolution dated 23 March 2017 and 26 June 2019.

h) In line with the agreement signed with MOH dated 23 December 2017, receivables from MOH housing units (houses) allocated to beneficiaries have been booked on-balance sheet with corresponding impact to government account with effect from 1 April 2017.

i) In line with the agreement 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.

j) In line with the agreement 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.

k) During 2018, the Bank has recorded a provisional written off amounting to BD 23.46 million of non performing loans based on their status as of 31 December 2018. This is an accounting write off as it does not entail closure of beneficiary account and all the applicable remedial procedures will continue to be applied. During 2019 additional amount of BD 8.8 million were charged off, the movement in 2019 represents new loans charged off net of any recoveries of BD 0.638 million during the year.

l) During 2018, 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 2020-2021.

m) Mainly includes interest expense on the syndicated bank term loan refer to note 13), and any other payments, expenses / transactions undertaken by the Bank on behalf of MOF / MOH

13. TERM LOANS

	2019 BD	2018 BD
Syndicated bank term loan *	60,000,000	70,000,000
Term loan - Danat Al luzi **	8,300,000	3,700,000
At 31 December	68,300,000	73,700,000

	2019 BD	2018 BD
Current portion of term loan	20,000,000	20,000,000
Non - current portion of term loan	48,300,000	53,700,000
	68,300,000	73,700,000

The Bank obtained syndicated bank term loan for financing the social loans and housing projects. It comprises of BD 50 million term loan facility and BD 50 million revolving loan facility, out of which BD 30 million has been utilised as of 31 December 2019 (2018: BD 20 million). The term loan facility is repayable semi-annually starting June 2019, while the revolving facility is repayable as a bullet repayment by June 2021. The syndicated bank term loan bears interest repayable monthly at BIBOR plus a margin of 3.5% (2018: 3.5%). During the year, interest expense amounting to BD 4.3 million (2018: BD 3.7 million) on the syndicated bank term loan was charged to the Government account (note 12 m).

**Represents BD 14.5 million murabaha facility agreement from two banks to develop Danaat Al Lawzi, out of which BD 8.3 million has been utilized until 31 December 2019 (2018: BD 3.7 million). The facility has a profit rate of 3 month BIBOR + 2.95% (total profit rate: FY2019: 6.45%; FY2018: 7.25%) and repayable as bullet repayment February 2022. The financing facility is secured against a mortgage of the project's lands with no recourse to the shareholders.

14. OTHER LIABILITIES

		2019 BD	2018 BD
Accrued expenses		1,457,817	1,612,594
Contractor retentions		1,385,458	763,616
Employee savings scheme		1,206,965	1,021,359
Lease liabilities	14.1	1,053,701	-
Advances from customers		927,510	42,080
Accounts payable		478,247	270,216
Staff related accruals		398,098	331,543
Accrued interest payable		373,222	411,845
Other liabilities		280,374	267,312
Facility management fees		38,212	172,090
		7,599,604	4,892,655

14.1 LEASE LIABILITIES

	2019 BD
Maturity analysis - contractual undiscounted cash flow	
Less than one year	249,927
More than one year	999,709
Total undiscounted lease liabilities at end of year	1,249,636
Total discounted lease liabilities at end of year	1,053,701

15. SHARE CAPITAL

	Number of shares	2019 BD
31 December 2019		
Authorised ordinary share capital of BD 100 each	4,000,000	400,000,000
Issued and fully paid up ordinary share capital of BD 100 each	1,083,000	108,300,000

	Number of shares	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 each	1,083,000	108,300,000

16. INTEREST INCOME

	2019	2018
Interest income on social loans	28,989,385	25,786,736
Interest income on commercial loans	686,907	749,773
Interest income on placements with financial and other institutions	716,937	1,027,316
	30,393,229	27,563,825

17. INCOME FROM PROPERTIES

	2019 BD	2018 BD
Gain on sale of development properties	-	508,214
Rental income - net	562,962	606,736
	562,962	1,114,950

18. OTHER EXPENSES

	2019 BD	2018 BD
Depreciation and amortization	539,503	339,273
Legal and professional	311,499	292,397
Information technology	237,893	185,673
Marketing cost	125,107	164,116
Directors remuneration	109,459	91,380
Investment Management Cost	95,288	98,090
Transportation and communication	77,762	86,593
Premises	71,712	272,495
Electricity	57,061	59,674
Insurance	22,463	14,348
Others	87,472	60,530
	1,735,219	1,664,569

19. NET IMPAIRMENT LOSS

	2019 BD	2018 BD
Charge for the year - social loans	(8,682,026)	(21,280,953)
(Charge) / release for the year - commercial loans	(46,883)	196,677
Charge for the year - other receivables	(51,153)	(129,332)
Release for the year - bank balances	769	11,180
Net impairment loss - expected credit loss	(8,779,293)	(21,202,428)
Charge for the year - investment properties	(1,309,476)	(420,925)
Charge for the year - Investment in associate	(1,124,639)	-
	(11,213,408)	(21,623,353)
Reimbursement from Government on social loans, Note 12 (j)	8,682,026	21,280,953
	(2,531,382)	(342,400)

20. COMMITMENTS AND CONTINGENCIES

	2019 BD	2018 BD
Commitments		
Housing loan commitments approved by MOH (note 20.1)	15,035,896	5,984,258
Commitments - development properties	4,016,888	9,298,388
Commercial Loan commitments	62,541	64,435
Lease commitments not later than one year	-	211,671
Lease commitments later than one year but not later than five years	-	97,364
	19,115,325	15,656,116

Note 20.1
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.

Contingencies
There are no claims against the Bank in 2019 (2018: BD 0.131 million). Based on the opinion of the Bank's legal advisors, no provision assessed by management is mentioned.

21. RELATED PARTY TRANSACTIONS

Related parties represent shareholder, 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 board of directors and shareholder representative. The amounts due to and from related parties are settled in the normal course of business.

The Group's transactions with related parties comprise transactions with the 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 profit or loss and other 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 executive management of the Group.

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

	31 December 2019				
	Shareholder	Associate	Directors	Key management	Subsidiaries
Assets					
Loans	-	-	28,891	35,138	-
Development properties	-	-	-	-	69,285
Investment properties	-	-	-	-	2,508
Investments in associate	-	4,339,694	-	-	-
Investments in subsidiaries	-	-	-	-	8,650,900
Other assets	27,384,740	8,750	-	27,533	209,127
Liabilities					
Non-Bank deposits	-	-	-	-	1,200,650
Current accounts	-	6,462	1,047	54	347,504
Government account	467,234,756	-	-	-	-
Other liabilities	-	-	42,884	210,236	91,162

21. RELATED PARTY TRANSACTIONS (CONTINUED)

	For the year ended 31 December 2019				
	Shareholder	Associate	Directors	Key management	Subsidiaries
Net share of profit of associates	-	184,905	-	-	-
Fees and commission	85,280	50,000	-	-	72,000
Staff cost	-	-	-	1,013,478	-
Interest expense	-	-	-	-	30,381
Other expense	-	95,288	-	-	674,707
Impairment provision	-	1,124,639	-	-	-
Directors' and Shari'ah board remuneration and sitting fees	-	-	109,459	-	-

	31 December 2018				
	Shareholder	Associate	Directors	Key management	Subsidiaries
Assets					
Loans	-	-	88,863	38,332	-
Development properties	-	-	-	-	49,331
Investment properties	-	-	-	-	344
Investments in associate	-	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

	For the year ended 31 December 2018				
	Shareholder	Associate	Directors	Key management	Subsidiaries
Net share of profit of associates	-	393,261	-	-	-
Fees and commission	95,520	15,000	-	-	72,000
Staff cost	-	-	-	937,996	-
Interest expense	-	-	-	-	24,034
Other expense	-	98,090	-	-	536,025
Directors' and Shari'ah board remuneration and sitting fees	-	-	91,380	-	-

22. CLASSIFICATION OF FINANCIAL INSTRUMENTS

Set out below is an overview of financial instruments held by the Group:

At 31 December 2019	Amortised cost BD	FVOCI BD	Total BD
Financial assets			
Cash and cash equivalents	30,895,317	-	30,895,317
Investments	1,083,498	3,786,088	4,869,586
Loans	710,662,336	-	710,662,336
Other assets	28,601,408	-	28,601,408
	771,242,559	3,786,088	775,028,647

	Amortised cost BD	Total BD
Financial liabilities		
Deposits from financial and other institutions	10,000,000	10,000,000
Government accounts	467,234,756	467,234,756
Term loans	68,300,000	68,300,000
Customer current accounts	2,180,596	2,180,596
Other liabilities	6,545,903	6,545,903
	554,261,255	554,261,255

At 31 December 2018	Amortised cost BD	FVOCI BD	Total BD
Financial assets			
Cash and cash equivalents	18,082,226	-	18,082,226
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
	683,730,789	4,865,316	688,596,105

	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	4,892,655	4,892,655
	485,900,773	485,900,773

23. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Level 1	Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
Level 2	Inputs other than quoted prices included within level 1 that are observable either directly (i.e as prices) or indirectly (i.e. derived from prices).
Level 3	Inputs which have a significant effect on the recorded fair value that are based on unobservable 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.

Valuation technique	Key variable	Sensitivity	Impact on FV 2019	Impact on FV 2018
Market multiple	Price / Sale	25%	47,438	20,128
Market multiple	Enterprise value / Sale	25%	66,970	144,248
Market multiple	Price / Book	25%	1,000,524	926,330

24. RISK MANAGEMENT

Overview

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

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, market and operational risks of the Group and to recommend on matters brought to it for consideration, including credit proposals or approvals.

Risk Management Department

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

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

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

24. RISK MANAGEMENT (CONTINUED)

Risk management framework (continued)

Audit Committee

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

Internal Audit

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

Treasury

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

Risk Measurement

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

Risk Mitigation

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

a) Credit risk

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

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 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.

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 loan is past due for more than 1 day and more. 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 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.

24. RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

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 behavioral 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 behavior 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.

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 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. 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 2019 is BD 703 million (31 December 2018: BD 623 million).

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 Group in 2015.

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 2019 BD	Gross maximum exposure 2018 BD
Balances and placements with CBB and other financial institutions	30,796,877	17,944,940
Loans - social loans	702,571,551	623,416,801
Loans - commercial loans	8,090,785	9,094,259
Investments in debt securities	1,083,498	4,420,008
Other receivables	28,601,408	28,578,566
	771,144,119	683,454,574

There were BD 0.1 million renegotiated loans during the year ended 31 December 2019 (2018: BD 3.2 million).

24. RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

Risk concentration of the maximum exposure to credit risk

The maximum credit exposure to any client, or counterparty, or group of closely related counterparties as of 31 December 2019 was BD 27 million (31 December 2018: BD 27 million).

iii) Collateral

The Group holds collateral against loans in the form of mortgages on residential property. 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 2019 or 31 December 2018.

iv) Credit quality per class of financial assets

The Group has laid down framework for classifying its credit exposures by number of days past due and staging. The following is an analysis of credit quality by class of financial assets:

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

A. Social loans

	2019			
	Stage 1	Stage 2	Stage 3	Total
Current	632,099,898	4,803,325	12,803,254	649,706,477
1 - 29 days	-	586,524	40,272	626,796
30 - 59 days	-	29,785,055	3,000,720	32,785,775
60 - 89 days	-	11,346,040	2,685,475	14,031,515
90 days - 1 year	-	-	28,646,359	28,646,359
1 year - 3 years	-	-	9,110,899	9,110,899
3 year - 5 years	-	-	1,317,561	1,317,561
More than 5 years	-	-	457,898	457,898
Gross carrying value	632,099,898	46,520,944	58,062,438	736,683,280
Expected credit loss	(1,004,902)	(4,073,569)	(29,033,258)	(34,111,729)
Net carrying value	631,094,996	42,447,375	29,029,180	702,571,551

B. Commercial loans

	2019			
	Stage 1	Stage 2	Stage 3	Total
Current	4,923,617	124,906	539,918	5,588,441
1 - 29 days	-	971,753	7,234	978,987
30 - 59 days	-	403,439	85,041	488,480
60 - 89 days	-	39,713	15,944	55,657
90 days - 1 year	-	-	599,519	599,519
1 year - 3 years	-	-	570,154	570,154
3 year - 5 years	-	-	612,196	612,196
More than 5 years	-	-	777,034	777,034
Gross carrying value	4,923,617	1,539,811	3,207,040	9,670,468
Expected credit loss	(16,414)	(43,522)	(1,519,747)	(1,579,683)
Net carrying value	4,907,203	1,496,289	1,687,293	8,090,785

24. RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

C. Balances and placement with CBB and other financial institutions

	Stage 1	Stage 2	Stage 3	Total
Current*	30,802,397	-	-	30,802,397
Gross carrying value	30,802,397	-	-	30,802,397
Expected credit loss	(5,520)	-	-	(5,520)
Net carrying value	30,796,877	-	-	30,796,877

*Includes BD 25.7 million placement with CBB which are classified under stage 1 and no ECL has been recognised.

D. Investment in debt securities

	Stage 1	Stage 2	Stage 3	Total
Current	1,083,498	-	-	1,083,498
Gross carrying value	1,083,498	-	-	1,083,498
Expected credit loss	-	-	-	-
Net carrying value	1,083,498	-	-	1,083,498

All investment in debt securities are current with no past due as of 31 December 2019 (2018: Nil). The Bank's investment in debt securities are classified under stage 1 and no ECL has been recognised on debt investments as it comprise sukuk, government bonds and T-bills with CBB.

E. Other assets

	Stage 1	Stage 2	Stage 3	Total
Other assets	28,418,804	-	182,604	28,601,408
Gross carrying value	28,418,804	-	182,604	28,601,408
Expected credit loss	-	-	(180,486)	(180,486)
Net carrying value	28,418,804	-	2,118	28,420,922

Other assets classified under stage 1 comprise mainly receivables from MOH and hence no ECL has been recognised.

A. Social loans

	2018			
	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)	(1,966,438)	(26,788,732)	(29,573,059)
Net carrying value	571,286,495	25,341,575	26,788,730	623,416,801

24. RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

B. Commercial loans

	2018			
	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

C. Balances and placement with CBB and other financial institutions

	Stage 1	Stage 2	Stage 3	Total
Current*	17,951,229	-	-	17,951,229
Gross carrying value	17,951,229	-	-	17,951,229
Expected credit loss	(6,289)	-	-	(6,289)
Net carrying value	17,944,940	-	-	17,944,940

*Includes BD 11.8 million placement with CBB which are classified under stage 1 and no ECL has been recognised.

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

All investment in debt securities are current with no past due as of 31 December 2019 (2018: Nil). The Bank's investment in debt securities are classified under stage 1 and no ECL has been recognised on debt investments as it comprise sukuk, government bonds and T-bills with CBB.

E. Other assets

	Stage 1	Stage 2	Stage 3	Total
Other assets	28,445,462	-	133,104	28,578,566
Gross carrying value	28,445,462	-	133,104	28,578,566
Expected credit loss	-	-	(129,332)	(129,332)
Net carrying value	28,445,462	-	3,772	28,449,234

Other assets classified under stage 1 comprise mainly receivables from MOH and hence no ECL is recognised.

24. RISK MANAGEMENT (CONTINUED)

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 CBB and other financial institutions, loans, investment in debt securities, 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 2019 BD	Changes in basis points (+/-)	Effect on net profit (+/-)
Assets			
Placements with CBB and other financial institutions	29,700,000	100	297,000
Investments in debt securities	1,083,498	100	10,835
Loans - social loans	983,746,030	100	9,837,460
Loans - commercial loans	9,670,468	100	96,705
Liabilities			
Deposits from financial and other institutions	10,000,000	100	(100,000)
Term loans	68,300,000	100	(683,000)
Total			9,459,000

	31 December 2018 BD	Changes in basis points (+/-)	Effect on net profit (+/-)
Assets			
Placements with CBB and other financial institutions	16,800,000	100	168,000
Investments in debt securities	4,420,008	100	44,200
Loans - social loans	879,504,016	100	8,795,040
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			8,271,511

A fundamental review and reform of major interest rate benchmarks is being undertaken globally. There is uncertainty as to the timing and the methods of transition for replacing existing benchmark interbank offered rates (IBORs) with alternative rates. As at 31 December 2019, the Bank is in the process of assessing the impact of IBOR.

24. RISK MANAGEMENT (CONTINUED)

b) Market risk (continued)

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 23 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 obtaining financing facility from other banks 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 2019 and 31 December 2018 based on contractual undiscounted repayment obligations.

At 31 December 2019	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	10,012,606	-	-	10,012,606	10,000,000
Customer current accounts	2,180,596	-	-	2,180,596	2,180,596
Government accounts	-	10,000,000	457,234,756	467,234,756	467,234,756
Term loans	1,417,773	20,432,549	48,930,102	70,780,424	68,300,000
Other liabilities	1,288,567	2,607,076	2,650,262	6,545,904	6,545,904
Total	14,899,542	33,039,625	508,815,120	556,754,286	554,261,256

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
Customer current accounts	1,861,950	-	-	1,861,950	1,861,950
Government accounts	-	10,000,000	384,946,168	394,946,168	394,946,168
Term loans	1,659,327	23,475,625	58,410,669	83,545,621	73,700,000
Other liabilities	1,384,258	1,465,615	2,042,782	4,892,655	4,892,655
Total	15,428,845	34,941,240	445,399,619	495,769,704	485,900,773

Pursuant to the agreement with MOH dated 23 December 2017, the Government account is not consider payable on demand and hence there is no significant liquidity risk.

24. RISK MANAGEMENT (CONTINUED)

c) Liquidity Risk (continued)

The Central Bank of Bahrain introduced Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) during 2019. LCR has been developed to promote short-term resilience of a bank" s liquidity risk profile. The LCR requirements aim to ensure that a bank has an adequate stock of unencumbered high quality liquidity assets (HQLA) that consists of assets that can be converted into cash immediately to meet its liquidity needs for a 30 calendar day stressed liquidity period. The stock of unencumbered HQLA should enable the Bank to survive until day 30 of the stress scenario, by which time appropriate corrective actions would have been taken by management to find the necessary solutions to the liquidity crisis.

LCR is computed as a ratio of Stock of HQLA over the Net cash outflows over the next 30 calendar days. Effective from 30 June 2019, the Bank is required to maintain LCR greater than 100%. As of 31 December 2019 the Group had LCR ratio of 562%.

NSFR is to promote the resilience of banks" liquidity risk profiles and to incentivise a more resilient banking sector over a longer time horizon. The NSFR will require banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. A sustainable funding structure is intended to reduce the likelihood that disruptions to a banks regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on-balance sheet and off-balance sheet items and promotes funding stability.

NSFR as a percentage is calculated as "Available stable funding" divided by "Required stable funding". Effective from 31 December 2019, the Bank is required to maintain NSFR ratio greater than 100%. As of 31 December 2019 the Group had NSFR ratio of 144%.

d) Operational risk

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

25. CAPITAL ADEQUACY

Capital management

The primary objectives of the Group's capital management are to ensure that the Group complies with regulatory capital requirements. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, 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:

	2019 BD	2018 BD
Total eligible capital	301,146,684	278,557,123
Total regulatory capital (A)	301,146,684	278,557,123
Total Risk-weighted exposure (B)	191,610,606	191,314,035
Capital adequacy ratio (A/B)	157.17%	145.60%
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 ECL stage 1 and 2 subject to 1.25% RWA and the element of the fair value reserve relating to unrealised gains on equity instruments classified as FVOCI.

26. MATURITY PROFILE OF ASSETS AND LIABILITIES

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

At 31 December 2019	Less than 12 months BD	Over 12 Months BD	Total BD
Assets			
Cash and cash equivalents	30,895,317	-	30,895,317
Investments	487,555	4,382,031	4,869,586
Loans	28,892,850	681,769,486	710,662,336
Investment in associates	-	4,339,694	4,339,694
Investment properties	-	50,498,034	50,498,034
Development properties	25,640,960	4,345,331	29,986,294
Other assets	10,358,576	20,212,468	30,571,044
	92,275,258	765,547,047	861,822,305
Liabilities			
Deposits from financial and other institutions	10,000,000	-	10,000,000
Customer current accounts	2,180,596	-	2,180,596
Government accounts	10,000,000	457,234,756	467,234,756
Term loans	20,000,000	48,300,000	68,300,000
Other liabilities	4,078,327	3,521,277	7,599,604
	46,258,923	509,056,033	555,314,956
Net liquidity surplus	50,016,335	256,491,014	306,507,349

At 31 December 2018	Less than 12 months BD	Over 12 Months BD	Total BD
Assets			
Cash and cash equivalents	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. FUTURE FUNDING REQUIREMENTS

The Group's continued operations are dependent upon annual collections from the mortgage portfolio and MOH social housing units' distributions portfolio, as well as financing arrangements with local banks from time to time.

1 ADDITIONAL SUPPLEMENTARY INFORMATION - ISLAMIC BANKING (UNAUDITED)

Islamic products

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

Ijara Muntahia Bittamleek and Ijarah income receivables

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

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

Wakala

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

Investments - sukuk (Debt-type instruments at amortised cost)

Debt-type instruments which are managed on a contractual yield basis and are not held for trading and has not been designated at fair value through statement of income are classified as debt-type instruments at amortised cost. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such investment is recognised in the consolidated statement of income, when the investment is de-recognised or impaired.

Commodity Murabaha

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

Revenue recognition

Revenue is recognised on the above Islamic products as follows:

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

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

Income from investments is recognised when earned.

1 ADDITIONAL SUPPLEMENTARY INFORMATION - ISLAMIC BANKING (UNAUDITED) (CONTINUED)

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

	2019 BD (unaudited)	2018 BD (unaudited)
Ijara muntahia bittamleek - net	220,907,438	225,169,705
Ijara income receivables	130,711	186,107
Wakala placements	4,000,000	5,000,000
Wakala income receivable	1,944	7,639
Ijara Sukuk	288,885	3,560,007
Profit receivable on Ijara Sukuk	5,239	58,404
	225,334,217	233,981,862

a) The amount reported is net of impairment provision of BD 12,538,153 (2018: BD 10,986,536)

b) The amount reported is net of impairment provision of BD 5,520 (2018: BD 6,289)

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

	2019 BD (unaudited)	2018 BD (unaudited)
Wakala placements	4,000,000	5,000,000
Wakala Profit payable	2,222	9,064
Commodity Murabaha	2,000,000	3,000,000
Commodity Murabaha profit payable	4,028	5,304
Murabaha term financing	8,300,000	3,700,000
Profit payable on Murabaha term financing	109,439	44,317
	14,415,689	11,758,685

The total funds raised and financed by the Group under Shari'a rules and principles comprise of 26% of the total assets of the Bank as of 31 December 2019 (2018: 30%) and 3% (2018:2%) of the total liabilities.

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

	2019 BD (unaudited)	2018 BD (unaudited)
Income		
Income from Ijara Muntahia Bittamleek - net	8,632,509	8,646,952
Profit from wakala and ijara sukuk	118,416	190,462
Expenses		
Profit on Wakala and commodity Murabaha	(70,380)	(189,578)
Profit before impairment provision	8,680,545	8,647,836
Impairment provision	105,480	(28,684)
Net Profit for the year	8,575,065	8,676,520

Commitments

	2019 BD	2018 BD
Ijara Muntahia Bittamleek	14,945,687	5,984,258

The Group does not have any significant conflicts for recognition and measurement basis with the requirements of the financial accounting standards issued by Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI)

Pillar-III Disclosures

31st December, 2019

Contents

Pillar-III Disclosures

31st December, 2019

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:

- **Eskan Properties Company B.S.C. (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. The principal activity of the Company is to develop and manage projects for development of properties on behalf of Eskan Bank, MOH and other third parties.

- **Dannat Al Lawzi B.S.C (c)**

Danaat Al Lawzi was established in 2014 for the purpose of developing an affordable housing project in Hamad Town, in collaboration with the private sector. Development work on the project commenced in 2017, with an anticipated handover date in 2020, and should deliver:

- 303 affordable villas
- A retail facility featuring a supermarket with related amenities
- A walkway adjacent to Al Lawzi Lake
- All necessary primary, secondary and tertiary infrastructure

The Bank holds a 55.88% stake in Danaat Al Lawzi.

c) Associate companies of the Bank:

- **Eskan Bank Realty Income Trust ("EBRIT")**

EBRIT, established in Q4 2016 by Eskan Bank, is the first listed Real Estate Investment Trust in Bahrain. EBRIT has a total value of BD 12.3 million as of 31 December 2019, of which 35.23% 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:

a) 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	35.23%	200%
Dannat Al Lawzi B.S.C (c)	Kingdom of Bahrain	55.88%	50%

2. FINANCIAL PERFORMANCE AND POSITION

During 2019, 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 2019 of BD23.1 million (2018: BD23.2 million). Total operating costs, stood at BD 6 million are 3.7% lower than last year, this was mainly due to successful department wide cost rationalization process. As a result, the Bank's cost-to-income ratio decreased from 21% in 2018 to 19% in 2019.

As of 31 December 2019, total equity of the Bank stood at BD 306.5 million (2018: BD283.8 million), while the return on equity stood at 7.5%. The Bank's total balance sheet grew to BD 862 million at the end of 2019, compared to BD 770 million at the end of the previous year. Capital adequacy ratio improved to 157%, while the Bank's balance sheet continues to boast healthy liquidity.

2. FINANCIAL PERFORMANCE AND POSITION (CONTINUED)

a) Asset Growth & Quality:

- **Assets growth:**

The total Balance Sheet of the Bank stood at BHD 862 million as at 31st December 2019 compared to BHD 770 million as at the previous year-end. The Bank's loans and advances as at 31st December 2019 stood at BHD 710.6 million, which reflects a growth of 12% as compared to 2018.

- **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 decision to grant the loan is determined by the Ministry of Housing and communicated to the Bank to make disbursement to the borrowers. There is credit risk to the Bank arising out of these loans. Losses, if any arising from the impairment of such loans can be claimed from the Government. 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), Bahrain Aluminum Extrusion Company, 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):

	2019	2018	2017	2016	2015
Earnings					
Net Interest Income	30,183	27,275	24,674	17,496	16,375
Other Income*	1,487	2,471	4,408	5,379	1,890
Operating Expenses	6,022	6,154	7,209	6,409	6,566
Impairment Allowance	2,531	342	331	(23)	251
Net Income	**23,117**	**23,250**	**21,542**	**16,489**	**11,448**
Financial Position					
Total Assets	861,822	769,716	738,402	636,807	597,264
Loans	710,662	632,511	609,863	479,006	460,092
Total Liabilities	555,315	485,901	476,037	405,979	375,366
Non-controlling interest	6,627	6,652	6,681	6,665	6,638
Shareholders Equity	299,880	277,163	255,684	224,163	215,260
Earnings: Ratios (Per Cent)					
Return on Equity	7.5%	8.2%	8.2%	7.1%	5.2%
Return on Assets	2.7%	3.0%	2.9%	2.6%	1.9%
Cost-to-income ratio	19%	21%	25%	28%	36%
Net Interest Margin	99%	99%	98%	98%	98%
Capital:					
Shareholders Equity as per cent of Total Assets	35%	36%	35%	35%	36%
Total Liabilities to Shareholders Equity	185%	175%	186%	181%	174%

* Other Income comprise of i.e. Share of profit from equity accounted investee, income from properties and dividend income.

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-19	31st-December-18
Net profit for the year	74,447	605,978
Total assets	2,367,625	2,259,079
Total equity	1,728,424	1,653,978

- Dannat Al Lawzi

On 27 July 2014, upon satisfaction of all regulatory requirements, the Group invested BD 8.4 million in Dannat Al Lawzi B.S.C (c) ("the Company"), equating to 55.88% of the issued capital. Dannat Al Lawzi 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 4: Financial highlights (in BHD)

	31st-December-19	31st-December-18
Net profit for the year	(56,073)	(50,396)
Total assets	26,098,599	19,661,392
Total equity	15,019,935	15,076,008

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, and in view of the development of additional social loan offerings, we expect a major increase in said product along with Mazaya loans. 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 is leveraging its balance sheet, and embarking on project finance basis for projects developed through partnerships with the private sector or Ministry of Housing, as well as 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 Bank 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 Bank shall have rigorous procedures for appointment, training and evaluation of the board.

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

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

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

Principle Eight: The Bank shall disclose its corporate governance

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

4. CORPORATE GOVERNANCE AND TRANSPARENCY (CONTINUED)

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

5. BOARD AND MANAGEMENT COMMITTEES

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

6. BOARD OF DIRECTORS

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

Qualifications:

- Master's in Project Management – Boulder, Colorado, USA
- Bachelors in Civil Engineering – San Diego/California
- He was the Chairman of Tender Board
- He was a board member in National Oil and Gas Authority
- He was appointed President of Customs Affairs
- Throughout his career, Eng. Basim Bin Yacob Al Hamer received several medals of Honor:
- Medal for Military Duty: 21/04/1987
- Medal Sultan's Commendation: 14/12/1987
- Liberation of Kuwait Medal: 23/12/1991
- Bahrain Meritorious Service Medal of the 1st Class: 05/02/1997
- Shaikh Isa Medal of the 4th Class: 01/01/2001
- Hawar Medal: 12/10/2001
- Bahrain Medal of the 2nd Class: 25/01/2007
- Order of Merit of the 1st Class: 16/12/2007
- Bahrain Medal of the 1st Class: 14/12/2008

ii. Mr. Mohamed A.R. Hussain Bucheeri

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

Appointed as Board Director since 2011

Qualifications:

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

More than 41 years of 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.

6. BOARD OF DIRECTORS (CONTINUED)

iii. Dr. Zakareya Sultan Al Abbasi

Member (Independent Non-Executive Director)

Appointed as a Board Member since 2011 and he is a member of the Audit and Risk Committee

Qualifications:

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

More than 31 years of 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 (KFH) - Bahrain, Aluminum Bahrain B.S.B. (ALBA), Al Sorouh Management company WLL, Bahrain Middle-East Bank.

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, U.K.

More than 26 years of 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 (16) years of work experience.

Board Member:

Bahrain Bourse and Audit Committee of Tamkeen.

Currently holds the position of Chief Executive of the National Bureau for Revenue, with the rank of Ministry Undersecretary.

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

6. BOARD OF DIRECTORS (CONTINUED)

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 17 years of 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, 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., AUBH Management S.P.C.

viii. Mrs. Najla Mohammed Al-Shirawi

Independent Non-Executive Director, & Chairperson of Audit and Risk Committee

Appointed 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 21 years of experience in the investment banking sector.

Chief Executive Officer: SICO B.S.C. (c), Bahrain

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

Board Member:

Economic Development Board, Deposit Protection Scheme, Bahrain Institute of Banking & Finance, Bahrain Association of Banks.

Previous Positions: Worked for 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 and Risk 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 19 years of 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)

7. EXECUTIVE MANAGEMENT TEAM OF THE GROUP

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

Dr. Khalid Abdulla has over thirty-seven 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 the Kingdom of 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. Khalid 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-four 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-seven 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-one years of experience in Banking and Financial Services Industry with over 25 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 in different capacities including Head of Risk Management .

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 eighteen 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 thirty-two years of experience in Banking Industry, particularly in the areas of Sales and Retails Products and Service. Prior to joining Eskan Bank, she was Sales & Service Manager at Standard Chartered Bank for 9 years.

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 thirty years of experience in the field, particularly in the areas of Risk, Quality, Finance, Project Management and Business development. 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 the UK.

She has been with Eskan Bank since 1989 in which she has held different positions including 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-three years of experience in Human Resource Management, and has worked with one of the leading banks, National Bank of Bahrain (NBB) 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 2014.

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

Mr. Aqeel Mayoof has over twenty-three years of experience in different IT Core Banking Systems within banking industry such as Citi Bank and Ahli United Bank (AUB). 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 twenty 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 nineteen 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 the Kingdom of 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-three 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-one 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 Bank did not seek external consultant advice in areas of remuneration process.

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. There has been an update to the grading scale for junior level staff during the year, however such changes did not have significant impact on the overall remuneration of the employees including approved persons.

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 2019, 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 2019 (2018: Nil) . 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 (2018: Nil).

CBB has approved the Bank's remuneration policy and exempted the Bank from the requirements of deferral (except in the case of poor performance as noted below) and clawback provisions given the ownership structure of the organization, nature of its business and the policy of remuneration followed by the Bank. Variable remuneration is deferred only in the event of poor bank, divisional or business unit performance. Recognition of staff who have achieved their targets or better, may take place by way of deferred compensation, which may be paid once the Bank's performance improve.

The Bank has not awarded any deferred remuneration as of or during year ended 31 December 2019 (2018: Nil) nor paid out any deferred remuneration or reduced the deferred remuneration through performance instruments during the same period mentioned above.

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 2019. This is due to the fact the Board of Directors of the Bank was appointed as per the Council of Ministers resolution No. 20 for 2018 dated 15 July 2018, 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 employees of the bank for the year of 2019

2019

No.	Headcount	Category	Basic	Other Benefits / Allowances	Total Fixed Remuneration	Performance Bonus in Cash	Total Variable Remunerations	Total Fixed & Variable Remuneration
1	9	Members of the Board		65,800 *	65,800 *			65,800
2	10**	Approved persons (not included in 1 and 3)	682,368	348,062	1,030,430	206,844	206,844	1,237,274
3	8	Approved persons in Risk Management, Internal Audit, Operations, Financial Controls, AML and Compliance functions	201,164	171,285	372,449	49,027	49,027	421,476
4	112	Other employees	1,483,825	746,665	2,230,490	279,842	279,842	2,510,332
	139	Grand Total	2,367,357	1,331,812	3,699,169	535,713	535,713	4,234,882

* Include BD 800 paid to one Board member for attending Board of Directors meetings in one of Bank's subsidiaries.

** Included two individuals holding managerial position in one of the Bank's subsidiary who are approved persons by CBB.

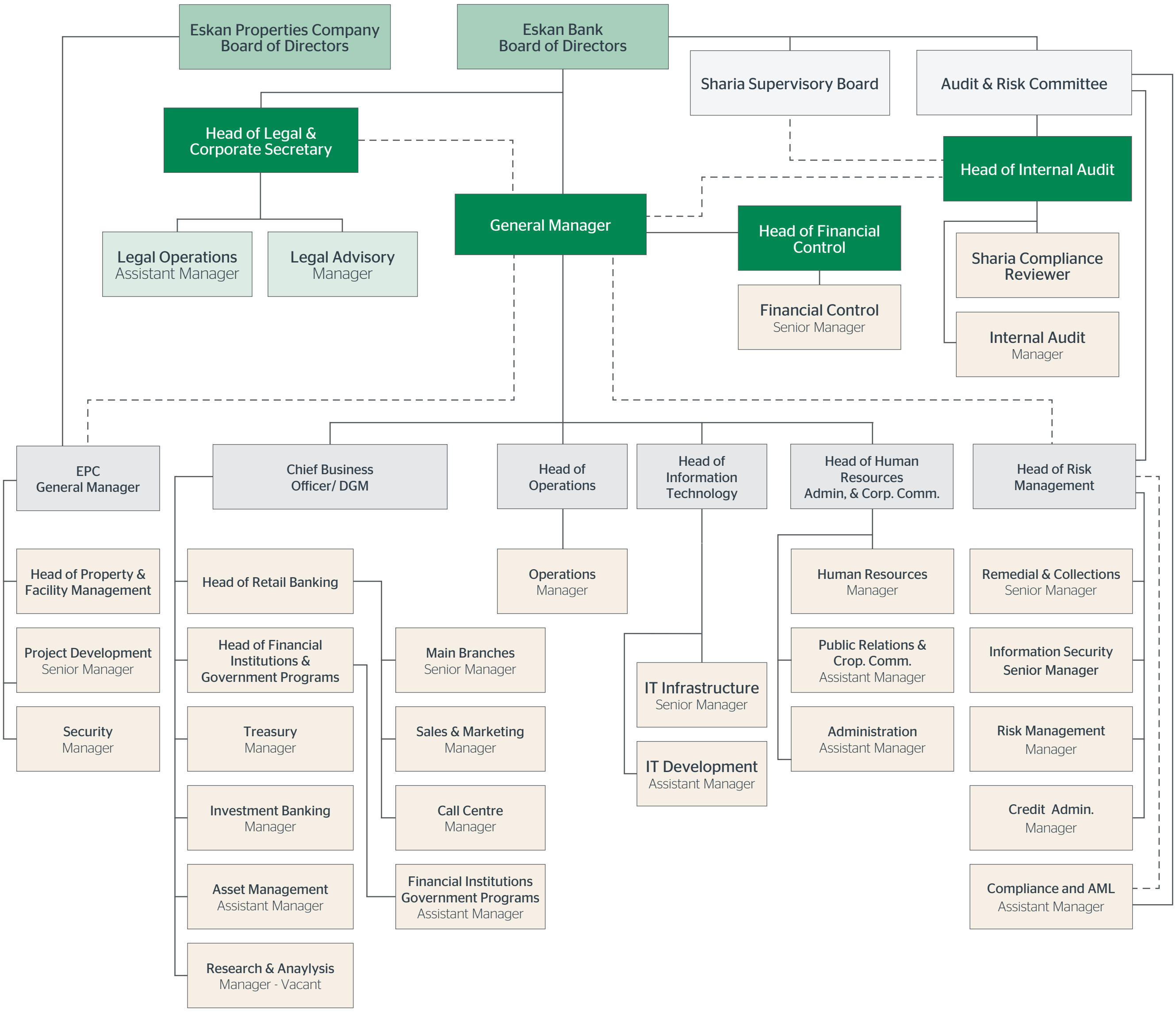
The table below reflects the total amount of remuneration paid to the employees of the Bank for the year of 2018

2018

No.	Headcount	Category	Basic	Other Benefits / Allowances	Total Fixed Remuneration	Performance Bonus in Cash	Total Variable Remunerations	Total Fixed & Variable Remuneration
1	9	Members of the Board		222,000	222,000			222,000
2	7	Approved persons (not included in 1 and 3	587,373	164,990	752,363	219,665	219,665	972,028
3	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
4	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

9. ORGANISATION CHART

Eskan Bank Organisation Structure-2019



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 Executive Committee 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 and Risk 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 and National Economy 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 and National Economy, H.E the Minister of Housing, H.E Minister of Industry, Commerce and Tourism, 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) Disclosed reserves including: i) General reserves; ii) Legal / statutory reserves; iii) Share premium; iv) Retained earnings or losses (including net profit/ loss for the reporting period, whether reviewed or audited),

c) Common shares issued by consolidated banking 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 banking 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 banking 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) Expected Credit Loss stage 1 and stage 2,

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 Expected Credit Loss stage 1 and stage 2 subject to 1.25% risk weighted assets. 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 1: CAPITAL STRUCTURE

The following table summarizes the eligible capital after deductions for Capital Adequacy Ratio (CAR) calculation as of 31 December 2019.

	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		
Statutory reserves	54,462	-	-
Retained earnings	92,514	-	-
Current interim profits	23,178	-	-
Cumulative fair value changes on FVOCI investments (Equities)	(416)	-	-
Total CET 1 Capital prior to the regulatory adjustments	300,045	-	-
Less: Regulatory adjustments			
Intangibles other than mortgage servicing rights	(592)		
Total CET 1 Capital after the regulatory adjustments	299,453	-	-
Other Capital (AT1 & T2)			
Expected Credit Losses (ECL) Stages 1 & 2 (1.25% of credit risk weighted assets)	-	-	1,685
Net available Capital	299,453	-	1,685
Total Capital			301,138

10. CAPITAL (CONTINUED)

Table 2: CAPITAL ADEQUACY RATIOS

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%	2.5% comprising of CET1	9.0%
Additional Tier 1 (AT1)	1.5%			
Tier 1 (T1)		8.0%		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 2019:

CET1 Capital Adequacy Ratio	156%
T1 Capital Adequacy Ratio	156%
Total Capital Adequacy Ratio	**157%**

Following are the total risk weighted exposures for each category of risk the Bank is exposed to as of 31 December 2019:

Credit Risk Weighted Exposures	134,824
Operational Risk Weighted Exposures	56,788
Market Risk Weighted Exposures	-
Total Risk Weighted Exposures	**191,612**

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 and Risk 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 and Risk 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.

13. CREDIT RISK (CONTINUED)

13.1 Overview of Credit Risk Management (continued)

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.

13.2 Definition, Assumptions and Technique for Estimating Impairment

Significant increase in credit risk

When determining whether the credit risk of a financial asset has increased significantly since initial recognition when estimating ECL, 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 Bank's historical experience and informed credit assessment including forward-looking information.

The Bank assumes that the credit risk on a financial asset has increased significantly since initial recognition if contractual payments are past due. This assumption will always hold true unless the Bank can prove, through reasonable and fact-based information, the risk has not increased significantly after being past due.

The Bank considers a financial asset to be in default when either or both of the two following events have taken place:

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

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

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.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost, debt securities at FVOCI and loan commitments 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.

Credit impaired financial assets are subject to cooling of period of 12 months from the first date of becoming regular in payment.

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.

13. CREDIT RISK (CONTINUED)

Measurement of ECL

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

The Bank applies a three-stage approach to measuring expected credit losses (ECL) on financial assets carried at amortised cost, debt securities at FVOCI and loan commitments. These items 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 Bank 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).

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 Bank 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.

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 2019:

	Below 3 months	3 months up to 1 year	1 up to 3 years	Over 3 years	Total
Retail mortgage social loans	47,444	28,646	9,111	1,775	86,976
Retail mortgage commercial loans	1,523	600	570	1,389	4,082
Other assets	-	-	183	-	183
	48,967	29,246	9,864	3,164	91,241

13. CREDIT RISK (CONTINUED)

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	86,976	3,993	22,632
Retail mortgage commercial loans	4,082	43	1,267
Other assets	183	-	120
	91,241	4,036	24,019

Impaired loans:

	Loan amount	ECL stage 3
Retail mortgage social loans	58,062	29,033
Retail mortgage commercial loans	3,207	1,519
	61,269	30,552

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

	Stage 1 & 2	Stage 3	Total
Expected credit loss as 1 January 2019	2,940	28,166	31,106
Net transfer between stages	770	(770)	-
Write off during the period	(18)	(4,125)	(4,143)
Charge/(release) for the period - Social Loans	1,635	7,047	8,682
Charge/(release) for the period- Commercial Loans	(188)	235	47
Expected credit loss as 31 December 2019	5,139	30,553	35,692

The Group's entire past due and provision balances as at 31 December 2019 relates to its operations in the Kingdom of Bahrain.

Restructured Assets

Restructured exposures due to credit risk reasons are classified as stage 2 for a minimum period of 12 months from the date the restructured facility is performing. 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.

The total principal outstanding amount of social loans restructured during the year is BD 73,095 and the ECL on restructured loans as of year-end is BD 33K.

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 2019:

	* Gross Exposures	Risk Weighted Exposures	** Capital Charge
Standard Portfolio			
Cash items	98	-	-
Claims on sovereign	766,654	-	-
Claims on Banks	4,250	850	106
Claims on investment firms	256	128	16
Mortgage	6,813	5,110	639
Past due exposure	1,369	1,369	171
Equity investments	1,044	1,566	196
All other holdings of real estate **	70,655	123,606	15,451
Other assets	2,195	2,195	274
	853,334	134,824	16,853

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

***Other claims Includes real estate exposures relating to social housing projects amounting to BD 11,803 thousand which have been risk weighted at 50% as per CBB concessions and have capital charge of BD 738 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.

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 2019:

	Gross Exposures	* Average Exposures
Funded Exposure		
Cash and cash equivalents	30,895	29,575
Investments	4,870	8,860
Loans	710,662	702,305
Investment in associates	4,340	4,440
Investment properties	50,498	50,840
Development properties	29,986	27,972
Other assets	30,571	30,820
	861,822	854,812
Unfunded Exposure		
Loan related	15,098	8,608
Capital Commitments	4,017	6,020
	19,115	14,628

** 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)

	Kingdom of Bahrain	Total
Funded Exposures		
Cash and cash equivalents	30,895	30,895
Investments	4,870	4,870
Loans	710,662	710,662
Investment in associates	4,340	4,340
Investment properties	50,498	50,498
Development properties	29,986	29,986
Other assets	30,571	30,571
	861,822	861,822

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 2019:

	Government	Banks and financial institutions	Real estate and construction	Residential mortgage	Tourism	Other	Total
Funded Exposures							
Cash and cash equivalents	26,262	4,634	-	-	-	-	30,896
Investments	1,083	-	2,743	-	746	298	4,870
Loans	-	-	-	710,662	-	-	710,662
Investment in associates	-	-	4,340	-	-	-	4,340
Investment properties	-	-	50,498	-	-	-	50,498
Development properties	-	-	29,986	-	-	-	29,986
Other assets	27,419	13	132	415	-	2,592	30,571
	54,764	4,647	87,699	711,077	746	2,890	861,823
Unfunded Exposures							
Loan related	-	-	-	15,098	-	-	15,098
Capital Commitment	-	-	4,017	-	-	-	4,017
	-	-	4,017	15,098	-	-	19,115

13.3 Related Parties Transactions

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

The details of the related party disclosures are incorporated in the relevant section of the consolidated financial statements for the year ended 31st December 2019.

13. CREDIT RISK (CONTINUED)

Table 13: Intra-group transactions as of 31 December 2019 (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 2019:

	Eskan Bank	Eskan Property Co.	Dannat Al Lawzi	Total
Assets				
Balances with Banks		348	-	348
Inter Bank Deposits	-	1,201	-	1,201
Development Properties	69	-	156	225
Investment properties	3	-	-	3
Investments in subsidiaries	8,651	-	-	8,651
Other Assets	209	195	-	404
	8,932	1,744	156	10,832
Liabilities and Equity				
Non-Bank Deposits	1,201	-	-	1,201
Current Accounts	348	-	-	348
Other Liabilities	91	171	141	403
Share Capital & Reserves	59	396	8,424	8,879
		-	-	
	1,699	567	8,565	10,831

13.4 Large Exposures

A Large exposure is any exposure to individual **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 2019.

14. CREDIT RISK MITIGATION

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

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

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

- First legal mortgage over real estate/ property

  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 & Financial Control 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	10,895	20,000	-	-	-	-	-	-	-	-	30,895
Investments	129	50	99	-	210	543	3,838	-	-	-	4,869
Loans	-	2,343	4,729	7,215	14,605	227,186	64,939	154,372	226,121	9,151	710,661
Investment in associates	-	-	-	-	-	-	-	-	-	4,340	4,340
Investment property	-	-	-	-	-	-	-	-	50,498	-	50,498
Development property	-	-	-	-	25,641	4,345	-	-	-	-	29,986
Other assets	429	101	553	77	9,199	19,005	1,208	-	-	-	30,572
Total Assets	11,453	22,494	5,381	7,292	49,655	251,079	69,985	154,372	276,619	13,491	861,821
Deposits from financial and other institutions	6,000	4,000	-	-	-	-	-	-	-	-	10,000
Customer current accounts	2,181	-	-	-	-	-	-	-	-	-	2,181
Government accounts	-	-	-	-	10,000	-	-	-	-	457,235	467,235
Term loans	-	-	-	10,000	10,000	48,300	-	-	-	-	68,300
Other liabilities	310	369	654	509	2,237	3,032	489	-	-	-	7,600
Total Liabilities	8,491	4,369	654	10,509	22,237	51,332	489	-	-	457,235	555,316
Mismatch	2,962	18,125	4,727	(3,217)	27,418	199,747	69,496	154,372	276,619	(443,744)	306,505
Cumulative Mismatch	2,962	21,087	25,814	22,597	50,015	249,762	319,258	473,630	750,249	306,505	306,505

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, 2019:

			BHD 000's
Year	2017	2018	2019
Gross income	29,198	29,955	31,712
Average Gross income			30,288
Multiplier			12.5
			378,600
Eligible portion for purpose of the calculation			15%
Total operation risk weighted exposures			56,790
Minimum capital requirement (12.5%)			7,099

19. EQUITY POSITIONS IN THE BANKING BOOK

The Equity position as at 31 December 2019 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	Risk weighted	Capital charge
FVTOCI	3,786	3,786	-	7,050	881
Investments in associates	4,340	-	4,340	8,680	1,085
Investments in unconsolidated subsidiaries	8,401	8,401	-	4,201	525

The risk weighted assets used in arriving at the capital requirements considers investments carried at fair value through other comprehensive income with comprises of investment in Naseej to be risk weighted at 200% being equity investments in real estate entity and investments in Southern Tourism Company and in Balexco are risk weighted at 150%. Capital Charge is calculated at 12.5%.

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

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 cash 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.

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	3-5 years	More than 5 Years	Total
Deposits from financial and other institutions	6,000	4,000	-	-	-	-	-	-	10,000
Term Loans	-	-	-	10,000	10,000	48,300	-	-	68,300
Rate sensitive Liabilities	**6,000**	**4,000**	**-**	**10,000**	**10,000**	**48,300**	**-**	**-**	**78,300**
ASSETS									
Balances and placements with financial institutions	10,797	20,000	-	-	-	-	-	-	30,797
Loans - Social loans	-	3,229	6,521	9,949	20,146	304,937	89,528	549,436	983,746
Loans - commercial loans	-	54	108	165	333	3,147	1,389	4,475	9,671
Investment in Debt Securities	129	50	99	-	210	246	350	-	1,084
Rate sensitive Assets	**10,926**	**23,333**	**6,728**	**10,114**	**20,689**	**308,330**	**91,267**	**553,911**	**1,025,298**
Mismatch	**4,926**	**19,333**	**6,728**	**114**	**10,689**	**260,030**	**42,967**	**553,911**	**898,697**

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 re-appointed as the external auditors of the Bank in January 2020 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 and Risk Committee and approved by the Board of Directors.

22. CBB Penalties

The CBB penalties imposed upon the Bank during the year amounted to BD 629.500 related to Electronic Fund Transfer Services (EFTS).

Composition of Capital Disclosure Requirements

31st December, 2019

Step 1: Balance sheet under the regulatory scope of consolidation

Step 2: Reconciliation of published financial balance sheet to regulatory reporting

Particulars	FS	PIR	Ref
ASSETS			
Cash and balances at central banks	1,201	26,360	
Placements with banks and similar financial institutions	29,700	4,240	
of which Expected Credit Loss (stage 1 & 2)	6	-	a
Loans and advances to banks and non-banks	715,801	715,801	
of which Expected Credit Loss (stage 1 & 2)	5,138	-	a
Investment at fair value through other comprehensive income	3,786	3,786	
Investments at Amortized Cost	1,083	1,083	
Investment properties	50,498	50,498	
Interest in unconsolidated subsidiaries and associated companies - Note 1	4,340	12,741	
Interest receivable	451	451	
Property, plant, and equipment (PPE)	205	206	
Other Assets	59,310	34,400	
of which: intangible assets deducted from regulatory capital	592		b
Total Assets (3.1 to 3.10 inclusive)	**861,823**	**849,566**	
NON-CAPITAL LIABILITIES			
Deposits from banks	10,000	10,006	
Deposits from non-banks	2,181	2,174	
Certificates of deposits issued	-	-	
Debt securities in issue	-	-	
Financial liabilities at fair value through profit and loss	-	-	
Term borrowings	68,300	60,000	
Securities sold under repos	-	-	
Dividend payable	-	-	
Interest payable	373	264	
Other liabilities	474,461	471,933	
Total non-capital items (2.1 to 2.10 inclusive)	**555,315**	**544,377**	

Reconciliation of published financial balance sheet to regulatory reporting as at 31 December 2019 (continued)

Particulars	FS	PIR	Ref
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	92,386	92,514	f
Net (loss) for the current period	-	-	
Net profit for the current period	23,142	23,178	g
Innovative capital instruments	-	-	
Minority interest in subsidiaries' share capital	6,627	-	
Fx translation adjustment	-	-	
Fixed assets revaluation reserves	-	-	
Cumulative fair value changes on FVOCI investments	416	416	h
Expected credit losses (Stages 1 & 2)	-	5,144	a
of which eligible for T2	-	1,685	i
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	306,508	305,189	
Total capital and non-capital items	861,823	849,566	

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 2019 (Amount in BD 000's)	
				Total assets	Total equity
Danat Al Lawzi 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	26,099	15,020

Composition of Capital Disclosure Requirements

31st December, 2019

Step 3: Composition of Capital Common Template (transition) as at 31 December 2019

	Common Equity Tier 1 capital: instruments and reserves	Component of regulatory capital reported by bank	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 brought forward	92,514	f
3	Accumulated other comprehensive income (and other reserves)	99,647	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)	(416)	h
7	**Common Equity Tier 1 capital before regulatory adjustments**	**300,045**	
8	Prudential valuation adjustments		
9	Goodwill (net of related tax liability)		
10	Other intangibles other than mortgage-servicing rights (net of related tax liability)	592	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		
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		
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**	**592**	**b**

Composition of Capital Disclosure Requirements

31st December, 2019

Step 3: Composition of Capital Common Template (transition) as at 31 December 2019 (continued)

	Common Equity Tier 1 capital: instruments and reserves	Component of regulatory capital reported by bank	Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation from step 2
30	**Common Equity Tier 1 capital (CET1)**	299,453	
	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		
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		
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		
43	**Total regulatory adjustments to Additional Tier 1 capital**		
44	**Additional Tier 1 capital (AT1)**	-	
45	**Tier 1 capital (T1 = CET1 + AT1)**	299,453	
	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	1,685	i
51	**Tier 2 capital before regulatory adjustments**	1,685	i
	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)		

Composition of Capital Disclosure Requirements

31st December, 2019

Step 3: Composition of Capital Common Template (transition) as at 31 December 2019 (continued)

	Common Equity Tier 1 capital: instruments and reserves	Component of regulatory capital reported by bank	Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation from step 2
56	National specific regulatory adjustments		
57	**Total regulatory adjustments to Tier 2 capital**	-	
58	**Tier 2 capital (T2)**	**1,685**	i
59	**Total capital (TC = T1 + T2)**	**301,138**	
60	**Total risk weighted assets**	**191,612**	
	Capital ratios		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	**156%**	
62	Tier 1 (as a percentage of risk weighted assets)	**156%**	
63	Total capital (as a percentage of risk weighted assets)	**157%**	
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)	156%	
	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)	5,144	a
77	Cap on inclusion of provisions in Tier 2 under standardised approach	1,685	i
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, 2019

Step 4: 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 108,300,000
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	Non-convertible
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	No write down feature
31	If write-down, write-down trigger(s)	Not applicable
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