Annual Report 2014

Developing synergies to create sustainable communities

بنك الإسكان
ESKAN BANK

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

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His Royal Highness, Prince Khalifa bin Salman Al Khalifa

The Prime Minister of the Kingdom of Bahrain

His Majesty, King Hamad bin Isa Al Khalifa

The King of the Kingdom of Bahrain

His Royal Highness Prince Salman bin Hamad Al Khalifa

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

Corporate Profile

Vision

Lead in providing innovative and sustainable housing solutions

Mission

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

Core Values

- Integrity
- Respect
- Ownership
- Innovation

Eskan Bank was established in 1979 with a unique social role to provide mortgages for citizens of the Kingdom of Bahrain on low-to-medium incomes, and also to engage in community- related property development activities. Since 2005, the Bank has expanded its activities and now offers investment banking, retail banking, Shari'a-compliant financing, property development, property management, and treasury and capital management services.

Today, Eskan Bank is the Kingdom's leading provider of residential mortgages, and a significant player in the property development market. Since inception, the Bank has provided mortgages totalling BD 715.6 million benefiting 50,834 Bahraini families. Eskan Bank's property development and investment activities embrace real estate investment, construction and property management; as well as finance for the construction of social and affordable homes, Community Projects and commercial projects.

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

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

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

In 2012, Eskan Bank commenced the implementation of a new five-year strategy which significantly strengthens the scope of the Bank's activities to support the social agenda of Bahrain's Economic Vision 2030. In particular, it defines the Bank's role to assist the Ministry of Housing in achieving the Government's commitment to significantly reduce the backlog of housing applications by Bahraini families on low-to-medium incomes. This is being achieved by accelerating the construction of social housing units in partnership with the private sector. In this respect, the Bank initiated a plan to build 2,500 social and affordable housing units on its land bank and through joint venture with landlords by 2016.

Wholly-owned by the Government of Bahrain, and with an authorised share capital of BD 400 million and paid-up capital of BD 108.3 million, Eskan Bank operates under a restricted conventional retail banking license issued and regulated by the Central Bank of Bahrain. At the end of 2014, total assets of the Bank stood at BD 610.7 million.

2014 has been a year of strength for Eskan Bank, with its many initiatives continuing to gather pace and interest in the affordable housing sector reaching new heights.

An integral part of this accelerating progress has been a bolstering of synergies, both with the Ministry of Housing and increasingly the private sector through a focus on building cohesive communities.

This closer cooperation has allowed Eskan Bank to continue its pivotal role in Bahrain's national ambition to provide homes to all 40,000 people on the government housing list, as envisioned by His Majesty King Hamad bin Isa Al Khalifa.

Operational Highlights

Strategy implementation

- Ensured the successful implementation of Social Housing Financing Scheme (SHFS) due to the efficient and smooth coordination between all stakeholders, secured the participation of three new banks, developed and secured preliminary approvals for the future expansion plan.
- Finalized work towards the launch of the Bank's own initiative, named Tomooh, for the encouragement of social housing beneficiaries to adopt more financially sound dwelling choices without sacrificing lifestyle.
- Strengthened the relationship with Ministry of Housing by offering technical and operational advisory services.
- Progressed with consultancy, design and construction of 1,500 social housing units in Hamad Town, Isa Town, Karbabad, Seef, and Istiqlal, as part of Eskan Bank's plan to construct 2,500 social housing on its owned land by 2016.
- Structured the first landlord tie up, namely Danaat Al Lawzi, for the provision of 500 housing units and arranged for its financing with local banks.

Financial performance

- Posted record financial results for fiscal year 2014.
- Almost completed construction of the Isa Town Mixed Use Project (Danaat Al Madina) as part of the Bahrain Property Musharaka Fund, in which Eskan Bank has a major share to build 324 apartments, retail and office space.
- The opening of workstations in two locations.
- Disbursed a record Shari'a compliant loans of BD 61.2 million to 4,770 families.
- 55,604 social loans totalling BD 776.8 million disbursed to date.

Property Development

- **Danaat Al Madina mixed-use project**
  - Construction work on Danaat Al Madina was launched on 1st June 2014 by Deputy Prime Minster, H.E. Shaikh Khalid Bin Abdulla Al Khalifa, with 90% of it having been completed by end of 2014, and electrical power connections due in Q1 2015.
  - Danaat Al Madina leasing and property management contract signed with Cluttons.
  - 202 out of 324 apartments at Danaat Al Madina sold by end of 2014, representing 62% of the total available units.
- **Segaya Plaza**
  - 100% of residential and commercial units in Segaya Plaza leased since June 2014.
- **Danaat Al Lawzi**
  - Reclamation and preparations for the construction of Danaat Al Lawzi started in September 2014.
- **Danaat Al Seef**
  - Construction of Danaat Al Seef started in September 2014.
- **Danaat Al Riffa**
  - Construction of Danaat Al Riffa started in October 2014.
- **Hamad Town Villas**
  - Construction of Hamad Town Villas started and expected to be completed by Q2 2015.

Community Projects

- 100% of the units in Hamad Town project were leased by end of 2014.
- 100% of the units in Hamala projects were leased by end of 2014.
- 100% of the units in Hamad Town, Karzakan and Dumistan projects were leased by end of 2014.
- 80% of units in Riffa project were leased.
- Constructions in 3 new community Projects in Samaheej, Budaiya and Salmabad started and expected to be completed by March 2015.

Treasury

- Effective liquidity management remained a top priority for Eskan Bank through increased interbank activities via conventional and Islamic dealings and improved spreads.
- Treasury also took advantage of the Government of Bahrain active marketing of primary bond and Sukuk deploying excess liquidity at attractive returns.
- Diversification of placements has been also a highlight during the year through active participation in Central Bank of Bahrain offerings.

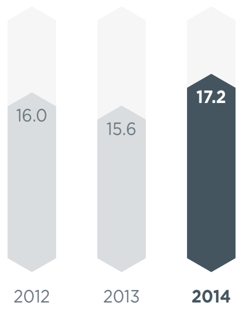
Information Technology

- Launched Enterprise Project Management system to enable greater operational efficiencies.
- Finalized in-house real estate booking system to allow for the pre-sales of Danaat Al Madina.
- Completed the implementation of arbitrage deals to allow treasury dealing in foreign currencies.
- Integrated e-Government services on Eskan website.
- Enabled online mirroring of the core banking to the Disaster Recovery Site.

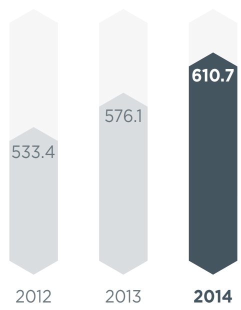
Information Security

- Introduced an Advanced Persistent Threat ("APT") protection solution to safeguard the information assets of the Bank from zero day attacks originating from malware and other web based threats.
- Enriched the Security Incident and Event Management Solution ("SIEM") through integration of security event logs from newly introduced IT and security systems. Created new sets of dashboards on SIEM for centralized security monitoring and management.

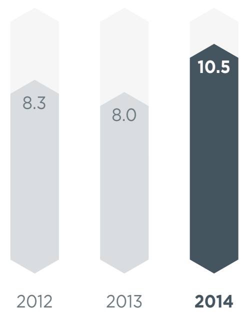
Operating Income
(BD Million)



Total Assets
(BD Million)



Net Income
(BD Million)



Business Continuity

- Conducted a risk assessment to identify the most prominent risks that could affect the business continuity of the Bank. Performed business impact analysis against those prominent risks to identify the critical business processes of the Bank. Business continuity planning exercises were carried out to devise recovery strategies for the critical business processes. A simulation test was conducted at the business continuity management command center in Jidali to successfully test and validate the effectiveness of the recovery initiatives of the Bank.
- Conducted business continuity awareness training for management and staff.

Quality

- Conducted quality awareness training for management and staff.
- Achieved re-certification of ISO 9001:2008 standard for the quality management system implemented at the Bank.
- The Bank was subjected to ISO 27001:2013 Information Security Management System standard stage 1 audit by the certification body, Bureau VERITAS. Plans are in place to achieve certification for ISO 27001:2013 ISMS standard towards the end of Q1 2015.

Project Management

- Launched Enterprise Project Management system to enable greater operational efficiencies in the management of projects across the Bank.
- Conducted training for project managers and project users from Eskan Bank and EPC on Enterprise Project Management system.

Operations

- Centralized activities to head office from branches to increase efficiency.
- Implemented the Ministry of Housing initiative Social Housing Financing Scheme (SHFS).
- Re-engineering of Loan processing, Ministerial Decree processing and restructuring of delinquent loans.
- Automated processes to reduce transactional turnaround time.
- Completed procedures for closure of the ATM network to realign Bank with core strategy.

Risk Management

- Implementation of BASEL III requirements.
- Strengthened the awareness of operational risk through staff training.

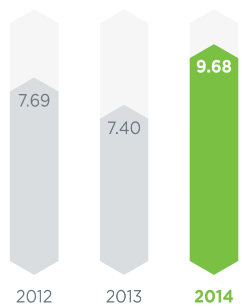
Communications

- The second version of Calendar photography contest under the theme "sea of Bahrain" with the winning entries depicted on the Bank's 2015 calendar.

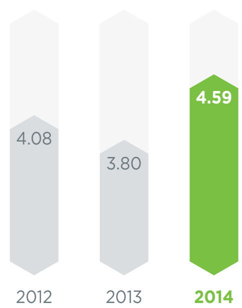
Social Responsibility

- The second version of 'Eskan Bank Award for Creative Engineering' with the University of Bahrain, for the academic year 2014/2015, under the theme "The Sustainable Affordable House for Bahrain" to promote excellence and innovation in housing solutions in the Kingdom.
- Conducted an annual staff blood donation campaign.

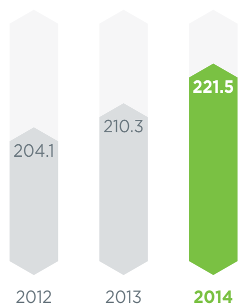
Earnings per Share
(BD)



Return on Equity
(%)



Total Equity
(BD Million)



Board of Directors

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

- Appointed as Chairman of Eskan Bank in 2011
- Master's in Project Management – Boulder, Colorado
- Bachelors in Civil Engineering – California
- More than 30 years experience
- Chairman: Tender Board
- Board Member: National Oil and Gas Authority.

2. **Mr. Mohamed A.R. Hussain Bucheeri**
Vice Chairman and Chairman of Executive Committee (Independent Non-Executive Director)

- Appointed in 2011
- Bachelor of Arts – Economics and Finance, Aleppo University – Syria
- Intensive Full Credit Course at Citibank Training Center – Athens, Greece
- Intermediate Credit Course at Citibank – Athens, Greece
- Registered Financial Consultant by successfully completing the Series 7 Examination required by the Securities and Exchange Commission in the United States
- More than 33 years work experience
- Board Member: Bank of Bahrain and Kuwait (BBK), Solidarity Group Holding Company, Investcorp Saudi Arabia Financial Investment Co., The K Hotel.

3. **Mr. Redha Abdulla Faraj**
Member (Independent Non-Executive Director)

- Appointed in August 2011
- A Chartered Accountant, a Fellow of the Chartered Association of Certified Accountants (FCCA), UK, one of the first Bahrainis to receive this qualification
- More than 40 years of work experience
- Founder and Managing Director: Al Faraj Consulting Company W.L.L. and Al Faraj Horizon Development Company
- Board Member: Almoayyed International Group (AIG), Y.K. Almoayyed & Sons Group, Bahrain Maritime & Mercantile International (BMMI), Bahrain National Holding Company (BNH), Eskan Bank, Gulf Air, Mumtalakat
- Member: Shura Council and Bahrain Chamber for Dispute Resolution (BCDR).

4. **Mr. Ahmed Jasim Farraj**
Member (Independent Non-Executive Director)

- Appointed in August 2011
- Bachelor's degree in Economics and Political Science, Kuwait University, Kuwait, 1977
- Diploma in Financial Management, University of Hull, UK, 1995
- More than 35 years work experience.
- Assistant Undersecretary (until October 2014): Financial Affairs, Ministry of Finance
- Vice Chairman and Chairman of Executive Committee: Gulf Biotech Company
- Board Member (until October 2014): Architectural Planning and Development Authority, Traffic Council, Bahrain Institute of Public Administration
- Member (until October 2014): Deposit Protection Board.

5. **Mr. Ali Yousif Al-Fardan**
Member (Independent Non-Executive Director)

- Appointed in August 2011
- Diploma in Executive Management – University of Bahrain, York St John University – UK
- Banking Diploma (Advance level) – Bahrain Institute of Banking and Finance
- Banking Diploma (Intermediate level) – Bahrain Institute of Banking and Finance
- More than 35 years of work experience
- Board Member: Islamic International Financial Market (IIFM)
- General Manager: National Bank of Kuwait.

6. Mr. Khalid Ali Al-Amin
Member (Independent Non-Executive Director)

- Appointed in August 2011
- Bachelor in Marketing, Houston, Texas
- More than 20 years work experience
- Chairman: Bahrain Youth Business Committee, G.C.C. Commercial Arbitration Centre
- Vice Chairman: Tamkeen
- Board Member: Ali Rashid Al-Amin Co., B.S.C., Bahrain Chamber of Commerce and Industry, Rotana Banader Hotel, Tazweed Qatar Company, Food Storage Company, Saudi Arabia, Ramakaza Trading Co., AF Willis Insurance Co.

7. Dr. Mohamed Ahmed Juman
Member (Independent Non-Executive Director)

- Appointed in August 2011.
- PhD in Avionics – Cranfield University – UK, MSc. In Project Management – Lancaster University – UK
- B.Eng in Communications and Electronics – Concordia University, Montreal Canada, Fellow Royal Aeronautical Society and British Computer Society
- Chartered Engineer – UK
- More than 29 years work experience
- Chairman and Owner of multiple businesses in the ICT, Aviation and Real Estate Sectors.
- Board member: Bahrain Development Bank, Royal University for Women. ATYAF International B.S.C., TIG Software
- Managing Director: Olive VFM B.S.C., MENA Aerospace Enterprises
- Member: Fellow Royal Aeronautical Society, Institute of Electrical and Electronics Engineering (Senior), Institute of Electrical Engineering UK, Fellow British Computer Society, Bahrain Society of Engineers.

8. Mr. Yousif Abdulla Taqi
Member (Independent Non-Executive Director)

- Appointed in August 2011
- A Certified Public Accountant (CPA)
- More than 28 years of work experience
- CEO and Board member: Al Salam Bank – Bahrain
- Chairman: Manara Developments Company B.S.C. (c), Amar Holding Company B.S.C. (c)
- Vice Chairman: ASB Biodiesel (Hong Kong) Limited, affiliates of ASBB
- Board Member: Aluminum Bahrain B.S.B. (ALBA), Tadhamon Capital.

9. Mr. Yusuf Saleh Khalaf
Independent Non-Executive Director and member of the Audit Committee

- Appointed in August 2011
- Over 30 years of experience in the banking and financial services sector
- A member of the UK's Association of Chartered Certified Accountants (ACCA) since 1983
- Higher Diploma in Business Studies Salford College of Technology, Alford, UK
- National Diploma in Business Studies Fielden Park College Manchester, UK
- Founder and Managing Director: Vision Line Consulting
- Board member: Bank of Bahrain and Kuwait, Securities and Investment Company (SICO), Solidarity General Takaful
- Previous Position: Held the positions of Chief Executive Officer at Ajman Bank and Bahrain Islamic Bank.

10. Dr. Zakareya Sultan Al Abbasi
Member (Independent Non-Executive Director)

- Appointed in August 2011
- Master and PhD degrees in Law from University of East Anglia – UK
- More than 30 years work experience
- Chief Executive Officer: Social Insurance Organization
- Board Member: Bank of Bahrain and Kuwait (BBK), Asset Management Company (Company owned by the Social Insurance Organization).

Chairman's Statement

H.E. Eng. Basim Bin Yacob Al Hamer

On behalf of the Board of Directors, it gives me great pleasure to present the annual report and consolidated financial statements of Eskan Bank for the year ended 31 December 2014.

By any measure, 2014 has been a momentous year for Eskan, during which we deepened bonds with our many stakeholders, and made great strides in promoting our vision of how affordable homes in the Kingdom of Bahrain should be built. Working relationships with both the Ministry of Housing and private sector financiers strengthened, as both private sector developers and the general public welcomed this vision. This was reaffirmed through the inauguration of Danaat Al Madina, Bahrain's largest affordable residential mixed use project to date, which was almost completely sold out by year end. Other highlights include yet another record year for social loan disbursements, as the Bank expanded its systems and processes to accommodate this extra demand, and the disbursement of the first Social Housing Finance Scheme loans, which further bolstered private sector involvement, while also giving higher income beneficiaries more options.

These efforts, and others by both Eskan and the Ministry of Housing, are all designed for a single purpose: to provide homes for all 40,000 people on the Government's waiting list, as envisioned by His Majesty King Hamad bin Isa Al Khalifa.

It is with this singular goal in mind that I am pleased to report that Eskan Bank has posted sound financial results for 2014 on the back of strong mortgage loan disbursements and liquidity management. Total net income for the year 2014 is BD 10.5 million. Total equity has reached BD 221 million, with a growth of 5.3% from 2013 and a return on equity of 4.7%. Total expenses are lower than the previous year by 10.7%, and the total

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income has grown by 10% compared to the previous year. Cost-to-income ratio has slightly increased, from 33% in 2013 to 35% in 2014. On a prudent basis, the Bank maintains a 1% general loan loss provision for top-up commercial loans, in addition to the specific provision computed in compliance with regulatory requirements.

The Bank's total balance sheet strengthened to BD 611 million at the end of 2014 compared to BD 576 million at the end of the previous year. Our capital adequacy ratio remained strong at 103.4%, while liquidity continued to be healthy, with liquid assets representing 15.5% of the total assets.

However, despite our strong financial performance, and our other achievements, Eskan Bank recognises that there are many challenges still ahead. Faced with the economic realities arising from a growing population, a coordinated national strategy is now more essential than ever before. To meet these demands, public sector players such as Eskan Bank and the Ministry of Housing must utilise their resources as efficiently as possible, while allowing the private sector to drive the market.

In order for our national strategy to be a success, it has to meet the aspirations of all stakeholders, including developers, private sector banks, the Government, and, of course, end users. As witnessed by the many large-scale projects underway, or in the planning stages, across the Kingdom, there is enormous demand for homes that fall within the budgets of lower to middle income citizens.

"Affordable", however, need not mean "cheap". Bahrainis expect a certain standard of living, as is their right. This means that the homes should also meet set build quality specifications, and, under Eskan's guidance, private sector developers are beginning to realise that such developments are feasible. Whether located in older neighbourhoods such as Isa Town, or in brand new areas like Northern Town, the developments Eskan has been championing are cohesive communities that have embraced the values and tastes of the public, introducing comforts and aesthetics that make them homes Bahrainis can be proud to own.

Our achievements this year included several milestones on the road towards achieving these aspirations. We look forward to an even more fruitful year to come.

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

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

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

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

General Manager's Report

Dr. Khalid Abdulla

The past year saw Eskan Bank building on foundations laid the previous year, as we forged new partnerships, introduced value-added services, and continued to direct our energies towards our core mandate, which is to serve housing requirements of the people of the Kingdom of Bahrain.

In terms of efficiencies and processes, we benchmark ourselves against the world's top private sector institutions by emphasising innovation and performance, while at the same time never forgetting our public service responsibilities. To strengthen these operational competencies, we invested concurrently in both our human capital and infrastructure, for one cannot achieve its full potential without the other. As our systems were increasingly automated and re-engineered, our staff was trained to handle the new roles these upgrades required, resulting in speedier service, with full retention of control over details. With the introduction of new incentives, benefits and financial rewards, our staff members also received greater decision-making power, resulting in more responsibility and accountability across the institution, and a sense of being entrusted with an important national cause.

Synergies with both private and public sector entities also reached new heights; working more closely than ever with the Ministry of Finance and the Ministry of Housing, sometimes advising them in our areas of expertise, we have also built links with new private sector financiers and developers. For example, our new Social Housing Financing Scheme, the first disbursements of which were made during the year, was extremely well received by all stakeholders. Offering subsidised loans from private banks to higher income beneficiaries, it will help reduce the social housing waiting list by giving people the option to choose homes built by approved private sector

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developers. The number of banks signed up to provide these mortgages increased to seven this year, with more waiting to join the list. The initiative is also a major incentive for developers to switch their focus from luxury units to lower cost, affordable housing. These developments and others are necessary for dealing with the record BD 61 million in loan disbursements made this year, and those expected in the years to come.

Meanwhile, the social housing model we introduced to the market continues to show its merits; setting the example with our Danaat Al Madina, Danaat Al Riffa and Danaat Al Seef projects, with even bigger developments on the way, we have managed to prove the commercial viability of social housing. The private sector is now exploring launching their own projects or tying up with us on ventures such as Danaat Al Luwzi and Northern Town.

Eskan Bank continues to use its balance sheet to generate and redeploy funds towards the development of new units. We are also exploring new ways to diversify our income sources and manage liquidity and financing, so that we can take on additional responsibilities. Among these options is a Bahrain Bourse-listed financial instrument we are launching on the back of the successful exit from our non-listed Bahrain Property Musharaka Trust (BPMT). This new offering, launched with the support of the Ministry of Finance, will give private and institutional investors rental income yielding 7% with no leverage, making it a highly attractive product in the market.

Although we are proud of these achievements, we are under no illusion about the challenges we face. The availability of affordable housing is still a major issue in Bahrain, and is likely to remain so in the years to come. Bahrain's population is rapidly rising; between 2001 and 2010, at the time of the last National Census, population was growing at an annual rate of 3.7%.

More than half the Bahraini population is under the age of 25 years, putting additional pressure on the social housing waiting list, currently standing at more than 40,000 applicants. The census reported a total number of 93,653 Bahraini households, a figure estimated by the Economic Development Board to grow to some 173,000 by 2020. Approximately 67,000 of these will be eligible for social housing units.

However, I remain optimistic. Just as last year built on the achievements of 2013, so have we planted seeds this year that will reap rewards in the years to come.

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

I look forward to updating you with further progress next year. The past two years were but a prelude. The best is still to come.

Dr. Khalid Abdulla
General Manager

All Eskan Bank and Eskan Properties initiatives are ultimately aimed at supporting the Ministry of Housing's waiting list of beneficiaries. However, the number of people who opt for financing from Eskan Bank, including Social Housing Finance Scheme beneficiaries, form just a small part of the 40,000 people on the list. If we are going to strengthen our impact and attract more beneficiaries, we have to get the private sector involved.

One of the Danaat Al Madina buildings.

1

Building Synergies

Building Synergies

2014 was a transformational year for Eskan Bank, which saw records broken, new relationships forged and synergies enhanced, as the institution took on additional responsibilities in servicing its many stakeholders. Playing increasingly an advisory role in matters related to banking and real estate development, the institution's working relationship with the Ministry of Housing is now closer than ever, as are its links to the private sector. Eskan Bank has been pivotal in spurring private sector interest in the social housing market, as well as in incentivising Bahraini families to buy the homes of their choice today, rather than wait years to be allocated one by the Government. With more and more momentum and resources shifting towards real estate development, the Bank has also found innovative new ways to maximize the utilisation of its yearly budget. And with the Government committed to deliver units to all 40,000 beneficiaries currently on its waiting list within the medium term, it is also more vital than ever that Eskan Bank finds new ways to attract funding for its growing portfolio of projects.

Eskan Bank disbursed a record BD 61 million in loans to eligible beneficiaries in 2014, up from the previous record of almost BD 53 million in 2013. The recipients of these 30-year loans benefit from generous subsidies by the government, making them the most attractive mortgages available in the market. The surge in demand is largely due to the recent availability of developments such as Danaat Al Madina in Isa Town, which boast apartments built to high quality specifications, while selling within social housing price ranges. Another major incentive is the Social Housing Financing Scheme, which was launched in late 2013 (Pilot Phase), and gained traction in March 2014 when the first loans were disbursed. The scheme fast-tracks applications by allowing higher income social housing unit beneficiaries to take government-subsidised loans from private banks, and buy into approved private sector developments. Repayments are limited to 25 per cent of their monthly salaries, with the subsidy covering the difference between the actual instalments and beneficiaries' payments, and Eskan Bank acting as administrator. As a further sign of public interest, the number of participating commercial banks jumped during the year, from four to seven, with more expected to join soon. These initiatives all aim to make the social housing market as attractive as possible to the private sector.

"All Eskan Bank and Eskan Properties initiatives are ultimately aimed at reducing the Ministry of Housing's waiting list of beneficiaries. However, the number of people who opt for financing from Eskan Bank, including Social Housing Finance Scheme beneficiaries, form just a small part of the 40,000 people on the list. If we are going to strengthen our impact and serve more beneficiaries, we have to get the private sector involved on a larger scale and at various levels of the real estate sector," Eskan Bank Chief Business Officer and Deputy General Manager, Ahmad Tayara explains.

This is because the biggest challenge facing Eskan Bank's activities is that there just aren't enough housing units serving this market available for purchase. This is changing now with the private sector firmly on board, and the beneficiaries starting to take an active role in choosing their homes from private sector development supply. The move towards vertical developments is also gaining momentum, encouraged by the Tomooh programme, which allows Eskan customers to sell their apartments back to the Bank at 90% of their market value, eight to ten years after purchase.

Having invited bids, Eskan Bank's marketing department is gearing up for an intensive media campaign in 2015 to create more awareness of the Tomooh scheme.

Policy changes and additional responsibilities

Eskan Bank's commercial top-up mortgage rates are higher than those of local retail banks as a result of its restricted license which doesn't allow it to access free customer deposits. The Bank's customers had to accept these rates since the Bank would not allow any dual mortgaging of the property to which it availed a social loan.

Building Synergies

In order to benefit customers, the Bank took the initiative, through a policy change, to consider property mortgaging on a pari-passu basis with other banks that will be able to avail cheaper top up mortgage. This is a first in the history of the Bank and the initiative is at an advanced stage. Most probably will be implemented in 2015" says Mr. Tayara.

Meanwhile, a study, conducted by the Bank, of the pilot Social Housing Finance Scheme and the proposed Mortgage Guarantee Scheme, through which the Government guarantees the mortgage payments due to local banks, suggested that a merge of the best of both schemes should be incorporated into the final version of the Social Housing Finance Scheme.

"Due to the success observed during the pilot Social Housing Finance Scheme and as it continued gaining more and more traction with the private sector throughout the year, it made sense to incorporate the main features of the mortgage guarantee scheme within the SHFS to create a superior product for beneficiaries," Mrs. Samar Agaiby, Head of Financial Institutions and Government Relations, explains.

As a further extension of its advisory role this year, the Bank has provided consultation to the Ministry of Housing on the financial impact of a change in the eligibility criteria for social housing loans. The current income ceiling for eligible beneficiaries is BD 1,200, calculated as a sum of the salaries of each household. Under the new rules, the upper limit will be based solely on the head of the household's (usually the husband) income, meaning that if the head of the household's salary is up to BD 1,200 a month, the family will be eligible.

In an effort to further synergize with the private sector, Eskan Bank will soon launch customer service stations at Banks' financial malls across the Kingdom, making Eskan services even more accessible to customers. Customer touch points will open at Bahrain Islamic Bank (BisB) financial malls in Arad and Hamad Town (replacing an existing low visibility branch in the area).

Build Operate Transfer (BOT)

To better utilise its land bank, Eskan Bank has opted for a Build Operate Transfer (BOT) model in the cases of parcels of lands located in areas where social housing is not feasible. These plots will be leased to private developers for 25-year periods, providing rental income for the Bank, and once these contracts have run their course, the assets will be returned. Two plots were released in 2014 for BOT bidders to participate in.

Financial statements and cash position

Due to the nature of its business and its ever-growing customer base, Eskan Bank's profitability in terms of net income, is virtually assured. However, to maximise its performance, the Bank is continuously improving its cost control measures, with its cost to income ratio now standing at almost 37%. Although the Bank does not revalue its land bank upwards, as various projects in development come on-stream, many assets on its balance sheet will undergo value realisation and asset monetization as projects are developed and sold in the market.

In addition to the funding it receives from the Ministry of Housing, Eskan Bank has previously raised funding at attractive rates from the private sector, including a BD 100 million syndicated loan arrangement with three leading Bahrain-based banks, Ahli United Bank (AUB), National Bank of Bahrain (NBB), and Bank of Bahrain and Kuwait (BBK). This loan's commitment period, which was due to end in June 2014, has been extended until the end of 2015, significantly lowering the Bank's financing costs. Meanwhile, the Bank's Treasury Department grew its Commodity Murabaha with banks at competitive profit rates, allowing for an attractive spread.

Beneficiaries will be able to take supplemental mortgage loans from banks, allowing them to avoid both our higher commercial mortgage rates and those of personal loans from other banks. This can potentially help families obtain cheaper financing over longer tenure.

Bahrain Property Musharaka Trust

Another previous initiative, aimed at optimizing the utilization of Eskan's land bank, is the structuring of the Bahrain Property Musharaka Trust (BPMT), which includes the development and marketing of two assets, namely Segaya Plaza and Danaat Al Madina. All 105 apartments in Segaya have been leased to the Ministry of Education for two years, providing the Bank with a solid monthly income. Danaat Al Madina was largely completed in 2014.

"Another Real Estate Investment Trust (REIT) will be launched in mid-2015 and listed on the Bahrain Bourse. This will open the door for Bahrainis to buy shares in this listed financial instrument at attractive unleveraged yields allowing the population at large to benefit from the rental income of the underlying assets," remarks Mr. Tayara.

Future Plans

Eskan Bank is constantly streamlining and upgrading its services, incorporating feedback from customers, the ministries and private sector partners. With the Social Housing Financing Scheme, for example, there are plans to make Eskan the first point of contact for applicants, a role which was previously handled by the Ministry of Housing, and as an extension of its advisory role, Eskan Bank is increasingly playing larger part in linking the Ministry of Housing and the Ministry of Finance with the private sector. For example, the Bank is currently studying different consortium structures to come up with the best way to involve the private sector in future developments such as those in the Northern Town and East Hidd. The Bank is also serving as a consultant to the Government in its talks with a Chinese consortium of potential investors, developers and contractors, following an exchange of visits between the two parties during 2014. These solutions are all designed to fast track housing developments, and get as many units into the hands of beneficiaries as possible, while trying to reduce the financial strain on the Government.

Far left: Danaat Al Madina living room.

Left: A spacious bedroom in Danaat Al Madina apartment.

Below: H.E. Deputy Prime Minister inaugurates Danaat Al Madina.

Below right: Render image of Danaat Al Madina project.

Danaat Al Madina

This is the largest project in the Eskan portfolio of properties and is a strategically located residential development, mainly for middle-income Bahraini citizens.

The Danaat Al Madina 'micro-city' is nearing completion, with 90% of the project in place as of December 2014. Electrical power is being connected to the development and will be completed during Q1 of 2015. Of the 324 apartments built, 202 have already been sold – the equivalent of 62% of the total available.

It's central location at the entrance of Isa Town, by Al Quds Avenue and Muscat Avenue, is a physical link with Isa Town Mall and the local market. This will provide a pleasant and integrated residential environment between workplace and marketplace.

Danaat Al Madina is an sophisticated mixed-use project with the following components:

- Three plots with a total size of 30,254m^2
- 16 residential buildings with 324 flats
- There are 42 retail units within the ground floor of the residential building, this includes:
  - 39 retail units – from 21m^2, up to 150m^2
  - Three showrooms – 400m^2 and 700m^2
- Two office buildings, including 36 office units
- Durra 1: Comprises 11 units with two offices per floor – 211.11m^2 and 443.73m^2
- Durra 2: Comprises 25 units with five offices per floor – ranging between 102m^2 and 110m^2.


ROAD
ROAD
ROAD
ROAD
BLDG. 07
BLDG. 04

Other Projects

Far left: Render image of Danaat Al Seef project.

Left: Master plan of Danaat Al Seef project.

Below: Render image of Danaat Al Seef project.

Below right: Floor plan of the flat type Azure in Danaat Al Seef.

Danaat Al Seef

Incorporating the style and aesthetics of its predecessor, Danaat Al Madina, the new Danaat Al Seef, which began construction in late 2014, will draw additional value from its location near Bahrain's main business and shopping district. Close to the sea, the development will be a ten-building, four-storey, 164-apartment housing project, with three and four-bedroom options, ranging from 160 to 220m^2, and a total of 348 parking spaces.

Designed to specifically appeal to Bahraini tastes with its use of warm colours and modern, cutting edge architecture, Danaat Al Seef's location in the Karbabad residential neighbourhood, with very few commercial establishments in the immediate vicinity, makes it attractive for families seeking privacy and an escape from the noise and bustle of business commuters and weekend visitors. At the same time, it's proximity to several major malls and a range of shopping, entertainment and dining options, give residents more choice and a 'best of both worlds' appeal.

Like the near sold out Danaat Al Madina, and all the other properties falling under the brand, Danaat Al Seef will feature playgrounds, open spaces and many common areas where residents in the community can meet and bond in a pleasant family environment.

Far left: Render image of Danaat Al Luzi project.

Left: Construction site of Hamad Town Villas.

Below: Render image of Danaat Al Riffa project.

Other Projects

Danaat Al Riffa

Danaat Al Riffa is an affordable housing project consists of three buildings of six stories with 84 apartments. It is located in North Riffa with a walking distance from the waking trail of Al Istiqlal Avenue. The project is environment friendly and contain two bedrooms & four bedrooms apartments. The apartments areas from 114 m^2 for the two bedrooms apartments to 185 m^2 for the four bedrooms apartments and expected to be completed by the first quarter of 2016.

Danaat Al Luzi

Danaat Al Luzi Development will be based on a joint venture between Eskan and a Third Party. Eskan Bank shall enter the Joint venture with the required funding and the third party shall contribute his share with Land.

By undertaking the proposed Development scheme, Eskan Bank will be able to add 492 social/ affordable housing units consist of 212 houses and 280 apartments to be counted as part of the 2,500 units, which will assist the Ministry of Housing (“MOH”) in providing housing units on a land plot owned by the private sector in Al Luzi area.

The site is located in the Northern Governorate, which is currently undersupplied in terms of social housing deliveries. MOH’s recent development initiatives indicate a preference to develop housing units in said Governorate due to the strong demand.

The development is under design stage with Gulf House Engineering and its expected to start by Jan 2016 and end by Dec 2018.

Hamad Town Villas

Hamad Town Villas is an affordable housing project consists of 18 two stories villas. It is located in Hamad Town between roundabout 20 & 21 in a low rise residential area and it is surrounded by Ministry of Housing social housing units occupied by Bahraini citizens & educational area. The villas are environment friendly with an area from 240 m^2 to 248 m^2 and expected to be completed by the second quarter of 2015.

We don't want to take away people's dreams of one day owning a house, so Tomooh allows them to realistically assess their finances, and own real assets, rather than just spending money on rent year after year. This way they are able to plan for their futures, and build equity for themselves.

H.E. Chairman Eng. Basim Al Bin Yacob Al Hamer in the inauguration of Danaat Al Madina.

2

A Sense of Community

As an integral part of Bahrain's national housing strategy, Eskan Properties Company is introducing a new type of affordable home that is paving the way for a fundamental shift in the Kingdom's housing market. Working closely with Eskan Bank and the Ministry of Housing, the Company is striving to change the decades-long cultural stigma attached to apartment living among Bahraini families, who tend to view them as confining and less private than villas.

A major part of this strategy is Tomooh, an innovative buyback guarantee scheme launched in 2013, which allows young, lower income families, who may not be able to afford villas, to buy apartments with their loans, then sell them back to Eskan Bank in seven to ten years at 90% of their market value. But this is just the beginning, as Eyad Obaid, Acting General Manager, Eskan Properties says: "We don't want to take away people's dreams of one day owning a house, so Tomooh allows them to realistically assess their finances, and own real assets, rather than just spending money on rent year after year. This way they are able to plan for their futures, and build equity for themselves."

Even more essential to this drive towards vertical housing is the quality of the units themselves. Eskan Bank has conducted an exhaustive survey of eligible beneficiaries' preferences to pinpoint exactly what features would attract them towards apartment living. The results showed that the task is not as insurmountable as many had thought, and that it is very possible for social housing to meet their standards, while remaining affordable. Nowhere is this currently more apparent than at Danaat Al Madina, a "micro city", which is located at the entrance of Isa Town, near the Isa Town Mall and the Local Market and is currently nearing completion. The development consists of 16 six-storey buildings, with a total of 324 apartments, built using high quality materials, and featuring a layout designed specifically to meet Bahraini families' preferences with regards to privacy and features. Each spacious three-bedroom unit comes complete with a servant accommodation, storage space and two basement parking spaces each.

Inaugurated by Deputy Prime Minister, Shaikh Khalid bin Abdullah Al Khalifa on 1 June, 2014, a show apartment, available for viewing at the location, has proven enormously popular, and as a demonstration of this appeal, almost all Danaat Al Madina units were fully sold out by the end of the year.

"When they saw the quality of the show apartment, a lot of Bahrainis truly changed their feelings towards vertical housing, and some actually shifted their preferences from villas towards apartments. This is because our goal isn't just to build units. We are creating a sense of community," Mr. Obaid continued.

International property consultant, Cluttons has been appointed this year to manage the development's retail areas to ensure they are rented and then well looked after and contribute to the cohesion of the developments as a whole.

Eskan Properties has also launched two new "Danaat" branded developments during the year; the 164-unit Danaat Al Seef and the 84-unit Danaat Al Riffa, which both launched construction in late 2014, and are projecting a Q1 2016 completion date. As with all future Eskan Bank developments, these two projects will incorporate Danaat Al Madina's high quality and aesthetic values.

"We are extremely proud of Danaat Al Madina, which is already serving as a benchmark for future affordable housing developments, not just at Eskan, but for the private sector as well," says Mr. Obaid. "With this development, we have been able to demonstrate loud and clear that affordable housing need not be pigeonholed. By reverse engineering the construction costs of our developments, we are able to ensure that our pricing strategies will fit within the budgets of the different lower-income segments we are serving. The results are sustainable, commercially viable communities, constructed with high quality materials, which meet modern expectations."

With the exception of Danaat Al Riffa, where necessary permissions were not granted by municipal authorities for technical reasons, all current Eskan Properties' developments are designed with community retail spaces, providing convenient neighbourhood amenities

A sense of Community

and services. This 'Community Projects' strategy also extends to existing Bahraini communities, where commercial units are being continuously built and leased. With the completion of 14 new units in Salmabad, six in Budaiya and ten in Samaheej during 2014, the total number of community projects built by Eskan Properties around the Kingdom has now reached 249. A further 61 units in seven different locations are on the cards for 2015, with construction set to begin in Q1.

"It is a continuous task for us to build and rent out these units, at nominal prices, of course, to local entrepreneurs from within the same neighbourhoods. Often they are people facing financial difficulties, such as single mothers, the elderly and the handicapped. These initiatives support Eskan Bank's overall goal to improve the quality of life for Bahrainis through the development of cohesive and sustainable communities," explains Mr. Obaid.

Private sector partnerships

Eskan Bank believes that getting the private sector on board is vital to the success of Bahrain's national housing plan to deliver 40,000 units within six years to the beneficiaries on the Ministry of Housing's waiting list, as directed by His Majesty King Hamad. A major part of this strategy is the massive 2760m^2 development, Bander Al Seef, on which much progress was made following the resolution of road issues. Ground breaking for this landmark project, which will add another 2,600 units to the market, is expected in Q4 2015. The development, similar to Danaat Al Madina, but on a much larger scale, is being envisioned as a mini-city, which, in addition to retail units, will include parks, wide open spaces, and a range of community facilities.

"Although we produce a sizeable number of units per year, we will not be able to cover the shortfall on our own, especially with the numbers of beneficiaries rising by 3,000 to 5,000 every year. But, thankfully, developers have begun to realise the untapped potential of this under-served market, and have started to develop suitable units for it. There is now a greater understanding of what the price ranges, minimum space requirements and specifications are. This, in conjunction with initiatives like the Social Housing Finance Scheme, which subsidises private sector loans, PPPs, various cross-selling activities and the Tomooh programme, makes the market very attractive to investors. We would very much like the social housing building industry to be almost completely privatized, with us acting mainly as advisors," Mr. Obaid remarks.

Eskan Bank and real estate and infrastructure developer, Naseej are also working together on a US$ 450 million PPP, the region's first, which will see 500 new units being built in the Danaat Al Luwzi development, on which earthworks have already started, and another 2,300 in Northern Town. Several other major private sector tie-ups are also under discussion.

'Green housing'

Although small in terms of unit numbers, big changes are expected to come out of 18 new Eskan Properties villas in Hamad Town, which are targeting a Q1 2015 completion date. This pilot scheme has introduced solar energy-powered water heaters and external lighting, fully glazed windows, and green insulation systems, including the use of insulated blocks. In fact, the Bank initiated a new policy this year, covering all its developments, to ensure the specification of all lighting as LED, thus saving on energy and running costs. The Company is even currently analysing how to recycle greywater, and expects to implement this technology in future developments.

This, in addition to the normal due diligence that goes into awarding contracts, including technical and financial assessment and the specification of acceptable contractor categories, helps to ensure that affordable housing in Bahrain remains at the leading edge of design and quality.

It is a continuous task for us to build and rent out these units, at nominal prices, to local entrepreneurs from within the same neighbourhoods. Often they are people facing financial difficulties, such as single mothers, the elderly and the handicapped. These initiatives support Eskan Bank's overall goal to improve the quality of life for Bahrainis through the development of cohesive and sustainable communities.

Community project in Samaheej.

Subsidiaries, Associates and Strategic Investments

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

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

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

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

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

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

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

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

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

Smart Building Materials Company
(Wholly-owned subsidiary of Eskan Bank)

Smart Building Materials Company was established in 2009, with a charter to manufacture cost-effective, environmentally-efficient homes for the less advantaged. The Company also imports a range of building materials and raw materials such as gravel, cement, bricks, marble, electrical fillings and sanitary ware; with construction of warehouse facilities to support the business.

These initiatives help create sustainable jobs and business opportunities for the public and private sectors, and provide homes for Bahraini citizens.

Ebdaa Bank
(20 percent shareholding by Eskan Bank)

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

Naseej

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

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

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

Our aim is to be the best at what we are mandated to do, which is providing social housing services, so we have to serve all the stakeholders we have a responsibility to, including the ministries, our private sector partners, and, of course, the beneficiaries themselves.

Eskan Bank branch.

3

A Drive for Efficiency

Against a backdrop of a rising Bahraini population and ever-growing demand for social housing services, it is now more vital than ever that Eskan Bank is able to serve its customers as quickly and efficiently as possible. The Bank invested heavily in reinforcing its back office departments, including Human Resources, Information Technology, Operations, and Remedial, by updating various policies, procedures and IT systems. With several pioneering systems and processes to its credit, including the Social Finance Housing Scheme, and with its links with government entities now closer than ever, Eskan Bank has come to function as something of a hub for national projects, and an example for other organisations, both public and private, to follow.

With a 21% leap this year alone, the Bank's customer base currently stands at more than 38,000, requiring highly sophisticated systems to efficiently process each individual instalment collection. The Operations department, which also manages swift payments, instalment waivers, Government instructions and other ad hoc day-to-day requests, has re-engineered the end-to-end workflow for loan processing, this year reducing the time from the day a customer visits the branch to the day the loan is disbursed from six weeks to just 15 days. A sophisticated set of policies and procedures has also been put in place to deal with the Social Housing Finance Scheme, which connects the Bank to its various stakeholders, including other banks, and the Ministry of Housing. The system automatically administers the payment of government subsidies to commercial banks to make up the difference between the sums paid by beneficiaries and the actual instalment amounts. New systems and further training helped the Bank's call centre deal with an almost 50% increase in volume compared to last year, as customers followed up on their loans and enquired about new housing projects. A more sophisticated queuing system, which collects data such as employee and branch productivity, is under implementation, while a high-tech geo-tagging system now makes it easier to locate and retrieve customers' physical files, and monitor how fast they are processed. The information collected through these activities is used for process re-engineering. These developments, along with a recent renovation of the main branch's banking hall and other system upgrades, are all designed to elevate the customer service experience.

"Our policies and procedures stand toe-to-toe with the best in the private sector, even though we often have to deal with complications that arise from the social aspects of our work that commercial banks don't have to. Our aim is to be the best at what we are mandated to do, which is providing social housing services, so we have to serve all the stakeholders we have a responsibility to, including the ministries, our private sector partners, and, of course, the beneficiaries themselves," says Chief Operating Officer, Aref Qamber.

A Strong Support Structure

The Bank's IT department, another major driver of operational efficiency, was the subject of an independent IT efficiency assessment during the year, which assessed strengths and areas in need of improvement, both in terms of technology and employee competency. The Bank is now drawing up a three to five year plan to implement the recommendations of the study, including upgrades to its core banking system, the addition of peripheral applications, and other improvements. Enhancements already implemented independently of the assessment include upgrades to the Danaat Al Madina business management software, one of the bank's major systems, and an internally developed solution to manage remedial and collection that incorporates a loan calculator to speed up loan rescheduling.

'Integrity, Ownership, Innovation and Respect'

Along with a refocus on social housing as Eskan's sole business, the institution's core values were adjusted to cover four elements: integrity, ownership, innovation and respect. These values have been firmly integrated into the Bank's updated HR policies, procedures and practices. A better utilisation

A Drive for Efficiency

of the bank's Human Resources Management (HRM) system has also reduced paperwork, increased transparency and sped up processes. Improvements include online appraisal and leave forms, and staff can now view their HR file online.

A new salary scale was also introduced, with wages adjusted accordingly to match current market rates. This has also addressed the position the Bank found itself in, where 23% of its employees had reached the top of their salary grades. The new scale gives them further room for growth, making it easier for Eskan to retain its most productive employees, while at the same time attracting the best the labour market has to offer. Another HR initiative, aimed at boosting the morale of employees, is a focus on internal hiring and transfers, which gives existing employees greater opportunities for career growth.

"Although Eskan has always been a good place to work, we are trying to further improve ourselves. We want to ensure an environment where there is transparency and a good evaluation system, and where every single employee feels that he or she is adequately compensated," explains Mr. Qamber. The Bank also conducted an employee survey during the year, and is now working on a proposal to address the concerns it raised.

Focus on Training

As a reflection of its increased emphasis on training, the institution has appointed an employee specifically dedicated to this function at the Assistant Manager level. In addition to external courses, including some conducted abroad, a number of courses have been designed internally, including workshops on leadership, time management, and archival systems. These courses focus on both so-called 'soft skills', and the more practical aspects of day-to-day operations. An assessment procedure has also been introduced to ensure that the Bank's resources are spent on programmes that benefit both the employees and the institution. Meanwhile, a number of joint courses with the Ministry of Housing have also been held through Eskan Bank as a result of closer cooperation between the HR functions of the two organisations.

Dealing with lapsed payments

There has been a full-fledged re-engineering of the Bank's remedial and collection procedures, including the addition of new staff, and a comprehensive data collection system, which removes all subjectivity from this sensitive, and sometimes difficult, function. When beneficiaries lapse on their payments, there are set procedures in place to encourage them, in a firm but respectful manner, to recommence their instalments. The new system, launched in Q4 2014, also includes a root cause analysis feature, which, with the help of data provided by the Social Insurance Organisation (SIO) and eGovernment, allows the Bank to respond to warning signs of potential defaults early.

Sometimes, if the beneficiaries' reasons are valid, Eskan Bank may agree to reschedule certain social loans. The new system has clear criteria for such decisions, which also involve a degree of investigation into beneficiaries' backgrounds and financial situations. The Bank has rescheduled more than 1,000 loans during 2014 for reasons such as unemployment, deaths and other exceptional difficulties. This is around the same number as last year, but lower on a per capita basis, marking a significant improvement in performance.

Along with a refocus on social housing as Eskan's sole business, the institution's core values were adjusted to cover four elements: integrity, ownership, innovation and respect. These values have been firmly integrated into the Bank's updated HR policies, procedures and practices.

Eskan Bank staff with customers in branch.

The intention is to spread awareness of the housing issues that are facing Bahrain, so that our future engineers and architects are aware of the real issues they will have to tackle even before they enter the work force. Eskan Bank wants to invest its money well, and we thought that one of the best ways to do this is to support the future generation.

H.E. Chairman Eng. Basim Al Bin Yacob Al Hamer visiting the exhibition of "Socioeconomic Sustainability in Housing Developments" winning projects.

4

Investing in the Future

The Eskan Award for Creative Engineering

A day may come soon when we will see designs by Bahraini university students used in real housing developments! In conjunction with the University of Bahrain, the Eskan Bank Award is an annual competition for engineering students to develop innovative architectural and engineering solutions. “Socioeconomic Sustainability in Housing Development” was the topic for the inaugural award, which was for the 2013-2014 academic year. Students were asked to design environmentally friendly and affordable developments that would fit within a specified area and include housing units, retail facilities, children’s playgrounds, and other common areas to foster community bonding. A total of 113 students qualified, with 38 later short listed. The prizes, awarded in three categories, eventually went to (1st prize winner – Hanan Al Asfoon, 2nd prize winner – Malik Madene, 3rd prize winner – Ali Maleeh and Noora Bucheeri, Merit – Dalal Behzad and Fatima Janahi). The winning projects were selected by a committee of engineers from Eskan Bank, professors from the College of Engineering at the University of Bahrain and a member of the Bahrain Society of Engineers.

“The intention is to spread awareness of the housing issues that are facing Bahrain, so that our future engineers and architects are aware of the real issues they will have to tackle even before they enter the work force. Eskan Bank wants to invest its money well, and we thought that one of the best ways to do this is to support the future generation,” said Senior Manager, Corporate Communications, Hana Buhijji.

The 2014-2015 competition, entitled “Sustainable Affordable House for Bahrain”, is even more challenging: Students are being called on to design a 220m^2 affordable and environmentally friendly house, with the best designs to be made available to the Bank, the Ministry of Housing and private developers. Actual beneficiaries of social housing loans will have access to the designs and will be able to choose to have one built. The units will fall well within budget because the build cost is being limited to BD 45,000, which is even lower than the BD 60,000 maximum social housing loan. Prizes will be awarded in three design categories, standalone, attached and semi-attached, and the best submissions will be showcased at an exhibition under the patronage of His Excellency the Minister of Housing, Basim Bin Yacob Alhamer.

“We want the designs to be realistic and affordable. The homes should be small enough to fit within the limited areas that are available, while at the same time being comfortable and practical, suited to Bahraini families. We’d like people to get used to this new way of living,” explains Hana.

Executive Management Team of Eskan Bank

Dr. Khalid Abdulla
General Manager

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

Prior to joining the bank, he was the Chief Executive Officer at Invest 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 and Finance at the University of Bahrain, in the recent past.

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

Mr. Ahmad Tayara
Chief Business Officer and Deputy General Manager

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

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

He assumed the present position in 2012.

Mr. Aref Qamber
Chief Operating Officer

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

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

He assumed the present position in 2013.

Mr. Srikanth Sheshadri
Chief Risk Officer

Mr. Srikanth Sheshadri has over twenty two years of experience in the Banking and Financial Services Industry. During the course of his career, he has worked in Credit and Risk Management functions with Emirates Bank Group in Dubai, Banque Saudi Fransi in Riyadh, and in Bahrain with ABN Amro Bank NV and Ahli United Bank.

A Chartered Accountant, Mr. Sheshadri holds a Bachelor's degree in Commerce from the University of Bombay, India.

He assumed the present position in 2007.

Mr. Eyad Obaid
Acting General Manager / Eskan Properties Company

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

Mr. Eyad holds a BSc degree in Civil Engineering.

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

He assumed the present position in 2014.

Mr. Tariq Al Jalahma
Head of Retail Banking

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

Mr. Tariq holds a Banking Diploma from BIBF.

He assumed the present position in 2005.

Mr. Hani Abdul Mahdi Jasim Nayem
Head of Internal Audit

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

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

He assumed the present position in 2009.

Ms. Parween Ali
Head of Marketing

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

Ms. Parween has an Advanced Banking Diploma from BIBF.

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

She assumed the present position in 2011.

Mrs. Samar Agaiby
Head of Financial Institutions and Government Relations

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

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

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

She assumed the present position in 2012.

Executive Management Team of Eskan Bank

Mr. Adnan Fathalla Janahi
Head of Human Resources and Administration

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

Mr. Adnan holds an MBA from University of Glamorgan.

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

Adnan assumed the present position in 2014.

Mr. Aqeel Mayoof
Head of Information Technology Management

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

Mr. Aqeel holds a Bachelor Degree in Electrical Engineering from University of Bahrain, and MBA from University of Bahrain. He has been with Eskan Bank since 2005 under different positions such as Manager, Senior Manager and Acting Head within the Information Technology. He assumed the present position in 2014.

Mr. Deepak Patel
Head of Operations

Mr. Deepak Patel has over Fifteen 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 and Finance Manager at ICICI Bank in Bahrain.

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

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

He assumed the present position in 2014.

Mr. Muhammed Saeed Butt
Head of Financial Control

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

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

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

Muhammed Saeed assumed the present position in 2014.

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

Mrs. Amal Al Aradi has over twenty eight 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.

Mrs. Nooreya Al Binali
Senior Manager of Remedial and Collection Department

Mrs. Nooreya Al Binali has over thirty five years of experience in Credit and Risk Management, particularly in the areas of Credit Administration, and has worked with many leading banks within Bahrain such as United Gulf Bank (UGB) and Arab Bank Corporation (ABC). Prior Joining Eskan Bank she was Manager, Head of Credit Administration Department within Credit and Risk group at Arab Banking Corporation.

She holds a High School Diploma in addition to attending several professional seminars and courses related to Credit Management.

She assumed the present position since she joined in 2007.

Mr. Fadhel Asbool
Treasury Senior Manager

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

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

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

He assumed the present position in 2014.

Mrs. Haifa Al Madani
Senior Manager Legal Department

Mrs. Haifa Al Madani has over seventeen 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 as a subsidiary of Eskan Bank since 2007.

She assumed present position in 2014.

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

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

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

She assumed the present position in 2014.

Risk Management

Risk Management

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

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

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

Credit Risk

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

- **Independent Functions**

  The initial credit decision pertaining to mortgage loans continued to be distanced from the Customer Service team, by routing the proposals to a specialist Loans Department, which considers the acceptability of the credit. This ensures that pre-disbursal review of loans is carried out independently of the originating team.

- **Credit Policies and Procedures**

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

- **Credit Approving Authority**

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

- **Prudential Limits**

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

Project Investment Risk

Project Investment Risk is the risk of potential loss arising from Bank's investment in property development projects. The Bank is primarily into development of social housing projects and community buildings on its own lands which are received by the government in the form of grants. Lately the Bank has also entered into joint ventures with private developers to build social housing projects. The approval for the Investment proposals are guided by the Authority matrix and Property Development framework, approved by the Board. Higher risk exposures require approval of the Board of Directors. The Bank also has instituted formal procedures for the appointment of external parties to the project which is compliant with the Tender Board regulations. The property development activity is managed through the Bank's subsidiary Eskan Properties Company. The Risk Management division is guided in its functioning by relevant policies and frameworks that have been documented and approved by the Board of Directors of the Bank.

Market Risk

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

Liquidity Risk

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

Operational Risk

Operational Risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes or systems, human error or external events. External events include legal and regulatory risks, disasters and infrastructure failures, business risks and outsourcing and supplier risks. The Bank's approach is to ensure business managers identify, assess, prioritise and effectively manage all substantive risks; and that a coordinated, cost-effective approach is adopted. This involves a combination of internal control systems, detailed processes, appropriate insurance cover, and contingency arrangements.
The policies and procedures of various departments were reviewed during the year. Further, Operational Risk tools are in place to monitor and manage the operational risks on an ongoing basis throughout the Bank.

Compliance

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

Corporate Governance Report 2014

1. Corporate Governance Policy

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

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

2. Shareholder Information

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

- **Shareholders Notification**

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

- **Periodic Reports**

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

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

3. Board of Directors Information

- **Board composition**

Eskan Bank's Board has been appointed by Decree No. 62 of 2011 dated 23 August 2011, and was amended in accordance with Cabinet Edict No. 65 of 2013, amending Edict 62 of 2011 on re-forming the Board of Directors of Eskan Bank in line with Legislative Decree No. 4 of 1979 with respect to the establishment of the Eskan Bank amended by Law No. 75 of 2006. The Board of Directors comprises of 10 directors drawn from leading Bahraini banking and finance professionals, and academics who are appointed for a period of 3 years. The Minister of Housing is the ex-officio Chairman of the Bank.

The Board of Director's official membership term ended on the 23rd of August 2014 as per Cabinet Decision No.62 for the year 2011, whereby Eskan Bank has officially informed Cabinet that the current Board of Directors shall continue to discharge its assigned duties and issue resolutions until a new Cabinet Decree is issued in this regard.

- **Board Member's Remunerations**

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

  Aggregate remuneration paid to Board members up to August of 2014 was 72,000 Bahraini Dinars.

- **Board Secretary**

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

- **Director's Roles and Responsibilities**

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

- **Whistle-Blowing Policy**

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

Corporate Governance Report 2014

- **Code of Conduct**

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

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

  In accordance with the Corporate Governance Policy, the Board has adopted the performance evaluation models for Board Members performance and Board Committees Members performance. The Board and its affiliated Committees conducted a performance appraisal for the year 2013.

4. Board Committees

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

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

Executive Committee

Members:

1. Mr. Mohammed Hussein Bucheeri (Chairperson)
2. Mr. Khalid Ali Rashed Al Amin (Vice Chairperson)*1
3. Mr. Ali Yusuf Al-Fardan
4. Mr. Ahmed Jassim Faraj

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 five meetings during 2014).
- 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.

*1 Mr. Khalid Al-Amin has been elected Vice Chairman of the Executive Committee by the Committee members during their 3rd meeting held on 18 August 2014.

Audit Committee

Members:

1. Mr. Redha Abdulla Ali Faraj (Chairman)
2. Mr. Yusuf Saleh Sultan Khalaf (Vice Chairman)
3. Dr. Zakaria Sultan Mohammed Al-Abbasi

Summary terms of reference:

- The committee is formed with a minimum of three members, which consists mostly of independent non-executive members to be appointed by the Board.
- A minimum number of four meetings are required to be held each year, (the Committee held four meetings during 2014).
- At least two Members are required to attend the meetings to ensure a quorum.
- General Manager and concerned Chiefs, Heads and Managers are invited to attend the meetings (if required).

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

Summary of responsibilities:

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

Remuneration, Nomination and Corporate Governance Committee

Members:

1. H.E. Eng. Bassim bin Yaqob Al Hamar (Chairman)
2. Dr. Mohammed Ahmed Mohammed Jamaan
3. Yusuf Abdullah Mohammed Taqi

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 2014).
- At least two Members are required to attend the meetings to ensure a quorum.
- General Manager and concerned Chiefs, Heads and Managers are invited to attend the meetings (if required).

Summary of responsibilities:

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

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5. Board Meetings and Attendance 2014

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

A Board of Directors meeting shall be deemed valid if attended by the majority of the Directors in person, provided that the Chairman or Vice Chairman shall attend in person. The Board held four meetings during 2014. The below schedule shows dates of meetings and attendance of Board Members.

- **Board of Directors Meetings During 2014**

Members:	**5 March 2014 (First Meeting)**	**30 April 2014 (Second Meeting)**	**20 August 2014 (Third Meeting)**	**10 December 2014 (Fourth Meeting)**
HE Eng. Bassim bin Yaqub Al Hamer (Chairman)	✓	✓	✗	✓
Mr. Mohammed Abdulrahman Hussein Bucheeri (Vice Chairman)	✓	✓	✓	✓
Mr. Ali Yusuf Al-Fardan	✓	✗	✓	✓
Mr. Yusuf Abdullah Mohammed Taqi	✓	✓	✓	✓
Dr. Mohammed Ahmed Mohammed Jamaan	✓	✓	✓	✗
Dr. Zakaria Sultan Mohammed Al-Abbasi	✓	✓	✓	✓
Mr. Redha Abdullah Ali Faraj	✗	✓	✓	✓
Mr. Khalid Ali Rashed Al Amin	✓	✗	✓	✓
Mr. Yusuf Saleh Sultan Khalaf	✓	✗	✓	✓
Mr. Ahmed Jassim Faraj	✓	✓	✓	✓

- **Executive Committee Meetings**

  The Executive Committee held five meetings during 2014. The below schedule shows dates of meetings and attendance of Board Members:

Members:	12 February 2014 (First Meeting)	16 April 2014 (Second Meeting)	18 August 2014 (Third Meeting – First Session)	20 August 2014 (Third Meeting – Second Session)	1 December 2014 (Fourth Meeting)
Mr. Mohammed Abdulrahman Bucheeri (Chairperson)	✓	✓	✓	✓	✓
Mr. Khalid Ali Rashed Al Amin *1	✗	✓	✓	✓	✓
Mr. Ali Yusuf Al-Fardan	✓	✓	✓	✓	✓
Mr. Ahmed Jassim Faraj	✓	✓	✓	✓	✓

- **Audit Committee Meetings**

  The Audit Committee held four meetings during 2014. The below schedule shows dates of meetings and attendance of Board Members:

Members:	17 Feb. 2014 (1st Meeting)	23 Apr. 2014 (2nd Meeting)	11 August 2014 (3rd Meeting	21 Oct. 2014 (4th Meeting)
Mr. Redha Abdullah Ali Faraj (Chairperson)	✓	✓	✓	✓
Mr. Yusuf Saleh Sultan Khalaf (Vice Chairperson)	✓	✓	✓	✓
Dr. Zakareya Sultan Mohammed Al-Abbasi	✗	✓	✓	✗

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

  The Remuneration, Nomination and Corporate Governance Committee held two meetings during 2014. The below schedule shows dates of meetings and attendance of Board Members:

Members:	05 Feb. 2014 (1st Meeting)	24 Sept. 2014 (2nd Meeting)
HE Eng. Bassim bin Yaacub Al Hamar (Chairperson)	✓	✓
Dr. Mohammed Ahmed Mohammed Jamaan	✓	✓
Mr. Yusuf Abdullah Mohammed Taqi	✓	✗

Corporate Governance Report 2014

6. Shari'a Supervisory Board (SSB)

The Bank's Board of Directors established a Shari'a Supervisory Board (Shariaa Board) which was formed in May 2009, whereas the previous Shariaa Board term ended in April 2012. The Board of Directors issued resolution no. 12/4 for the year 2012 with regards to appointing a new Shari'a Board for a period of 3 years, and the new Shariaa Board assumed its duties and responsibilities in 2013.

- **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. 12/4 for the year 2012 which states that the remuneration of 10,000 US Dollars is to be disbursed annually to the Shariaa Su-pervisory Board Members. In addition, BD 2000 per annum is disbursed to Mr. Abdulnasser Al-Mahmood the Shariaa Supervisory Board Executive Member due to the nature of his position which requires him to provide direct and immediate support to the relevant departments of the Bank.

  Aggregate remuneration paid to Shari'a Supervisory Board members during 2014 was 13,885 Bahraini Dinars.

Shari'a Supervisory Board (SSB)

Members:	Summary of Responsibilities:
1. Dr. Sh. Nezam Yacouby (Chairperson) 2. Dr. Sh. Abdulaziz Khalifa Al-Qassar (Vice Chairperson) 3. Sh. Abdulnasser Al-Mahmood (Executive Member)	The Shari'a Supervisory Board reviews and approves the Islamic business offered by the Bank to ensure that they are compliant with Islamic Shari'a principles.

- **Shari'a Supervisory Board Meetings**

  The Shari'a Supervisory Board held three meetings during 2014. The below schedule shows dates of meetings and attendance of the Shariaa Board Members:

Members:	09 Mar. 2014 (1st Meeting)	10 June. 2014 (2nd Meeting)	16 Nov. 2013 (3nd Meeting-1st Session)
Dr. Sh. Nezam Yacouby (Chairperson)	✓	✓	✓
Sh. Abdulaziz Khalifa Al-Qassar (Vice Chairperson)	✗	✓	✓
Sh. Abdulnasser Al-Mahmood (Executive Member)	✓	✓	✓

7. **Management**

The Board appointed Dr. Khalid Abdulla in the capacity of General Manager of Eskan Bank in 2013, whereby the Board delegated him with the authority to manage the Bank's business. The General Manager is responsible for the day-to-day performance and operations of the Bank, and is supported by a well-qualified and experienced Management Team. The Bank's day-to-day operations are guided by a number of management committees which have been formed by virtue of the General Manager's approval. Eskan Bank's Internal Committees include the Management Committee, Management Risk Committee, Asset and Liability Management Committee, IT Steering Committee, Social Housing Development Committee, Internal Tender Committee, and Human Resources Committee.

Management Committee

Members:

The Committee shall consist of members with the following designation:

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

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

Summary of Responsibilities:

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

Corporate Governance Report 2014

Management Risk Committee

Members:

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

1. General Manager
2. Chief Business Officer and Deputy General Manager
3. Chief Operating Officer
4. Chief Risk Officer
5. Acting Chief Development Officer
6. Head of Retail Banking
7. Senior Manager Legal Advisory and Corporate Secretary
8. Head of Marketing
9. Head of Operations

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

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

Summary of Responsibilities:

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

Asset and Liability Management Committee (ALCO)

Members:

The Committee shall consist of members with the following designation:

1. General Manager
2. Chief Business Officer and Deputy General Manager
3. Chief Operating Officer
4. Chief Risk Officer
5. Head of Treasury
6. Head of Finance

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

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

Summary of Responsibilities:

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

IT Steering Committee

Members:

The Committee shall consist of members with the following designation:

1. Chief Operating Officer (Chairman)
2. Head of Retail Banking
3. Head of Financial Control
4. Head of Information Technology
5. Head of Operations
6. Head of Internal Audit
7. Senior 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 Chief Operating Officer who will appoint the Vice Chairperson.

Summary of Responsibilities:

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

Human Resources Committee

Members:

The Committee shall consist of members with the following designation:

1. General Manager
2. Chief Business Officer and Deputy General Manager
3. Chief Operating Officer
4. Acting Chief Development Officer
5. Head of Retail Banking
6. Head of Human Resources
7. Senior Manager Legal Advisory and Corporate Secretary
8. Head of Information Technology

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

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

Summary of Responsibilities:

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

Corporate Governance Report 2014

Social Housing Development Committee

Members:

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

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

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

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

Summary of Responsibilities:

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

Internal Tender Committee

Members:

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

1. General Manager (Chairman)
2. Chief Business Officer and Deputy General Manager
3. Chief Operating Officer
4. Acting Chief Development Officer
5. Head of Human Resources
6. Senior Manager Legal Advisory and Corporate Secretary

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

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

Summary of Responsibilities:

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

Senior Management Remuneration

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

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

Aggregate remuneration paid for senior management in 2014 was BD 712,014.

8. Compliance and Anti-money Laundering

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

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

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

9. Communication Strategy

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

10. Internal Audit role

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

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

Corporate Governance Report 2014

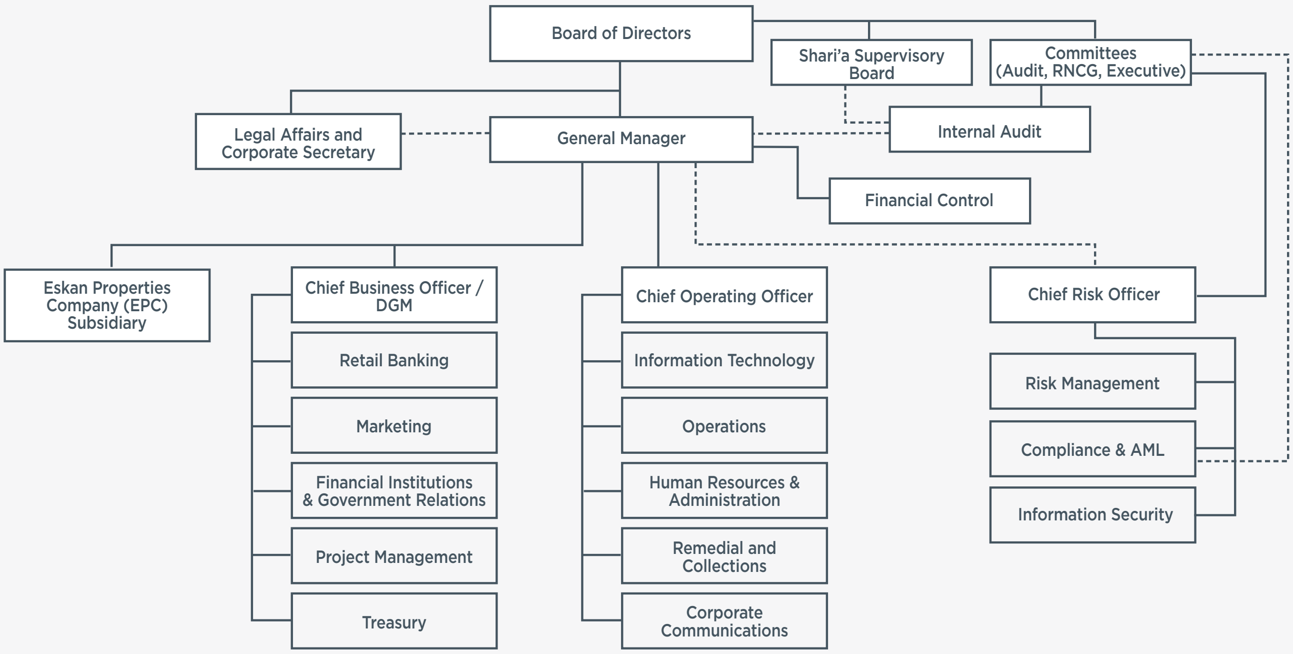
11. Subsidiaries and Associate Companies

Name/Entity	Headquarter	Legal Status	Percentage	Share value
Southern Area Development Company	Bahraini	B.S.C. (closed)	17.26%	BD 2,250K
Eskan Properties Company	Bahraini	B.S.C. (closed)	100%	BD 250K
Eskan RMBS Company	Bahraini	B.S.C. (closed)	100%	BD 1000
Ebdaa Bank	Bahraini	B.S.C. (closed)	20%	US$ 1 million
Dannat Al Luzi Company	Bahraini	B.S.C. (closed)	55.88%	BD 8,400,900
*Smart Building Material Company	Bahraini	S.P.C..	100%	BD 250K
Naseej	Bahraini	B.S.C. (closed)	3%	BD 3.27 million

*Eskan Bank's Board of Directors issued Resolution No. 2/2 for the year 2014 to liquidate the Company, the Bank has commenced the liquidation process which is scheduled to be completed in early 2015.

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.

Organizational Chart



Shari'a Board of Directors

**Shaikh Dr. Nedham
Mohammed Saleh Yacouby**

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

**Shaikh Abdul Aziz
Khalifa Al Qassar**

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

**Shaikh Abdul-Nasser
Omar Al Mahmood**

- Over 21 years of Experience in Sharia'a Audit and Islamic Banking
- Master in Business Administration
- B.Sc. in Sharia'a and Islamic Studies
- Associate Diploma in Sharia'a Control.

SHARI'A SUPERVISORY BOARD REPORT FOR THE YEAR ENDED 31 DECEMBER 2014

27th Rabi'a Al Thani 1436 BC coinciding 17th February 2015

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

To the shareholder of Eskan Bank

Assalam Alaikum Wa Rahmat Allah Wa Barakatuh

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

During the year ended 31 December 2014, we have reviewed the principles and contracts relating to the transactions and applications conducted by the Bank through Wakala, Commodity Murabaha, Ijara Muntahiya Be Tamleek and Reverse Istisna'a (Islamic Products). We have also conducted our review to form an opinion as to whether the Bank has complied with Shari'a Rules and Principles and also with specific Fatwas, rulings and guidelines issued by us.

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

We conducted our review which included examining on a test basis of each type of Islamic products transaction, the relevant documentation and procedures carried out by the Bank in concluding Islamic transactions. We planned and performed our review whether directly or through the Internal Shari,a Reviewer so as to obtain all information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Bank has not violated Islamic Rules and Principles.

In our opinion:

Contracts, transactions and dealings related to Islamic products entered into by the Bank during year ended on 31 December 2014 that we have reviewed are in compliance with the Islamic Shari'a Rules and Principles.

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

Shaikh Dr. Nedham Mohamed Saleh Yacouby
Chairman

Shaikh Dr. Abdul Aziz Khalifa Al Qassar
Vice Chairman

Shaikh Abdul Nasser Omar Al Mahmood
Executive Member

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

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Eskan Bank B.S.C. (c) ("the Bank") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other regulatory requirements

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

a) the Bank has maintained proper accounting records and the financial statements are in agreement therewith; and

b) the financial information contained in the Report of the Board of Directors is consistent with the financial statements.

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2014 that might have had a material adverse effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests.

Ernst & Young

Partner's registration no: 115
26 February 2015
Manama, Kingdom of Bahrain

Consolidated Financial Statements

31 December 2014

البحرين
BAHRAIN

بنك الإسكان
ESKAN BANK

Eskan Bank B.S.C. (c)

Consolidated Statement of Financial Position

As at 31 December 2014

	Notes	2014 BD	2013 BD
ASSETS			
Cash and bank balances	6	**94,410,297**	105,617,569
Investments	7	**4,756,950**	4,756,950
Loans	8	**434,770,102**	400,201,986
Investment in associates	9	**9,110,659**	9,135,895
Investment properties	10	**42,604,353**	41,760,348
Development properties	11	**18,592,187**	8,350,698
Other assets	12	**6,486,261**	6,368,933
TOTAL ASSETS		**610,730,809**	576,192,379
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from financial and other institutions		**48,107,183**	49,000,000
Government accounts	13	**251,459,119**	232,779,235
Term loans	14	**59,000,000**	65,500,000
Other liabilities	15	**24,063,726**	18,562,318
TOTAL LIABILITIES		**382,630,028**	365,841,553
EQUITY			
Share capital	16	**108,300,000**	108,300,000
Contribution by shareholder		**19,159,665**	18,523,651
Statutory reserve		**54,461,896**	54,461,896
Retained earnings		**39,548,198**	29,065,279
Equity attributable to Bank's shareholders		**221,469,759**	210,350,826
Non-controlling interest		**6,631,022**	-
TOTAL EQUITY		**228,100,781**	210,350,826
TOTAL LIABILITIES AND EQUITY		**610,730,809**	576,192,379

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

Dr. Khalid Abdulla
General Manager

The attached notes 1 to 31 form part of these consolidated financial statements

Eskan Bank B.S.C. (c)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2014

	Notes	2014 BD	2013 BD
Management charges		**13,313,932**	12,138,167
Interest income	17	**2,804,522**	2,831,748
Income from investment properties	18	**422,892**	375,654
Net share of profit / (loss) of associates	9	**159,780**	(287,729)
Other income		**540,079**	538,647
TOTAL INCOME		**17,241,205**	15,596,487
Staff costs		**(4,251,976)**	(3,813,313)
Other expenses	19	**(1,464,694)**	(1,057,438)
Interest expense		**(671,964)**	(742,612)
Impairment provision on loans	8	**(187,414)**	(325,355)
Impairment provision on investment in associates	9	**(185,016)**	-
Write off / impairment provision on properties	20	**-**	(1,638,017)
TOTAL EXPENSES		**(6,761,064)**	(7,576,735)
PROFIT FOR THE YEAR		**10,480,141**	8,019,752
Other comprehensive income		**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**10,480,141**	8,019,752
Attributable to:			
Equity shareholders of the parent		**10,482,919**	8,019,752
Non-controlling interest		**(2,778)**	-
		10,480,141	8,019,752

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

Dr. Khalid Abdulla
General Manager

The attached notes 1 to 31 form part of these consolidated financial statements

Consolidated Statement of Changes in Equity
For the year ended 31 December 2014

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

	Equity attributable to Bank's shareholders						
	Share capital BD	Contribution by shareholder BD	Statutory reserve BD	Retained earnings BD	Total BD	Non-controlling interest BD	Total equity BD
At 1 January 2013	108,300,000	20,291,984	54,461,896	21,045,527	204,099,407	-	204,099,407
Transfer of land (note 10)	-	680,876	-	-	680,876	-	680,876
Transfer to the shareholder (note 22)	-	(2,449,209)	-	-	(2,449,209)	-	(2,449,209)
Total comprehensive income	-	-	-	8,019,752	8,019,752	-	8,019,752
At 31 December 2013	108,300,000	18,523,651	54,461,896	29,065,279	210,350,826	-	210,350,826

The attached notes 1 to 31 form part of these consolidated financial statements

Eskan Bank B.S.C. (c)

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	Notes	2014 BD	2013 BD
OPERATING ACTIVITIES			
Profit for the year		**10,480,141**	8,019,752
Adjustments for:			
Net share of (profit) / loss of associates	9	**(159,780)**	287,729
Impairment provision on loans	8	**187,414**	325,355
Impairment provision on investment in associate		**185,016**	-
Depreciation		**392,967**	353,270
Development properties written off		**-**	1,638,017
Operating profit before working capital changes:		**11,085,758**	10,624,123
Decrease (increase) in placements with banks		**3,049,965**	(7,227,668)
Increase in loans		**(34,755,530)**	(44,777,164)
Increase in development properties		**(1,806,210)**	(559,995)
Increase in other assets		**(131,035)**	(163,758)
Decrease in deposits from financial and other institutions		**(892,817)**	(4,505,742)
Increase / (decrease) in other liabilities		**4,523,056**	(1,335,055)
Net cash flows used in operating activities		**(18,926,813)**	(47,945,259)
INVESTING ACTIVITIES			
Purchase of equipment		**(181,145)**	(393,451)
Sale of equipment		**3,615**	-
Acquisition of a subsidiary, net of cash acquired	5	**(1,232,848)**	-
Net cash flows used in investing activities		**(1,410,378)**	(393,451)
FINANCING ACTIVITIES			
Repayment of term loans		**(6,500,000)**	-
Net movement in Government accounts		**18,679,884**	40,356,603
Net cash flows from financing activities		**12,179,884**	40,356,603
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(8,157,307)**	(7,982,107)
Cash and cash equivalents at 1 January	6	**91,906,134**	99,888,241
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	6	**83,748,827**	91,906,134
Non-cash activities			
Development properties (acquisition of a subsidiary)		**8,845,000**	-
Non-controlling interest (acquisition of a subsidiary)		**6,631,022**	-
Other liabilities - consideration payable (acquisition of a subsidiary)		**978,352**	-
Transfer between investment and development properties		**715,042**	-
Investment in associate by transfer of receivables	9	**-**	1,700,000
Transfer to the Shareholder	22	**-**	2,449,209
Investment properties (land contribution by the shareholder)	10	**636,014**	680,876

The attached notes 1 to 31 form part of these consolidated financial statements

Notes to the Consolidated Financial Statements

As at 31 December 2014

1 CORPORATE INFORMATION

Incorporation

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

Activities

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

The consolidated financial statements were approved by the Board of Directors on 26 February 2015.

2 BASIS OF PREPARATION

Statement of compliance

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

Accounting convention

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

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

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the consolidated statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in note 28.

Basis of consolidation

The consolidated financial statements comprise the consolidated financial statements of the Bank and its subsidiaries as at and for the year ended 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. All intra-group balances, transactions, income and expenses and unrealised profits and losses resulting from intra-group transactions are eliminated in full.

2 BASIS OF PREPARATION (continued)

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

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

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

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

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

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

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

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

2 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)
The following are the principal subsidiaries of the Group that are consolidated:

Subsidiaries	Ownership for 2014	Ownership for 2013	Year of incorporation/ acquisition	Country of incorporation/ acquisition
Eskan RMBS Company B.S.C.(c) ('RMBS') RMBS's principal activities are to issue Asset Backed private debt securities for the purpose of securitisation of housing loans.	100%	100%	2007	Kingdom of Bahrain
Eskan Properties Company B.S.C.(c) ('EPC') EPC's principal activities are managing certain investment properties.	100%	100%	2007	Kingdom of Bahrain
Smart Building Materials (SPC) Smart Building Materials (SPC) principal activities are to create the entire value chain to manufacture cost-effective, environmentally efficient homes for the less advantaged.	100%	100%	2009	Kingdom of Bahrain
Dannat Al Luzi B.S.C Closed Buying and Selling of properties for the establishment.	56%	-	2014	Kingdom of Bahrain

3 ACCOUNTING POLICIES

3.1 Summary of significant accounting policies

New standards, interpretations and amendments adopted by the Group
The significant accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year, except for the adoption of the new standards and interpretations effective as of 1 January 2014.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
These amendments to IFRS 10 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The amendment is not relevant to the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32
These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. The amendment does not have any material impact on the Group.

IFRIC Interpretation 21 Levies (IFRIC 21)
IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The Group does not expect that IFRIC 21 has any material financial impact.

3 ACCOUNTING POLICIES (continued)

3.1 Summary of significant accounting policies (continued)

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

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36
These amendments remove the unintended consequences of IFRS 13 Fair Value Measurement on the disclosures required under IAS 36 Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period. The amendments did not impact the Group, as the Group did not recognise or reverse any impairment loss on its non-financial assets during the year.

Novation of Derivatives and Continuation of Hedge Accounting - Amendments to IAS 39
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Group as the Group did not have derivative transactions during the current or prior periods.

Annual Improvements 2010-2012 Cycle
In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Group.

Annual Improvements 2011-2013 Cycle
In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at 1 January 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Group, since the Group is an existing IFRS preparer.

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

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

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

3 ACCOUNTING POLICIES (continued)

3.1 Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

Deposits from financial and other institutions and term loans
These financial liabilities are carried at amortised cost, less amounts repaid.

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

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

3 ACCOUNTING POLICIES (continued)

3.1 Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

De-recognition of financial instruments

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

- the right to receive cash flows from the asset has expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
- the Group has transferred substantially all the risks and rewards of the asset, or
- the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

3 ACCOUNTING POLICIES (continued)

3.1 Summary of significant accounting policies (continued)

De-recognition of financial instruments (continued)

Financial liabilities

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

Impairment of financial assets

An assessment is made at the date of each consolidated statement of financial position date to determine whether there is objective evidence that a financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss is recognised for changes in its carrying amount as follows:

Impairment of financial assets held at amortised cost

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

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

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

The carrying amount of the asset is adjusted through the use of a provision for impairment account and the amount of the adjustment is included in the consolidated statement of comprehensive income.

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

Available for sale investments

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

3 ACCOUNTING POLICIES (continued)

3.1 Summary of significant accounting policies (continued)

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 consolidated statement of comprehensive income only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed the recoverable amount nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Offsetting of financial instruments

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

Recognition of income and expense

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

Management charges
Management charges on social loans is recognised using the effective yield method subsequent to the grace period of six months.

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

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

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

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

3 ACCOUNTING POLICIES (continued)

3.1 Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

3 ACCOUNTING POLICIES (continued)

3.1 Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

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

3 ACCOUNTING POLICIES (continued)

3.1 Summary of significant accounting policies (continued)

Disposal group

A disposal group classified as held for sale is measured at the lower of their carrying amount and fair value less costs to sell. A disposal group is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification.

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

3.2 Prospective changes in accounting policies

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

IFRS 9 *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 14 *Regulatory Deferral Accounts*

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

3 ACCOUNTING POLICIES (continued)

3.2 Prospective changes in accounting policies (continued)

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

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

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

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

Amendments to IAS 16 and IAS 41 Agriculture: *Bearer Plants*
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

3 ACCOUNTING POLICIES (continued)

3.2 Prospective changes in accounting policies (continued)

Amendments to IAS 27: *Equity Method in Separate Financial Statements*
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

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

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

Going concern
The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

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

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

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

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimates (continued)

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

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

5 ACQUISITION OF A SUBSIDIARY

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

The Group has elected to measure the non-controlling interest in the acquiree at their proportionate share of the acquiree's identifiable net assets.

Identifiable net assets

The fair value of the identifiable assets and liabilities of Dannat Al Luzi as at the date of acquisition were:

Assets	Fair value recognised on acquisition
Cash and bank balances	6,189,700
Development properties	8,845,000
	15,034,700
Total identifiable net assets at fair value	15,034,700
Non-controlling interest measured at share of net assets	(6,633,800)
Goodwill arising on acquisition	-
Purchase consideration	8,400,900
Total consideration comprises of :	
Cash consideration paid	7,422,548
Consideration payable to Infinity Capital (note 15)	978,352
	8,400,900

6 CASH AND BANK BALANCES

	2014 BD	2013 BD
Cash and bank balances		
Cash	**148,053**	138,479
Balances with banks	**1,109,997**	1,077,372
Balances with the Central Bank of Bahrain	**1,557,288**	247,612
	2,815,338	1,463,463
Short term placements (with an original maturity of 90 days or less)		
Placements with banks and other institutions	**7,003,300**	18,001,208
Placements with the Central Bank of Bahrain	**73,930,189**	72,441,463
	80,933,489	90,442,671
Total cash and cash equivalents	**83,748,827**	91,906,134
Placements (with an original maturity of more than 90 days)		
Placements with the Central Bank of Bahrain	**10,661,470**	13,711,435
	10,661,470	13,711,435
Total cash and bank balances	**94,410,297**	105,617,569

7 INVESTMENTS

Unquoted	2014 BD	2013 BD
Available for sale		
At 1 January	**4,756,950**	3,541,096
Additions (note 9.1)	**-**	1,215,854
At 31 December	**4,756,950**	4,756,950

8 LOANS

	2014 BD	2013 BD
(i) Social loans		
Loans (net of reductions and waivers written off)	**447,837,248**	403,601,670
Less: Provisions for 50% subsidy under Amiri Decree No. 18/1977 (d (v))	**(37,962,727)**	(29,737,666)
	409,874,521	373,864,004
(ii) Commercial loans		
Gross Loans	**25,971,288**	27,226,277
Less: Provision for impairment	**(1,075,707)**	(888,295)
	24,895,581	26,337,982
Total loans	**434,770,102**	400,201,986

Loans stated at a carrying amount of BD 36 million (2013: BD 42 million) are secured as guarantee against the RMBS bonds issued (note 14).

8 **LOANS** (continued)

a) Age analysis of past due but not impaired loans

	2014				
	Up to 30 days BD	**31 to 60 days BD**	**61 to 90 days BD**	**Above 90 days BD**	**Total BD**
Social loans	**-**	**17,473,001**	**6,059,776**	**25,790,931**	**49,323,708**
Commercial loans	**4,576,448**	**1,162,929**	**478,828**	**-**	**6,218,205**
	4,576,448	**18,635,930**	**6,538,604**	**25,790,931**	**55,541,913**

	2013				
	Up to 30 days BD	31 to 60 days BD	61 to 90 days BD	Above 90 days BD	Total BD
Social loans	128,336	14,127,128	6,964,541	26,488,364	47,708,369
Commercial loans	3,175,859	439,992	128,756	-	3,744,607
	3,304,195	14,567,120	7,093,297	26,488,364	51,452,976

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

b) Age analysis of impaired loans

	2014			
	3-6 Months BD	**6-12 Months BD**	**1-3 Years BD**	**Total BD**
Commercial loans	**171,713**	**227,576**	**981,329**	**1,380,618**

	2013			
	3-6 Months BD	6-12 Months BD	1-3 Years BD	Total BD
Commercial loans	309,458	426,369	830,988	1,566,815

8 LOANS (continued)

c) Impairment provision for commercial loans

	2014			
	Opening balance BD	**Charge for the year BD**	**Write-backs BD**	**Closing balance BD**
General Provision				
Commercial loans	**266,040**	**-**	**(13,003)**	**253,037**
Specific Provision				
Commercial loans	**622,255**	**362,716**	**(162,299)**	**822,672**
At 31 December	**888,295**	**362,716**	**(175,302)**	**1,075,709**

	2013			
	Opening balance BD	Charge for the year BD	Write-backs BD	Closing balance BD
General Provision				
Commercial loans	270,519	-	(4,479)	266,040
Specific Provision				
Commercial loans	292,421	359,367	(29,533)	622,255
At 31 December	562,940	359,367	(34,012)	888,295

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

d) Social loans

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

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

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

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

8 LOANS (continued)

d) Social loans (continued)

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

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

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

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

(vi) On 26 February 2011, His Majesty, King Hamad Bin Isa Bin Salman Al Khalifa, announced a waiver of 25% ("2011 Reduction") on instalments of social loans and a 25% reduction on outstanding balances of mortgages where the Group acts as a collection agent.

9 INVESTMENT IN ASSOCIATES

	2014 **BD**	2013 BD
At 1 January	**9,135,895**	8,939,478
Acquisitions	**-**	1,700,000
Transfer to available for sale investments (note 9.1)	**-**	(1,215,854)
Impairment provision	**(185,016)**	-
Net share of profit / (loss)	**159,780**	(287,729)
At 31 December	**9,110,659**	9,135,895

Note 9.1

On 29 December 2013 the Group's equity share in Southern Area Development Company (SADC) was reduced from 28.13% to 17.25% due to an increase in capital by another shareholder. As a result, the Group's representation on the Board of Directors' was reduced from 2 out of 8 to 1 out of 6. Accordingly, the investment has been reclassified from "investment in associates" to "available for sale investments".

The principal associates of the Group are:

Name	**Country of Incorporation**	**Carrying Value** **2014** **BD**	 2013 BD
Bahrain Property Musharaka Trust Fund	Kingdom of Bahrain	**9,110,659**	8,894,630
Ebdaa Bank	Kingdom of Bahrain	**-**	241,265
		9,110,659	9,135,895

9 INVESTMENT IN ASSOCIATES (continued)

Name	Nature of activities	Ownership for 2014	Ownership for 2013
Bahrain Property Musharaka Trust Fund	Development of two real-estate projects in the Kingdom of Bahrain.	**42.92%**	42.92%
Ebdaa Bank	Providing micro-financing to low-to-middle income Bahrainis.	**20.00%**	20.00%

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

	2014 (unaudited) BD	2013 (unaudited) BD
Summarised statement of financial position		
Current assets*	**34,079,614**	3,089,233
Non-current assets	**-**	20,655,960
Current liabilities	**(11,825,141)**	(1,630,653)
Net assets	**22,254,473**	22,114,540
Proportion of the Group's ownership	**42.98%**	42.92%
Group's ownership in equity	**9,564,972**	9,491,561
Other adjustments	**(454,313)**	(596,931)
Carrying amount of the investment	**9,110,659**	8,894,630

* Includes cash and cash equivalents of BD 3,427 thousand (31 December 2013: BD 1,713 thousand).

	2014 (unaudited) BD	2013 (unaudited) BD
Summarised statement of profit and loss		
Total income	**985,658**	460,803
Total expenses	**845,725**	403,463
Total comprehensive income	**139,933**	57,340
Other adjustments	**362,694**	(361,869)
Group's net share of profit / (loss)	**216,029**	(130,704)

The Group has no share of any contingent liabilities or capital commitments, as at 31 December 2014 and 2013 related to its associates.

10 INVESTMENT PROPERTIES

	2014 BD	2013 BD
Opening balance at beginning of the year	**41,760,348**	39,007,771
Transferred from development properties	**715,042**	2,266,195
Additions during the year (note 10.1)	**636,014**	680,876
Depreciation charge for the year	**(201,730)**	(167,762)
Transferred to development properties	**(305,321)**	-
Others	**-**	(26,732)
	42,604,353	41,760,348

Note 10.1

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

Investment properties comprise the following:

	2014 BD	2013 BD
Land at Bander Al-Seef	**28,584,288**	28,584,288
Land at Sanabis	**2,528,374**	2,528,374
Land at Jaw	**1,938,783**	1,938,783
Land at Saar	**1,903,251**	1,903,251
Land at Hamad town	**2,045,219**	1,597,727
Land at Busayteen	**628,000**	628,000
Land at Salmabad	**109,631**	414,952
Land at Isa town	**67,160**	67,160
Land at Muharraq	**23,519**	23,519
Land at Safra	**99,522**	-
Land at Zallaq	**89,000**	-
Shops (accumulated depreciation BD 849,551 (2013 BD 647,821))	**4,729,606**	4,216,294
	42,746,353	41,902,348
Impairment allowance	**(142,000)**	(142,000)
	42,604,353	41,760,348

The fair value of investment properties, based on independent market valuations, as at 31 December 2014 was BD 283,123 thousand (2013: BD 278,884 thousand). During the year, land with a fair value of BD 636 thousand (2013: BD 680 thousand) was transferred to the Bank by the Government and accordingly has been treated as additional contribution by a shareholder.

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

10 INVESTMENT PROPERTIES (continued)

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

The Group's investment properties are categorised in level 3 of the fair value hierarchy as at 31 December 2014 and 31 December 2013. 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 2014 and 31 December 2013.

11 DEVELOPMENT PROPERTIES

	2014	2013
	BD	BD
Opening balance at beginning of the year	**8,350,698**	11,694,915
Acquisition of subsidiary (note 5)	**8,845,000**	-
Additions during the year	**1,806,210**	559,995
Transferred from investment properties	**305,321**	-
Transferred to investment properties	**(715,042)**	(2,266,195)
	18,592,187	9,988,715
Write off	**-**	(1,638,017)
At 31 December	**18,592,187**	8,350,698

12 OTHER ASSETS

	2014	2013
	BD	BD
Compensation for transfer of land (note 12.1)	**4,713,666**	4,713,666
Management fee and interest receivable	**614,829**	648,193
Equipment and other assets (net book value)	**530,733**	544,440
Receivables	**296,409**	239,790
Prepayments and advances	**146,137**	128,783
Staff loans	**184,487**	94,061
	6,486,261	6,368,933

Note 12.1

This represents compensation to be received for the transfer of land owned and held by the Bank to the Ministry of Finance under Law number (39) for the year 2009 that pertains to acquisition of ownership of real estate properties for the public benefit.

13 GOVERNMENT ACCOUNTS

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

These accounts are mainly affected by the following:

a) Collections, which are mainly monthly budgetary support received from the MOF for disbursement of new social housing loans, reimbursements of project payments processed by Eskan Bank to Contractors, collections relating to MOH houses and rentals from MOH flats;

b) Reduction decrees issued by the Government from time to time;

c) Write off and waivers, death benefit write offs; and

d) Any other payments / transactions undertaken by the Bank on behalf of MOH / MOF in relation to housing projects.

14 TERM LOANS

	2014 **BD**	2013 BD
Syndicated bank term loan	**50,000,000**	50,000,000
RMBS bonds	**9,000,000**	15,500,000
At 31 December	**59,000,000**	65,500,000

The syndicated bank term loan bears interest repayable monthly at offer rate determined by the syndicate plus a margin of 2.25% (2013: 2.25%). The syndicated bank term loan is repayable semi-annually starting June 2016 to June 2018. Further, additional BD 50 Million is available to be drawn before end of December 2015 from the total syndicated loan facility of BD 100 Million. The amount is mainly used towards financing disbursements of social loans. However, there is no restriction on the use of this amount. During the year, interest expense amounting to BD 1,526 thousand (2013: BD 1,556 thousand) on the syndicated bank term loan was charged to the Government account.

The RMBS bonds bear interest repayable biannually at BIBOR plus a margin of 1.338% (2013: 1.01%). The RMBS bonds, repayable by October 2017, are secured against certain social loans issued by the Bank (note 8).

	2014 **BD**	2013 BD
Term loans maturing in less than 1 year	**-**	6,500,000
Term loans maturing in more than 1 year	**59,000,000**	59,000,000
	59,000,000	65,500,000

15 OTHER LIABILITIES

	2014 BD	2013 BD
Unearned income for 50% subsidy under Amiri Decree (note 8)	**14,347,490**	11,057,241
Current accounts	**6,256,745**	5,024,304
Accrued expenses	**1,019,906**	897,689
Acquisition of a subsidiary consideration payable (note 5)	**978,352**	-
Employee savings scheme	**496,942**	455,845
Employee benefits	**198,930**	142,705
Accrued interest payable on term loans	**170,855**	308,783
Contractor retentions	**66,769**	29,071
Other liabilities	**527,737**	646,680
	24,063,726	18,562,318

16 SHARE CAPITAL

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

	Number of shares	2013 BD
31 December 2013		
Authorised ordinary share capital of BD 100 each	**4,000,000**	400,000,000
Issued and fully paid up ordinary share capital of BD 100 each	**1,083,000**	108,300,000

17 INTEREST INCOME

	2014 BD	2013 BD
Interest income on commercial loans	**2,123,736**	2,202,180
Interest income on placements with financial and other institutions	**680,786**	629,568
	2,804,522	2,831,748

18 INCOME FROM INVESTMENT PROPERTIES

	2014 BD	2013 BD
Rental income - net	**422,892**	375,654

19 OTHER EXPENSES

	2014 BD	2013 BD
Depreciation	**392,967**	353,270
Premises	**212,079**	226,337
Computer maintenance	**194,548**	80,890
Legal and professional	**177,831**	135,155
Directors remuneration	**88,422**	51,814
Marketing cost	**61,993**	24,567
Transportation and communication	**65,611**	77,911
Electricity	**43,242**	41,488
Others	**228,001**	66,006
	1,464,694	1,057,438

20 WRITE OFF / IMPAIRMENT PROVISION ON PROPERTIES

	2014 BD	2013 BD
Development properties written off (note 20.1)	**-**	1,638,017
	-	1,638,017

Note 20.1

This amount represents write off of the initial costs of design and technical studies incurred in previous years for a project that was discontinued prior year.

21 COMMITMENTS AND CONTINGENCIES

	2014 BD	2013 BD
Housing loan commitments approved by MOH (note 21.1)	**91,816,023**	98,697,958
Capital commitments	**10,750,515**	242,431
Commercial Loan commitments	**155,068**	320,552
Lease commitments not later than one year	**175,108**	88,815
Lease commitments later than one year but not later than five years	**248,070**	12,800
Lease commitments later than five years	**-**	54,400
	103,144,784	99,416,956

The Group has filed cases against certain ex-employees on the grounds of misconduct. If the Group is successful in proving its case, it will result in a receipt of BD 322,988 (2013 : BD 322,988).

Note 21.1

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

22 DISPOSAL GROUP - SOUTHERN TOURISM COMPANY

During 2012, MOF (the "Shareholder") issued a letter dated 4 December 2012, instructing transfer of the Bank's ownership of its subsidiary Southern Tourism Company to Mumtalakat Holding Company.

Upon satisfaction of the relevant regulatory requirements, the Bank transferred its ownership effective 25 April 2013. As a result of the transfer, net assets amounting to BD 2,449,209 were charged against contribution by the Shareholder in the consolidated statement of changes in equity.

23 RELATED PARTY TRANSACTIONS

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

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

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

	2014 **BD**	2013 BD
Short term employee benefits	**686,001**	693,135
Long term employee benefits	**26,013**	42,889
	712,014	736,024

24 CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

At 31 December 2014	**Available-for-sale** **BD**	**Amortised cost/ Loans and receivables** **BD**	**Total** **BD**
Financial assets			
Investments	**4,756,950**	**-**	**4,756,950**
Loans	**-**	**434,770,102**	**434,770,102**
Other assets	**-**	**1,097,776**	**1,097,776**
	4,756,950	**435,867,878**	**440,624,828**

24 CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

	Amortised cost BD	Total BD
Financial liabilities		
Deposits from financial and other institutions	**48,107,183**	**48,107,183**
Government accounts	**251,459,119**	**251,459,119**
Term loans	**59,000,000**	**59,000,000**
Other liabilities	**23,367,854**	**23,367,854**
	381,934,156	**381,934,156**

At 31 December 2013	Available-for-sale BD	Amortised cost/ Loans and receivables BD	Total BD
Financial assets			
Investments	4,756,950	-	4,756,950
Loans	-	400,201,986	400,201,986
Other assets	-	988,571	988,571
	4,756,950	401,190,557	405,947,507

	Amortised cost BD	Total BD
Financial liabilities		
Deposits from financial and other institutions	49,000,000	49,000,000
Government accounts	232,779,235	232,779,235
Term loans	65,500,000	65,500,000
Other liabilities	17,963,768	17,963,768
	365,243,003	365,243,003

25 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

25 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

26 RISK MANAGEMENT

Overview

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

Risk management framework

Board of Directors

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

Management Risk Committee

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

Risk Management Department

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

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

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

Audit Committee

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

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.

26 RISK MANAGEMENT (continued)

Risk Measurement

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

Risk Mitigation

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

a) Credit risk

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

i) Management of credit risk

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

Housing loans under Ministry's Housing Loan Program

The decision to grant the loan is determined by the Ministry of Housing and communicated to the Group to make disbursements to the borrowers. There is no credit risk to the Group arising out of these loans. Losses, if any, arising from the impairment of such loans can be claimed from the Government. Consequently these loans attract zero risk weight. The Group monitors the sanctioned housing loans regularly and non performing loans are aggressively pursued by the Group and are written-off based on ministerial order. The housing loans under the Ministry's Housing Loan Program as at 31 December 2014 is BD 409,874,521 (31 December 2013: BD 373,864,004).

Other loans

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

ii) Maximum exposure to credit risk

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

	Gross maximum exposure 2014	Gross maximum exposure 2013
Balances and placements with financial institutions	**94,262,244**	105,479,090
Loans - commercial loans	**24,895,581**	26,337,982
Other receivables	**1,097,776**	988,571
	120,255,601	132,805,643

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

There were no renegotiated loans during either the year ended 31 December 2014 or 31 December 2013.

26 RISK MANAGEMENT (continued)

a) Credit risk (continued)

ii) Maximum exposure to credit risk (continued)

Risk concentration of the maximum exposure to credit risk
The maximum credit exposure to any client, or counterparty, or group of closely related counterparties as of 31 December 2014 was BD 86,148,947 (31 December 2013: BD 86,400,510).

iii) Collateral

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

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

The Group did not take possession of any collateral as a result of a default during either the year ended 31 December 2014 or 31 December 2013.

iv) Credit quality per class of financial assets

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

	Neither past due nor impaired	**Past due but not impaired**	**Individually impaired**	**31 December 2014**
Balances and placements with financial institutions	**94,262,244**	**-**	**-**	**94,262,244**
Loans - Commercial loans	**18,372,465**	**6,218,205**	**1,380,618**	**25,971,288**
Other receivables	**1,097,776**	**-**	**-**	**1,097,776**
	113,732,485	**6,218,205**	**1,380,618**	**121,331,308**

	Neither past due nor impaired	Past due but not impaired	Individually impaired	31 December 2013
Balances and placements with financial institutions	105,479,090	-	-	105,479,090
Loans - commercial loans	21,914,855	3,744,607	1,566,815	27,226,277
Other receivables	988,571	-	-	988,571
	128,382,516	3,744,607	1,566,815	133,693,938

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.

26 RISK MANAGEMENT (continued)

b) Market risk

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

i) Management of market risks

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

ii) Interest rate risk

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

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

	31 December 2014 BD	**Changes in basis points (+/-)**	**Effect on net profit (+/-)**
Assets			
Balances and placements with financial institutions	**91,594,959**	100	**915,950**
Loans - commercial loans	**24,895,581**	100	**248,956**
Liabilities			
Deposits from financial and other institutions	**48,107,183**	100	**(481,072)**
Term loans	**9,000,000**	100	**(90,000)**
Total			**593,834**

	31 December 2013 BD	Changes in basis points (+/-)	Effect on net profit (+/-)
Assets			
Balances and placements with financial institutions	104,154,106	100	1,041,541
Loans - commercial loans	26,337,982	100	263,380
Liabilities			
Deposits from financial and other institutions	49,000,000	100	(490,000)
Term loans	15,500,000	100	(155,000)
Total			659,921

26 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 conducts investment activity in unquoted private equity entities. The Group manages this risk through diversification of its investments in terms of geographical distribution and industry concentration by arranging representation on the Board of Directors within the investee company, wherever possible and by frequent monitoring via Risk Management.

The effect on equity and income (as a result of a change in the fair value of equity instruments at 31 December 2014) due to a reasonably possible change (i.e. +/-15%) in the value of individual investments, with all other variables held constant, is BD 713,543 (2013: BD 713,543) on equity and none on income since the Bank does not have any investment at fair value through profit or loss as at 31 December 2014 and 2013. The effect of decrease in the value of individual investments is expected to be equal and opposite to the effect of an increase.

c) Liquidity Risk

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

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

Analysis of liabilities

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2014 and 31 December 2013 based on contractual undiscounted repayment obligations.

	Less than 3 Months	**3 to 12 Months**	**Over 1 Year**	**Total**
At 31 December 2014				
Deposits from financial and other institutions	**48,126,081**	**-**	**-**	**48,126,081**
Term loans	**372,875**	**1,476,063**	**61,702,547**	**63,551,485**
Total	**48,498,956**	**1,476,063**	**61,702,547**	**111,677,566**

	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
At 31 December 2013				
Deposits from financial and other institutions	45,015,617	4,029,333	-	49,044,950
Term loans	296,528	8,167,413	63,579,949	72,043,890
Total	45,312,145	12,196,746	63,579,949	121,088,840

26 RISK MANAGEMENT (continued)

d) Operational risk

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

27 CAPITAL ADEQUACY

Capital management

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

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

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

	2014 BD	**2013 BD**
Total eligible capital	**221,844,078**	210,490,095
Total regulatory capital (A)	**221,844,078**	210,490,095
Total Risk-weighted exposure (B)	**214,315,969**	189,185,626
Capital adequacy ratio (A/B)	**103.51%**	111.26%
Minimum requirement	**12.00%**	12.00%

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

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

28 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 2014	**Less than 12 months BD**	**Over 12 Months BD**	**Total BD**
Assets			
Cash and cash equivalents	94,410,297	-	**94,410,297**
Investments	-	4,756,950	**4,756,950**
Loans	18,981,043	415,789,059	**434,770,102**
Investment in associates	-	9,110,659	**9,110,659**
Investment properties	-	42,604,353	**42,604,353**
Development properties	-	18,592,187	**18,592,187**
Other assets	5,627,917	858,344	**6,486,261**
	119,019,257	**491,711,552**	**610,730,809**
Liabilities			
Deposits from financial and other institutions	48,107,183	-	**48,107,183**
Government accounts	-	251,459,119	**251,459,119**
Term loans	-	59,000,000	**59,000,000**
Other liabilities	9,638,885	14,424,841	**24,063,726**
	57,746,068	**324,883,960**	**382,630,028**
Net liquidity surplus	**61,273,189**	**166,827,592**	**228,100,781**

At 31 December 2013	Less than 12 months BD	Over 12 Months BD	Total BD
Assets			
Cash and cash equivalents	105,617,569	-	105,617,569
Investments	-	4,756,950	4,756,950
Loans	16,412,844	383,789,142	400,201,986
Investment in associates	-	9,135,895	9,135,895
Investment properties	-	41,760,348	41,760,348
Development properties	-	8,350,698	8,350,698
Other assets	5,743,855	625,078	6,368,933
	127,774,268	448,418,111	576,192,379
Liabilities			
Deposits from financial and other institutions	49,000,000	-	49,000,000
Government accounts	-	232,779,235	232,779,235
Term loans	6,500,000	59,000,000	65,500,000
Other liabilities	7,568,856	10,993,462	18,562,318
	63,068,856	302,772,697	365,841,553
Net liquidity surplus	64,705,412	145,645,414	210,350,826

29 FUTURE FUNDING REQUIREMENTS

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

30 ADDITIONAL SUPPLEMENTARY INFORMATION - ISLAMIC BANKING (UNAUDITED)

Islamic products

The Islamic banking activities of the group are conducted in accordance with Islamic Sharia'a principles, as approved by the Sharia'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 Ijara 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 - sukuks (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.

Notes to the Consolidated Financial Statements (continued)
As at 31 December 2014

30 ADDITIONAL SUPPLEMENTARY INFORMATION - ISLAMIC DISCLOSURES (UNAUDITED) (continued)

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

	2014 BD (unaudited)	2013 BD (unaudited)
Ijara muntahia bittamleek - net	**183,990,843**	135,502,668
Ijara income receivables	**175,387**	149,346
Wakala placements	**2,500,000**	5,500,000
Wakala income receivable	**42**	964
Investments - sukuks	**16,599,146**	28,416,896
Income receivable on investments	**28,026**	48,329
	203,293,444	169,618,203

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

	2014 BD (unaudited)	2013 BD (unaudited)
Wakala takings	**23,700,000**	23,500,000
Wakala Profit payable	**6,956**	6,633
Commodity Murabaha	**11,907,183**	11,000,000
Commodity Murabaha profit payable	**7,763**	5,084
	35,621,902	34,511,717

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

	2014 BD (unaudited)	2013 BD (unaudited)
Income from Ijara Muntahia Bittamleek - net	**5,052,043**	3,606,837
Income from wakala & investments	**212,550**	209,965
Less: profit paid on Wakala	**(217,417)**	(120,266)
	5,047,176	3,696,536

31 COMPARATIVES

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

Pillar-III Disclosures

31 December 2014

البحرين
BAHRAIN

بنك الإسكان
ESKAN BANK

Pillar III Disclosures

31 December 2014

1 INTRODUCTION

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

The Central Bank of Bahrain's ("the CBB") Basel 2 guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1st January 2008.

The disclosures in this report are in addition to or in some cases, serve to clarify the disclosures set out in the annual consolidated financial statements for the year ended 31st December 2014, presented in accordance with the International Financial Reporting Standards ("IFRS").

a) Scope of Application

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

b) Subsidiaries of the Bank

- The Bank owns 100% in **Eskan RMBS Company B.S.C. (c) ("RMBS")** incorporated in the Kingdom of Bahrain, whose principal activities are to issue Asset Backed private debt securities for the purpose of securitization of housing loans.

- The Bank owns 100% in **Eskan Properties Company B.S.C. (c) ("EPC")** incorporated in the Kingdom of Bahrain, to successfully execute the various housing and community projects being taken up. The main objectives are to carry out all operations in relation to management, operation and maintenance for all types of real estate owned by the Bank, governmental institutions and ministries or others.

- The Bank owns 100% in **Smart Building Material Company S.P.C ("SBMC")** which is registered in the Kingdom of Bahrain and whose principal activities include to create the entire value chain to manufacture cost-effective, environment friendly homes for the citizens of Kingdom of Bahrain. SBMC will also import a range of building products and raw materials such as gravel, cement, bricks, marbles, electrical and sanitary wares and intend to construct warehouse facilities to support the business.

- The Bank owns 55.88% in **Dannat Al Luzi B.S.C** which is registered in the Kingdom of Bahrain and whose principal activities include management and development of private property, buying and selling of properties on behalf of the Company and property development, leasing, management and maintenance.

- There is no deficiency in the capital of any of the subsidiaries of the Bank as on 31st December 2014. There are no restrictions on the transfer of funds or regulatory capital within the Group.

c) Associate companies of the Bank

- During 2009, **Al Ebdaa Bank B.S.C. (c) ("Ebdaa Bank")** was established and began disbursing micro-finance to low and middle – income Bahrainis, providing each beneficiary with an opportunity to start a new business, to become financially independent and to hold out the promise of a better quality of life. Eskan Bank is a founding shareholder of Ebdaa Bank, holding 20% stake.

- During 2011 **Bahrain Property Musharaka Trust Fund** was established to fund two major affordable residential and commercial projects in Segaya and Isa Town. The size of the fund is BHD 23.3 million. The Bank holds 42.92% stake within the fund.

1 **INTRODUCTION** (continued)

c) Associate companies of the Bank (continued)

- On 29 December 2013 the bank's equity share in Southern Area Development Company (SADC) was reduced from 28.13% to 17.25% due to an increase in capital by another shareholder. As a result, the Group's representation on the Board of Directors' was reduced from 2 out of 8 to 1 out of 6. Accordingly, the investment has been reclassified from "investment in associates" to "available for sale investments".

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

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

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

Subsidiaries / Associates	Country of Incorporation / residence	Percentage of ownership	Risk Weight
Smart Building Material Company S.P.C	Kingdom of Bahrain	100%	200%
Bahrain Property Musharaka Trust Fund	Kingdom of Bahrain	42.92%	200%
Dannat Al Luzi B.S.C	Kingdom of Bahrain	55.88%	200%
Interest in Associate deducted from the capital			
Al Ebdaa Bank B.S.C. (c)	Kingdom of Bahrain	20%	N/A

2 **FINANCIAL PERFORMANCE AND POSITION**

In 2014, the Bank achieved steady growth and maintained its profitability during the year despite the challenges faced in the aftermath of the financial crisis.

The performance for the year is the result of the Bank's focus on maintaining asset quality, judicious deployment of available liquidity at best possible yields and efficiently managing the operating expenses. The Bank's cost-to-income ratio increased marginally from 32.8% in 2013 to 34.5% in 2014. The Bank continued to make a general loan loss provisions in line with its prudent approach to risk.

The Bank has disbursed BHD 61.2 million of social loans and BHD 1.2 million of commercial loans during 2014 which reflects the Bank's commitment to stay true to its core objectives which is in line with the vision 2030 strategy. The shareholders' equity at BHD 221 million at the end of 2014 is up by 5% compared to BHD 210 million as at 31st December 2013. Liquidity continues to be comfortable with liquid assets (Cash and balances with central banks and placement with financial institutions) representing 14% of the total assets

a) Asset Growth & Quality

- **Quantity:** The total Balance Sheet of the Bank stood at BHD 610 million as at 31st December 2014 compared to BHD 576 million as at the previous year end. The Bank's loans and advances as at 31st December 2014 stood at BHD 434 million, which reflects a growth of 8.6% as compared to 2013.

- **Quality:**
  - Loan Portfolio: The Bank's portfolio is of high quality despite the bulk of the Banking assets being residential mortgage loans. Primarily, these loans are "social loans" where the credit risk does not reside with the Bank. On the other hand, in case of the commercial-basis residential mortgage loans extended by the Bank, the approach has been conservative. The impaired loan accounts classified as Non-Performing Assets ("NPAs") for this portfolio was BHD 1.3 million as at 31st December 2014.

2 FINANCIAL PERFORMANCE AND POSITION (continued)

a) Asset Growth & Quality (continued)

- **Quality** (continued):
  - Other Investments: The other banking assets are mainly in inter-bank placements with banks in the Kingdom of Bahrain.
  - Financial Investments: The Bank has investment in Naseej, Southern Area Development Company (SADC) and other small legacy investments.
- **Capital Adequacy Ratio (CAR):** The Group continued to have strong capital adequacy ratio, with the CAR of 103.51% as of 31st December, 2014.
- **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):

	2014	2013	2012	2011	2010
Earnings					
Net Interest Income	**15,446**	14,227	12,751	10,939	10,600
Other Income	**1,123**	627	774	2,577	409
Operating Expenses	**5,717**	4,871	4,973	5,698	5,564
Properties Write off	**-**	-	1,638	-	240
Impairment Allowance	**372**	325	224	485	45
Net Income	**10,480**	8,020	8,328	7,332	5,400
Financial Position					
Total Assets	**610,731**	576,192	533,423	474,966	423,465
Loans	**434,770**	400,202	355,750	313,272	278,524
Total Liabilities	**382,630**	365,842	329,324	279,258	235,494
Non-controlling interest	**6,631**	-	-	-	-
Shareholders' Equity	**221,470**	210,351	204,099	195,708	187,971
Earnings: Ratios (Per Cent)					
Return on Equity*	**4.59%**	3.81%	4.08%	3.75%	2.87%
Return on Assets	**1.72%**	1.39%	1.56%	1.54%	1.28%
Cost-to-income ratio	**34.5%**	32.8%	36.8%	42.2%	50.5%
Net Interest Margin	**96%**	95%	82%	73%	91%
Capital:					
Shareholders Equity as per cent of Total Assets*	**37.35%**	36.51%	38.26%	41.20%	44.39%
Total Liabilities to Shareholders Equity*	**167.75%**	173.92%	161.35%	142.69%	125.28%

*including non-controlling interest

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 2014	31st December 2013
Net profit for the year	**220,538**	101,422
Total assets	**1,209,579**	798,795
Total equity	**679,846**	459,308

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

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

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

  Table 4: Financial highlights (in BHD):

	31st December 2014	31st December 2013
Net profit for the year	**1,026,297**	1,146,964
Total assets	**18,598,959**	23,899,532
Total equity	**7,796,601**	6,770,304

2 FINANCIAL PERFORMANCE AND POSITION (continued)

b) Performance of the group companies (continued)

- **SBMC**
  The registered and paid up share capital is BHD 250,000 which is wholly owned by the Group. The SBMC was formed in the latter half of 2009, and the operations have not fully commenced.

Table 5: Financial highlights (in BHD)

	31st December 2014	31st December 2013
Net profit/ (loss) for the year	**(3,266)**	(3,909)
Total assets	**250,000**	250,000
Total equity	**132,240**	135,506

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

Table 6: Financial highlights (in BHD)

	31st December 2014
Net loss for the year	**(6,297)**
Total assets	**15,090,718**
Total equity	**15,028,403**

3 FUTURE BUSINESS PROSPECTS

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

4 CORPORATE GOVERNANCE AND TRANSPARENCY

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

The Bank has adopted the following corporate governance code principles:

Principle One: The Company must be headed by an effective, collegial and informed board
Principle Two: The directors and officers shall have full loyalty to the company
Principle Three: The board shall have rigorous controls for financial audit, internal control and compliance with law
Principle Four: The Company shall have rigorous procedures for appointment, training and evaluation of the board.
Principle Five: The Company shall remunerate directors and officers fairly and responsibly
Principle Six: The Board shall establish clear and efficient management structure
Principle Seven: The Board shall communicate with shareholders and encourage their participation
Principle Eight: The Company shall disclose its corporate governance
Principle Nine: Companies which refer to themselves as "Islamic" must follow the principles of Islamic Sharia

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

5 BOARD AND MANAGEMENT COMMITTEES

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

6 BOARD OF DIRECTORS

For details of Board of Directors, refer to the Annual Report.

7 EXECUTIVE MANAGEMENT TEAM OF ESKAN BANK

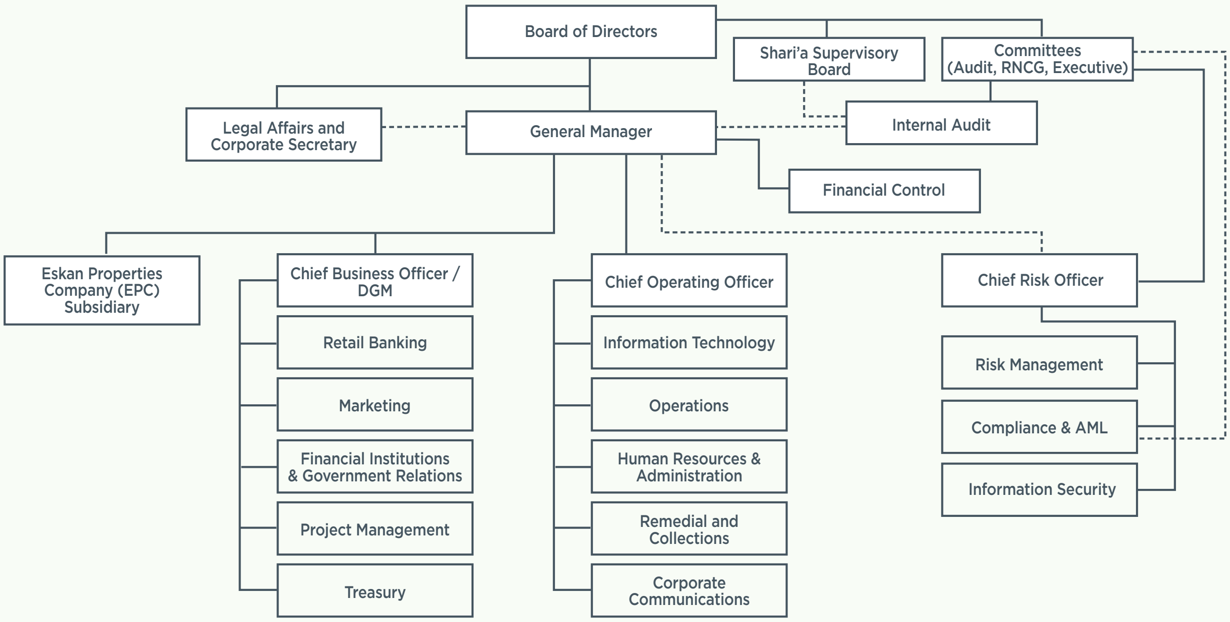
For details of Executive Management, refer to the Annual Report.

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.

9 ORGANISATION CHART

The organisation structure of the Bank is as follows:



10 COMMUNICATION STRATEGY

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

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

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

11 CAPITAL

11.1 Capital Structure

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

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

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

11 CAPITAL (continued)

11.1 Capital Structure (continued)

Table 7: CAPITAL STRUCTURE

The following table summarizes the eligible capital after deductions for Capital Adequacy Ratio (CAR) calculation as of 31 December 2014:

	Tier I	Tier II
Components of capital		
Issued and fully paid ordinary shares	108,300	-
Legal / statutory reserves	54,462	-
Retained profit brought forward	39,670	-
Others	19,160	-
Collective Impairment loss provision	-	253
TOTAL AVAILABLE CAPITAL	**221,592**	**253**
Less : Significant minority investments in banking, securities and other financial entities	-	-
NET AVAILABLE CAPITAL	**221,592**	**253**
TOTAL ELIGIBLE CAPITAL BASE (Tier 1 + Tier 2)		**221,845**

Following are Capital Adequacy Ratios for total capital and Tier 1 capital as of 31 December 2014:

Tier I Capital Adequacy Ratio	**103.39%**
Total Capital Adequacy Ratio	**103.51%**

Following are the total risk weighted exposures for each category of risk the Bank is exposed to as of 31 December 2014:

Credit Risk Weighted Exposures	186,223
Operational Risk Weighted Exposures	28,088
Market Risk Weighted Exposures	-
Total Risk Weighted Exposures	**214,312**

11.2 Capital Adequacy

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

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

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

12 INTERNAL AUDIT

Internal audit department in Eskan bank adopts a risk based audit approach to prepare its annual audit plan in which higher weight is allocated to risk focused areas. According to the risk based audit approach, the department maintains a comprehensive risk register for the entire audit universe, whereby risks are identified and updated regularly throughout the year considering the dynamic changes in the business environment and controls. The department assesses the established controls to mitigate identified risk, and test them on sample basis to ensure their effectiveness. Any weaknesses or deviation are reported to senior management and Audit committee of the Board for corrective action.

13 CREDIT RISK

13.1 Overview of Credit Risk Management

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

The Credit Risk Management Framework is summarised as under:

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

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

Standard & Poor's	Fitch	Moody's	Risk Weight
AAA to AA-	AAA to AA-	Aaa to Aa3	20%
A+ to A-	A+ to A-	A1 to A3	50%
BBB+ to BBB-	BBB+ to BBB-	Baa1 to Baa3	50%
BB+ to B	BB+ to B	Ba1 to B3	100%
CCC+ to D	CCC+ to D	Caa1 to C	150%

13 CREDIT RISK (continued)

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

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

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

The NPAs under Commercial Mortgage Loans as of 31st December 2014 were BHD 1.3 million.

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

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

	91 Days to 1 year	1 to 3 years	Above 3 years	Total
Social loans *	16,201	8,615	975	25,791
Retail mortgage commercial loans	399	981	-	1,380
	16,600	**9,596**	**975**	**27,171**

Table 9: Movement in provisions (in BHD thousands)

Industry	Opening balance	Charge for the year	Write off / write back	Closing balance
General Provision **				
Retail mortgage commercial loans	266	-	(13)	253
Specific Provision				
Retail mortgage commercial loans	622	363	(162)	823
	888	**363**	**(175)**	**1,076**

* The Credit Risk of Social Loans does not reside with the Bank & hence no impairment provisions are being made.
**The Bank provides 1% of the overall retail mortgage commercial loan as a nominal collective provision.

13 CREDIT RISK (continued)

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

The entire past due and provision balance as at 31st December 2014 relates to its operations in the Kingdom of Bahrain.

The renegotiated commercial loans facilities during the year ended 31 December 2014 amounted to a total of BHD 37 thousand. Consequently, the impact on the provisions as well as present and future earnings and based on the Bank's past history, is negligible.

The social loans are restructured based on the instructions of the Ministry of Housing for which the credit risk does not reside with the Bank. The total amount of social loans restructured during the year based on the instruction of Ministry of Housing amounted to BHD 12.5 million.

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

Standard Portfolio	* Gross Exposures	Risk Weighted Value	** Capital Charge
Cash Items	148	-	-
Sovereign Portfolio	541,931	-	-
Banks Portfolio	8,113	2,223	267
Residential Retail Portfolio	25,226	19,059	2,287
Past due Exposures	558	558	67
Equity Portfolio	1,484	2,226	267
Real estate Portfolio	80,579	161,157	19,339
Other Exposures	1,558	1,558	187
Total	**659,039**	**186,223**	**22,347**

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

** Calculated at 12% of RWA

13 CREDIT RISK (continued)

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

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

	Gross Exposures	* Average Exposures
Funded Exposure		
Cash and cash equivalents	94,410	96,148
Investments	4,757	4,757
Loans	434,770	421,327
Investment in associates	9,111	9,237
Investment property	42,604	42,428
Development property	18,592	13,046
Other assets	6,486	6,439
	610,730	**593,382**
Unfunded Exposure		
Loan related	91,971	85,618
Lease commitments	423	411
Capital commitments	10,751	3,340
	103,145	**89,369**

* Average balances are computed based on quarter end balances.

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

Table 12: Geographic Distribution of exposures (in BHD thousands)
The following table summarises the geographic distribution of exposures, broken down into significant areas by major types of credit exposure as of 31 December 2014 :

	Kingdom of Bahrain	Total
Cash and cash equivalents	94,410	94,410
Investments	4,757	4,757
Loans	434,770	434,770
Investment in associates	9,111	9,111
Investment property	42,604	42,604
Development property	18,592	18,592
Other assets	6,486	6,486
	610,730	**610,730**

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

13 CREDIT RISK (continued)

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

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

	Banks and financial institutions	Real estate and construction	Residential mortgage	Tourism	Other	Total
Funded Exposures						
Cash and cash equivalents	94,410	-	-	-	-	**94,410**
Investments	-	3,273	-	1,216	268	**4,757**
Loans	-	-	434,770	-	-	**434,770**
Investment in associates	-	9,111	-	-	-	**9,111**
Investment property	-	42,604	-	-	-	**42,604**
Development property	-	18,592	-	-	-	**18,592**
Other assets	-	4,928	-	-	1,558	**6,486**
Total	**94,410**	**78,508**	**434,770**	**1,216**	**1,826**	**610,730**
Unfunded Exposures						
Loan related	-	-	91,971	-	-	91,971
Lease commitments	-	-	-	-	423	423
Capital commitments	-	10,751	-	-	-	10,751
Total	**-**	**10,751**	**91,971**	**-**	**423**	**103,145**

13.3 Related Parties Transactions

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

The details of the related party disclosures are incorporated in the relevant section of the consolidated financial statements for the year ended 31st December 2014.

13 CREDIT RISK (continued)

13.3 Related Parties Transactions (continued)

Table 14: Intra-group transactions as of 31 December 2014 (In BHD Thousands)

	Eskan Bank	RMBS Co.	Eskan Property Co.	Smart Building Material Co.	Dannat Al Luzi	Total
Assets						
Balances with Banks	-	-	508	250	6,183	**6,941**
Inter Bank Deposits	-	8,053	501	-	-	**8,554**
Investments in subsidiaries	8,902	-	-	-	-	**8,902**
Investments	-	-	-	-	-	**-**
Other Assets	2,761	9,564	650	-	-	**12,975**
	11,663	**17,617**	**1,659**	**250**	**6,183**	**37,372**
Liabilities and Equity						
Non-Bank Deposits	8,554	-	-	-	-	**8,554**
Current Accounts	6,941	-	-	-	-	**6,941**
Other Liabilities	10,152	1,737	910	114	62	**12,975**
Share Capital & Reserves	-	1	250	250	8,401	**8,902**
	25,647	**1,738**	**1,160**	**364**	**8,463**	**37,372**

13.4 Large Exposures

A Large exposure is any exposure to a counterparty or a group of closely related counterparties which is greater than, or equal to, 10% of consolidated capital base. The Bank did not have any large exposure as at 31st December 2014.

14 CREDIT RISK MITIGATION

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

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

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

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

14 CREDIT RISK MITIGATION (continued)

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

15 COUNTERPARTY CREDIT RISK FOR DERIVATIVE AND FOREIGN EXCHANGE INSTRUMENTS

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

16 LIQUIDITY RISK

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

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

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

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

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

16.1 Management of Liquidity Risk

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

16 LIQUIDITY RISK (continued)

16.1 Management of Liquidity Risk (continued)

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

	1-7 Days	7 Days - 1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	3-5 Years	5-10 Years	10-20 Years	Above 20 Years	Total
Cash and cash equivalents	43,965	15,622	24,162	10,167	495	-	-	-	-	-	**94,410**
Investments	-	-	-	-	-	268	4,489	-	-	-	**4,757**
Loans	42	1,504	3,067	4,725	9,643	39,721	41,375	109,285	170,877	54,531	**434,770**
Investment in associates	-	-	-	-	-	9,111	-	-	-	-	**9,111**
Investment property	-	-	-	-	-	-	-	-	42,604	-	**42,604**
Development property	-	-	-	-	-	18,592	-	-	-	-	**18,592**
Other assets	570	30	119	4,750	159	673	186	-	-	-	**6,486**
TOTAL ASSETS	**44,577**	**17,155**	**27,349**	**19,642**	**10,297**	**68,366**	**46,050**	**109,285**	**213,481**	**54,531**	**610,731**
Deposits from financial and other institutions	10,407	22,500	15,200	-	-	-	-	-	-	-	**48,107**
Government accounts	-	-	-	-	-	-	-	-	-	251,459	**251,459**
Term loans	-	-	-	-	-	49,000	10,000	-	-	-	**59,000**
Other liabilities	6,544	619	930	941	604	2,177	1,500	3,600	7,147	-	**24,064**
TOTAL LIABILITIES	**16,952**	**23,119**	**16,130**	**941**	**604**	**51,177**	**11,500**	**3,600**	**7,147**	**251,459**	**382,630**
MISMATCH	**27,625**	**(5,964)**	**11,218**	**18,700**	**9,693**	**17,188**	**34,549**	**105,685**	**206,333**	**(196,928)**	**228,101**
CUMULATIVE MISMATCH	**27,625**	**21,661**	**32,880**	**51,580**	**61,273**	**78,462**	**113,011**	**218,696**	**425,029**	**228,101**	**228,101**

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

17 MARKET RISK

17.1 Overview of Market Risk Management

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

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

18 OPERATIONAL RISK

18.1 Overview of Operational Risk Management

Operational risk is the risk of losses owing to:

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

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

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

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

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

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

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

Table 16: Operational Risk

Operational Risk (in BHD thousands)	**Amount**
Average Gross income	14,983
Risk Weighted Exposures	28,093
Capital Charge (@12%)	**3,371**

The Bank uses a trigger rate of 12.5% for Capital Adequacy ratio and 12% for computing Operational Risk Ratio.

19 EQUITY POSITIONS IN THE BANKING BOOK

The Equity position as at 31st December 2014 comprise investments in subsidiaries and associates which are not subject to consolidation treatment for capital calculation purposes and other investments.

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

	Gross Exposures	Privately Held	Capital Charge
Available for sale investments	4,757	4,757	1,053
Investments in associates	9,111	9,111	2,187

The risk weighted assets used in arriving at the capital requirements considered certain investments risk weighted at 200% being equity investments in real estate entities and as well certain deduction to arrive at the eligible capital. Capital Charge is calculated at 12%.

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

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

20 INTEREST RATE RISK IN THE BANKING BOOK

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

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

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

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

	1-7 Days	7 Days – 1 Month	1-3 Months	3-6 Months	6-12 Months	Total
Assets						
Balances and placements with financial institutions	41,150	15,622	24,162	10,167	495	**91,595**
Loans - commercial loans	-	-	24,896	-	-	**24,896**
Total Assets	41,150	15,622	49,058	10,167	495	**116,491**
Liabilities						
Deposits from financial and other institutions	10,407	22,500	15,200	-	-	**48,107**
Term Loans	-	-	-	9,000	-	**9,000**
Total Liabilities	10,407	22,500	15,200	9,000	-	**57,107**
Mismatch	**30,742**	**(6,878)**	**33,858**	**1,167**	**495**	**59,383**
Change in Basis Points (+/- 200)	**6.7**	**(7)**	**111.3**	**8.6**	**7.3**	**127**

20 INTEREST RATE RISK IN THE BANKING BOOK (continued)

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

21 AUDIT FEES

The fees for the auditing of financial statements of BHD 18,100 (2013: BHD 16,950) mainly comprise those for the audits of the consolidated financial statements of the Group. Fees for the non-audit services of BHD 37,400 (2013: BHD 34,600) primarily relates to review of interim financial statements, agreed upon procedures services related to CBB quarterly prudential report, anti-money laundering, CBB annual and semi-annual additional public disclosures requirements.