بنك الإسكان
ESKAN BANK

Annual Report 2021

Contents

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His Majesty King Hamad bin Isa Al Khalifa

The King of the Kingdom of Bahrain

His Royal Highness Prince Salman bin Hamad Al Khalifa

The Crown Prince, Deputy Supreme Commander and Prime Minister

At a glance

Social responsibility. Sustainable practices. Unmatched quality. It is upon these pillars that Eskan Bank ("EB" or the "Bank") has grown into an organisation synonymous with reliability since inception in 1979.

Today, the Bank is recognised as a trusted name when it comes to affordable housing solutions – providing subsidised mortgages for low-to-middle income citizens of the Kingdom of Bahrain, as well as engaging in a wide range of community-related property development activities and facilities management.

The Bank acts as the Ministry of Housing's strategic partner and financial advisor. This has been made possible because the Government of Bahrain is the sole owner of the Bank, and thus, remains supportive in giving a tangible thrust to its goals.
Both the Bank and the Ministry work together towards developing sustainable social housing programs and solutions that follow best industry practices. The purpose is to facilitate Bahraini citizens with easy access to a quality family home within the confines of a safe community. It is also geared towards driving innovation and economic growth, as well as strengthening the fabric of our society.

The Bank, over time, has helped in setting up an innovative and comprehensive ecosystem that facilitates and connects financiers, landlords, developers and homebuyers evolved to become a facilitator that connects financiers, landlords, developers and homebuyers. Based on global benchmarks, this system is being constantly optimized to ensure a housing solution that delivers on the promise of housing for all.

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

Meeting the housing needs of our

citize

Vision

Lead the provision of innovative and sustainable housing solutions.

Mission

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

Values

Our values are the guiding principles that define our culture in order to bring our purpose to life. As well as guiding our actions and behaviors internally, they shape our engagement with stakeholders externally as to how we do business and what can be expected from us.

OWNERSHIP

Our team takes responsibility for achieving successful outcomes and are accountable for the end result.

RESPECT

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

INNOVATION

We continuously strive to do things better, in the creation and delivery of our products and services.

INTEGRITY

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

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Business Model

Our business model is the means by which we can deliver on our strategic objectives. As with everything we do, serving our stakeholders is at the heart of our business model, which aligns with the customer journey and experience.

Key Resources

Collaboration
Eskan Bank works very closely with the Ministry of Housing by empowering citizens with access to more social housing loans, helping them find the right home.

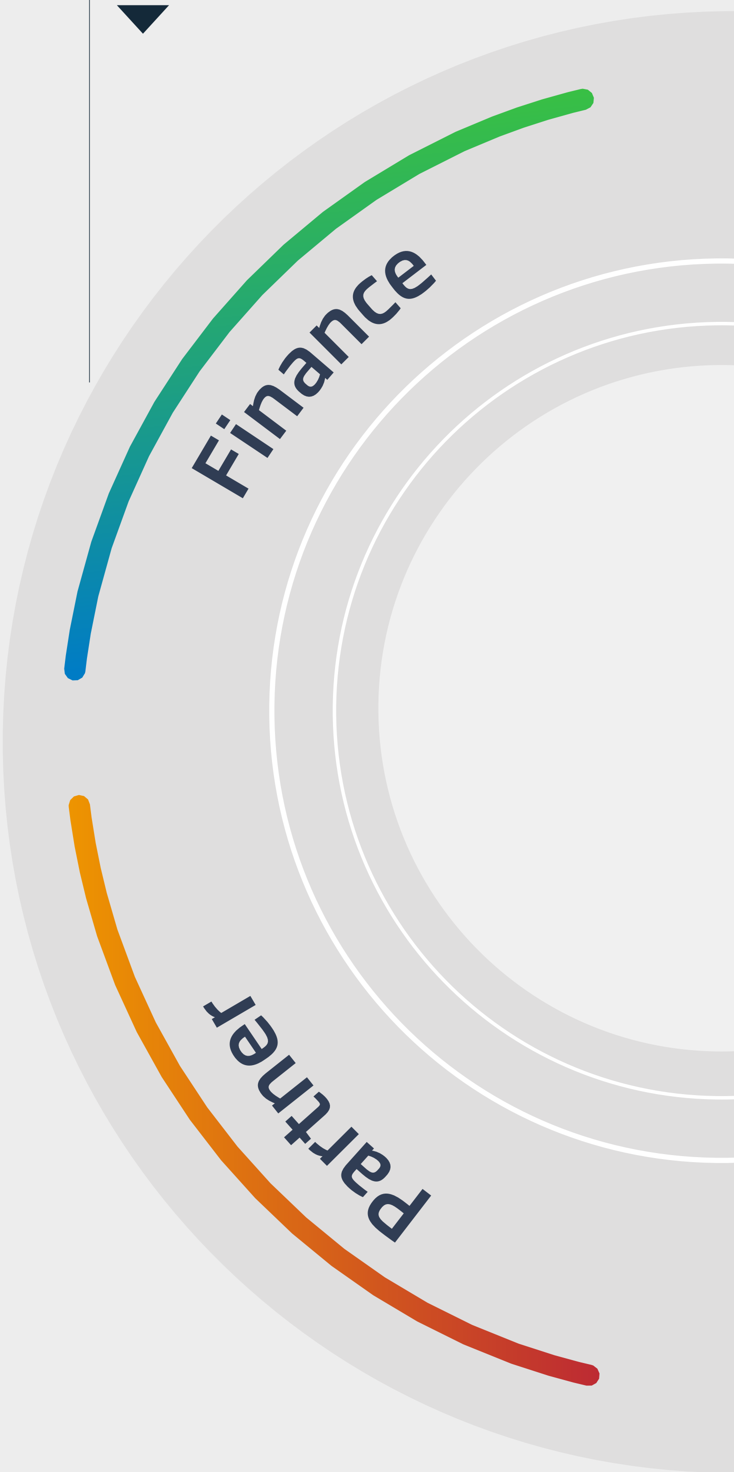
Partnerships
Eskan Bank believes in strong partnerships connecting financiers, landlords, developers and homebuyers in an innovative and comprehensive ecosystem.

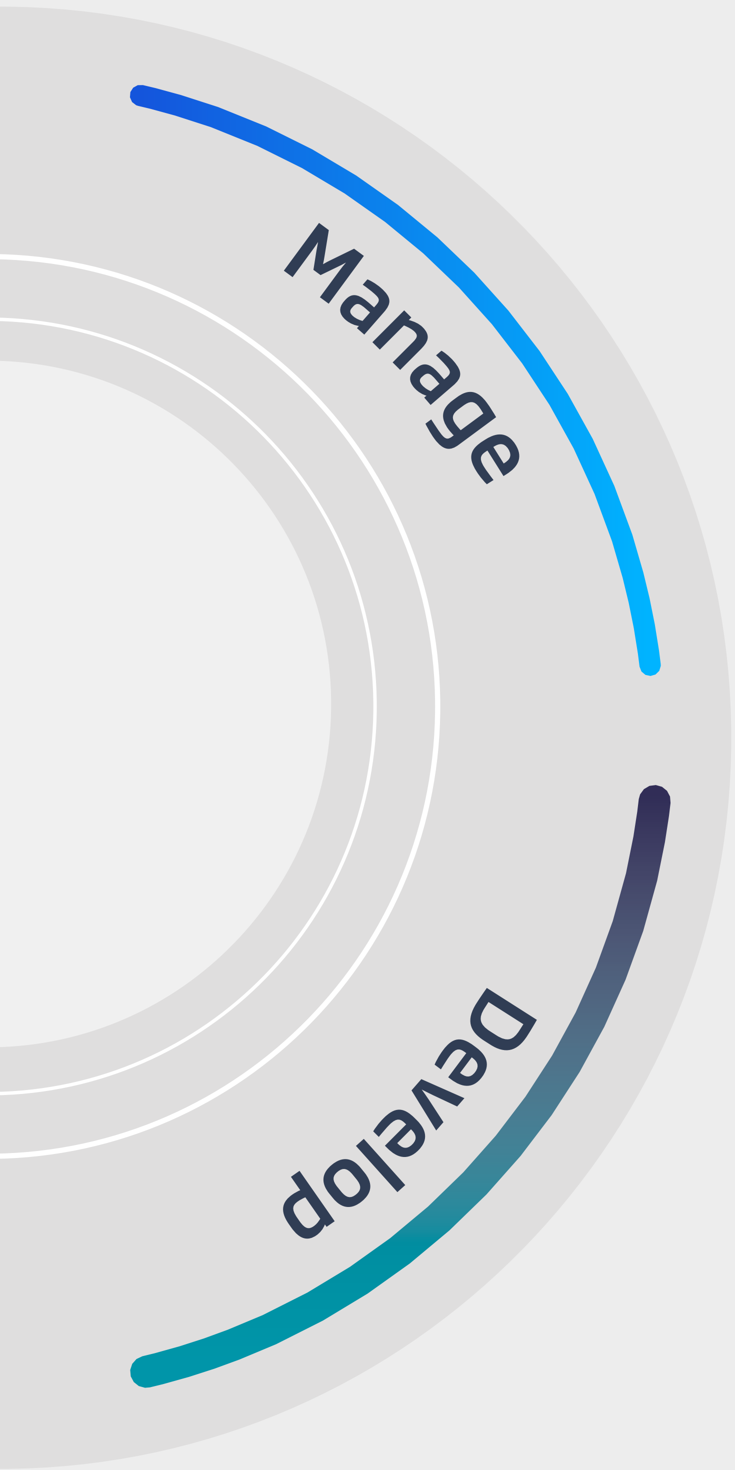
Assets
Eskan Bank has invested in resources, people and technologies that help transform processes into assets that yield considerable returns for all stakeholders.

Financial stability
Eskan Bank is backed by strong fundamentals that have sustained its operations and ensured continued stability.

Our team
Eskan Bank recognises the power of human resources in exploring new horizons in combining business with a social angle.

What we do





Value Creation

We generate value by operating an effective and established business model that delivers sustainable, long-term returns.

Communities

We are firm committed to provide citizens with more empowering and flexible financing solutions and access to suitable homes.

Stakeholders

Our focus will remain to better support all stakeholders and meet the housing needs of our citizens while enriching their lives.

Employees

We aim to support and engage our most valuable asses by providing them with a working environment that promotes health, well-being and personal development.

Partners

Develop innovative and effective frameworks of partnerships with the private sector for funding social housing beneficiaries and enhancing the supply of housing units.

Financial Highlights

Net Income (BD Million)

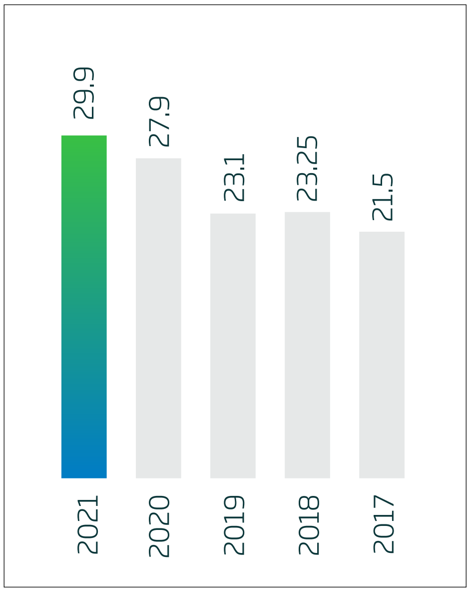
BD 29.9m

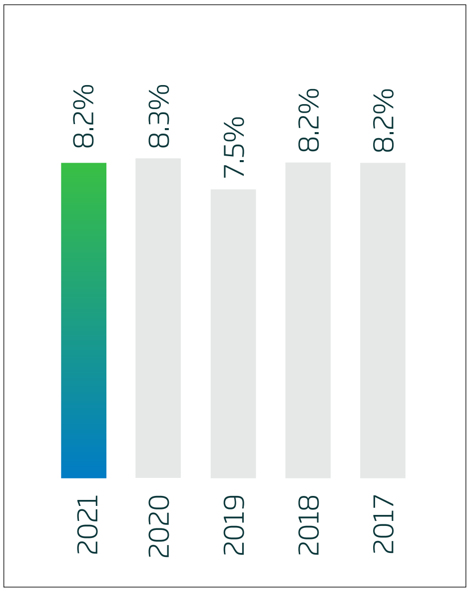
Return on Equity (%)

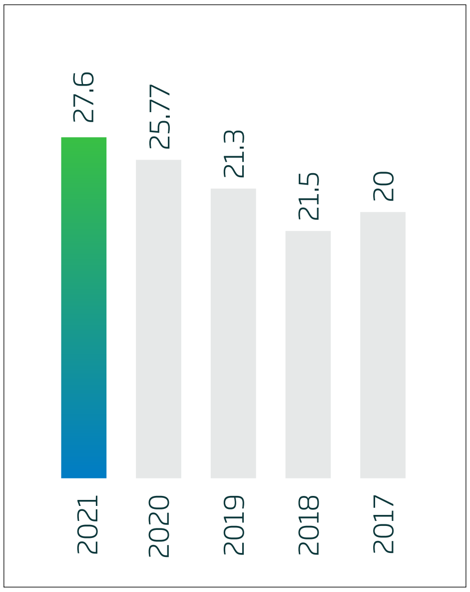
8.2%

Earnings per share (BD)

BD 27.6

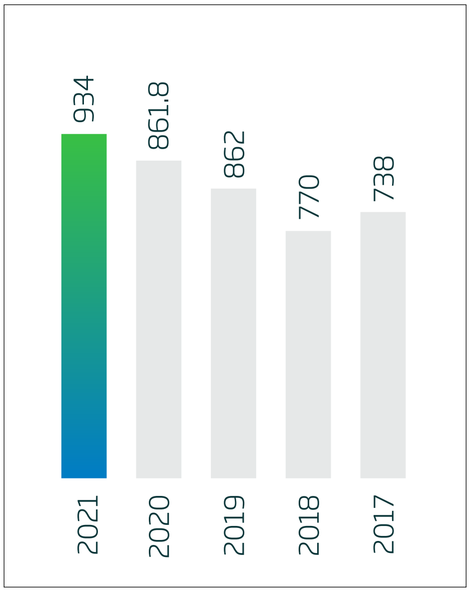






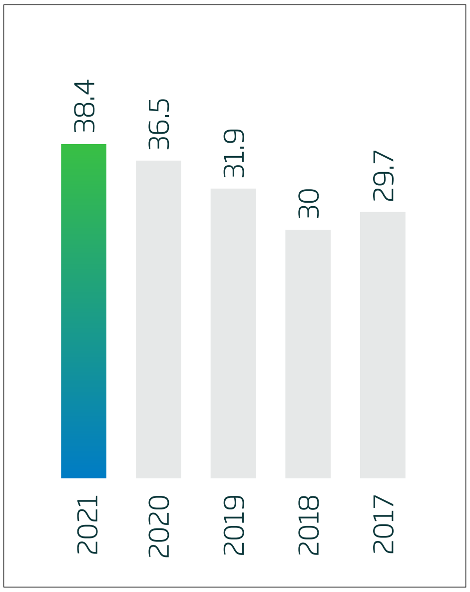
Total Assets (BD Million)

BD 934



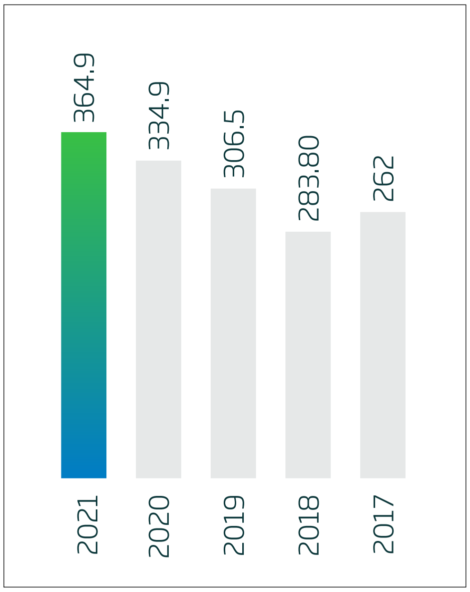
Operating Income (BD Million)

BD 38.4



Total Equity (BD Million)

BD 364.9



Chairman's Statement

Better Ways to build homes

Remaining focused on our social agenda will always be our priority, but as the market evolves we are keen on seeing how best to capitalise on the opportunities available.

On behalf of the Board of Directors, I am pleased to present the Annual Report and Consolidated Financial Statements for the year ended 31st December, 2021.

The results for the financial year provide a glimpse of how Eskan Bank maintained a strong performance despite a year marked with continued volatility. What helped us as an organisation was the steadfast approach taken to remain focused on our goals, and in ensuring that systems remained in place that would help deliver results for all of our stakeholders.

Total income for the year was recorded to be BD 38.3 million and the expenses stood at BD 6.9 million. Equity touched BD 364.9 million while the return on equity stood at 8.2%. In comparison to last year, the cost-to-income ratio reached 18% this year unlike 19.1% recorded in 2020. Finally, the Bank disbursed over BD 22.4 millions in Shari'a compliant loans to over 726 families.

We are aware that the pandemic continues to present fresh challenges to organisations in Bahrain and across the world. Eskan Bank was no different, and our focus has been to prioritise the health and safety of our employees.

We have been attentive to finding ways to mitigate the negative impact of the pandemic for all our stakeholders. We are aware that the economic pressure is extremely high leaving many in vulnerable situations, and so as an organisation that operates with a social agenda we are keen on being supportive to all our customers in whichever way possible.

Over 1,183 beneficiaries took advantage of the Mazaya customer deferment process, and over 66 shops enjoyed the Covid 19 Shops Deferrals that were implemented in 2021. The deferments were achieved in a relatively short time so as provide a helpful cushion to our customers and help them tide over the pandemic.

Our digital transformation drive was also initiated this year, and has been motivated by the need to enhance our services, improve our product deliverables, and strengthen our positioning as an organisation that remains focused on customer service.

Baity.bh was launched this year as a one-stop-window to all the varied real estate services available in Bahrain. Catering to developers, homebuyers and agents, it provides a location based listing of services and properties that would provide comprehensive information at ones fingertips.

There are also plans to further digitise the service offerings so that it would limit the need for customers to visit our premises. The idea is to turn customer interaction into an easier and more convenient experience.

Chairman's Statement (Continued)

While the pandemic may have seemed like a reasonable motivator for this digital transformation drive, but the reasons for Eskan Bank are deeper. We see it as vital to our commitment to provide better and more intuitive customer service. We also recognise it as a way to enhance our service offerings, and transform them in ways to engage with our customers.

Remaining focused on our social agenda will always be our priority, but as the market evolves we are keen on seeing how best to capitalise on the opportunities available. Our investments in new projects have been designed with healthy returns for the Bank, but more so, for our customers.

Each of the projects have been planned with a clear eye on their commercial potential. This way, our customers will also benefit from living and working in an economically active community. These thoughts were behind the success of Deerat Al Oyoun, Danaat Al Lawzi and Danaat Al Baraka. The success of these projects in securing reservations and registering healthy sales collection serve as a positive reminder of how Eskan Bank brings added value to every business venture.

Finally, on behalf of the Board of Directors, I take this opportunity to express our gratitude to His Majesty King Hamad bin Isa Al Khalifa, the King of the Kingdom of Bahrain; to His Royal Highness, Prince Salman bin Hamad Al Khalifa, the Crown Prince and Prime Minister for their visionary leadership.

In addition, I express my appreciation to our management and staff for their continued dedication to serving the people of Bahrain, to our private sector partners for their trust and support, and to our customers for whom all our efforts remain directed.

The tables on the following page shows the remuneration of members of the board of directors and the executive management for the year 2021. Sitting fees for members of the board of directors are based on approval of the article No. (11) of the Legislative Decree No. 4 of 1979 with respect to the establishment of the Eskan Bank amended by Law No. 75 of 2006.

Our digital transformation drive was also initiated this year, and has been motivated by the need to enhance our services, improve our product deliverables, and strengthen our positioning

First: Board of directors' remuneration details:

Name	Fixed remunerations					Variable remunerations					End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
	Remunerations of the chairman and BOD	Total allowance for attending Board and committee meetings	Salaries	Others*	Total	Remunerations of the chairman and BOD	Bonus	Incentive plans	Others**	Total			
First: Independent Directors													
1- Kamal Murad	-	8,000	-	8,000	-	-	-	-	-	-	-	8,000	-
2- Mohammed Hussain Bucheeri	-	8,000	-	8,000	-	-	-	-	-	-	-	8,000	-
3- Najla Mohammed AlShirawi	-	8,000	-	8,000	-	-	-	-	-	-	-	8,000	-
4- Rana Faqihi	-	8,000	-	8,000		-	-	-	-	-	-	8,000	-
5- Riyad Saleh AlSaei	-	8,000	-	8,000	-	-	-	-	-	-	-	8,000	-
6- SH. Mohd AlKhalifa	-	8,000	-	8,000	-	-	-	-	-	-	-	8,000	-
7- Yousif Abdulla Taqi	-	7,000	-	7,000	-	-	-	-	-	-	-	7,000	-
8- Zakariya Sultan AlAbasi	-	8,000	-	8,000	-	-	-	-	-	-	-	8,000	-
Second: Non-Executive Directors													
1- H.E Basim bin Yaqoob AlHamer	-	7,000	-	7,000	-	-	-	-	-	-	-	7,000	-
Third: Executive Directors													
Total	**-**	**70,000**	**-**	**70,000**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**70,000**	**-**

Note: All amounts are in Bahraini Dinars.

Other remunerations:

* It includes in-kind benefits - specific amount - remuneration for technical, administrative and advisory works (if any).

** It includes the board member's share of the profits - Granted shares (insert the value) (if any).

Second: Top 6 remunerations for executives, including GM and Head Financial Control:

Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in kind remuneration for 2021	Aggregate Amount
Top 6 remunerations for executives, including GM and Head of Financial Control.	854,178	222,897	-	1,077,074

Note: All amounts are in Bahraini Dinars.

Basim bin Yacob Al Hamer

Minister of Housing
Chairman of Eskan Bank

Board of Directors

H.E. ENG. Basim Bin Yacob Al Hamer
Minister of Housing, Chairman
Non-Independent Director

Chairman of Remuneration, Nomination and Corporate Governance Committee

Mr. Mohammed A.R. Hussain Bucheeri
Vice Chairman
Independent Non-Executive Director

Chairman of Executive Committee

Mr. Yusuf Abdullah Taqi
Board Member
Independent Non-Executive Director

Member of Remuneration, Nomination and Corporate Governance Committee

DR. Zakareya Sultan AL Abbasi
Board Member
Independent Non-Executive Director

Member of the Audit Committee

DR. Riyad Saleh Al Saei
Board Member
Independent Non-Executive Director

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

Mrs. Najla Mohammed Al Shirawi
Board Member
Independent Non-Executive Director

Chairperson of Audit Committee

Mrs. Rana Ebrahim Faqihi
Board Member
Independent Non-Executive Director

Member of Executive Committee

Mr. Kamal Murad Ali Murad
Board Member
Independent Non-Executive Director

Member of Executive Committee

Sh. Mohammed bin Ibrahim Al Khalifa
Board Member
Independent Non-Executive Director

Member of the Audit Committee

Driving innovation and economic growth

Eskan Bank is a unique bank in the Kingdom of Bahrain that help in shaping and delivering a world class housing solution that facilitates the right of Bahraini's to a quality family home in a safe community. It does this in a way that is sustainable and strengthens the financial position of the Government, drives innovation and economic growth, and bonds the fabric of society.

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General Manager's Message

Access to suitable financing

As we move into 2021, the Bank remains committed to providing citizens with more empowering and flexible financing solutions and access to suitable homes.

In a year marked with considerable uncertainty due to the worldwide pandemic, Eskan Bank maintained a steady course and demonstrated remarkable agility, adaptability and resilience. We have remained focused on our core objectives as an organization, and this determination has helped us to remain unswerving in our march forward.

It has been a challenging year like the year before. However, it has also been a time for consolidating some of the lessons learned, and leveraging them towards enhancing our services and other deliverables. Our purpose is to further strengthen the core values that define us, and ensure that they serve as philosophical foundations for our operations.

At a national level, Eskan Bank plays a key role in meeting the housing requirements of Bahraini citizens. In doing so, we are playing our part in fulfilling some of the key goals of the Kingdom of Bahrain's Economic Vision 2030 – investing in citizens through enhancing, improving, and sustaining the government services in education, health, and other sectors.

These goals serve as a building block for the future, and in shaping the world of tomorrow as a place where quality of living is not threatened by external variables. What it shows is Bahrain's preparedness for the future, and in laying the groundwork for growth and development.

Bahrain's leadership has remained consistently forward looking, and has also been responsive to the demands prompted by changes in the economic environment. The kingdom has been praised for being one of the few countries in the world to have achieved most of the targets set by the UN Sustainable Development Goals.

On our part we believe that it is vital to make cities and human settlements inclusive, safe, resilient and sustainable, and in doing so, ensure the well-being and prosperity of citizens and residents alike.

As a strategic arm of the Ministry of Housing, our focus has always been to provide affordable housing but also that they act as a springboard for creating communities. Most of the residential and commercial projects initiated by Eskan Bank are, today, thriving with activity and have transformed into vibrant communities.

This way our social agenda is allied to sharp commercial instincts paving the way towards a more energized housing market.

For Eskan Bank, the focus has always been to ensure that our strategic goals are matched with powerful and reliable systems that can turn ideas into action plans. Leading this initiative is our decision to embark on a digital transformation drive – automating processes and simplifying procedures. Thus, it is not only about bringing new technology but about harnessing it to bring about greater efficiency in the work we do and improve the level of service we provide to all of our stakeholders.

The results speak for themselves. In 2021, Eskan Bank registered a total income of BD 38.3 million while the expenses stood at BD 6.9 million. Equity touched BD 364.9 million while the return on equity was 8.2%. Finally, the Bank disbursed over BD 22.4 million in Shari'a compliant loans to over 726 families.

We are thankful to our skilled and talented staff whose continuing support helped us in achieving positive results this year.

Finally, we appreciate the continuing support we receive from the Ministry of Housing, and are grateful for their encouragement in giving tangible shape to our vision. We are also thankful to each and every participating banks and the role they play in supporting our beneficiaries in meeting their housing goals.

We are certain that the steadfast path undertaken in 2021 will lay the groundwork for a more prosperous 2022.

Dr. Khalid Abdulla
General Manager

Maximizing our Social impa

Both Eskan Bank and the Ministry work together towards developing sustainable social housing programs and solutions that follow best industry practices. The purpose is to facilitate Bahraini citizens with easy access to a quality family home within the confines of a safe community.

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Business Review

Eskan Bank remains fully committed to align its operations with the goals enshrined in the Kingdom of Bahrain's Economic Vision 2030. Eskan Bank is able to articulate its social agenda through a diversity of projects through strong working partnership with the Ministry of Housing, the Central Bank of Bahrain, a network of Bahraini banks and key segments of the private sector.

As a socially driven bank with finely honed commercial instincts, Eskan Bank is at the heart of a comprehensive ecosystem that connects financiers, landowners, developers and homebuyers to ensure housing solutions that serve as global benchmarks.

Eskan Bank continues to contribute towards housing solutions while remaining focused on reducing the financial burden on the government and exploring smarter approaches towards finding smarter housing solutions

Financial Performance

Eskan Bank registered positive financial results for the year 2021. Total income for the year was recorded to be BD 38.3 million and expenses stood at BD 6.9 million. Equity touched BD 364.9 million while the return on equity stood at 8.2%. In comparison to last year, the cost-to-income ratio reached 18% this year unlike 19.1% recorded in 2020. Finally, the Bank disbursed over BD 22.4 million in Shari'a compliant loans to over 726 families.

The Financial Control Department

The Financial Control Department plays a key role in financial & regulatory reporting, budgeting, business planning, strategic analysis, payment control and internal control.

During the reporting period, the department ensured that the Bank was in full compliance with all Central Bank of Bahrain (CBB) regulatory requirements.

All payment process was taken online whilst ensuring all the necessary controls were followed. This was just one of the ways that the Bank brought about enhanced payment processing to adapt to challenges brought on by the pandemic.

As part of the process to enhance compliance with RERA regulations, enhanced internal procedures for annual land valuation was adopted. Simultaneously, significant improvement in the reporting and analytics was ensured for the timely submission of VAT returns.

The Bank also witnessed further improvement in procedures for generating regulatory reports, and enhancements to the IFRS 9 reporting. It also developed effective controls to manage sales proceeds of housing projects, and supported the Treasury Department in effective liquidity management.

Supporting Bahrain's Social

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Mazaya Program

Approximate growth of total Mazaya homeowners up by 93% compared to last year

93%

Mazaya Applications

During 2021, total no. of beneficiaries reached

3,271

Finally, various scenarios were developed to build a long term and sustainable liquidity strategy for both the Bank and the Ministry of Housing. A strategic fund-raising meeting was also held during the year with participation from several banks in Bahrain.

Financial Institutions & Government Programs

The Department remains dedicated towards meeting the needs and requirements of the Bank's various stakeholders – be it the Ministry of Housing, the different lending banks across the Kingdom or citizens who will be beneficiaries of residential or commercial projects.

The main focus of this department is Mazaya that allows potential beneficiaries to go on the open market, choose the unit that is suitable to their housing requirement, and then submit their application for the mortgage – provided they meet criteria set by the Ministry of Housing.

In 2021, Eskan Bank took steps to transform the entire experience to a completely virtual platform. The idea was to make the entire process simpler, convenient and faster. A new portal for developers was also created and launched in September 2021. Baity.bh already has 500 properties listed, and many continue to be added as the portal gains increased popularity.

The virtual journey has also necessitated closer partnership with different departments to work closely to ensure that challenges do not turn into obstacles. This collaborative effort has actually served to improve the system and make it more intuitive in meeting the needs of the different stakeholders.

Retail Banking

Retail Banking continued to play a vital role in enriching customer engagement, and serving as an effective platform for outreach to those interested in Eskan Bank's services. With offices in Diplomatic Area, Isa Town and Seef, retail banking remains one of the key channels to connect with customers, responding to their queries and to serve as an interface between them and the Bank,

There was a substantial increase in the number of beneficiaries applying for the Mazaya Scheme, formerly known as the Social Housing Financing Scheme. Mazaya forms a key pillar in the Ministry of Housing's vision to create a support mechanism for generating economic and residential growth. In 2021, the total disbursement of financing through participating banks and other financial institutions reached BD 264.5 million.

The customer service personnel at each of the branches were on hand to extend their support with outstanding letters, title deed requests, updating of information, early settlement, CBB blocking letters, new amanat, adding corner and settlement letters. In addition, there were many who opened new accounts as housing and flat beneficiaries of residential spaces – that is 2,275 for housing and 135 for flats.

Simultaneously, customers who preferred to engage remotely had the option of using Hala Eskan call center platform. It was used for addressing queries, troubleshooting, information and managing complaints.

To help customers have access to a full and comprehensive information on the various residential options available, baity.bh was re-branded and launched this year.

Business Review (Continued)

Social Loans Amount	Mazaya Program beneficiaries	Mazaya homeowners
BD 22.4m	3,271	93%

Incoming calls call center	Outgoing calls call center	Complaints Management
44,816	10,566	308 cases

Deerat Al Oyoun - Phase 1
Sales collection which has yielded around BD 55.7 million

BD 55.7m

Deerat Al Oyoun - Phase 2
Marketed and sold (Phase 2) 341 units, being 99% of total 345 units.

341 units

Deerat Al Oyoun - Phase 2
Sales collection which has yielded around BD 36 million of (Phase 2)

BD 36m

Danaat Al Lawzi
Secured more than 84% reservations (total of 255 units) of the entire inventory 303 units

255 units

Danaat Al Lawzi Sales
Sales collection which has yielded approx. BD 27.6 million of collections to date

BD 27.6m

Danaat Al Baraka
marketed and secured more than 99% reservations (total of 208 units) of the entire inventory of 211 units

208 units

Danaat Al Baraka
Sales collection which has yielded approx. BD 17.5 million of collections to date

BD 17.5m

Deerat Al Oyoun - Phase 3-4
Successfully marketed and secured more than 50% reservations (total of 537 units) of the entire inventory 1,061 units

537 units

Deerat Al Oyoun - Phase 3-4
Sales collection which has yielded approx. BD 14,3 million of collections to date (launched 7th Nov 2021)

BD 14.3m

Business Review (Continued)

The new Mazaya beneficiaries showed a sharp increase in 2021 by almost double than the previous year.

It gives a listing of agencies and developers along with properties and projects sorted out by location and type. In addition, the Bank also conducted a detailed market research of residential properties across Bahrain.

As a key strategic partner of the Ministry of Housing, Eskan Bank was also involved in preparing marketing collaterals and promotional documents and products for some of the Ministry's new projects.

Administration Department

The Administration Department's role is to ensure that the work environment inspires greater productivity, the processes in place conform to the principles of integrity, and that the systems remain efficient at all times.

In 2021, various steps were followed to turn this goal into reality. Close cooperation with the Compliance Department was initiated to review the internal tender policies and procedures and achieve zero error as far as possible. This coordination continued in examining how far the company fulfils the obligations stipulated for anti-money laundering and in combating the financing of terrorism

Additional cooperation was pursued with the marketing, corporate communications, human resource and information technology departments in setting up display screens at the Bank's premises for the purpose of transmitting video messages to both staff and visitors

Regular follow-up continues to ensure that the Bank follows all COVID -19 safety protocols inclusive of sterilization and protection items made available across its operations. A dedicated worker has been recruited whose main responsibility is to perform periodic sterilization of areas that are used regularly

Sustainability is being promoted by reducing the consumption of plastic materials, and employee safety is prioritized by installing anti-bacterial water logic coolers. Further enhancement to the workplace has been achieved by improving meeting rooms, rearranging furniture and reducing clutter and taking advantage of space.

Operations

Numerous steps were taken at the operational level to handle the Bank's response to the 'new normal' initiated in the immediate aftermath of the pandemic. Some of the steps were part of directives issued by the Government of Bahrain as well as by the Central Bank of Bahrain. At the same time, the focus was to ensure that the Bank's operations remain uninterrupted and continue to fulfil their strategic goals

One of the ways the Bank adopted policies to help customers overcome the negative impact of COVID-19 was in the implementation of the deferral for over 66 shops. It was achieved in a short time and thus provided the necessary helpline needed during the year.

This support continued with the implementation of the COVID 19 Refund and Deferment of Mazaya subsidy that was paid to the banks. It ensured adjustment of the requested Mazaya budget for the future period. Refund was also obtained for the subsidy paid to the banks from January to December 2021. The process was immediately reflected in the Mazaya system

As part of the process to make repayment smoother and easier, direct debit mandate was initiated and over 541 customers signed up for it. At the same time, the Bank also responded to the Central Bank of Bahrain's mandate regarding dormant accounts.

The new Mazaya beneficiaries showed a sharp increase in 2021 by almost double than the previous year. The Mazaya Subsidy Payment was re-engineered with an automated process by direct integration with EFTS with zero adverse comments and proper reconciliation process in place. This integration helped the Bank in taking decisive steps towards a broader digital transformation.

Some of the other key developments that took place this year was the successful testing and implementation of loan rescheduling, introduction of e-cheques as per CBB mandate, and the Mazaya enhancement towards subsidy reversals for deferment.

GCC RTGS a mandate from CBB, where in Eskan Bank was nominated as one of the pilot banks from Bahrain for testing and go live. Eskan Bank operations department successfully tested and implemented the same in April-2021.

CBB Blocking request process mandated from CBB was revised to respond on such cases within the same day and which was successfully implemented and the Bank had no adverse comments or pending status received from CBB.

It was also decided to reduce and even eliminate printing of hard copies and instead documents could now be saved as PDF. This suggestion was also reflected in decisions taken with regards to enhancement of Mazaya processes as beneficiaries could now submit soft copies for salary review

It was now made possible to finalize earlier settlement of credit balance by transferring within 24 hours of closure of the finance facility.

Rescheduling of payments

During 2021, total number of reschedule of facilities were 3,294

3,294

Mazaya Program

During 2021, the number of Mazaya beneficiaries increased by almost 95%

95%

Ministerial Decree

Number of Ministerial Decree processing increased by 93%

93%

Inactive account clearance

Dormant / Inactive account clearance achieved 58% in reduction of such accounts balance in system.

58%

Payment Processing

Managed Deerat Al Ayoon payment processing for almost 380 customers.

380

EFTS transactions

Number of EFTS transactions increased by almost 57%

57%

Business Review (Continued)

Internal Audit

As an independent function that reports directly to the Board of Directors' Audit, Risk and Compliance Committee, Internal Audit's main function is to ensure that effective controls are in place for managing the Bank's daily activities, and also, to look for value additions that would help bring about improvements at the operational level.

In addition, Internal Audit also provides consultancy services to the different departments with the aim of seeing their activities from a birds eye view so as to make it easy to identify and eliminate possible risks and enhance efficiency.

In 2021, the Bank continued to maintain an effective control over the various activities, processes and operations. Identified risks were adequately managed, deviations were identified on a timely basis and addressed within an acceptable time frame.

Property Development

Eskan Properties Company (EPC) is a fully owned subsidiary of Eskan Bank, and is involved in property development and facilities management. The primary customers of EPC are beneficiaries of projects promoted by the Ministry of Housing but plans are underway to extend services to other commercial entities.

Some of the major highlights of 2021 was that three projects were given the green light even as they wait for a few permits before construction can begin – Al Hoora (130 apartments), Al Ramli (300 apartments) and reclamation on land near the west side of Muharraq.

EPC has also successfully completed the appointment of the reclamation contractor for Danaat Al Sayah, one of Eskan Bank's biggest masterplan developments that is expected to yield over 4,000 units, retail space and a village style mall.

2021 also marked the completion of Danaat Al Baraka, and the sales units have been progressing very well. Another major project that was completed was the ambitious multi-use commercial project Alsayah Square in Busaiteen. The property includes one anchor tenant and over 16 shops. The anchor tenant unit was auctioned through the Tender Board and the winning bidder was Al Muntazah Market.

In addition, plans for numerous other projects were completed and will be ready for tender in the first quarter of 2022 with over BD 47 million in tenders released in 2021.

A separate division of EPC is Property & Facilities Management Department (PFM) and is in charge of handling the leasing, maintenance, security and facility management of Eskan Bank branches, sold and leased properties and the Ministry of Housing's vertical developments. The work that this department does for all the vertical developments was part of a ministerial directive but remains optional for building beneficiaries as the entire building management is handled by EPC. Currently, 57 out of 200 buildings consisting of 1,557 units have been taken over by the division.

Danaat Al Baraka

2021 marked the completion of Danaat Al Baraka, and the sales units have been progressing very well.

211 Villas

Danaat Al Sayah

Eskan Bank's biggest masterplan developments with over 4,000 units, retail space & a village style mall.

4,000 units

Asset Management and Investment

The Investment and Asset Management departments are interdependent upon each other, and together perform a valuable function in shaping Eskan Bank's position as a reliable and trustworthy name in the provision of innovative and sustainable housing solutions. There are two distinct roles that both departments play.

Danaat Baytik

Affordable housing units built on an area of 27,142 sqm (B4 Zone) land located in Ishbiliya Village, at Northern Governorate, Bahrain.

The Project is divided into two phases, Phase 1 consists of 14 nos five story buildings comprising of 216 Apartments and Phase 2 consists of around 200 Apartments. Phase 1 buildings are within the plots in the northern part of Ishbiliya, and Phase 2 buildings within the southern part.

The investment department is focused on making strategic decisions regarding resource allocation for current and future endeavors while also ensuring that all investments are focused on optimising returns and remain aligned with the Bank's strategy. The Asset Management Department, on the other hand, takes over after an investment is made. It is responsible for managing any financial acquisitions, as well as safeguarding investments by managing them end-to-end until maturity or exit.

The current assets under management portfolio includes Danaat Al Baraka, Danaat Al Lawzi, and EBRIT. The role of the department is to ensure that the investment is managed in the most effective way in order to achieve the target returns.

While challenges and uncertainties continued in 2021 due to the global pandemic, nevertheless both departments worked at overcoming hurdles and optimizing returns.

Danaat Al Baraka was delivered in early 2021 with over 90% of units sold by year-end. Despite challenges, the project experienced minimal delays, and effective cost management saw the project close out below budget. Furthermore, a contractor was appointed for Danaat Al Hoora, a new project consisting of residential apartments in the heart of Manama, and is expected to be completed in 2023.

Multiple highest and best use studies were obtained on various plots owned by the Bank. In addition, further developments with the Ministry of Housing are being explored in order to develop retail units across different areas of Bahrain.

Business Review (Continued)

Risk Management

The Risk Management Department serves as an umbrella for some of the key units of the Bank, and these include, Compliance and Anti-Money Laundering, Risk Management, Credit Admin, Information Security and Remedial & Collections.

With Compliance, steps are taken to ensure that the Bank's policies, procedures and operations are closely aligned with all applicable and mandatory rules and regulations. Information Security is focused on cyber security as well as protection of data and other information assets. Credit admin oversees the collateral management within the Bank, while Remedial & Collections is responsible for ensuring that quality of credit portfolio is intact and thus is involved in regular follow-ups with overdue accounts.

Finally, Risk Management looks at all risks that the Bank is exposed to such as, liquidity risks, credit risks, market risks, interest rate risks, project investment risks and operational risks that the Bank faces, and ensures that the organization remains well-protected at all times.

In 2021, considerable focus was made on bolstering the systems – upgrading where necessary, archiving them for better records, as well as developing efficient processes for remedial and collections. It was also a challenging year for the department because of COVID as credit risks increased greatly and the need to address them was made more urgent. New tools and systematic approaches were adapted and the move to a more digital experience was necessitated to ensure easier and seamless operations.

Danaat Al Baraka

Affordable housing units on a 73,514 sqm land located in Janusan, is one of the most prominent housing projects in the Kingdom, which accommodates for the social housing scheme that falls under the umbrella of the Ministry of Housing.

The Project includes 211 modern villas with four different contemporary designs, each consisting of two floors with 4 rooms, a spacious hall, a kitchen , an annex, and a garage with two parking spaces.

As a key step in the Bank's digital transformation journey, the Bank is implementing a complete one-stop-shop for mortgage origination system to provide users with a complete experience.

Information Security

Information Security is focused on cyber security as well as protection of data and other information assets of the Bank.

Working closely with the Information Technology department though reporting directly to Risk Management, Information Security has a compliance role as it oversees projects, assesses requirements if any, establishes necessary KPIs, and looks at the overall project road map.

This year there has been vast enhancements in the technologies used for managing information security. One of these developments was acquiring the license for Dark Trace, a real time intrusion prevention system based on artificial intelligence that evaluates data stream in real time for anomalies, and reports if any activity is normal or malicious.

The other development undertaken this year was the tuning up of the Manage and Detect Response solution to help eliminate any false positives while collecting security logs and uploading them to the cloud for further analysis.

The spotlight this year was to be more proactive when it comes to protection, and some of the steps undertaken were, installing a next generation firewall as well as implemented malware and antivirus agents. What they do is identify normal behavior, and sends out alerts in the case of any new and unexpected activity. This way attacks have been greatly reduced and ensured data remains well protected.

Information Technology

The Information Technology department plays a tangible role in shaping Eskan Bank's journey towards digital transformation.

Currently, there are two sections in the department - the first, deals with supporting or managing the infrastructure while the other section is related to system development.

In addition, there are other projects that came about in the aftermath of the pandemic as the priority was to reduce physical footprint on the premises, and convert business operations to a more virtual platform,

This year we were involved in automating the BCRB process in the context of the Bank's operations, and were able to do so by joining hands with Retail, Risk and HR through a workflow environment. As a result, a monthly audit report can be generated quite easily and presented to BCRB on a regular basis. In addition, another system to combat money laundering was also developed in collaboration with Risk Management and Retail Banking

Eskan Bank was amongst the first banks in Bahrain to be certified for e-Cheque when it was launched by the Central Bank of Bahrain and the BENEFIT Company.

As a key step in the Bank's digital transformation journey, the Bank is implementing a complete one-stop-shop for mortgage origination system to provide users with a complete experience. The aim of this project was to fully automate the process by integrating the functionalities of various departments of the Bank, and thus limit the number of interfaces that a user may have to interact with.

Eskan Online is another digital experience where most of the procedures including document transfer are conducted online and thus reduce the need to physically step into the premises.

The department was closely involved with the vendor in the development of the baity-bh portal, and to ensure that it meets the quality standards and strategic goals set by the Bank.

Security is an on-going process at the department, and measures are in place to ensure there is no compromise as far as protection of data and privacy issues are concerned. Currently, Eskan Bank is ranked four by the CBB because of its information security, and has also received positive reviews by other third party entities as well.

Corporate Communication

Eskan Bank has developed a positive work environment that places continued emphasis on collaboration, innovation and change. Its corporate culture is recognized by emphasis on both transparency and effective communications. Internally, the Bank uses various channels like intranet, newsletters and memos whereas when it comes to communicating to an external audience, it uses press releases, annual reports, calendars, diaries and other booklets.

As a responsible corporate citizen whose operational goals are aligned with Bahrain's social agenda, Eskan Bank has long championed sustainability and promoted it within the community.

This focus is reflected in the creative engineering awards that the Bank has been involved in for the last decade or so. This year, the theme for the 8th Creative Engineering Award – organized under the patronage of His Excellency the Minister of Housing and

Business Review (Continued)

Eskan Bank has long championed sustainability and promoted it within the community.

Chairman of Eskan Bank, Eng. Basim bin Yacob Al Hamer – was 'Towards Humanizing Pre-Fab Housing.' Over 100 projects were submitted by students of the College of Engineering, University of Bahrain.

Eskan Bank in cooperation with the Bahrain Institute of Banking & Finance extended sponsorship of the First Leading Sustainable Economy Forum. This support was aligned with the Bank's continued emphasis on being an active community member and a strong advocate for Bahrain's growth and prosperity.

The Bank also collaborated with the Royal Bahrain Hospital in launched an awareness session for the early detection of breast and prostate cancer. Various other initiatives and events held during the year included, Labor Day, Under-gradate trainee award, Ramadan, Bahraini Women's Day and National Day.

In 2021, the department successfully supported the revamp of the Bank's website that included advanced functionalities along with a more intuitive experience for users. A questionnaire was also sent to all the Bank staff to measure the extent of employee satisfaction with the corporate communications. In addition, social committee elections for 2021 was organized and also COVID-19 vaccination for Ministry of Housing staff and their families.

Human Resources

The year 2021 was marked with significant challenges due to the on-going pandemic. However, despite these uncertainties, the Human Resources department remained steadfast in its resolve to implement a safe, healthy and inclusive work environment that enables staff to perform their tasks effectively.

We began the year with optimism and with new goals, and hence, a number of initiatives were taken that helped underline Eskan Bank's commitment to provide employees with a work environment that inspires productivity and promotes empowerment.

Working alongside the Ministry of Housing, the department took various practical steps towards supporting HR developments and achieving HR deliverables.

Learning and Development

There was an increase in training opportunities for employees this year. It highlighted the diversity in training programs, and the wide choice of topics made available for learning.

Eskan Bank continued to keep its staff updated on the latest topics on sustainable developments, and the values that are enshrined in Bahrain's Economic Vision 2030 and the United Nations Sustainability Development Goals. The Bank joined hands with Bahrain Institute of Banking & Finance in arranging training sessions in "Environmental, Social and Governance (ESG)."

Other training programs included, e-Cheques Awareness Sessions, Security Awareness Training, First Aid Sessions, and finally a series of health and well-being sessions such as, safety at workplace, healthy lifestyle awareness, and breast cancer awareness sessions were organized during the year 2021.

This year we joined hands with the Ministry of Housing in designing and conducting a workshop on "Job Description and Performance Management Insights." It was delivered by our internal HR Team.

Environmental, Social and Governance

In response to the Environment, Social and Governance (ESG) sessions, various steps and initiatives were taken to strengthen women empowerment at the work place. In addition, sports activities for staff were organized, and eco-friendly dispensers and recycling bins were installed.

Succession Plan

Our systematic succession planning during the past years has enabled us to fill key vacant positions from our existing workforce. In 2021, over 11 staff applied for voluntary retirement this year but the shortfall was addressed through the implementation of an effective succession plan.

Internal Career Development

We have an effective policy in place that facilitates and supports employees in transferring within the organization. We always give priority to our employees when it comes to applying for any internal vacancy as we believe that internal transfer opens up doors for career growth and path to success. In 2021, over six employees were given the opportunity to seek career development through internal transfer.

COVID-19 Response and Support

For us, ensuring the health and safety of our employees will always remain a priority. The Department focused on prompt development and execution of various COVID-19 safety protocols that necessitated a few changes at the workplace as per guidelines issued by the National Taskforce and the Central Bank of Bahrain. Eskan Bank effectively managed the requirements by ensuring the minimum required percentage worked from the office without disrupting overall operations.

Business Review (Continued)

An Inclusive Workplace

44%
Of total workforce at Eskan Bank are women

91%
Bahrainization rate of workforce at Eskan Bank

36%
Of management positions are held by women

Engaging & developing

1861.5 Hours of training & development were conducted.

Employee retention

98%

16
students offered summer internship programme.

Subsidiaries, Associates & Strategic Investments

Subsidiaries

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

Eskan Properties Company (EPC) is registered in the Kingdom of Bahrain with Eskan Bank holding 100% stake in the company. Serving as the development arm of the Bank, EPC is closely involved in successfully executing various housing and community projects. In addition, the company carries out management and maintenance work for different real estate properties owned by the Ministry of Housing, Eskan Bank and other entities. It also provides advisory services to the Ministry of Housing in relation to commercial areas located in some of the new cities.

Danaat Al Lawzi Company B.S.C (c)

Danaat Al Lawzi was established in 2014 as a joint venture between Eskan Bank and the private sector for the purpose of developing land at Demistan. Eskan Bank holds 55.88% ownership stake in the company that has yielded 303 villas along with a retail centre that was rented out to one of the leading hypermarkets chains in Bahrain.

Associates

EBDAA Microfinance Company B.S.C

Ebdaa Microfinance Company was involved in disbursing micro-financing to low and middle-income Bahraini families. Eskan Bank was a founding shareholder in the company when it was established in 2009, and holds a 17.1% stake. The company provides beneficiaries with the opportunity to start a new business, become financially independent, and enhance their quality of life.

Eskan Bank Realty Income Trust (EBRIT)

Eskan Bank Realty Income Trust (EBRIT) was set up during the last quarter of 2016, and is considered to be the first sharia compliant listed real estate investment trust in Bahrain. EBRIT has a total value of BD 19.8 million with the Bank holding 35.9% of EBRIT units. Its inaugural property includes Segaya Plaza along with the commercial parts of Danaat Al Madina development, and the intention is to pay the net rent from the properties to the respective unit holders.

Strategic Investment

Naseej B.S.C. (c)

Naseej was established in 2009 by prominent investors from the public and private sectors with Eskan Bank holding a 3% stake in it as a strategic investment. The Bank is also a founding shareholder in the company that plays a pioneering role as a catalyst in addressing affordable housing needs in Bahrain.

Executive Management

DR. Khalid Abdulla
General Manager

Ahmad Tayara
Chief Business Officer and Deputy General Manager

Parween Ali
Head of Retail Banking

Samar Agaiby
Head of Financial Institutions and Government Programs

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

Muhammed Saeed Butt
Head of Financial Control

Abeer Al Binali
Head of Risk Management

Deepak Patel
Head of Operations

Aqeel Mayoof
Head of Information Technology

Hani Nayem
Head of Internal Audit

Haifa Al Madani
Head of Legal and Corporate Secretary

Fadhel Hashemi
Senior Manager Remedial & Collection

Eskan Properties Company

Eyad Obaid
General Manager

Amal Al Aradi
Head of Property & Facility Management

Hasan Abdulrahim
Senior Project Manager

Eyad Faisal
Senior Project Manager

Corporate Governance Report

1. Corporate Governance Policy

Eskan Bank's "the Bank" Board of Directors "the Board" has adopted the Bank's Corporate Governance Policy, which is compliant with the Corporate Governance Code issued by the Central Bank of Bahrain and the Decree No. (19) of 2018 concerning the issuance of the Corporate Governance Code issued by Ministry of Industry, Commerce and Tourism in 2018. 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, Risk and Compliance Committee regularly reviews the Bank's policies approved by the Board of Directors to ensure that the Bank's Corporate Governance Policy's is constantly updated and adopting the new relevant regulations and laws.

The Board ensures that training is provided to Board members periodically. The chairman of the Board must ensure that each new director receives a formal and tailored induction to ensure his contribution to the board from the beginning of the term and should review the board's role and duties with the directors, particularly covering legal and regulatory requirements. The program for Directors includes meetings with senior management, visits to the bank's facilities, presentations regarding strategic plans, significant financial, accounting and risk management issues, compliance programs, its internal and external auditors and legal counsel.

2. Shareholder Information

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

- **Shareholders Notification**

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

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

- **Periodic Reports**

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

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

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

3. Board of Directors Information

- **Board composition**

Eskan Bank's existing Board has been appointed by virtue of Cabinet Decree No. 20 of 2018 dated 15 July 2018 for three years, in line with Legislative Decree No. 4 of 1979 with respect to the establishment of the Eskan Bank amended by Law No. 75 of 2006, whereby in accordance with the said Cabinet Decrees eight members of leading Bahraini banking and finance professionals have been appointed for a period of 3 years which may be renewed, in addition to the Minister of Housing as the Chairman.

- **Board Member's Remunerations**

The remuneration (consist the setting fees) of the chairperson and members of the Board has been regulated and Disbursed pursuant to the Cabinet Decree, which has been capped by BD 8,000 annually bases for each Director, according to last paragraph at the article No. (11) of the Legislative Decree No. 4 of 1979 with respect to the establishment of the

Eskan Bank amended by Law No. 75 of 2006, which stipulates that the Board's chairperson, vice chairperson and members shall be determined upon approval from the Cabinet of Ministers.

During the year 2021, the bank has paid setting fees a total of BD 70,000 /- to the Chair-person and members for attending Board and Board Committees meetings, Including the amount of BD 3,000/- that have been paid to the chairperson and members of the Remuneration, Nomination & Corporate Governance Committee for same period.

- **Board Secretary**

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

- **Director's Roles and Responsibilities**

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

- **Whistle-Blowing Policy**

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

- **Code of Conduct & Conflict of Interest**

The Bank has adopted Code of Conduct and other internal policies and guidelines designed to guide all employees and directors through best practices in compliance with all laws, rules and regulations that govern the Bank's business operations. The Code of Conduct contains rules on conduct, ethics and on avoiding conflict of interest applicable to all the employees and directors of the Bank. The Bank has an annual declaration of Conflict of Interest statement for Board members, whereby each director has the responsibility to disclose any material interest related to business transactions and agreements.

During the Board Meetings took place in 2021, two directors have abstained from voting on proposals submitted during the said meetings, due to personal interests, Additionally there were no significant issues which were raised regarding the Bank's business.

- **Annual Disclosure for controlled functions Persons**

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

Pursuant to this section, The General Manager has disclosed to the Board of Directors that there are no relatives of any member occupying approved person in-controlled functions within the Bank for the year 2021.

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

In accordance with the Corporate Governance Policy, the Board has adopted the performance evaluation models for Board Members performance and Board Committees performance, Corporate secretary has circulated the performance evaluation form for year 2021 to the board members, for evaluate the performance of board of directors and committees for the year 2021, and it has been discussed and the forms were presented during the last board meeting for the year 2021.

Corporate Governance Report (Continued)

4. Board Committees

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

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

Executive Committee

Members:	Summary terms of reference:
1- Mr. Mohammed Hussein Bucheeri (Chairperson) 2- Mr. Riyad Saleh Al Saei (Vice Chairperson) 3- Mr. Kamal Murad Ali Murad 4- Mrs. Rana Ebrahim Faqihi	• The committee is formed with a minimum of three members, which consist mostly of independent non-executive members to be appointed by the Board. • The Committee shall meet at least quarterly or as frequently as required to perform its role effectively. (The Committee held four meetings during 2021). • Majority of the Members are required to attend the meetings to ensure a quorum. • Concerned Chiefs, Heads and Managers are invited to attend the meetings (If required). **Summary of responsibilities:** The role of the committee is to assist the Board in carrying out its duties. Therefore, the committee is to exercise its roles and responsibilities as required by the terms of reference or assigned by the Board of Directors from time to time. The Committee is specifically delegated with recommending to the board or taking decisions relating to broad policy and planning matters relating to the administration of the Bank, Review strategy, annual budget forecasts, performance vis-a-vis budgets and the budget variances, review any major change which is expected to have a significant economic impact on the organization, approve lending decisions, and taking on of funded and non-funded financial risk exposures and financial outlays, specific provisioning of doubtful debts or the write-offs up to its Delegated Authority, where the credit risk lies with the Bank, delegation of Financial Authority, and provide oversight and good governance of the investment activities of the Bank.

Corporate Governance Report (Continued)

Audit, Risk and Compliance Committee

Members:

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

2- Dr. Zakaria Sultan Mohammed Al-Abbasi

3- Sh. Mohamed bin Ibrahim Al-Khalifa

Summary terms of reference:

- The committee is formed with a minimum of three members, which consists mostly of independent non-executive members to be appointed by the Board.
- A minimum number of four meetings are required to be held each year, (the Committee held Four meetings during 2021)
- At least two Members are required to attend the meetings to ensure a quorum.
- General Manager and concerned Chiefs, Heads and Managers are invited to attend the meetings. (If required)

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

Summary of responsibilities:

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

Remuneration, Nomination & Corporate Governance Committee

Members:

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

2- Mr. Yusuf Abdullah Mohammed Taqi

3- Dr. Riyad Saleh Al Saei

Summary terms of reference:

- The committee is formed with a minimum of three members, which consists mostly of independent non-executive members to be appointed by the Board.
- A minimum number of two meetings are required to be held each year, (the Committee held two meetings during 2021).
- 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.

Corporate Governance Report (Continued)

5. Board Meetings and Attendance 2021

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

A Board of Directors meeting shall be deemed valid if attended by the majority of the Directors in person, provided the Chairman or Vice Chairman shall attend in person. The Board held four meetings during 2021. The below schedule shows dates of meetings and attendance of Board Members:

- **Board of Directors Meetings During 2021**

Members	19th Mar. 2021 (1st Meeting)	7th July 2021 (2nd Meeting)	22nd Sep. 2021 (3rd Meeting)	9th Dec. 2021 (4th Meeting)
HE Eng. Bassim bin Yacob Al Hamer (Chairman)	✓	✓	✓	✓
Mr. Mohammed Abdulrahman Hussein Bucheeri (Vice Chairman)	✓	✓	✓	✓
Mr. Yusuf Abdullah Mohammed Taqi	✓	✓	✓	✓
Dr. Zakaria Sultan Mohammed Al-Abbasi	✓	✓	✓	✓
Mr. Riyad Saleh Al Saei	✓	✓	✓	✓
Mr. Kamal Murad Ali Murad	✓	✓	✓	✓
Mrs. Najla Mohamed Al - Shirawi	✓	✓	✓	✓
Mrs. Rana Ebrahim Faqihi	✓	✓	✓	✓
Sh. Mohamed bin Ibrahim Al-Khalifa	✓	✓	✓	✓

- **Executive Committee Meetings**

The Executive Committee held four meetings during 2021, the below schedule shows dates of meetings and attendance of Board Members:

Members	25th Feb. 2021 (1st Meeting)	9th June 2021 (2nd Meeting)	7th Sep. 2021 (3rd Meeting)	1st Dec. 2021 (4th Meeting)
Mr. Mohammed Abdulrahman Bucheeri (Chairperson)	✓	✓	✓	✓
Mr. Riyad Saleh Al Saei	✓	✓	✓	✓
Mr. Kamal Murad Ali Murad	✓	✓	✓	✓
Mrs. Rana Ebrahim Faqihi	✓	✓	✓	✓

Corporate Governance Report (Continued)

- **Audit, Risk and Compliance Committee Meetings**

The Audit, Risk and Compliance Committee held Four meetings during 2021, the below schedule shows dates of meetings and attendance of Board Members:

Members	16th Feb. 2021 (1st Meeting)	5th May 2021 (2nd Meeting)	4th Aug. 2021 (3rd Meeting)	2nd Nov. 2021 (4th Meeting)
Mrs. Najla Mohamed Al – Shirawi (Chairperson)	✓	✓	✓	✓
Dr. Zakareya Sultan Mohammed Al-Abbasi	✓	✓	✓	✓
Sh. Mohamed bin Ibrahim Al-Khalifa	✓	✓	✓	✓

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

The Remuneration, Nomination and Corporate Governance Committee held two meetings during 2021. The below schedule shows dates of meetings and attendance of Board Members:

Members	24th Feb. 2021 (1st Meeting)	24th Nov. 2021 (2nd Meeting)
HE Eng. Bassim bin Yacob Al Hamer (Chairperson)	✓	✓
Mr. Yusuf Abdullah Mohammed Taqi	✓	✓
Mr. Riyad Saleh Al Saei	✓	✓

The Remuneration, Nomination and Corporate Governance Committee also held two meetings during 2020 and an aggregated amount paid to the committee members is BD 3000 for the year ended 2020.

Corporate Governance Report (Continued)

6. Shari'a Supervisory Board (SSB)

The Bank's Board of Directors has established a Shari'a Supervisory Board (SSB), which was formed in May 2009, and was been re-appointed with the same members for further periods every 3 years, which was reappointed for another term starting from January 2019 to December 2021.

Members	Summary of Responsibilities
Dr. Sh. Nezam Yacouby (Chairperson)	The Shari'a Supervisory Board is an independent body responsible for directing, reviewing and supervising the Islamic activities in Eskan bank in order to ensure that they are in compliance with Islamic Shari'a rules and Principles.
Dr. Sh. Abdulaziz Khalifa Al-Qassar (Vice Chairperson)	
Sh. Abdul Nasser Al-Mahmood (Executive Member)	

- **Shari'a Supervisory Board Meetings**

The Shari'a Supervisory Board held four meetings during 2021, the below schedule shows dates of meetings and attendance of the Shariaa Board Members:

Members	17th Feb. 2021 (1st Meeting)	26th May 2021 (2nd Meeting)	1st Sep. 2021 (3rd Meeting)	30th Nov. 2021 (4th Meeting)
Dr. Sh. Nezam Yacouby (Chairperson)	✓	✓	✓	✓
Dr. Sh. Abdulaziz Khalifa Al-Qassar (Vice Chairperson)	✓	✓	✓	✓
Sh. Abdul Nasser Al-Mahmood (Executive Member)	✓	✓	✓	✓

- **Shari'a Supervisory Board Member's Remuneration**

The disbursement of Shari'a Supervisory Board Member's Remuneration has been determined in accordance with Eskan Bank's Board of Director's Resolution No. 9/4 for the year 2015, which states that the remuneration of 10,000 US Dollars is to be disbursed annually to the Shari'a Su-pervisory Board Members. In addition, BD 2000 per annum is disbursed to Sh. Abdul Nasser Al-Mahmood the Shari'a Supervisory Board Executive Member due to the nature of his position which requires him to provide direct and immediate support to the relevant departments of the Bank.

Aggregate remuneration paid to Shari'a Supervisory Board members in 2021 was BD13,340 Bah-raini Dinars.

7. Management

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

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

Corporate Governance Report (Continued)

7. Management (continued)

The General Manager issued Administrative Resolution No. (1) of 2020 on 28th May 2020 with respect to Re-structuring the Internal Committees of Eskan Bank as follows:

Management Committee	Summary of responsibilities:
Members: The Committee shall consist of members with the following designation: 1. General Manager **(Chairman)** 2. Chief Business Officer & Deputy General Manager 3. General Manager – Eskan Properties Company 4. Head of Financial Institutions & Government Relations 5. Manager - Property & Facility Management 6. Head of Legal Advisory & Corporate Secretary 7. Head of Risk Management 8. Head of Retail Banking 9. Head of Financial Control 10. Head of Internal Audit 11. Head of Human Resources & Administration 12. Head of Information Technology 13. Head of Operations 14. Assistant Manager - Corporate Communications **Secretary** - Senior Manager Information Security The Committee will be chaired by the General Manager who will appoint the Vice Chairperson.	The role of the Management Committee is to ensure the proper functioning of the business divisions and support functions of the Bank.

Corporate Governance Report (Continued)

7. Management (continued)

Risk Management Committee ("RMC")	Summary of responsibilities:
Members The Committee shall consist of the members with the following designation: 1. General Manager **(Chairman)** 2. Chief Business Officer & Deputy General Manager 3. General Manager – Eskan Properties Company 4. Head of Risk Management 5. Head of Retail Banking 6. Head of Legal Advisory & Corporate Secretary 7. Head of Operations 8. Head of Financial Control 9. Head of Information Technology **Secretary –**Assistant 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 be-half. The Committee will be chaired by the General Manager who will appoint the Vice Chairperson.	The responsibility of the committee is to review and manage the credit, market and operational risks of the Bank, and to recommend on matters brought to it for consideration, including credit proposals for approvals.

Corporate Governance Report (Continued)

7. Management (continued)

Asset & Liability Management Committee (ALCO)	Summary of responsibilities:
Membership: The Committee shall consist of members with the following designation: 1. General Manager **(Chairman)** 2. Chief Business Officer & Deputy General Manager 3. Head of Risk Management 4. Head of Financial Control 5. Manager - Treasury **Secretary-** Manager – Asset 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 be-half. The Committee will be chaired by the General Manager who will appoint the Vice Chairperson.	The function of the committee is to develop and institute an active and integrated approach to managing the Bank's financial position within regulatory and other guidelines on structure and on capital adequacy. ALCO sets and monitors the liquidity and market risk strategy policies of the Bank, as well as reviewing and allocating capacity on the financial position.

IT Steering Committee (ITSC)	Summary of responsibilities:
Members: The Committee shall consist of members with the following designation: 1. Chief Business Officer & Deputy General Manager **(Chairman)** 2. Head of Retail Banking 3. Head of Financial Control 4. Head of Information Technology 5. Head of Operations 6. Head of Risk Management 7. **Secretary –** Senior Manager Information Security 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 be-half. The Committee will be chaired by the Chief Business Officer and Deputy General Manager who will appoint the Vice Chairperson.	The committee is responsible for overseeing the IT strategic direction of Eskan Bank; and for providing effective and secure IT services across the Bank through assessing opportunities to practically manage IT re-sources and knowledge, and acquire best IT solutions to meet the growth of the Bank.

Corporate Governance Report (Continued)

7. Management (continued)

Human Resources Committee ("HRC")	Summary of responsibilities
Members: The Committee shall consist of members with the fol-lowing designation:: 1. General Manager (Chairman) 2. Chief Business Officer & Deputy General Manager 3. General Manager – Eskan Properties Company 4. Head of Retail Banking 5. Head of Human Resources, Administration & corporate Communication 6. Head of Legal Advisory & Corporate Secretary 7. Head of Information Technology **Secretary:** Senior Manager - Human Resources The General Manager may appoint any other member upon his discretion. Only attending members are allowed to vote. The Committee will be chaired by the General Manager who will appoint the Vice Chairperson.	The function of the committee is to provide a forum for consultation and exchange of ideas and decision making, on all matters relating to the planning and management of the Bank's human capital.

Investment & Credit Committee (ICC)	Summary of responsibilities
The Committee shall consist of members with the following designation: 1. General Manager **(Chairman)** 2. Chief Business Officer & Deputy General Manager 3. General Manager – Eskan Properties Company 4. Head of Risk Management (Non-Voting member) 5. Head of Financial Control **Secretary:** Senior Manager Information Security 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 be-half. The Committee will be chaired by the General Manager who will appoint the Vice Chairperson.	Review, approve, and recommend to the Executive Committee and Board of Directors all proposals for investments and credit activities in relation to joint ventures, private equity, and real estate developments (excluding social loans activities), in line with the approved authority matrix.

Corporate Governance Report (Continued)

7. Management (continued)

Internal Tender Committee	Summary of responsibilities
The Committee shall consist of members with the fol-lowing designation: 1. General Manager **(Chairman)** 2. Chief Business Officer & Deputy General Manager 3. General Manager – Eskan Properties Company 4. Head of Human Resources 5. Head of Legal Advisory & Corporate Secretary **Secretary –** Assistant Manager – Administration Department The General Manager may appoint any other member upon his discretion. In case of any member's absence, his/her direct successors shall attend on his/her be-half. The Committee will be chaired by the General Man-ager who will appoint the Vice Chairperson. The Committee Members have been duly appointed by virtue of the approval issued by the Tender & Auc-tions Board.	The Committee reviews and oversees all the internal tender related matters of EB & subsidiaries, and issues approvals for internal tenders to be selected, in addition to approving the renewal of contracts.

New Product Committee (NPC)	Summary of responsibilities
The Committee shall consist of members with the fol-lowing designation: 1. Chief Business Officer & Deputy General Manager **(Chairman)** 2. Head of Retail Banking 3. Head of Operations 4. Head of Information Technology 5. Compliance Manager (Non-Voting member) **Secretary –** Assistant Manager – Sales & Marketing The General Manager may appoint any other member upon his discretion. In case of any member's absence, his/her direct successors shall attend on his/her be-half. The Committee will be chaired by the Chief Business Officer and Deputy General Manager who will appoint the Vice Chairperson.	The Committee oversees the development of new and existing client products and services for treasury, asset management, commercial banking, property development, mortgage finance, and other areas of the Bank, assesses reputation, operational, IT, Risk, Legal, Compliance, staffing and fee sharing issues and approves such products and services.

Corporate Governance Report (Continued)

7. Management (continued)

Remedial Credit Committee (RCC)	Summary of responsibilities
The Committee shall consist of members with the following designation: 1. General Manager **(Chairman)** 2. Chief Business Officer & Deputy General Manager 3. General Manager – Eskan Properties Company 4. Head of Legal Advisory & Corporate Secretary 5. Manager – Remedial and Collections 6. Head of Risk Management **Secretary –** Assistant Manager - Remedial and Collections 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 be-half. The Committee will be chaired by the Chief Business Officer and Deputy General Manager who will appoint the Vice Chairperson.	Remedial Credit Committee (RCC) has been formed to review, monitor and manage the loans portfolio and community shops of the Bank and to assist Risk Management in driving control across the business, assessing & managing the risks to the business. The Committee will discuss the proposed recommendations and course of actions by the Remedial Department to control and reduce the Non Performing Finances and mitigate the non-performing loans portfolio. The RCC ensures appropriate policies, controls and measures are in place and adhered to in order to support this, and to give appropriate management oversight to ensure conformance.

IFRS 9 Steering Committee	Summary of responsibilities
The Committee shall consist of members with the fol-lowing designation: 1. General Manager **(Chairperson)** 2. Chief Business Officer & Deputy General Manager 3. Head of Financial Control 4. Head of Risk Management 5. Head of IT 6. Head of Internal Audit (non-voting member) **Secretary –** Assistant Manager – Risk Management Department The General Manager may appoint any other member upon his discretion. In case of any member's absence, his/her direct successors shall attend on his/her be-half. The Committee will be chaired by the Chief Business Officer and Deputy General Manager who will appoint the Vice Chairperson.	IFRS 9 Steering committee ("Com-mittee") is the main forum where specific matters related to provision-ing will be discussed. The commit-tee is also responsible for ensuring proper integration of IFRS 9 throughout the Bank and providing review and recommenda-tions/ approval of key decisions. The Committee has the primary responsibility of overseeing the Bank's Expected Credit Loss ("ECL") models. The committee is also responsible for ensuring the adequacy of the processes, controls and governance frameworks around reviewing and monitoring the elements that would impact the computation of ECL and recommend changes if needed.

Corporate Governance Report (Continued)

7. Management (continued)

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 2021 was BD 1,677,175.

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 Audit, Risk and Compliance 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 Banks' annual reports for at least three years 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 Audit, Risk and Compliance 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 Audit, Risk and Compliance Committee.

Shari'a Board of Directors

Shaikh Dr. Nezam Mohammed Saleh Yacouby

- Member of several Shari'a Supervisory Boards around the world
- Member of the Shari'a Supervisory Board for the Accounting and Auditing organization for the Islamic Financial Institutions (AAOIFI)
- Recipient of several Awards in the field of Islamic Finance and Islamic Services
- PhD in Islamic Law.

Shaikh Dr. Abdul Aziz Khalifa Al Qassar

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

Shaikh Abdul-Nasser Omar Al Mahmood

- Head of Sharia Coordination and Implementation Department - KHCB
- Over 24 years of Experience in Shari'a Audit and Islamic Banking
- Member of several Shari'a Supervisory Boards
- Master in Business Administration
- B.Sc. in Shari'a and Islamic Studies
- High Diploma in Islamic Commercial Studies from BIBF Institute
- Recognized Trainer at BIBF Institute

Shari'a Supervisory Board Report
For the year ended 31 December 2021

15 Rajab 1443 BC coinciding 16th February 2022

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

To the members of the Board of Directors of ESKAN Bank

Assalam Alaikum Wa Rahmat Allah Wa Barakatuh

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

During the year ended 31 December 2021, we have reviewed the principles and contracts relating to the transactions and applications conducted by the Bank through Ijara Muntahiya Be Tamleek and Reverse Istisna'a (Islamic Products). and treasury department products carried out by the Bank We have also conducted our review to form an opinion as to whether the Bank has complied with Shari'a Rules and Principles and with specific Fatwas, rulings and guidelines issued by us.

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

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

We planned and performed our review directly through the Internal Shari'a Auditor to obtain all information and explanations, which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the Bank has not violated Islamic Rules and Principles.

In our opinion,

Contracts, transactions and dealings related to Islamic products entered into by the Banks during the year ended 31 December 2021 that we have reviewed complies with the Islamic Shari'a Rules and Principles.

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

Sh. Dr. Nezam Mohammed Saleh Yacouby
Chairman

Sh. Dr. Abdul Aziz Khalifa Al Qassar
Vice Chairman

Sh. Abdul Nasser Omar Al Mahmood
Executive Member

Consolidated Financial Statements
As at 31 December 2021

Contents

Independent Auditors' Report

To the Shareholders of ESKAN BANK B.S.C. (c)
Al See!, Kingdom of Bahrain

Opinion

We have audited the 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 2021, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as modified by Central Bank of Bahrain (CBB).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of t he consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The board of directors is responsible for the other information. The other information obtained at the date of this auditors' report is the Chairman's report set out on pages 8 - 11.

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

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

Responsibilities of Board of Directors for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Regulatory Requirements

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

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

b) the financial information contained in the chairman's report is consistent with the consolidated financial statements;

c) we are not aware of any violations during the year of the Commercial Companies Law, the CBB and Financial Institutions Law No. 64 of 2006 (as amended}, the CBB Rule Book (Volume 1, applicable provisions of Volume 6 and CBB directives) or the terms of the Bank's articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and

d) satisfactory explanations and information have been provided to us by management in response to all our requests.

KPMG Fakhro

Partner Registration Number 213

27 February 2022

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Note	2021 BD	2020 BD
ASSETS			
Cash and bank balances	6	**85,471,544**	30,104,088
Investments	7	**7,222,804**	4,770,494
Loans	8	**749,669,594**	750,860,139
Investment in associate	9	**4,189,291**	4,412,686
Investment properties	10	**59,474,310**	50,021,327
Development properties	11	**13,779,453**	18,372,042
Other assets	12	**14,393,799**	3,216,956
TOTAL ASSETS		**934,200,795**	861,757,732
LIABILITIES AND EQUITY			
LIABILITIES			
Interbank borrowings		**10,000,000**	10,000,000
Customer current accounts		**8,546,855**	2,102,687
Government accounts	13	**469,184,838**	463,754,199
Term loans	14	**75,000,000**	45,000,000
Other liabilities	15	**6,533,610**	6,039,138
TOTAL LIABILITIES		**569,265,303**	526,896,024
EQUITY			
Share capital	16	**108,300,000**	108,300,000
Contribution by the shareholder		**22,449,597**	22,344,597
Statutory reserve		**54,461,896**	54,461,896
Fair value reserve		**(572,167)**	(650,386)
Retained earnings		**171,021,678**	142,311,258
Equity attributable to Bank's shareholder		**355,661,004**	326,767,365
Non-controlling interest		**9,274,488**	8,094,343
TOTAL EQUITY		**364,935,492**	334,861,708
TOTAL LIABILITIES AND EQUITY		**934,200,795**	861,757,732

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

Najla Al Shirawi
Director

Dr. Khalid Abdulla
General Manager

The accompanying notes 1 to 31 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Note	**2021 BD**	2020 BD
Interest income	17	**33,947,143**	32,001,208
Interest expense	18	**(111,500)**	(287,203)
Net interest income		**33,835,643**	31,714,005
Income from properties	19	**3,205,439**	3,992,914
Net share of profit from investment in associate	9	**253,495**	150,051
Other income		**1,060,677**	680,595
TOTAL OPERATING INCOME		**38,355,254**	36,537,565
Staff costs		**(4,923,102)**	(5,074,164)
Other expenses	20	**(1,998,788)**	(1,902,857)
TOTAL OPERATING EXPENSES		**(6,921,890)**	(6,977,021)
Profit before net impairment loss		**31,433,364**	29,560,545
Net impairment loss	21	**(1,542,799)**	(1,652,510)
PROFIT FOR THE YEAR		**29,890,565**	27,908,034
OTHER COMPREHENSIVE INCOME			
Items that will not be classified to profit or loss:			
Change in the fair value of equity instruments classified at fair value through other comprehensive income		**78,219**	(234,070)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**29,968,784**	27,673,964
Profit attributable to:			
Equity shareholder of the parent		**28,710,420**	26,440,977
Non-controlling interest		**1,180,145**	1,467,057
		29,890,565	27,908,034
Total comprehensive income attributable to:			
Equity shareholder of the parent		**28,788,639**	26,206,907
Non-controlling interest		**1,180,145**	1,467,057
		29,968,784	27,673,964

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

Najla Al Shirawi
Director

Dr. Khalid Abdulla
General Manager

The accompanying notes 1 to 31 are an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Equity
As at 31 December 2021

	Equity attributable to Bank's shareholder							
	Share capital BD	Contribution by the shareholder BD	Statutory reserve BD	Fair value reserve BD	Retained earnings BD	Total BD	Non-controlling interest BD	Total equity BD
As at 1 January 2020	**108,300,000**	**22,344,597**	**54,461,896**	**(650,386)**	**142,311,258**	**326,767,365**	**8,094,343**	**334,861,708**
Total comprehensive income								
Profit for the year	**-**	**-**	**-**	**-**	**28,710,420**	**28,710,420**	**1,180,145**	**29,890,565**
Other comprehensive income	**-**	**-**	**-**	**78,219**	**-**	**78,219**	**-**	**78,219**
Transfer of land (note 10)	**-**	**105,000**	**-**	**-**	**-**	**105,000**	**-**	**105,000**
As at 31 December 2021	**108,300,000**	**22,449,597**	**54,461,896**	**(572,167)**	**171,021,678**	**355,661,004**	**9,274,488**	**364,935,492**
As at 1 January 2020	108,300,000	22,006,897	54,461,896	(416,316)	115,527,586	299,880,063	6,627,286	306,507,349
Total comprehensive income								
Profit for the year	-	-	-	-	26,440,977	26,440,977	1,467,057	27,908,034
Other comprehensive income	-	-	-	(234,070)	-	(234,070)	-	(234,070)
Transfer of land (note 10)	-	337,700	-	-	-	337,700	-	337,700
Modification loss (note 3)	-	-	-	-	(15,442,358)	(15,442,358)	-	(15,442,358)
Government subsidy (note 3)	-	-	-	-	702,294	702,294	-	702,294
Modification loss borne by Government (note 13(m))	-	-	-	-	15,082,759	15,082,759	-	15,082,759
As at 31 December 2020	108,300,000	22,344,597	54,461,896	(650,386)	142,311,258	326,767,365	8,094,343	334,861,708

The accompanying notes 1 to 31 are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

As at 31 December 2021

	Note	2021 BD	2020 BD
OPERATING ACTIVITIES			
Profit for the year		**29,890,565**	27,908,034
Adjustments for:			
Share of profit from investment in associate	9	**(253,495)**	(150,051)
Net impairment loss	21	**1,542,799**	1,652,510
Land compensation income	19	**(676,000)**	-
Gain on sale of development properties	19	**(2,019,302)**	(3,575,188)
Depreciation and amortization	20	**553,237**	537,794
Operating profit before working capital changes:		**29,037,804**	26,373,099
Net collections from loans		**32,913,140**	19,777,059
(Increase) / decrease in other assets		**(11,412,314)**	14,189
Decrease in development properties		**6,374,564**	14,703,054
Increase in restricted bank balance		**(351,000)**	-
Increase / (decrease) in customer current accounts		**312,003**	(77,909)
Increase/ (decrease) in other liabilities		**531,672**	(1,540,089)
Net movement in government account		**(37,721,479)**	(21,741,839)
Net cash generated from operating activities		**19,684,390**	37,507,565
INVESTING ACTIVITIES			
Investment in debt securities		**(2,374,091)**	(134,978)
Placement with financial institution with original maturity of more than 90 days		**(4,205,431)**	(853,347)
Dividend received on investment in associate		**186,321**	122,274
Purchase of equipment		**(241,661)**	(82,894)
Investment in an associate		**(43,856)**	(122,684)
Net cash used in investing activities		**(6,678,718)**	(1,071,630)
FINANCING ACTIVITIES			
Repayment of term loans		**-**	(69,500,000)
Proceeds from term loans		**30,000,000**	46,200,000
Proceeds from government	13 (a)	**20,000,000**	-
Payment to and on behalf of government, net		**(12,211,415)**	(14,754,989)
Net cash generated from / (used in) financing activities		**37,788,585**	(38,054,989)
Net increase / (decrease) in cash and cash equivalents		**50,794,257**	(1,619,054)
Cash and cash equivalents at 1 January*	6	**29,281,783**	30,900,837
CASH AND CASH EQUIVALENTS AT 31 DECEMBER*	6	**80,076,041**	29,281,783

* The balances at 31 December 2021 and 31 December 2020 are gross of the expected credit loss of BD 4,855 and BD 3,223 respectively.

The accompanying notes 1 to 31 are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements
As at 31 December 2021

1. REPORTING ENTITY

Incorporation

Eskan Bank B.S.C. (c) (the "Bank") is a closed joint stock company registered and incorporated by Amiri Decree No. 4 of 1979. The Bank operates under a restricted commercial banking license issued by the Central Bank of Bahrain (the "CBB"). The Bank's shares are fully owned by the Government of Bahrain in accordance with the Articles of Association.

Activities

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

The consolidated financial statements include results of the Bank and its subsidiaries (together The" Group") and these were approved by the Board of Directors on 27 February 2022.

2. BASIS OF PREPARATION

a. Statement of compliance

The consolidated financial statements of the Group has been prepared in accordance with applicable rules and regulations issued by the Central Bank of Bahrain ("CBB") including the recently issued CBB circulars on regulatory concessionary measures in response to Coronavirus (COVID-19). These rules and regulations require the adoption of all International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), except for:

i. retrospective recognition of modification losses on financial assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional interest charges, in equity instead of the statement of profit or loss and other comprehensive income account as required by IFRS issued by IASB. Any other modification gain or loss on financial assets are recognised in accordance with the requirements of applicable IFRS. Please refer to note (3) for further details; and

ii. retrospective recognition of financial assistance received from the government in response to its COVID-19 support measures that meets the government grant requirement, in equity, instead of the statement profit or loss and other comprehensive income account. This will only be to the extent of any modification loss recorded in equity as a result of (a) above. Any other financial assistance is recognised in accordance with the requirements of IAS 20. Please refer to note (3) for further details.

The above framework for basis of preparation of the consolidated financial statements is hereinafter referred to as 'IFRS as modified by CBB'.

b. Basis of measurement

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

c. Functional and presentation currency

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

d. Basis of presentation

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

e. New standards, amendments and interpretations effective from 1 January 2021

The following relevant amendments to existing standards and framework have been applied by the Group in preparation of these consolidated financial statements. The adoption of the below amendments did not result in changes to previously reported net profit or total equity of the Group.

Description	*Effective from*
Interest Rate Benchmark reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4,IFRS16)	1 January 2021

The Phase 2 amendment prodive practical relief from certain requirements in IFRS standard.These reliefs relate to modifications of financial instruments and lease contracts or hedging relationships triggered by a replacement of a benchmark interest rate in a contract with a new alternative benchmark rate.

Notes to the Consolidated Financial Statements
As at 31 December 2021

2. BASIS OF PREPARATION (continued)

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

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2021 and early adoption is permitted; however the Group has not early adopted any new or amended standards in preparing these consolidated financial statements. The new standards, amendments and interpretations to standards are not expected to have a significant impact on Group's consolidated financial statements.

g. Basis of consolidation

i. Subsidiaries

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

Loss of control

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

Non-controlling interest

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

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

Subsidiaries	Ownership for 2021	Ownership for 2020	Year of incorporation/ acquisition	Country of incorporation/ acquisition
Eskan Properties Company B.S.C.(c) ('EPC') The principal activity of the Company is to develop and manage projects for development of properties on behalf of Eskan Bank B.S.C (c) (the "Parent"), MOH and third parties, and facility management to Ministry of Houses.	100%	100%	2007	Kingdom of Bahrain
Dannat Al Luzi B.S.C (c) Development and sale of private property in Danat Al Luzi.	56%	56%	2014	Kingdom of Bahrain

ii. Interest in equity-accounted investees

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

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

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

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

Notes to the Consolidated Financial Statements
As at 31 December 2021

2. BASIS OF PREPARATION (continued)

iii. Transactions eliminated / adjusted for on consolidation and equity accounting

Intra-group balances and transactions, and any unrealised gains or losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group gains on transactions between the Group and its equity-accounted investees are eliminated to the extent of the Group's interest in the investees. Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

The reporting period of the Group's subsidiaries and equity-accounted investees are identical and their accounting policies conform to those used by the Bank for like transactions and events in similar circumstances except for valuation of investment properties in the books of its equity accounted investee. Adjustments are made in the consolidated financial statements where appropriate to ensure the accounting policies of the equity-accounted investees is consistent with the policies adopted by the Group.

h. Comparatives

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

3. COVID-19 IMPACT

On 11 March 2020, the COVID-19 outbreak was declared, a pandemic by the World Health Organization (WHO) and has rapidly evolved globally. This has resulted in a global economic slowdown with uncertainties in the economic environment. Global equity and commodity markets, and in particular oil prices, have also experienced great volatility and a significant drop in prices. The estimation uncertainty is associated with the extent and duration of the expected economic downturn and forecasts for key economic factors including GDP, employment, oil prices etc. This includes disruption to capital markets, deteriorating credit markets and liquidity concerns. Authorities have taken various measures to contain the spread including implementation of travel restrictions and quarantine measures. The pandemic as well as the resulting measures and policies have had some impact on the Group. The Group is actively monitoring the COVID-19 situation, and in response to this outbreak, has activated its business continuity plan and various other risk management practices to manage the potential business disruption on its operations and financial performance.

The management and the Board of Directors (BOD) has been closely monitoring the potential impact of the COVID-19 developments on the Group's operations and financial position; including possible impact on asset valuations, impairment, review of onerous contracts and debt covenants, outsourcing arrangements etc. The Group has also put in place contingency measures, which include but are not limited to enhancing and testing of business continuity plans including its liquidity requirements.

In preparing the consolidated financial statements, judgements made by management in applying the Group's accounting policies and sources of estimation are subject to uncertainty regarding the potential impacts of the current economic volatility and these are considered to represent management's best assessment based on available or observable information.

Modification of financial assets:

"During 2020, based on a regulatory directive issued by the CBB as concessionary measures to mitigate the impact of COVID-19 (refer to note 2), the one-off modification losses amounting to BD 15.44 million arising due to the 6-month payment holidays provided to financing customers with effect from 1 April 2020 without charging additional interest charges has been recognized directly in equity. The modification loss has been calculated as the difference between the net present value of the modified cash flows calculated using the original effective profit rate and the current carrying value of the financial assets on the date of modification which is defined as 1 April 2020 as per cabinet of ministers resolution No. 2556-02 on 4 May 2020. Out of this loss BD 15.08 million relates to social loan portfolio that will be accounted for in line with the agreement with Ministry of Housing dated 23 December 2017 (refer note 13). The Group provided payment holidays on financing exposures amounting to BD 996.64 million as part of its support to impacted customers.

Government assistance and subsidies:

Governments and central banks across the world have responded with monetary and fiscal interventions to stabilize economic conditions. The Government of Kingdom of Bahrain has announced various economic stimulus programmes ("Packages") to support businesses in these challenging times.

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of the consolidated financial statements of the Group has been consistently applied from prior year.

Notes to the Consolidated Financial Statements
As at 31 December 2021

4. IGNIFICANT ACCOUNTING POLICIES (continued)

a. Right-of-use assets and lease liabilities

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

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

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

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

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

Lease liabilities are carried at amortized cost using effect interest rate method. Lease liabilities are reduced by repayment of the principal amount while the finance charge component of the lease payment is charged directly to the statement of profit or loss and other comprehensive income.

It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and for leases of low-value assets.

b. Cash and cash equivalents

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

c. Placements with banks

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

d. Financial assets and liabilities

i. Financial assets

Initial recognition and measurement

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

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

Notes to the Consolidated Financial Statements
As at 31 December 2021

4. IGNIFICANT ACCOUNTING POLICIES (continued)

d. Financial assets and liabilities (continued)

Classification

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

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

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

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

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

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

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

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

Business model assessment

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

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

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

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Notes to the Consolidated Financial Statements
As at 31 December 2021

4. IGNIFICANT ACCOUNTING POLICIES (continued)

d. Financial assets and liabilities (continued)

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

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

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

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

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

Subsequent measurement and gains and losses

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

Derecognition

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

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

Impairment of financial assets and loan commitment

The Group recognises loss allowances for ECL on:

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

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

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

Notes to the Consolidated Financial Statements
As at 31 December 2021

4. IGNIFICANT ACCOUNTING POLICIES (continued)

d. Financial assets and liabilities (continued)

Significant increase in credit risk

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

The Group assumes that the credit risk on a financial asset has increased significantly since initial recognition if contractual payments are past due more than 14 days. This assumption will always hold true unless the Bank can prove, through reasonable and fact-based information, the risk has not increased significantly after being past due more than 14 days.

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

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

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

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

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

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

Measurement of ECLs

The Group recognises loss allowances for ECL on social loans, commercial loans, balances with banks, debt securities and loan commitments. Loss allowance for ECL relating to social loans are reimbursement by the government of Bahrain pursuant to agreement with MOH (note 13 k) and total allowance are presented net of these reimbursement in the statement of profit or loss and other comprehensive income.

The Group applies a three-stage approach to measuring expected credit losses (ECL) on financial assets carried at amortised cost, debt securties at FVOCI and loan commitments. These items migrate through the following three stages based on the change in credit quality since initial recognition.

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements
As at 31 December 2021

4. IGNIFICANT ACCOUNTING POLICIES (continued)

d. Financial assets and liabilities (continued)

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

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

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

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

Credit-impaired financial assets

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise; or it is probable that the borrower will enter bankruptcy or other financial reorganization.

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

Presentation of allowance for ECL in the statement of financial position

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

Write-off

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

Modification of financial assets

For modification of financial assets arising from the recently issued CBB circulars on regulatory concessionary measures in response to COVID-19, refer to note 2 (a) and 3.

The below accounting policies is applicable for all other modification of financial assets:

If the modification of a financial asset measured at amortized cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognizes the resulting adjustment as a modification gain or loss in profit or loss.

Restructured exposures

Restructured exposures due to credit risk reasons are classified as stage 2 for a minimum period of 12 months from the date the restructured facility is performing. If the terms of an exposures subject to credit risk are renegotiated or modified or an existing exposures subject to credit risk is replaced with a new one due to financial difficulties of the borrower, the exposures subject to credit risk should be derecognized and ECL is calculated using the cash shortfalls from the existing exposures subject to credit risk that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing exposures subject to credit risk.

Notes to the Consolidated Financial Statements
As at 31 December 2021

4. IGNIFICANT ACCOUNTING POLICIES (continued)

d. Financial assets and liabilities (continued)

ii. Financial liabilities

Initial recognition and measurment

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

Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense relating to term loans are reimbursement by the government of Bahrain pursuant to agreement with MOH (note 13 q) and total interest expense are presented net of these reimbursement in the statement of profit or loss and other comprehensive income. Other interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Derecognition

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

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

e. Impairment of non financial assets

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

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

f. Offsetting of financial instruments

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

g. Government accounts

Transactions with the MOF and the MOH are recorded by the Group as financial liabilities under caption " government accounts". Government accounts are non interest bearing and are not payable on demand.

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

Notes to the Consolidated Financial Statements
As at 31 December 2021

4. IGNIFICANT ACCOUNTING POLICIES (continued)

h. Fair values

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

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

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

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

i. Income recognition

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

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

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

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

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

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

Interest income

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

Rental income

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

Service income

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

Dividend income

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

Revenue from sale of development properties

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

Notes to the Consolidated Financial Statements
As at 31 December 2021

4. IGNIFICANT ACCOUNTING POLICIES (continued)

j. Employee benefits

i. Short-term benefits

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

ii. Post-employment benefits

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

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

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

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

k. Development properties

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

l. Investment properties

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

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

m. Provisions

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

n. Contingent liabilities and contingent assets

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

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

o. Statutory Reserve

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

p. Islamic Banking:

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

Notes to the Consolidated Financial Statements
As at 31 December 2021

4. IGNIFICANT ACCOUNTING POLICIES (continued)

q. Commingling of funds:

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

r. Government grants:

Government grants are recognized when there is reasonable assurance that the entity will comply with the relevant conditions and the grant will be received. Grants are recognised as other income in profit or loss on a systematic basis as the Group recognizes as expenses the costs that the grants are intended to compensate. Grants that relate to the acquisition of an assets are recognised in profit or loss as the assets is depreciated or amortised.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

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

Judgment

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

Expected credit Losses

The economic uncertainties caused by COVID-19, and the volatility in oil prices have required the Group to update the inputs and assumptions used for the determination of ECL as at 31 December 2021. ECL were estimated based on a range of forecast economic conditions as at that date and considering that the situation is fast evolving, the Group has considered the impact of higher volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination.

Scenario analysis has been conducted with various stress assumptions taking into consideration all model parameters i.e. probability weighting of economic scenarios, probability of default, loss given default, exposure of default and period of exposure. Each customer within the Group's loan portfolio are employed or exposed to various industries and sectors, ranging from industries and sectors vulnerable the outbreak to industries and sectors having strong financial standing to withstand the downturn and the qualitative adjustments have been considered accordingly. Given the fact that the client base is primarily based in Bahrain, all Government relief efforts to mitigate the impact of COVID-19 will also have a mitigating impact on ECL assessment. The Group has factored the impact of these efforts into its ongoing ECL assessment.

The judgements and associated assumptions have been made within the context of the impact of COVID-19 and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. In relation to COVID-19, judgements and assumptions include the extent and duration of the pandemic, the impacts of actions of governments and other authorities, and the responses of businesses and consumers in different industries, along with the associated impact on the global economy. Accordingly, the Group's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

Significant increase in credit risk (SICR)

A SICR occurs when there has been a significant increase in the risk of a default occurring over the expected life of a financial instrument. In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a financing facility, which would result in the financial asset moving from 'stage 1' to 'stage 2'.

The Group continues to assess borrowers for other indicators of unlikeliness to pay, taking into consideration the underlying cause of any financial difficulty and whether it is likely to be temporary as a result of COVID-19 or longer term.

During 2020, in accordance with the cabinet of ministers issued resolution No. 2556-02 on 4 May 2020 the Group has granted payment holidays to all customers by deferring up to six months instalments with effect from April 2020. These deferrals are considered as short-term liquidity to address borrower cash flow issues. The relief offered to customers may indicate a SICR. However, the Group believes that the extension of these payment reliefs does not automatically trigger a SICR and a stage migration for the purposes of calculating ECL, as these are being made available to assist borrowers affected by the COVID-19 outbreak to resume regular payments. At this stage sufficient information is not available to enable the Group to individually differentiate between a borrowers' short-term liquidity constraints and a change in its lifetime credit risk.

Notes to the Consolidated Financial Statements
As at 31 December 2021

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Reasonableness of Forward Looking Information

Judgement is involved in determining which forward looking information variables are relevant for particular financing portfolios and for determining the sensitivity of the parameters to movements in these forward-looking variables. The Group derives a forward looking "base case" economic scenario which reflects the Group's view of the most likely future macro-economic conditions. Any changes made to ECL to estimate the overall impact of COVID-19 is subject to high levels of uncertainty as limited forward-looking information is currently available on which to base those changes.

The Group has previously performed historical analysis and identified key economic variables impacting credit risk and ECL for each segment, applying expert judgement in this process. These economic variables and their associated impact on PD, EAD and LGD vary by customer segment. Forecast of these economic variables (the "base, upside and downside economic scenario") are obtained externally on an annual basis, unless there is significant change in credit risk.

Macro-economic variables are checked for correlation with the probability of default and only those variables for which the movement can be rationalised statistically are used. Stress has been applied on existing macro-economic variable in ECL review exercise. However, many of the macroeconomic variables which were used in the ECL model are still updated or published by external agencies or government agencies. Therefore, ECL models have not been fully updated to reflect all external forward looking variables and management judgement has been used.

Probability weights

Management judgement is involved in determining the probability weighting of each scenario considering the risks and uncertainties surrounding the base case scenario.

In light of the current uncertain economic environment, the Group has re-assessed the scenario weighting to reflect the impact of current uncertainty in measuring the estimated credit losses for the period ended 31 December 2021 In making estimates, the Group assessed a range of possible outcomes by stressing the previous basis (that includes upside, base case and downside scenarios)."

The increase in the downturn weighting of the macro economic scenario and the management overlays has resulted in an additional ECL for the Group. The impact of such uncertain economic environment is judgmental and the Group will continue to reassess its position and the related impact on a regular basis.

As with any economic forecasts, the projections and likelihoods of the occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projections.

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.

Equity accounted investee

Whether the Group has significant influence over an investee. Refer to note 9 and 2 (g).

Consolidation

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

Lease term

Whether the Group is reasonably certain to exercise extension options. Refer to note 4 (a)

Classification of finanical assets

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding. (refer to section "business model assessment" in note 4 d (i)))

Impairment of financial assets and loan commitment

Refer to section ""impairment of financial assets and loans commitment"" in note 4 d (i).

Notes to the Consolidated Financial Statements
As at 31 December 2021

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimate

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

Net realisable value of development property

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

Fair value measurement

Measurement of fair value instruments with significant unobservable input. Refer to note 25.

Inputs, assumptions and techniques used for estimating impairment

Refer to section ""impairment of financial assets and loan commitment"" in note 4 d (i) (also refer to related judgment section above).

6. CASH AND BANK BALANCES

	2021 BD	2020 BD
Cash in hand	**110,985**	122,550
Balances with banks	**1,135,209**	4,555,105
Balances with the CBB	**709,114**	804,128
Placements with banks and other institutions	**17,030,510**	3,853,347
Placements with the CBB (with an original maturity of 90 days or less)	**66,500,000**	20,800,000
	85,485,818	30,135,130
Less: impairment loss	**(14,274)**	(31,042)
Total cash and bank balances	**85,471,544**	30,104,088
Less: Restricted bank balance *	**(351,000)**	-
Less: Placements (with an original maturity of more than 90 days)	**(5,049,358)**	(825,528)
Total cash and cash equivalents**	**80,071,186**	29,278,560

* See note 15.2

** The balances at 31 December 2021 and 31 December 2020 are net of the expected credit loss of BD 4,855 and BD 3,223 respectively.

Notes to the Consolidated Financial Statements
As at 31 December 2021

7. INVESTMENTS

	Equity securities FVOCI	Debt securities Amortised cost	Total
At 1 January 2021	**3,552,018**	**1,218,476**	**4,770,494**
Purchases during the year	**-**	**2,996,624**	**2,996,624**
Matured during the year	**-**	**(622,533)**	**(622,533)**
	3,552,018	**3,592,567**	**7,144,585**
Net change in fair value	**78,219**	**-**	**78,219**
At 31 December 2021	**3,630,237**	**3,592,567**	**7,222,804**

	Equity securities FVOCI	Debt securities Amortised cost	Total
At 1 January 2020	3,786,088	1,083,498	4,869,586
Purchases during the year	-	622,533	622,533
Matured during the year	-	(487,555)	(487,555)
	3,786,088	1,218,476	5,004,564
Net change in fair value	(234,070)	-	(234,070)
At 31 December 2020	3,552,018	1,218,476	4,770,494

8. LOANS

		2021 BD	2020 BD
i. Social loans			
Gross loans		**1,089,694,810**	1,035,167,554
Less: subsidy and waivers	note 13 (i)	**(261,747,963)**	(245,057,487)
		827,946,847	790,110,067
Less: expected credit loss	note 13 (J)	**(83,087,774)**	(46,039,005)
		744,859,073	744,071,062
ii. Commercial loans			
Gross loans		**7,547,411**	8,752,864
Less: expected credit loss		**(2,736,890)**	(1,963,787)
		4,810,521	6,789,077
Total loans		**749,669,594**	750,860,139

Notes to the Consolidated Financial Statements
As at 31 December 2021

8. LOANS (continued)

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

31 December 2021:

a. Social loans:

	Stage 1 BD	Stage 2 BD	Stage 3 BD	Total BD
Exposure subject to ECL				
Social loans (net of subsidy and waivers)	666,176,053	73,613,084	88,157,710	827,946,847
Expected credit loss				
At 1 January	3,221,511	9,966,542	32,850,952	46,039,005
Net transfer between stages	2,841,773	2,866,197	(5,707,970)	-
Write off during the year	(10,525)	(428,336)	(11,440,944)	(11,879,805)
Charge for the year (note 21)	3,722,572	8,024,968	37,181,034	48,928,574
At 31 December	9,775,331	20,429,371	52,883,072	83,087,774
Net carrying value	656,400,722	53,183,713	35,274,638	744,859,073

b. Commercial loans:

	Stage 1 BD	Stage 2 BD	Stage 3 BD	Total BD
Exposure subject to ECL				
Commercial loans	4,036,907	585,367	2,925,137	7,547,411
Expected credit loss				
At 1 January	52,464	105,281	1,806,042	1,963,787
Net transfer between stages	88,279	(46,112)	(42,167)	-
(Release) / charge for the year (note 21)	(97,171)	27,539	842,735	773,103
At 31 December	43,572	86,708	2,606,610	2,736,890
Net carrying value	3,993,335	498,659	318,527	4,810,521
Total net carrying value	660,394,057	53,682,372	35,593,165	749,669,594

31 December 2020:

(a) Social loans:

	Stage 1 BD	Stage 2 BD	Stage 3 BD	Total BD
Exposure subject to ECL				
Social loans (net of subsidy and waivers)	639,193,488	85,223,368	65,693,211	790,110,067
Expected credit loss				
At 1 January	1,004,902	4,073,569	29,033,258	34,111,729
Net transfer between stages	1,403,171	(1,497,522)	94,351	-
Write off during the year	(1,149)	(11,086)	(926,705)	(938,940)
Charge for the year (note 21)	814,587	7,401,581	4,650,048	12,866,216
At 31 December	3,221,511	9,966,542	32,850,952	46,039,005
Net carrying value	635,971,977	75,256,826	32,842,259	744,071,062

Notes to the Consolidated Financial Statements
As at 31 December 2021

8. LOANS (continued)

b. Commercial loans:

	Stage 1 BD	Stage 2 BD	Stage 3 BD	Total BD
Exposure subject to ECL				
Commercial loans	4,853,050	703,099	3,196,715	8,752,864
Expected credit loss				
At 1 January	16,414	43,522	1,519,747	1,579,683
Net transfer between stages	73,443	(9,551)	(63,892)	-
(Release) / charge for the year (note 21)	(37,393)	71,310	350,187	384,104
At 31 December	52,464	105,281	1,806,042	1,963,787
Net carrying value	4,800,586	597,818	1,390,673	6,789,077
Total net carrying value	640,772,563	75,854,644	34,232,932	750,860,139

c. Social loans

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

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

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

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

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

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

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

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

vi. On 26 February 2011, His Majesty, King Hamad Bin Isa Bin Salman Al Khalifa, announced a waiver of 25% ("2011 Reduction") on installments of social loans and a 25% reduction on outstanding balances of housing units and flats.

9. INVESTMENT IN ASSOCIATE

	2021 BD	2020 BD
At 1 January	**4,412,686**	4,339,694
Additional investment in an associate	**43,856**	122,684
Share of profit	**253,495**	150,051
Dividend received	**(186,321)**	(122,274)
Impairment	**(334,425)**	(77,469)
At 31 December	**4,189,291**	4,412,686

Notes to the Consolidated Financial Statements
As at 31 December 2021

9. INVESTMENT IN ASSOCIATE (continued)

The principal associate of the Group is:

Name	*Country of Incorporation*	*Carrying Value* 2021 BD	2020 BD
Eskan Bank Reality Income Trust (EBRIT)	Kingdom of Bahrain	**4,189,291**	4,412,686
		4,189,291	4,412,686

Name	*Nature of activities*	*Ownership for* 2021	2020
Eskan Bank Reality Income Trust (EBRIT)	A real estate investment trust operating and managing real estate assets.	**36.25%**	35.95%

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

	2021 (unaudited) BD	2020 (unaudited) BD
Summarised statement of financial position		
Non-current assets	**10,965,000**	12,103,812
Current assets	**880,423**	849,677
Current liabilities	**(242,570)**	(294,201)
Net assets	**11,602,853**	12,659,288
Proportion of the Group's ownership	**36.25%**	35.95%
Group's ownership in equity	**4,205,602**	4,551,464
Other adjustments	**(16,311)**	(138,778)
Carrying amount of the investment	**4,189,291**	4,412,686

Shares of Eskan Bank Reality Income Trust are listed on the Bahrain Stock Exchange and its quoted price as on 31 December 2021 was 73 fils (2020: 63.94 fils). The fair value of the investment based on this quoted price is BD 5.24 million (2020: BD 4.55 million).

10. INVESTMENT PROPERTIES

	2021 BD	2020 BD
Balance at 1 January	**50,021,327**	50,498,034
Transfer of lands by the government (note 13 (p))	**9,000,000**	-
Land compensation (note 19.2)	**676,000**	-
Transfer of land by the shareholder	**105,000**	337,700
Impairment loss on land (note 21)	**(104,137)**	(654,784)
Depreciation charge for the year	**(223,880)**	(159,623)
Balance at 31 December	**59,474,310**	50,021,327

Notes to the Consolidated Financial Statements
As at 31 December 2021

10. INVESTMENT PROPERTIES (continued)

Investment properties comprise the following:

	2021 BD	2020 BD
Land at Bander Al-Seef	**29,296,874**	29,296,874
Land at Sanabis	**2,571,508**	2,571,508
Land at Hamad town	**11,757,402**	11,757,402
Land at Muharraq	**9,023,519**	23,519
Land at Saar	**1,903,251**	1,903,251
Land at Dumistan	**676,000**	-
Land at Salmabad	**109,631**	109,631
Land at Safra	**99,522**	99,522
Land at Zallaq	**89,000**	89,000
Land at Madinat Khalifa	**210,700**	210,700
Land at Hoora	**232,000**	127,000
Shops (net of accumulated depreciation)	**5,994,225**	6,218,105
	61,963,632	52,406,512
Impairment loss on lands	**(2,489,322)**	(2,385,185)
	59,474,310	50,021,327

	2021 BD	2020 BD
Vacant land:		
Cost	**55,969,407**	46,188,407
Impairment loss	**(2,489,322)**	(2,385,185)
	53,480,085	43,803,222
Shops:		
Cost	**7,918,155**	7,918,155
Accumulated Depreciation	**(1,923,930)**	(1,700,050)
	5,994,225	6,218,105
	59,474,310	50,021,327

The fair value of investment properties, based on independent market valuations, as at 31 December 2021 was BD183 million (2020 BD: 144 million).

The valuations were performed by independent valuers accredited by Real Estate Regulatory Authority (RERA) with recognised and relevant professional qualifications and with recent experience in the location and category of the investment properties being valued.

The Group's investment properties are categorised in level 2 of the fair value hierarchy as at 31 December 2021 and 31 December 2020. 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 2021 and 31 December 2020.

Notes to the Consolidated Financial Statements
As at 31 December 2021

11. DEVELOPMENT PROPERTIES

	2021 BD	2020 BD
Balance at 1 January	**18,372,042**	29,986,294
Additions during the year	**2,578,736**	2,343,746
Properties sold during the year	**(6,933,998)**	(13,471,612)
Impairment loss	**(237,327)**	(486,386)
Balance at 31 December	**13,779,453**	18,372,042

Development properties comprise the following:

	2021 BD	2020 BD
Projects for lease	**1,427,474**	926,791
Projects for sale	**12,351,979**	17,445,251
	13,779,453	18,372,042

12. OTHER ASSETS

		2021 BD	2020 BD
Advance for acquisition	12 (a)	**8,879,051**	-
Advance for acquisition of development properties	12 (b)	**2,900,000**	-
Right-of-use assets		**568,424**	800,414
Equipment and intangibles (net book value)		**745,310**	702,656
Interest receivable		**388,627**	802,274
Staff loans		**328,009**	310,821
Balance with investment manager		**179,012**	178,543
Prepayments and advances		**206,591**	113,611
Other receivables		**60,025**	117,487
Receivable from sale of development properties		**138,750**	191,150
		14,393,799	3,216,956

Note 12 (a)

During the year, the Bank has entered into share purchase agreement with the non-controlling shareholder of Dannat Al Luzi B.S.C (c) (the "Subsidiary") to acquire the remaining stake (44.12%) in the Subsidiary. The effective closing date of the transaction is contingent upon satisfaction of certain conditions which have not been met as of date of these consolidated financial statements.

Note 12 (b)

During the year, the Bank paid advance to purchase development properties. The transaction is expected to complete upon handover of the properties and transfer of title deed.

Notes to the Consolidated Financial Statements
As at 31 December 2021

13. GOVERNMENT ACCOUNTS

	Note	2021 BD	2020 BD
At 1 January		**463,754,199**	467,234,756
Movement during the year:			
Social loans budgetary support	(a)	**20,000,000**	-
Waiver reimbursements	(b)	**4,000,000**	4,000,000
Collection from MOH rental flats	(c)	**570,023**	633,451
Reduction and write off decrees	(d & e)	**(15,543,277)**	(5,868,317)
Rental subsidy – net impact	(f)	**122,810**	4,487,778
Mazaya subsidy – net impact	(g)	**616,371**	4,693,660
Payment to Government	(h)	**(10,000,000)**	(10,000,000)
MOH houses and flats	(i)	**103,337,484**	70,688,790
Waivers and subsidy	(j)	**(39,074,385)**	(22,342,520)
Expected credit loss for social loans	(k)	**(48,928,574)**	(11,927,276)
Charge-off – social loans	(l)	**(11,354,901)**	(750,506)
Modification loss - social loans	(m)	**-**	(15,082,759)
Advance from sale of Deerat Al Oyoun units	(n)	**(5,103,497)**	9,742,131
Settlement of receivable for Deerat Al Oyoun project	(o)	**-**	(27,000,000)
North Muharaq Land (Al Ferjan District Rehabilitation)	(p)	**9,000,000**	-
Finance cost relating to syndicated term loan	(q)	**(2,520,584)**	(3,664,462)
Others	(r)	**309,169**	(1,090,527)
At 31 December		**469,184,838**	463,754,199

a) Budgetary support received from the MOF for disbursement of new social housing loans.

b) Annual reimbursement received for 2006 waiver decree.

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

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

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

f) Reimbursement net of monthly rental subsidy to beneficiaries based on MOH approved list. Disbursements of BD 100 monthly Rental Subsidy is now centralized with MOFNE with effect from January 2020.

g) Reimbursement paid for monthly Mazaya subsidy to beneficiaries based on MOH approved list.

h) Represents payments to Ministry of Finance vide Board of Directors of the Bank approval dated 9 December 2021 (2020: 20 May 2020).

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

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

k) In line with the agreement signed with MOH on 23 December 2017, the expected credit loss on social loans portfolio is borne by the Government with effect from 1 January 2018. Reduction in provision on social loans under IFRS 9, if any is charged back to the government account.

l) This is a specific charge off related to troubled social loans with minimal chances of recovery. The movement in the account represents the new social loans charged off net of recoveries (BD 0.9 million) and write backs (BD 1 million) during the year. This charge-off does not entail closure of beneficiary account and all the applicable remedial procedures will continue to be apply.

Notes to the Consolidated Financial Statements
As at 31 December 2021

13. INVESTMENT IN ASSOCIAT (continued)

m) Represent modification loss arising from deferment of six-months loan installment payments for all social customers pursuant to cabinet of ministers resolution No 2556-02. In line with agreement with MOH dated 23 December 2017, any losses arising from social loans due to accounting or regulatory requirements are borne by the Government and charged to the government account.

n) Advance from customers from sale of Deerat Al Oyoun units net of expenses incurred for the sale of units.

o) During 2018, the Group made payment of BD 53 million towards the acquisition of social housing units based on MOH instructions out of which BD 27 million was transferred to receivable amount to be reimbursed by MOH during the period 2019-2021. In 2020, it was agreed to settle the financing agreement for the receivable amount through a reduction from the Government account.

p) The Government of Bahrain has allocated 3 land plots at North Muharaq to the Bank with a total value of BD 9 million. The Bank agreed with MOH to pay equivalent amount for rehabiltation of MOH related projects (Ferjan project).

q) In line with agreement signed with MOH on 23 December 2017, all finance cost (i.e. interest expense / profit and other finance fees on the syndicated bank term loan) relating to social housing project shall be borned and charged to the government account (refer note 18 and 14).

r) Includes other payments, reimbursments on expenses / transactions undertaken by the Bank on behalf of MOFNE / MOH.

14. TERM LOANS

	2021 BD	2020 BD
Syndicated bank term loan *	**75,000,000**	45,000,000
At 31 December	**75,000,000**	45,000,000

	2021 BD	2020 BD
Non - current portion of term loan	**75,000,000**	45,000,000
	75,000,000	45,000,000

In May 2020, the Group signed a syndicated Murabaha Facility for financing the social loans and housing projects. It comprises of BD 75 million term Murabaha Facility and BD 75 million revolving Murabaha facility, out of which BD 75 million is utilized as of 31 December 2021 (31 December 2020: BD 45 million). Both the term and revolving Murabaha Facilities are repayable as a bullet repayment on 17 May 2027. These facilities bear profit payable at BHIBOR plus a margin of 2.75% for the first 60 months then after that at 3% till the final maturity date. Profit on syndicated term loan is borne by the Government as per agreement signed with Ministry of Housing dated 23 December 2017 and charged to government account (refer note 13 q).

15. OTHER LIABILITIES

	Note	**2021 BD**	2020 BD
Accrued expenses		**1,256,111**	1,568,921
Contractor retentions		**740,999**	649,478
Employee savings scheme		**1,366,956**	1,373,013
Lease liabilities	15.1	**626,805**	853,619
Advances from customers		**873,000**	335,610
Accounts payable		**163,995**	159,528
Staff related accruals		**517,519**	516,679
Accrued interest payable		**163,096**	63,254
Others	15.2	**825,129**	519,036
		6,533,610	6,039,138

Notes to the Consolidated Financial Statements
As at 31 December 2021

15. OTHER LIABILITIES (continued)

15.1 LEASE LIABILITIES

	2021 BD	2020 BD
Maturity analysis – contractual undiscounted cash flow		
Less than one year	**226,071**	244,935
More than one year	**452,141**	734,806
Total undiscounted lease liabilities at end of year	**678,212**	979,741
Total discounted lease liabilities at end of year	**626,805**	853,619

15.2 Includes proceeds from sale of one project on behalf of third party BD 351,000 (31 December 2020: nil).

16. SHARE CAPITAL

	Number of shares	2021 BD
31 December 2021		
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	2020 BD
31 December 2020		
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

	2021	2020
Interest income on social loans	**32,682,729**	30,896,037
Interest income on commercial loans	**583,168**	672,116
Interest income on placements with financial institutions	**641,937**	346,546
Interest income on debt securities	**39,309**	86,509
	33,947,143	32,001,208

18. INTEREST EXPENSE

	2021 BD	2020 BD
Interest expense on term loans	**2,520,584**	3,802,546
Interest expense on interbank borrowing	**24,956**	37,961
Interest expense on leased agreements	**45,891**	65,900
Other interest and similar expense	**40,653**	45,258
	2,632,084	3,951,665
Reimbursement from Government, note 13 (q)	**(2,520,584)**	(3,664,462)
	111,500	287,203

Notes to the Consolidated Financial Statements
As at 31 December 2021

19. INCOME FROM PROPERTIES

	2021 BD	2020 BD
Revenue from sale of development properties	**8,953,300**	17,046,800
Cost of development properties sold	**(6,933,998)**	(13,471,612)
Gain on sale of development properties (note 19.1)	**2,019,302**	3,575,188
Rental income - net	**510,137**	417,726
Land compensation income (note 19.2)	**676,000**	-
	3,205,439	3,992,914

Note 19.1

During the year, the Group has recorded gain on sale of development properties upon satisfaction of the performance obligations i.e. complete construction and hand over of the properties to the customers.

Note 19.2

39% of Danat Al luzi raw land was availed to the Government of Bahrain as part of the sub-division approval for the project. By law, a developer is eligible for compensation, if more than 30% of raw land is deducted for services. During the year, the Group received compensation from the Urban Planning & Development Authority in the form of 4 land plots with a total value of BD 676,000.

20. OTHER EXPENSES

	2021 BD	2020 BD
Depreciation and amortization	**553,237**	537,794
Legal and professional	**240,312**	310,149
Information technology	**265,353**	264,929
Marketing cost	**173,050**	170,191
Directors' and Shari'ah board remuneration	**89,463**	98,197
Investment Management Cost	**100,233**	66,809
Transportation and communication	**87,666**	78,485
Premises	**70,595**	74,194
Property management	**221,964**	136,204
Electricity	**55,148**	56,459
Insurance	**18,872**	6,518
Others	**122,895**	102,928
	1,998,788	1,902,857

Notes to the Consolidated Financial Statements
As at 31 December 2021

21. NET IMPAIRMENT LOSS

	2021 BD	2020 BD
Charge for the year - social loans	**(48,928,574)**	(12,866,216)
Charge for the year - commercial loans	**(773,103)**	(384,104)
Charge for the year - other receivables	**(110,575)**	(24,245)
Release / (charge) for the year - bank balances	**16,768**	(25,522)
Net impairment loss - expected credit loss	**(49,795,484)**	(13,300,087)
Charge for the year - investment properties	**(104,137)**	(654,784)
Charge for the year - development properties	**(237,327)**	(486,386)
Charge for the year - investment in associate	**(334,425)**	(77,469)
	(50,471,373)	(14,518,726)
Reimbursement from Government on social loans, note 13 (k)	**48,928,574**	12,866,216
	(1,542,799)	(1,652,510)

22. COMMITMENTS AND CONTINGENCIES

	2021 BD	2020 BD
Commitments		
Housing loan commitments approved by MOH (note 22.1)	**18,668,900**	11,419,897
Commitments - development properties	**14,587,680**	3,420,582
Commercial Loan commitments	**-**	62,541
	33,256,580	14,903,020

Note 22.1

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

Contingencies

There are no claims against the Bank in 2021 (2020: nil). Based on the opinion of the Bank's legal advisors, no provision is required as assessed by management.

23. RELATED PARTY TRANSACTIONS

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

The Group's transactions with related parties comprise transactions with the shareholder represented by (the MOFNE and the MOH) and transactions with subsidiaries, associates, key management personnel and board of directors, in the ordinary course of business. Balances and transactions with Government and investments in associates are disclosed on the face of the consolidated statement of financial position and consolidated statement profit or loss and other comprehensive income and the notes therein.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel of the Group comprise the General Manager, Chief Business Officer, Head of Finance, Head of Risk and executive management of the Group.

Notes to the Consolidated Financial Statements
As at 31 December 2021

23. RELATED PARTY TRANSACTIONS (continued)

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

	31 December 2021			
	Shareholder	Associate	Directors	Key management
Assets				
Loans	-	-	24,743	28,729
Investments in associate	-	4,189,291	-	-
Other assets	-	3,938	500	57,714
Liabilities				
Current accounts	-	-	2,235	2,946
Government account**	469,184,838	-	-	-
Other liabilities	-	-	20,284	308,881

*During the year, the shareholder transferred land plot to the Bank amounting to BD 105,000 (2020: BD 337,700)

**Include modification loss arising from social loan portfolio charged in 2020 of 15.1 million and expected credit loss on social loan portfolio for the year of BD 48.9 million (2020: BD 11.9 million) (refer note 13 (m & k)).

	For the year ended 31 December 2021			
	Shareholder	Associate	Directors	Key management
Share of profit of associates	-	253,495	-	-
Fees and commission	303,469	15,000	-	-
Staff cost	-	-	-	1,057,422
Other expense	-	100,233	-	-
Impairment provision	-	334,425	-	-
Directors' and Shari'ah board remuneration and sitting fees	-	-	89,463	-

	31 December 2020			
	Shareholder	Associate	Directors	Key management
Assets				
Loans	-	-	27,537	31,911
Investments in associate	-	4,412,686	-	-
Other assets	-	1,313	-	57,031
Liabilities				
Current accounts	-	-	1,855	861
Government account	463,754,199	-	-	-
Other liabilities	-	-	21,784	248,100

Notes to the Consolidated Financial Statements
As at 31 December 2021

23. RELATED PARTY TRANSACTIONS (continued)

	For the year ended 31 December 2020			
	Shareholder	Associate	Directors	Key management
Share of profit of associates	-	150,051	-	-
Fees and commission	110,616	23,750	-	-
Staff cost	-	-	-	1,052,963
Other expense	-	66,809	-	-
Impairment provision	-	77,469	-	-
Directors' and Shari'ah board remuneration and sitting fees	-	-	98,197	-

24. CLASSIFICATION OF FINANCIAL INSTRUMENTS

At 31 December 2021	Amortised cost BD	FVOCI BD	Total BD
Financial assets			
Cash and bank balances	85,471,544	-	85,471,544
Investments	3,592,567	3,630,237	7,222,804
Loans	749,669,594	-	749,669,594
Other assets	12,873,474	-	12,873,474
	851,607,179	3,630,237	855,237,416

	Amortised cost BD	Total BD
Financial liabilities		
Deposits from financial and other institutions	10,000,000	10,000,000
Government accounts	469,184,838	469,184,838
Term loans	75,000,000	75,000,000
Customer current accounts	8,546,855	8,546,855
Other liabilities	6,533,610	6,533,610
	569,265,303	569,265,303

Notes to the Consolidated Financial Statements
As at 31 December 2021

24.CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

At 31 December 2020	Amortised cost BD	FVOCI BD	Total BD
Financial assets			
Cash and bank balances	30,104,088	-	30,104,088
Investments	1,218,476	3,552,018	4,770,494
Loans	750,860,139	-	750,860,139
Other assets	1,600,275	-	1,600,275
	783,782,978	3,552,018	787,334,996

	Amortised cost BD	Total BD
Financial liabilities		
Deposits from financial and other institutions	10,000,000	10,000,000
Government accounts	463,754,199	463,754,199
Term loans	45,000,000	45,000,000
Customer current accounts	2,102,687	2,102,687
Other liabilities	6,039,138	6,039,138
	526,896,024	526,896,024

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

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

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

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

Fair value estimates are made at a specific point in time, based on market conditions and information about the investee companies. These estimates involve uncertainties and matters of significant judgment and therefore, cannot be determined with precision. There is no certainty about future events (such as continued operating profits and financial strengths). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments (also refer to note 3 for possible effect of COVID-19).

Notes to the Consolidated Financial Statements

As at 31 December 2021

25.FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

Valuation technique	Key variable	Sensitivity	Impact on FV 2021	Impact on FV 2020
Market multiple	Price / Sale	25%	80,960	49,633
Market multiple	Enterprise value / Sale	25%	95,303	65,578
Market multiple	Price / Book	25%	339,552	1,001,168

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, market risk and operational risk.

Risk management framework

Board of Directors

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

Risk Management Committee

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

Risk Management Department

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

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

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

Board Audit and Risk Committee

The Board Audit and Risk 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 Board Audit and Risk 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.

Notes to the Consolidated Financial Statements

As at 31 December 2021

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, placements with financial institutions and receivables.

Monitoring of credit risk

Generating the term structure of PD

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

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

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

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

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

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

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

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 14 day past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

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

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

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

Notes to the Consolidated Financial Statements

As at 31 December 2021

26.RISK MANAGEMENT (continued)

Monitoring of credit risk (continued)

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

Key macro-economic indicators include: Real GDP growth, inflation, volume of imports and exports of goods and services, unemployment rate, general government revenue and expenditure, domestic credit growth, general government gross debt, oil price, total investments and gross national savings as percentage of GDP.

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

Significant increase in credit risk

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

COVID-19

The uncertainties due to COVID-19 and resultant economic volatility has impacted the Group's financing operations and is expected to affect most of the customers working in different sectors to some degree. Although it is difficult to assess at this stage the degree of impact faced by customers working in each sector, the main industries impacted are hospitalities, tourism, leisure, airlines/transportation and retailers. In addition, some other industries are expected to be indirectly impacted such as contracting, real estate and wholesale trading. Also the volatility in oil prices during the early part of 2020, will have a regional impact due to its contribution to regional economies.

The risk management department has also enhanced its monitoring of loans portfolio by reviewing the performance of exposures to segments expected to be directly or indirectly impacted by COVID-19 to identify potential Significant Increase in Credit Risk (SICR) on a qualitative basis.

The Group has updated its inputs and assumptions for computation of Expected Credit Losses (ECL) (refer to note 5).

i. Management of credit risk

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

Housing loans under Ministry's Housing Loan Program

The decision to grant the loan is determined by the Ministry of Housing and communicated to the Group to make disbursements to the borrowers. There is credit risk to the Group arising out of these loans. Losses, if any, arising from the impairment of such loans can be claimed from the Government. The Group monitors the sanctioned housing loans regularly and non performing loans are aggressively pursued by the Group and are written-off based on ministerial order. The housing loans under the Ministry's Housing Loan Program as at 31 December 2021 is BD 745 million (31 December 2020: BD 744 million).

Other loans

Housing loans extended on a commercial basis to individuals are under a retail lending program approved by the Board of Directors with specific credit criteria being required to be met. Prior to the approval of a credit proposal, a detailed credit risk assessment is carried out to ensure that the loan proposal meets certain pre-approved credit criteria. Commercial loans have been discontinued by the Group in 2015.

Notes to the Consolidated Financial Statements
As at 31 December 2021

26.RISK MANAGEMENT (continued)

ii. Maximum exposure to credit risk

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

	Gross maximum exposure 2021 BD	Gross maximum exposure 2020 BD
Balances and placements with CBB and other financial institutions	**85,374,833**	30,012,580
Loans - social loans	**827,946,847**	790,110,067
Loans - commercial loans	**7,547,411**	8,752,864
Investments in debt securities	**3,592,567**	1,218,476
Other receivables	**13,188,779**	1,805,006
	937,650,437	831,898,993

There were BD 51.3 million renegotiated loans during the year ended 31 December 2021 (2020: BD 0.1 million).

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 2021 is nil (31 December 2020: nil).

iii. Collateral

The Group holds collateral against loans in the form of mortgages on residential property. Management assessed that collateral value is above carrying value. Collateral is not usually held against placements.

The Group did not take possession of any collateral as a result of a default during either the year ended 31 December 2021 or 31 December 2020

iv. Credit quality per class of financial assets

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

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

A. Social loans

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Current	**666,134,525**	**47,875,442**	**36,283,329**	**750,293,296**
1 - 14 days	**41,528**	**77,139**	**138,910**	**257,577**
15 - 59 days	**-**	**18,050,388**	**4,341,204**	**22,391,592**
60 - 89 days	**-**	**7,610,115**	**3,789,134**	**11,399,249**
90 days - 1 year	**-**	**-**	**43,596,909**	**43,596,909**
1 year - 3 years	**-**	**-**	**8,224**	**8,224**
Gross carrying value	**666,176,053**	**73,613,084**	**88,157,710**	**827,946,847**
Expected credit loss	**(9,775,331)**	**(20,429,371)**	**(52,883,072)**	**(83,087,774)**
Net carrying value	**656,400,722**	**53,183,713**	**35,274,638**	**744,859,073**

Notes to the Consolidated Financial Statements

As at 31 December 2021

26.RISK MANAGEMENT (continued)

a) Credit risk (continued)

B. Commercial loans

	2021			
	Stage 1	Stage 2	Stage 3	Total
Current	3,757,229	200,608	152,227	4,110,064
1 - 14 days	279,678	28,628	-	308,306
15 - 59 days	-	327,331	21,205	348,536
60 - 89 days	-	28,800	-	28,800
90 days - 1 year	-	-	451,796	451,796
1 year - 3 years	-	-	649,771	649,771
3 year - 5 years	-	-	617,291	617,291
More than 5 years	-	-	1,032,847	1,032,847
Gross carrying value	4,036,907	585,367	2,925,137	7,547,411
Expected credit loss	(43,572)	(86,708)	(2,606,610)	(2,736,890)
Net carrying value	3,993,335	498,659	318,527	4,810,521

C. Balances and placement with CBB and other financial institutions

	Stage 1	Stage 2	Stage 3	Total
Current*	85,374,833	-	-	85,374,833
Gross carrying value	85,374,833	-	-	85,374,833
Expected credit loss	(14,274)	-	-	(14,274)
Net carrying value	85,360,559	-	-	85,360,559

*Includes BD 67.2 million balances with CBB which are classified under stage 1 and no ECL has been recognised.

D. Investment in debt securities

	Stage 1	Stage 2	Stage 3	Total
Current	3,592,567	-	-	3,592,567
Gross carrying value	3,592,567	-	-	3,592,567
Expected credit loss	-	-	-	-
Net carrying value	3,592,567	-	-	3,592,567

All investment in debt securities are current with no past due as of 31 December 2021 (2020: Nil). The Bank's investment in debt securities are classified under stage 1 and no ECL has been recognised on debt investments as it comprise sukuk, government bonds and T-bills with CBB.

E. Other assets

	Stage 1*	Stage 2	Stage 3	Total
Other assets	12,756,389	-	432,391	13,188,779
Gross carrying value	12,756,389	-	432,391	13,188,779
Expected credit loss	-	-	(315,305)	(315,305)
Net carrying value	12,756,389	-	117,085	12,873,474

*Other assets classified under stage 1 are short term in nature and hence no ECL has been recognised.

Notes to the Consolidated Financial Statements
As at 31 December 2021

26.RISK MANAGEMENT (continued)

a) Credit risk (continued)

A. Social loans

	2020			
	Stage 1	Stage 2	Stage 3	Total
Current	639,073,339	5,512,647	5,353,953	649,939,939
1 - 14 days	120,149	-	458,705	578,854
15 - 59 days	-	56,943,284	8,959,241	65,902,525
60 - 89 days	-	22,767,437	8,141,615	30,909,052
90 days - 1 year	-	-	28,764,804	28,764,804
1 year - 3 years	-	-	11,964,779	11,964,779
3 year - 5 years	-	-	1,615,573	1,615,573
More than 5 years	-	-	434,541	434,541
Gross carrying value	639,193,488	85,223,368	65,693,211	790,110,067
Expected credit loss	(3,221,511)	(9,966,542)	(32,850,952)	(46,039,005)
Net carrying value	635,971,977	75,256,826	32,842,259	744,071,062

B. Commercial loans

	2020			
	Stage 1	Stage 2	Stage 3	Total
Current	4,305,886	200,359	198,884	4,705,129
1 - 14 days	547,164	17,392	69,212	775,093
15 - 59 days	-	390,682	193,022	442,379
60 - 89 days	-	94,666	207,823	302,489
90 days - 1 year	-	-	476,923	476,923
1 year - 3 years	-	-	466,194	466,194
3 year - 5 years	-	-	858,059	858,059
More than 5 years	-	-	726,598	726,598
Gross carrying value	4,853,050	703,099	3,196,715	8,752,864
Expected credit loss	(52,464)	(105,281)	(1,806,042)	(1,963,787)
Net carrying value	4,800,586	597,818	1,390,673	6,789,077

C. Balances and placement with CBB and other financial institutions

	Stage 1	Stage 2	Stage 3	Total
Current*	30,012,580	-	-	30,012,580
Gross carrying value	30,012,580	-	-	30,012,580
Expected credit loss	(31,042)	-	-	(31,042)
Net carrying value	29,981,538	-	-	29,981,538

*Includes BD 21.6 million balances with CBB which are classified under stage 1 and no ECL has been recognised.

Notes to the Consolidated Financial Statements
As at 31 December 2021

26.RISK MANAGEMENT (continued)

a) Credit risk (continued)

D. Investment in debt securities

	Stage 1	Stage 2	Stage 3	Total
Current	1,218,476	-	-	1,218,476
Gross carrying value	1,218,476	-	-	1,218,476
Expected credit loss	-	-	-	-
Net carrying value	1,218,476	-	-	1,218,476

All investment in debt securities are current with no past due as of 31 December 2020 (2019: Nil). The Bank's investment in debt securities are classified under stage 1 and no ECL has been recognised on debt investments as it comprise sukuk, government bonds and T-bills with CBB.

E. Other assets

	Stage 1*	**Stage 2**	**Stage 3**	**Total**
Other assets	1,599,233	-	205,773	1,805,006
Gross carrying value	1,599,233	-	205,773	1,805,006
Expected credit loss	-	-	(204,731)	(204,731)
Net carrying value	1,599,233	-	1,042	1,600,275

*Other assets classified under stage 1 are short term in nature and hence no ECL is recognised.

v. Concentration risk

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

b. Market risk

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

i. Management of market risks

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

ii. Interest rate risk

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

Notes to the Consolidated Financial Statements
As at 31 December 2021

26.RISK MANAGEMENT (continued)

b. Market risk (continued)

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

	31 December 2021 BD	**Changes in basis points (+/-)**	**Effect on net profit (+/-)**
Assets			
Placements with CBB and other financial institutions	**83,530,510**	**100**	**835,305**
Investments in debt securities	**3,592,567**	**100**	**35,926**
Loans - social loans	**1,089,694,810**	**100**	**10,896,948**
Loans - commercial loans	**7,547,411**	**100**	**75,474**
Liabilities			
Deposits from financial and other institutions	**10,000,000**	**100**	**(100,000)**
Term loans	**75,000,000**	**100**	**(750,000)**
Total			**10,993,653**

	31 December 2020 BD	Changes in basis points (+/-)	Effect on net profit (+/-)
Assets			
Placements with CBB and other financial institutions	24,653,347	100	246,533
Investments in debt securities	1,218,476	100	12,185
Loans - social loans	1,035,167,554	100	10,351,676
Loans - commercial loans	8,752,864	100	87,529
Liabilities			
Deposits from financial and other institutions	10,000,000	100	(100,000)
Term loans	45,000,000	100	(450,000)
Total			10,147,923

A fundamental review and reform of major interest rate benchmarks is being undertaken globally. There is uncertainty as to the timing and the methods of transition for replacing existing benchmark interbank offered rates (IBORs) with alternative rates. The Group had assessed the impact of the transition to the new rate regimes after 2021 by considering changes in its products, services, systems and reporting to support an orderly transition and mitigate the risks resulting from the transition. The Group has no direct exposure to contracts referencing IBORs, such as LIBOR, extending past 2021, when it is likely that these IBORs will cease being published or any subsequent timeline as determined by relevant bodies. On the assets side, the interest rate embedded in the Group's mortgage loan portfolio is predetermined at 3% as per the agreement with Ministry of Housing dated 23 December 2017. All treasury interbank placements are based on BHIBOR. On the liabilities side, syndicated loan and interbank borrowings are also based on BHIBOR, hence, no direct impact of change is likely.

iii. Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to adverse changes in foreign exchange rates. Since the Group's assets and liabilities are denominated in the local currency and United States Dollars which is pegged to the Bahraini Dinar, the Group does not have any foreign exchange risk.

iv. Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of adverse changes in the levels of equity prices and the value of individual stocks. Equity price risk arises from the Group's investment portfolio. The Group does not actively invest in private equity entities for trading purpose. Most of the investments are strategic in nature and the Group manages this risk through arranging representation on the Board of Directors within the investee company, wherever possible and by frequent monitoring via Risk Management. Refer to note 25 for the impact of sensitivity in key variables used in valuation of investments at FVOCI (also refer to note 3 for possible effect of COVID-19).

Notes to the Consolidated Financial Statements
As at 31 December 2021

26.RISK MANAGEMENT (continued)

c. Liquidity Risk

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

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

COVID-19

The effects of COVID-19 on the liquidity and funding risk profile of the banking system are evolving and are subject to ongoing monitoring and evaluation. During 2020, the CBB has announced various measures to combat the effects of COVID-19 and to ease the liquidity in banking sector. Following are some of the significant measures that has an impact on the liquidity risk and regulatory capital profile of the Group:

- Payment holiday for 6 months to eligible customers in 2020;
- Reduction of Liquidity coverage ratio (""LCR"") and Net stable fund ratio (""NSFR"") from 100% to 80%;
- Aggregate of modification loss and incremental ECL provision for stage 1 and stage 2 from April to December 2020 to be added back to Tier 1 capital for the two years ended 31 December 2020 and 31 December 2021. And to deduct this amount proportionately from Tier 1 capital on an annual basis for three years ending 31 December 2022, 31 December 2023 and 31 December 2024.

The management of the Group has enhanced its monitoring of the liquidity and funding requirements. ALCO meetings are convened more frequently in order to carryout granular assessment of funding requirements with the objective to explore available lines of funding and to drawdown the existing funding lines as and when necessary to maintain enough liquidity at a reasonable cost of funding. Further information on the regulatory liquidity and capital ratios as at 31 December 2021 have been disclosed below and in notes 27 and 31 to the consolidated financial statements.

Analysis of liabilities

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2021 and 31 December 2020 based on contractual undiscounted repayment obligations.

At 31 December 2021	**Less than 3 Months BD**	**3 to 12 Months BD**	**Over 1 Year BD**	**Total BD**	**Carrying value BD**
Deposits from financial and other institutions	**10,004,550**	**-**	**-**	**10,004,550**	**10,000,000**
Customer current accounts	**8,546,855**	**-**	**-**	**8,546,855**	**8,546,855**
Government accounts	**4,174,771**	**20,000,000**	**445,010,067**	**469,184,838**	**469,184,838**
Term loans	**948,510**	**2,437,760**	**89,165,604**	**92,551,875**	**75,000,000**
Other liabilities	**654,997**	**1,381,167**	**4,497,443**	**6,533,608**	**6,533,608**
Total	**24,329,684**	**23,818,928**	**538,673,115**	**586,821,726**	**569,265,301**

At 31 December 2020	Less than 3 Months BD	3 to 12 Months BD	Over 1 Year BD	Total BD	Carrying value BD
Deposits from financial and other institutions	10,006,645	-	-	10,006,645	10,000,000
Customer current accounts	2,102,687	-	-	2,102,687	2,102,687
Government accounts	4,682,775	10,000,000	453,754,199	468,436,974	463,754,199
Term loans	596,067	1,655,741	56,818,978	59,070,785	45,000,000
Other liabilities	475,408	2,424,328	3,139,402	6,039,138	6,039,138
Total	17,863,582	14,080,069	513,712,579	545,656,229	526,896,024

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

Notes to the Consolidated Financial Statements
As at 31 December 2021

26.RISK MANAGEMENT (continued)

c. Liquidity Risk (continued)

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

LCR is computed as a ratio of Stock of HQLA over the Net cash outflows over the next 30 calendar days. Effective from 30 June 2019 (except for CBB concession due to COVID-19 referred above), the Bank is required to maintain LCR greater than 100%. The Group had LCR ratio of 667% which represents the simple average of daily LCR for the fourth quarter (3 months) in 2021.

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

NSFR as a percentage is calculated as "Available stable funding" divided by "Required stable funding". Effective from 31 December 2019 (except for CBB concession due to COVID-19 referred above), the Bank is required to maintain NSFR ratio greater than 100%. As of 31 December 2021 the Group had NSFR ratio of 145%

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 Operational Risk Champions on a regular basis. The Group has undertaken an operational risk assessment in all divisions as part of internal risk assessment process as a part of its implementation of the Basle III Capital Accord.

COVID-19

In response to COVID-19 outbreak, there were various changes in the working model, interaction with customers, digital modes of payment and settlement, customer acquisition and executing contracts and carrying out transactions with and on behalf of the customers. The management of the Group has enhanced its monitoring to identify risk events arising out of the current situation and the changes in the way business is conducted. The risk management department has carried out a comprehensive review of the existing control environment which includes controls over effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes and including close coordination with of internal audit department to prevent and detect risks. While these risks cannot be completed eliminated, the risk management department has considered whether to update the risk registers by identifying potential loss events based on their review of the business processes in the current environment.

As of 31 December 2021, the Group did not have any significant issues relating to operational risks.

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, issue new capital, or get new land as equity contribution from the Government. No changes were made in the objectives, policies and processes from the previous years.

Notes to the Consolidated Financial Statements
As at 31 December 2021

27.CAPITAL ADEQUACY (continued)

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

	2021 BD	2020 BD
Total eligible capital	353,910,019	326,734,830
Total regulatory capital (A)	353,910,019	326,734,830
Total Risk-weighted exposure (B)	219,398,717	192,182,234
Capital adequacy ratio (A/B)	161.31%	170.01%
Minimum requirement	12.50%	12.50%

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

Tier 2 capital, which includes ECL stage 1 and 2 subject to 1.25% RWA and the element of the fair value reserve relating to unrealised gains (losses) on equity instruments classified as FVOCI.

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 2021	Less than 12 months BD	Over 12 Months BD	Total BD
Assets			
Cash and bank balances	85,471,544	-	85,471,544
Investments	3,498,582	3,724,222	7,222,804
Loans	30,676,244	718,993,350	749,669,594
Investment in associates	-	4,189,291	4,189,291
Investment properties	-	59,474,310	59,474,310
Development properties	7,908,361	5,871,092	13,779,453
Other assets	13,042,324	1,351,475	14,393,799
	140,597,055	793,603,740	934,200,795
Liabilities			
Deposits from financial and other institutions	10,000,000	-	10,000,000
Customer current accounts	8,546,855	-	8,546,855
Government accounts	24,174,771	445,010,067	469,184,838
Term loans	-	75,000,000	75,000,000
Other liabilities	2,036,164	4,497,446	6,533,610
	44,757,790	524,507,513	569,265,303
Net liquidity surplus	95,839,265	269,096,227	364,935,492

Notes to the Consolidated Financial Statements

As at 31 December 2021

28.MATURITY PROFILE OF ASSETS AND LIABILITIES (continued)

At 31 December 2020	Less than 12 months BD	Over 12 Months BD	Total BD
Assets			
Cash and cash equivalents	30,104,088	-	30,104,088
Investments	622,533	4,147,961	4,770,494
Loans	31,014,210	719,845,929	750,860,139
Investment in associates	-	4,412,686	4,412,686
Investment properties	-	50,021,327	50,021,327
Development properties	14,108,708	4,263,334	18,372,042
Other assets	1,702,668	1,514,288	3,216,956
	77,552,207	784,205,525	861,757,732
Liabilities			
Deposits from financial and other institutions	10,000,000	-	10,000,000
Customer current accounts	2,102,687	-	2,102,687
Government accounts	14,682,775	449,071,424	463,754,199
Term loans	-	45,000,000	45,000,000
Other liabilities	2,899,735	3,139,403	6,039,138
	29,685,197	497,210,827	526,896,024
Net liquidity surplus	47,867,010	286,994,698	334,861,708

29. FUTURE FUNDING REQUIREMENTS

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

30. SUBSQUENT EVENTS

On 30 December 2021, the Bank has signed an agreement to acquire properties from a counterparty for total consideration of BD 14.09 million. The effective closing date of the transaction is contingent upon satisfaction of legal approvals which have been obtained subsequent to the year end. Since the performance obligation has not been satisfied as of 31 December 2021, the transaction will be reflected in 2022.

31. NET STABLE FUNDING RATIO

The CBB's Net Stable Funding Ratio (NSFR) regulations became effective on 31st December 2019. The objective of the NSFR is to promote the resilience of banks' liquidity risk profile and to incentivise a more resilient banking sector over a longer time horizon. The NSFR requires banks to maintain a stable funding profile in relation to assets and off-balance sheet activities. A sustainable funding structure is intended to reduce the likelihood of disruptions to a bank's regular sources of funding that will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. The NSFR limits over-reliance on short-term wholesale funding, encourages better assessment of funding risk across all on-balance sheet and off-balance sheet items, and promotes funding stability. The NSFR is calculated in accordance with the Liquidity Risk Management module guidelines issued by CBB. The minimum NSFR ratio has reduced from 100% to 80% (refer note 5).

Notes to the Consolidated Financial Statements
As at 31 December 2021

31.NET STABLE FUNDING RATIO (continued)

The below table provides information on the bank's consolidated NSFR as of 31 December 2021 :

Available Stable Funding (ASF)	No Specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total Weighted Value
Capital:					
Common equity tier 1	352,476,845	-	-	-	352,476,845
Additional tier 1 capital	-	-	-	-	-
Tier 2 Capital	-	-	-	1,958,109	1,958,109
Stable Deposits	-	-	-	-	-
Less stable deposits:					
Demand deposits aprovided by retail customers	-	8,458,814	-	-	7,612,933
Demand deposits provided by small business customers	-	88,041	-	-	79,237
Other deposits and funding from:					
Financial Institutions	-	10,000,000	-	75,000,000	75,000,000
Other liabilities (not included in the categories above):					
Other liabilities and equity not included in the above categories	-	12,790,512	20,000,000	445,010,066	445,010,066
Total ASF	352,476,845	31,337,367	20,000,000	521,968,175	882,137,190

Required Stable Funding (RSF)					
Coins and banknotes	110,985	-	-	-	-
All claims on central banks	-	67,209,114	-	-	-
Marketable securities:					
Central Bank of Bahrain	3,592,567	-	-	-	179,628
Loans:	-	-	-	-	-
Unencumbered Loans to retail and small business customers, and loans to sovereigns and PSEs	-	15,429,620	15,854,338	-	15,641,979
Unencumbered residential mortgages with a risk weight of less than or equal to 35%	-	-	-	726,866,208	472,463,035
Other unencumbered performing loans and not included in the above categories, excluding loans to financial institutions, with a risk weight of than or equal to 35%	-	-	-	4,215,426	3,583,112
Unencumbered loans to and deposits with financial institutions	-	8,103,699	-	-	1,215,555
Unlisted investments not included in the above categories	-	-	-	-	-
Investment in Subsidiaries	8,400,900	-	-	-	8,400,900
Investment in Asscociates	4,189,291	-	-	-	4,189,291
Other unlisted investments	3,630,237	-	-	-	3,630,237
Non-performing loans	17,638,980	-	-	-	17,638,980
All other assets including fixed assets, items deducted from regulatory capital, insurance assets and defaulted securities.	78,919,030	-	-	-	78,919,030
All other off-balance sheet exposures not included above	31,269,168	-	-	-	1,563,458
Total RSF	147,751,158	90,742,433	15,854,338	731,081,634	607,425,205

NSFR (%) as at 31 December 2021	**143%**

Notes to the Consolidated Financial Statements
As at 31 December 2021

31.NET STABLE FUNDING RATIO (continued)

The below table provides information on the bank's consolidated NSFR as of 31 December 2020:

Available Stable Funding (ASF)	No Specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total Weighted Value
Capital:					
Common equity tier 1	325,439,234	-	-	-	325,439,234
Additional tier 1 capital	-	-	-	-	-
Tier 2 Capital	-	-	-	1,661,803	1,661,803
Stable Deposits	-	-	-	-	-
Less stable deposits:					
Demand deposits aprovided by retail customers	-	2,051,368	-	-	1,846,231
Demand deposits provided by small business customers	-	51,319	-	-	46,187
Other deposits and funding from:					
Financial Institutions	-	10,000,000	-	45,000,000	45,000,000
Other liabilities (not included in the categories above):					
Other liabilities and equity not included in the above categories	-	9,790,422	10,000,000	449,071,423	449,071,423
Total ASF	325,439,234	21,893,109	10,000,000	495,733,226	823,064,878

Required Stable Funding (RSF)					
Coins and banknotes	122,550	-	-	-	-
All claims on central banks	-	21,604,128	-	-	-
Marketable securities:	-	-	-	-	-
Central Bank of Bahrain	1,218,476	-	-	-	60,924
Loans:	-	-	-	-	-
Unencumbered Loans to retail and small business customers, and loans to sovereigns and PSEs	-	15,424,437	15,166,544	-	15,295,491
Unencumbered residential mortgages with a risk weight of less than or equal to 35%	-	-	-	705,742,247	458,732,461
Other unencumbered performing loans and not included in the above categories, excluding loans to financial institutions, with a risk weight of than or equal to 35%	-	-	-	-	-
Unencumbered loans to and deposits with financial institutions	-	-	-	5,391,067	4,582,407
Unlisted investments not included in the above categories	-	3,156,146	-	-	473,422
Investment in Subsidiaries	8,650,900	-	-	-	8,650,900
Investment in Asscociates	4,162,687	-	-	-	4,162,687
Other unlisted investments	3,552,018	-	-	-	3,552,018
Non-performing loans	22,481,639	-	-	-	22,481,639
All other assets including fixed assets, items deducted from regulatory capital, insurance assets and defaulted securities.	57,711,643	-	-	-	57,711,643
All other off-balance sheet exposures not included above	13,021,836	-	-	-	651,092
Total RSF	123,943,585	40,184,711	15,166,544	711,133,314	577,005,776

NSFR (%) as at 31 December 2020

Notes to the Consolidated Financial Statements
As at 31 December 2021

I ADDITIONAL SUPPLEMENTARY INFORMATION - ISLAMIC BANKING (UNAUDITED)

Islamic banking activities

On 7 August 2012, the Bank obtained a no objection letter from CBB to offer Shari'a compliant products to its customers. The Bank offers various Shari'a compliant banking products, through its existing conventional departments/branches, whose accounts are not separated from those of the conventional unit.

The Islamic banking activities of the Bank are conducted in accordance with Islamic Shari'a Principles, and are subject to the supervision and approval of a Shari'a Supervisory Board ("SSB"). The SSB consist of three members appointed by the board of directors of the Bank.

The Bank does not commingle funds relating to Islamic financial services with funds relating to conventional financial services. The Bank utilizes Shari'a complaint sources of funding and its own fund to finance its Shari'a complaint assets. Surplus Shari'a funds, pending deployments if any, are invested into short-term money market instruments using Shari'a complaint structures.

The Bank does not have any revenues or expenditures prohibited by Shari'a rules and principles related to funds mobilized according to the Shari'a rules and principles. The Bank is not required to collect and pay zakah on behalf of its customers and / or shareholder.

"Accounting policies and practices:The Bank follows IFRS as modified by CBB (or IFRS) for recognition, measurement and presentation for all its assets and liabilities and for any resulting income and expenses. Please refer to notes 2 – 5 of the consolidated financial statements for detailed accounting policies followed by the Bank and pages 24 to 46 for other disclosures.

The sources and uses of Islamic funds including its equivalent current conventional caption under IFRS as at 31 December 2021 are presented below:

Islamic assets (application of funds)	Note	**2021 BD (unaudited)**	2020 BD (unaudited)
Loans			
Finance lease assets – net	a	**229,607,984**	226,113,764
Cash and bank balances			
Wakala placements	b	**-**	2,996,777
Commodity Murabaha assets, net	c	**9,017,370**	825,528
Investments			
Ijara Sukuk		**722,950**	453,476
Other assets			
Finance lease income receivables		**83,372**	223,150
Wakala income receivable		**-**	338
Profit receivable on Ijara Sukuk		**753**	3,114
Profit receivable on Murabaha assets		**15,081**	85
Total assets		**239,447,510**	230,616,231

a) The amount reported is net of impairment provision of BD 16,794,921 (2020: BD 16,614,852)

b) The amount reported is net of impairment provision of BD 3,223.

c) The amount reported is net of impairment provision of BD 13,139 (2020: BD 27,819)

Islamic Liabilities (source of funds)		
Inter bank borrowing		
Wakala placements	**-**	3,000,000
Term loan		
Commodity Murabaha term financing	**75,000,000**	45,000,000
Other liabilities		
Profit payable on Murabaha financing	**159,562**	60,208
Wakala profit payable	**-**	450
Total liabilities	**75,159,562**	48,060,658

The total funds raised and financed by the Group under Shari'a rules and principles comprise of 26% of the total assets of the Bank as of 31 December 2021 (2020: 27%) and 13% (2020: 9%) of the total liabilities.

Notes to the Consolidated Financial Statements
As at 31 December 2021

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

The Shariah-compliant income and expenses recognized during the year were as follows:

	2021 BD (unaudited)	2020 BD (unaudited)
Income		
Finance income		
Finance lease income, net	**8,571,959**	8,720,531
Murabaha financing	**111,265**	5,592
Income from Ijarah Sukuk	**7,720**	28,908
Expense		
Finance Expenses		
Profit on Wakala taking	**(3,896)**	(5,831)
Profit on Commodity Murabaha financing	**(6,125)**	(15,056)
Profit before impairment provision	**8,680,923**	8,734,144
Impairment provision, net	**263,816**	139,042
Net profit for the year	**8,944,739**	8,873,186

Revenue recognition and measurement for Shari'a complaint assets

Islamic financing assets include residential mortgage financing which are classified under Loans in the consolidated financial statements and are carried at amortised costs less impairment provision. Profits from Islamic financing lease contracts (Ijarah Muntahia Bittamleek) are recognised in the income statement as it accrues, taking into account the effective yield of the asset.

Other Islamic financing assets include short term Shari'a compliant money market placements which are classified under cash and bank balances in the consolidated financial statements and are carried at amortised costs less impairment provision. Profit on Murabaha and Wakala placements are recognised on effective yield basis over the contract term. Shari'a complaint assets include investment in Ijarah sukuk which are classified under investment in the consolidated financial statements and are carried at amortized cost less impairment provision. Income from sukuk are recognized using effective yield rate over the term of the instrument.

The following are differences between the Bank's current accounting policies and the requirements of AAOIFI:

Ijarah Muntahia Bittamleek contracts:

In respect of finance lease contracts (Ijarah Muntahia Bittamleek), AAOIFI standards require the Bank to recognize the asset under lease on its books and depreciate it over the lease term. However, as per the Bank's current policies, the amount financed is recognised as a receivable and the income is recognised over the lease term on an accrual basis taking into account the effective yield of the asset. For other conflicts relating to modification of finance lease contracts due to COVID-19, refer to note 2 of the consolidated financial statements.

Murabaha placement:

In respect of Murabaha receivables (fixed profit products), AAOIFI requires recognition of receivables assets at its face value (i.e. the gross amount) and requires deferred profits to be netted against the receivable balance for the purpose of presentation in the financial statements. As per the Bank's current policies, the amount receivable is recognised at its amortised cost (i.e. profits are recognised only on an accrual basis). The net amount of murabaha receivables for the purposes of the consolidated financial statements remains to be the same under both IFRS and AAOIFI.

Notes to the Consolidated Financial Statements

As at 31 December 2021

II SUPPLEMENTARY DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS (not audited)

In line with Central Bank of Bahrain directives per circular OG/259/2020 of 14 July 2020, the Bank disclosed additional information pertaining to the financial impact of the pandemic on its financial position and results of operations.

Considering the economic circumstances post the COVID-19 outbreak, the cabinet of ministers issued resolution No. 2556-02 on 4 May 2020, directing the Bank to provide all borrowers a six-month deferral of loan installment payments with effect from April 2020 with no additional interest, fees or interest on interest to be charged. The modification of the Bank's loan portfolio resulted in a loss amounting to approximately BD 15.4 million reflecting the difference between the net present value of the modified cash flows calculated using the original effective interest/profit rate and the current carrying value on the date of modification. Out of this loss, approximately BD 15.1 million relates to social loan portfolio.

The Bank has offered deferment of installment to customers in 2021 with interest being charged for the deferment period, however only a few customers opted for the deferment. The Expected Credit Loss on loan portfolio has increased in 2021 as it includes the impact of COVID-19 stress on customer's ability to repay.

Financial Impact:	**Net impact on**			
Overall impact on financial statements	**Group's Consolidated Profit and Loss Statement**	**Group's Consolidated Total Assets**	**Group's Consolidated Government account**	**Group's Consolidated Total Equity**
Modification loss	-	-	(15,082,759)	(359,599)
Government grants	51,858	-	-	702,294
ECL attributable to COVID-19	-	(5,637,668)	(5,253,564)	(384,104)

For housing projects, construction work was affected in 2020 that continued in 2021 through:

- Reduction of manpower due to regulatory requirements mandating labor concentration reduction.
- Material shortage due to border closures from sourcing countries.
- Sale of completed housing units has been slightly impacted on sights nearing completion and witnessing delays but has remained strong on projects with finished housing units.

Liquidity position of the Bank remains strong and regulatory ratios (CAR, LCR and NSFR) continue to be met. Funding of BD 150 million through syndication was secured in early 2020 and a couple of real estate investment initiatives were postponed that alleviated stress on the Bank's liquidity position.

The above supplementary information should not be considered as an indication of the results of the entire year or relied upon for any other purposes. Since the situation of COVID-19 is uncertain and is still evolving, the above impact is as of the date of preparation of this information. Circumstances may change which may result in this information to be outdated. In addition, this information does not represent a full comprehensive assessment of COVID-19 impact on the Group. This information has not been subject to a formal audit by external auditors.

Pillar – III Disclosures - 2021

31st December 2021

Contents

Pillar – III Disclosures - 2021

31st December 2021

1. EXECUTIVE SUMMARY

This report has been prepared in accordance with the Public Disclosure Module ("PD Module") Volume 1 of the Central Bank of Bahrain ("CBB") Rulebook. The report has been designed to provide Eskan Bank B.S.C.'s ("the Bank") stakeholders with detailed information on the Bank's approach in managing capital and risk, having due regard to the operating environment.

The disclosures in this report are in addition to the disclosures set out in the consolidated financial statements for the year ended 31 December 2021 presented in accordance with the International Financial Reporting Standards ("IFRSs").

2. INTRODUCTION TO BASEL III FRAMEWORK

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

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

Pillar I

Pillar I prescribes the basis for the calculation of the regulatory capital adequacy ratio. Pillar I sets out the definitions and calculations of the RWAs, and the derivation of the regulatory total capital. Capital adequacy ratios are calculated by dividing regulatory capital by the total RWAs.

Basel III focuses on increasing both the quantity and quality of Bank's capital. To this end, Tier 1 capital ("T1") must be the main component of capital, and the predominant form of T1 capital must be common shares and retained earnings. Deductions from capital and prudential filters are generally applied at the level of common equity. The remainder of T1 capital base must be comprised of instruments that are subordinated, have fully discretionary noncumulative dividends or coupons and have neither a maturity date nor an incentive to redeem. In addition, Tier 2 capital ("T2") instruments are restricted and have a limit on their contribution to total regulatory capital.

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

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

The table below summarizes the approaches available for calculating RWAs for each risk type in accordance with the CBB's Basel III capital adequacy framework:

Credit Risk	Market Risk	Operational Risk
Standardized Approach	Standardized Approach	Basic Indicator Approach
	Internal Models Approach	Standardized Approach

The approach applied by the Bank for each risk type is as follows:

(i) Credit Risk

For regulatory reporting purposes, the Bank is using the Standardized Approach for credit risk. The credit Risk Weighted Assets ("RWA") are determined by multiplying the credit exposure by a risk weight factor dependent on the type of counterparty and the counterparty's external rating, where available.

(ii) Market Risk

For the regulatory market risk capital requirement, the Bank uses the Standardized Approach.

(iii) Operational Risk

All banks incorporated in Bahrain are required to apply the Basic Indicator Approach for operational risk unless approval is granted by the CBB to use the Standardized Approach. The CBB's capital framework does not currently permit the use of the Advanced Measurement Approach (AMA) for operational risk. For regulatory reporting purposes, the Bank is currently using the Basic Indicator Approach whereby, the operational risk weighted exposures and regulatory capital requirement are calculated by applying an alpha co-efficient of 15 percent to the average gross income for the preceding three financial years.

Pillar – III Disclosures - 2021

31st December 2021

2. INTRODUCTION TO BASEL III FRAMEWORK (CONTINUED)

Pillar II

Pillar II defines the process of supervisory review of an institution's risk management framework and, ultimately, its capital adequacy. Under the CBB's Pillar II guidelines, all banks incorporated in Bahrain are required to maintain total capital adequacy ratio above 12.5 percent.

Pillar II comprises two processes:

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

A key tool for the Bank's capital planning is the annual ICAAP through which the Bank assesses its projected capital supply and demand relative to regulatory requirements and its capital targets. The ICAAP has a three-year horizon and covers various scenarios, including stress scenarios of differing scope and severity. The Bank has adopted a Risk Management Strategy and Appetite Framework which are reviewed periodically.

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

The Bank conducts stress testing of its portfolio. The Bank has implemented the CBB requirements for Stress Testing, in line with the timelines specified by the CBB.

Pillar III

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

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

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

a) Scope of Application

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

b) Subsidiaries of the Bank

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

EPC is a wholly owned subsidiary of Eskan Bank. EPC was established to execute various housing and community projects that have been taken up by EPC and the Bank. The principal activity of the company is to develop and manage projects for development of properties on behalf of Eskan Bank, the Ministry of Housing ("MoH") as well as other third parties.

Danaat Al Lawzi B.S.C (c)

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

- 303 affordable villas;
- A retail facility featuring a supermarket with related amenities' (anticipated delivery in 2022)
- A walkway adjacent to Al Lawzi Lake; and
- All necessary primary, secondary and tertiary infrastructure.

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

Pillar – III Disclosures - 2021

31st December 2021

2. INTRODUCTION TO BASEL III FRAMEWORK (CONTINUED)

c) Associate Companies of the Bank

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

EBRIT, established in Q4 2016 by Eskan Bank, is the first listed Real Estate Investment Trust in Bahrain. EBRIT has a net asset value of BD 11.6 million as of 31 December 2021, of which 36.25% is held by the Bank. The inaugural properties of EBRIT include Segaya Plaza along with the commercial components of Danaat Al Madina. Eskan Bank, as EBRIT's Investment Manager, is seeking to add more properties to the Trust and has been active in seeking additional opportunities to grow and diversify the portfolio of assets.

d) Treatment of Subsidiaries and Associates for Capital Adequacy Calculation

a) EPC is consolidated with the Bank's financials for the purpose of Capital Adequacy calculation. The treatment of other subsidiaries and associate companies is as per the below table.

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

Subsidiaries / Associates	Country of Incorporation / residence	Percentage of ownership	Risk Weight
Eskan Bank Realty Income Trust (EBRIT)	Kingdom of Bahrain	36.25%	200%
Dannat Al Luzi B.S.C (c)	Kingdom of Bahrain	55.88%	50%

3. FINANCIAL PERFORMANCE AND POSITION

During 2021, the Bank achieved steady growth and maintained its profitability during the year despite numerous challenges, including a rigorous reorganization of government funding. The performance for the year is the result of the Bank's focus on meeting its business objectives, maintaining asset quality, judicious deployment of available liquidity at best possible yields and efficiently managing the operating expenses. The Bank posted a total net income for 2021 of BD29.9 million (2020: BD27.9 million). Total operating costs, stood at BD 6.9 million representing a cost to income ratio of 18%.

As of 31 December 2021, total equity of the Bank stood at BD 364.9 million (2020: BD334.8 million), while the return on equity stood at 8.2%. The Bank's total balance sheet stood at BD 934.2 million at the end of 2021, representing an increase of 8.4% compared to prior year. Capital adequacy ratio decreased from 170% to 161%, while the Bank's balance sheet continues to boast healthy liquidity.

a) Asset Growth and Quality:

○ **Asset Growth:**

The total Balance Sheet of the Bank stood at BHD 934.2 million as at 31st December 2021 compared to BHD 861.7 million as at the previous year-end. The Bank's loans and advances as at 31st December 2021 stood at BHD 749.7 million, which reflects a drop of 0.2% as compared to 2020.

○ **Asset Quality:**

- Loan Portfolio: The Bank's portfolio is of high quality despite the bulk of the Banking assets being residential mortgage loans. Primarily, these loans are "social loans" where the decision to grant the loan is determined by the Ministry of Housing and communicated to the Bank to make disbursement to the borrowers. There is credit risk to the Bank arising out of these loans. Losses, if any arising from the impairment of such loans can be claimed from the Government. On the other hand, in case of the commercial residential mortgage loans extended by the Bank, the approach has been conservative
- Money market instruments: The other banking assets are mainly inter-bank placements with reputed banks in the Kingdom of Bahrain.
- Investments portfolio: The Bank has investment in Naseej, Southern Tourism Company (STC), Bahrain Aluminum Extrusion Company, Sukuk, Treasury Bills and other small legacy investments.

Capital Adequacy Ratio ("CAR"):

○ **Solvency:** The Group has limited external borrowings and as such its solvency position, as indicated by the Asset Liability maturity profiles is satisfactory, with balances in the government account considered as not payable in the short term.

Pillar – III Disclosures - 2021

31st December 2021

3. FINANCIAL PERFORMANCE AND POSITION (CONTINUED)

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

	2021	2020	2019	2018	2017
Earnings					
Net Interest Income	33,836	31,714	30,183	27,275	24,674
Other Income*	4,520	4,824	1,487	2,471	4,408
Operating Expenses	6,922	6,977	6,022	6,154	7,209
Impairment Allowance	1,543	1,653	2,531	342	331
Net Income	**29,891**	**27,908**	**23,117**	**23,250**	**21,542**
Financial Position					
Total Assets	934,201	861,758	861,822	769,716	738,402
Loans	749,670	750,860	710,662	632,511	609,863
Total Liabilities	569,265	526,896	555,315	485,901	476,037
Non-controlling interest	9,274	8,094	6,627	6,652	6,681
Shareholders Equity	364,935	334,862	306,507	283,815	262,365
Earnings: Ratios (Per Cent)					
Return on Equity	8.2%	8.3%	7.5%	8.2%	8.2%
Return on Assets	3.2%	3.2%	2.7%	3.0%	2.9%
Cost-to-income ratio	18%	19%	19%	21%	25%
Net Interest Margin	100%	99%	99%	99%	98%
Capital:					
Shareholders Equity as per cent of Total Assets	39%	39%	36%	37%	36%
Total Liabilities to Shareholders Equity	156%	157%	181%	171%	181%

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

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-21	31st-December-20
Net profit for the year	**145,422**	110,908
Total assets	**2,406,712**	2,031,148
Total equity	**1,484,754**	1,339,332

- **Danaat Al Lawzi**

On 27 July 2014, upon satisfaction of all regulatory requirements, the Group invested BD 8.4 million in Danaat Al Lawzi B.S.C (c) ("the Company"), equating to 55.88% of the issued capital. Danaat Al Lawzi is a special purpose vehicle established specifically for the aim of developing an affordable housing project in Hamad Town. The main activities of the subsidiary include management and development of private property, buying and selling of properties on behalf of the Company and property development, leasing, management and maintenance.

Table 4: Financial highlights (in BHD)

	31st-December-21	31st-December-20
Net profit for the year	**2,674,656**	3,324,907
Total assets	**22,326,073**	19,662,996
Total equity	**21,019,498**	18,344,842

Pillar – III Disclosures - 2021
31st December 2021

4. FUTURE BUSINESS PROSPECTS

The Bank's assets and liabilities' profile for next year would remain similar to that of last year to a large extent until the new social loan products offering is approved. We expect such approval to be granted by the Council of Ministers before the end of Q1 2022. As such, the major business contributor to the institution will be mortgage loans.

Another portfolio to maintain is that of investment properties. The Bank intends to develop its own, MOH, and other land banks and tie-up with private sector landlords through joint venture arrangements towards the development of social and affordable housing projects in order to reduce the Ministry of Housing's backlog of social housing units' applicants.

To meet this objective, the Bank is leveraging its balance sheet, and embarking on project finance basis for projects developed through partnerships with the private sector or Ministry of Housing, as well as launching funds and investment products as and when needed in line with regulatory requirements.

The Bank will also endeavour into the auctioning business activity of selective EB or MOH land bank suiting best site uses other than social housing for the purpose of fastest and optimal land monetization through long-term leases, BOTs, or partnerships, as the case may be from time to time. The intention is to optimize the financial resources of the institution in the best way possible to serve primarily the social housing agenda, and as and when needed, to contribute to the fiscal balance program of the government.

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.

5. CORPORATE GOVERNANCE AND TRANSPARENCY

The Bank recognizes 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 the management operations of the Bank.

The Bank has adopted the following Corporate Governance code principles:

Principle One: The Bank must be headed by an effective, collegial and informed BoD;

Principle Two: The directors and officers shall have full loyalty to the company;

Principle Three: The BoD shall have rigorous controls for financial audit, internal control and compliance with law;

Principle Four: The Bank shall have rigorous procedures for appointment, training and evaluation of the BoD;

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

Principle Six: The BoD shall establish clear and efficient management structure;

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

Principle Eight: The Bank shall disclose its corporate governance; and

Principle Nine: Banks 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.

6. BOARD AND MANAGEMENT COMMITTEES

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

Pillar – III Disclosures - 2021

31st December 2021

7. BOARD OF DIRECTORS

In compliance with High-level Controls Module of the CBB Rulebook with regards to the appointment of the BoD, the following board members have been appointed by the Council of Minister Resolution No. 20 for 2018 regarding structuring of Board Members of Eskan Bank for a period of three years ends by 15 July 2021. whereby Eskan Bank's BoD in the same composition below are continued its Role and processing of the Business after such date 15 July 2021 and will further continue until the new Resolution for re-structure be issued by the Cabinet.

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

Appointed as Chairman of Eskan Bank since 2011.

Qualifications:

- Master's in Project Management – Boulder, Colorado, USA; and
- Bachelors in Civil Engineering –San Diego/California.

Experience:

Previously He was appointed as:

- the Chairman of the Tender Board;
- a Board Member in the National Oil and Gas Authority; and
- the President of Customs Affairs;
- the vice chairman of king Fahd causeway authority Board;
- a member in policies committee at the world customs organization.
- Assistant Undersecretary for the administrative affairs at the Ministry of interior.

Throughout his career, Eng. Basim bin Yacob Al Hamer received several medals of Honor including:

- Medal for Military Duty on 21/04/1987
- Medal Sultan's Commendation on 14/12/1987
- Liberation of Kuwait Medal on 23/12/1991
- Bahrain Meritorious Service Medal of the 1st Class on 05/02/1997
- Shaikh Isa Medal of the 4th Class on 01/01/2001
- Hawar Medal on 12/10/2001
- Bahrain Medal of the 2nd Class on 25/01/2007
- Order of Merit of the 1st Class on 16/12/2007
- Bahrain Medal of the 1st Class on 14/12/2008

ii. Mr. Mohamed Abdulrahman Hussain Bucheeri

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

Appointed as Board Director since 2011.

Qualifications:

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

Mr. Mohamed Bucheeri has over 43 years of work experience.

Previous Position: Chief Executive Officer of Ithmaar Bank.

Board Member:

Bank of Bahrain and Kuwait, A.M. Yateem Brothers W.L.L.

Pillar – III Disclosures - 2021

31st December 2021

7. BOARD OF DIRECTORS (CONTINUED)

iii. Dr. Zakareya Sultan Al Abbasi

Member (Independent Non-Executive Director)

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

Qualifications:

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

Dr. Zakareya has over 33 years' of work experience.

Previous Position: Chief Executive Officer of the Social Insurance Organization.

Previous Board Membership: Bank of Bahrain and Kuwait and Asset Management Company (Osool) (a Company owned by the Social Insurance Organization).

iv. Mr. Yousif Abdulla Taqi

Member (Independent Non-Executive Director)

Appointed as a Board Member since 2011, and he is member of the Remuneration, Nomination and Corporate Governance Committee.

Qualifications:

A Certified Public Accountant (CPA).

Mr. Yousif Taqi has over 33 years of work experience.

Board Member:

Kuwait Finance House - Bahrain, Aluminum Bahrain B.S.B. (ALBA), Bahrain Middle-East Bank, Osool Assets management and Bapco

v. Dr. Riyad Saleh Al-Saie

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

Appointed as a Board Member since 2015.

Qualifications:

- Doctorate of Business Administration from university of Durham.
- Bachelor of Business Administration in International Finance and Marketing from the University of Miami, Florida, USA;
- Master of Business Administration "MBA" in International Banking and Finance from the University of Birmingham, UK;
- Post Graduate Diploma – Chartered Institute of Marketing ("CIM"), UK;
- Completed a three months concentrated Intensive Core International Banking Advanced Programme supervised by Citibank at the Center for International Banking Studies ("CIBS"), Istanbul – Turkey; and
- Doctorate degree in Business Administration (DBA), Durham University, UK.

Dr. Riyadh Al-Saie has over than 28 years of work experience in the financial sector.

Board Member: Tadhmon Capital BSC, Bahrain.

Previous Positions: Executive Director - Investment Placement at Arcapita Bank (B.S.C.) (1998-2010), Assistant Vice President - Merchant Banking at Gulf International Bank ("GIB") B.S.C. (1996-1998), Deputy Manager – Commercial Banking at Arab Banking Corporation ("ABC") B.S.C. (1984-1995).

vi. Mrs. Rana Ebrahim Faqihi

Independent Non-Executive Director, and a Member of Executive Committee.

Appointed as a Board Member since 2015.

Qualifications:

- Bachelor's Degree in International Business Management - United Kingdom; and
- Master's Degree in International Business Management - United Kingdom.

Mrs. Rana Faqihi has over 18 years' of work experience.

Board Member:

Audit Committee of Tamkeen.

Current Position:

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

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

Pillar – III Disclosures - 2021

31st December 2021

7. BOARD OF DIRECTORS (CONTINUED)

vii. Mr. Kamal Murad Ali Murad

Independent Non-Executive Director and Member of Executive Committee.

Appointed as a Board Member since 2015.

Qualifications:

- Bachelor in Economics and Finance from the Bentley College, Waltham Massachusetts; and
- Masters in Global Financial Analysis from the Bentley College, Waltham Massachusetts.

Mr. Kamal Murad has over 19 years of work experience.

Current Position:

Head of Investments, in one of the leading organizations in the Kingdom of Bahrain and the region.

Board Member:

Chairman and Board Member of a number of boards of investment businesses and educational institutions including Diyar Al Muharraq and The American University of Bahrain

viii. Mrs. Najla Mohammed Al-Shirawi

Independent Non-Executive Director and Chairperson of Board Audit, Risk and Compliance Committee.

Appointed as a Board Member since 2015.

Qualifications:

- MBA, Masters in Business Administration and Finance, American College in London - United Kingdom;
- BSc ,Bachelor Degree in Civil Engineering, University of Bahrain-Kingdom of Bahrain; and
- Attended the Management Acceleration Programme at INSEAD, France.

Mrs. Najla Al Shirawi has over 23 years' of investment banking experience.

Current Position:

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

Chairperson:

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

Board Member:

Economic Development Board (Bahrain), Future Generation Reserve Fund (Bahrain), Deposit Protection Scheme (Bahrain), Bahrain Institute of Banking & Finance, Bahrain Association of Banks and SICO Capital (Saudi).

Previous Positions: Worked for SICO B.S.C. (c) since 1997 where she held various positions in the Bank including Deputy CEO and Chief Operating Officer. She also worked for a number of institutions owned by the Geneva-based Dar Al-Maal Al-Islami Trust.

ix. Sh. Mohammed bin Ibrahim Al-Khalifa

Independent Non-Executive Director and Member of the Board Audit, Risk and Compliance Committee.

Appointed as a Board Member in 2018.

Qualifications:

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

Sh. Mohammed Al Khalifa has over 21 years' of work experience.

Current Position:

Director of Human and Financial Resources at the Ministry of Housing.

Previous Position:

Chief of Financial Affairs at the General Organisation for Youth and Sports ("GOYS").

Pillar – III Disclosures - 2021

31st December 2021

8. EXECUTIVE MANAGEMENT TEAM OF THE GROUP

i. Dr. Khalid Abdulla, General Manager

Dr. Khalid Abdulla has over thirty-nine years of experience in Islamic and Conventional Banking as well as the real estate market. He has held many senior positions with leading investment, commercial and real estate financial institutions in Bahrain in addition to his academic and research expertise as an Economist.

Prior to joining the Bank, he was the Chief Executive Officer at Inovest Bahrain B.S.C. He holds a Master of Science Degree in Economic Development from the University of East Anglia (UK) and a Doctorate of Philosophy in Economics from Exeter University (UK). In the past, Dr. Khalid also held the post of Assistant Professor and Chairman of the Department of Economics and Finance at the University of Bahrain.

Dr. Khalid is actively involved in many projects promoting infrastructural development in Bahrain. He was a member of many associations such as 'The Public Affairs Committee' at the Bahrain Chamber of Commerce and Industry. He also served on the Board of Trustees of 'MENA Investment Center'.

Dr. Khalid plays an active role in many societies and institutions such as being a founding member of Bahrain Economic Society and Bahrain Competitiveness Council, Board member and Head of Audit Committee at Labour Market Regulatory Authority and Board member of Naseej.

He assumed the present position in 2013.

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

Mr. Ahmad Tayara has over twenty-six years of experience in both Islamic and conventional banking, particularly in the areas of investment banking, capital market, real estate, private equity and retail banking. He has worked for leading financial institutions such as Ithmaar Bank, Elaf Bank and Middle East Capital Group. Prior to joining Eskan Bank, he was General Manager – Investment Banking at Elaf Bank.

Mr. Tayara holds a Bachelor of Science and Master of Science degrees in economics from McGill University, Canada.

He assumed the present position in January 2012.

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

Mr. Eyad Obaid has over thirty-nine years of experience in various constructions industry (both private and governmental) along with a wide experience in project management, execution and property development. Prior to joining Eskan Bank he was with Bahrain Defense Force, Military Works Directorate. Mr. Eyad holds a Bachelor's Degree in Civil Engineering.

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

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

He assumed the present position in 2015.

iv. Mrs. Abeer Albinali, Head of Risk Management

Ms. Abeer Albinali, a banking professional, has over nine years of experience in risk management functions in the banking industry. Ms. Albinali is holding a Bachelor of Science degree in Banking and Finance from University of Bangor, UK. She is a CFA charter holder from the Chartered Financial Analysts Institute in Virginia, USA. She is also a holder of the Professional Risk Manager (PRM) designation from the Professional Risk Managers' International Association (PRMIA) in the United States and International Diploma in Governance, Risk and Compliance from the International Compliance Association, UK. Ms. Albinali holds professional qualifications in leadership, management, corporate governance and compliance.

She assumed the present position in 2020.

v. Mr. Hani Nayem, Head of Internal Audit

Mr. Hani Nayem has over twenty years of experience in the Banking and Audit industry covering various fields such as internal audit, compliance, corporate governance, credit analysis, investment analysis, Islamic banking, financial controls and operations. He has worked for reputable regional and international banks such as Al Baraka Islamic Bank and ithmaar Bank of Bahrain.

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

He assumed the present position in 2009.

Pillar – III Disclosures - 2021

31st December 2021

8. EXECUTIVE MANAGEMENT TEAM OF THE GROUP (CONTINUED)

vi. Ms. Parween Ali, Head of Retail Banking

Ms. Parween Ali has over thirty-four years of experience in Banking Industry, particularly in the areas of Sales and Retails Products and Service. Prior to joining Eskan Bank, she was the Sales and Service Manager at Standard Chartered Bank for 9 years.

Ms. Parween has an Advanced Banking Diploma from BIBF.

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

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

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

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

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

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

She assumed the present position in 2012.

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

Mr. Adnan Janahi has over twenty-six years of experience in Human Resource Management, and has worked with one of the leading banks prior to joining Eskan Bank, namely, the National Bank of Bahrain. In addition, he was the Director, Head of Human Resources at Investment Dar Bank. Mr. Adnan holds an MBA from University of Glamorgan and Advanced Diploma in Banking Studies from BIBF.

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

He assumed the present position in 2014.

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

Mr. Aqeel Mayoof has over twenty-five years of experience in different Information Technology ("IT") Core Banking Systems within the banking industry such as Citi Bank and Ahli United Bank. Prior to joining Eskan Bank, he was IT Projects Leader at Ahli United Bank.

Mr. Aqeel holds a Bachelor's Degree in Electrical Engineering from the University of Bahrain, and MBA from the University of Bahrain.

He has been with Eskan Bank since 2005 under different positions such as Manager, Senior Manager and Acting Head within the IT department.

He assumed the present position in 2014.

x. Mr. Deepak Patel, Head of Operations

Mr. Deepak Patel has over twenty-two 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 and MBA from Sikkim Manipal University.

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

He assumed the present position in 2014.

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

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

Muhammad Saeed is a Chartered Accountant from the Institute of Chartered Accountants of Pakistan (ICAP) and from the Institute of Chartered Accountants of England & Wales (ICAEW). He has been with Eskan Bank since 2007 and has filled several positions such as Senior Manager Financial Control, Manager Strategic Planning and Acting Head of Financial Control in 2013.

Muhammed Saeed assumed the present position in 2014.

Pillar – III Disclosures - 2021

31st December 2021

8. EXECUTIVE MANAGEMENT TEAM OF THE GROUP (CONTINUED)

xii. Mrs. Amal Al Aradi, Head of Property & Facility Management / Eskan Properties Company (January - June 2021)

Mrs. Amal Al Aradi has over thirty-five years of experience in Assets Management. She spent her full career in Eskan Bank, in which she joined the bank directly after she got her Bachelor Degree in Computer Science.

She has been with Eskan Bank since 1987 in which she has filled different positions such as Acting General Manager of Southern Tourism Company – STC which was subsidiary of Eskan Bank, Projects Manager, Assets Management Manager and Senior Manager.

She assumed the present position in 2014.

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

Mrs. Haifa Al Madani has over twenty-three 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 a Bachelor Degree in Law.

She is a board member of Eskan Properties Company, a subsidiary of Eskan Bank since 2007.

She assumed the present position in 2015.

9. ADDITIONAL GOVERNANCE MEASURES

In addition to the Board and Management committee structures, the BoD has approved a number of policies to ensure clarity and consistency in the operations of the Bank.

Remuneration related disclosures:

Eskan Bank aims to keep the employee compensation and benefits competitive, in comparison to the local labor market, in order to attract and retain the most competent and experienced employees with remuneration packages that are based on the latest market trends. The Bank also ensures to establish a fair and equitable remuneration system for all the employees.

The Bank did not seek external consultant advice in areas of remuneration process.

The Remuneration Nomination and Corporate Governance Committee ("RNCGC") reviews the remuneration policy including the remuneration structure of the employees at least annually with an objective of maintaining a competitive advantage in the market based on the salary surveys and secondary market sources of information. In 2021, review of remuneration policy has not resulted to any change or update to the overall remuneration of the employees including approved persons.

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

Variable remuneration (Bonus)

Employees' bonus entitlement including approved persons are aligned to the Bank's performance, performance of the department and to individual performance and efficiency, but in all cases it shall be made at the Bank's sole discretion.

The pool of bonus is approved by the RNCGC. The performance measures used in the bonus scheme relate closely to the measures used in running the business such as financial vs. non-financial, quantifiable vs. non-quantifiable, short term vs. long term and include profitability, solvency, liquidity and growth indicators.

As per the remuneration policy of the Bank, risk alignment and adjustment to the variable remuneration should be carried out in coordination and with the support of the risk management and financial control function as they provide the technical competency and independence to ensure appropriate risk alignment and adjustment for variable remuneration. In 2021, the Bank has performed effectiveness testing of its variable remuneration policy and the result of the test has not resulted to any adjustment to variable remuneration.

The performance measures of staff in risk management, internal audit, operations, financial control, compliance and AML function, and approved persons are based on the achievement of the objectives and targets of their functions such as adherence to the bank's risk, control and compliance policies and are independent of the financial performance of the business area they monitor.

Bonuses are awarded annually based on the achievement of pre-determined objectives. These targets are based on both individual and department performance and are set by Executive Management.

The Bank has not offered any sign-on awards or guaranteed bonuses during 2021 (2020: Nil). All employees are entitled to receive 13 month salary which is distributed pro-rata on a monthly basis. There were no severance payments made towards any approved persons or material risk takers during the year (2020: Nil).

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

The Bank has not awarded any deferred remuneration as of or during year ended 31 December 2021 (2020: Nil) nor paid out any deferred remuneration or reduced the deferred remuneration through performance instruments during the same period mentioned above.

Pillar – III Disclosures - 2021

31st December 2021

9. ADDITIONAL GOVERNANCE MEASURES (CONTINUED)

Status of Compliance with CBB's Corporate Governance guidelines (High Level Controls ("HC") Module)

Banks are required to comply with the HC Module of the CBB Rulebook, which became effective from 1st January 2011 with full compliance mandated by the financial year end 2012. The HC Module contains both rules and guidance; rules must be complied with, but guidance may either be complied with or noncompliance explained by way of an annual report to the shareholders and to the CBB. Certain guidance in relation to the appointment of the board of directors have not been complied by the Bank during 2021. This is due to the fact that Board of Directors of the Bank was appointed as per the Council of Ministers resolution No. 20 for 2018 dated 15 July 2018, in accordance with Article 11 of Legislative Decree No. 4 of 1979 with respect to the Establishment of Eskan Bank amended by Law No. 75 of 2006. Since Eskan Bank's Board of Directors' formation and structure are determined by virtue of Eskan Bank's Establishment Law and hence Bank's Establishment Law shall prevail in case of any discrepancy arising between its provisions and the CBB Rulebook.

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

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

The table below reflects the total amount of remuneration paid to the employees of the bank for the year of 2021.

2021	**Approved * Persons**	Other Staff
Fixed Remuneration		
Cash-Based	**1,156,806**	1,913,745
Shares and share-linked instruments	**Nil**	Nil
Other	**322,715**	483,547
Variable Remuneration		
Cash-Based	**343,775**	360,086
Shares and share-linked instruments	**Nil**	Nil
Other	**0**	0
Grand Total	**4,580,674**	

* Note: Include BOD sitting fees of BD70,800 paid to Board Members. (refer note in the table below)

2021

No.	**Head count**	**Category**	**Basic**	**Other Benefits / Allowances**	**Total Fixed Remuneration**	**Performance Bonus in Cash (actual paid in 2021)**	**Total Variable Remunerations**	**Total Fixed & Variable Remuneration**
1	9*	Members of the Board		70,800	70,800			70,800
2	3	Approved persons (not included in 1, 3 and 4)	165,336	59,111	224,447	49,275	49,275	273,722
3	6	Approved persons in risk management, internal audit, operations, financial controls, AML and compliance functions	219,393	139,515	358,908	64,380	64,380	423,288
4	7**	Approved Persons in Business line	547,230	278,135	825,365	230,120	230,120	1,055,486
5	123	Other employees	1,698,251	699,041	2,397,292	360,086	360,086	2,757,378
	148	**Grand Total**	**2,630,210**	**1,246,602**	**3,876,812**	**703,861**	**703,861**	**4,580,674**

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

* Include BD800 paid to one board member for attending board of directors meetings in one of Bank's subsidiaries.

Pillar – III Disclosures - 2021
31st December 2021

9. ADDITIONAL GOVERNANCE MEASURES (CONTINUED)

The table below reflects the total amount of remuneration paid to the employee of the Bank for the year of 2020.

2020	Approved* Persons	Other Staff
Fixed Remuneration		
Cash-Based	1,133,034	1,897,953
Shares and share-linked instruments	Nil	Nil
Other	297,617	587,048
Variable Remuneration		
Cash-Based	336,547	341,860
Shares and share-linked instruments	Nil	Nil
Other	0	0
Grand Total	4,594,058	

*Note: BOD sitting fees of BD70,300 included (refer to the notes on the table below)

2020

No.	Head count	Category	Basic	Other Benefits / Allowances	Total Fixed Remuneration	Performance Bonus in Cash (actual paid in 2021)	Total Variable Remunerations	Total Fixed & Variable Remuneration
1	9*	Members of the Board		70,300 *	70,300 *			70,300 *
2	3	Approved persons (not included in 1, 3 and 4)	157,290	72,856	230,146	45,413	45,413	275,559
3	7	Approved persons in risk management, internal audit, operations, financial controls, AML and compliance functions	208,711	144,567	353,278	63,915	63,915	417,193
4	7**	Approved Persons in Business line	553,964	222,963	776,927	227,219	227,219	1,004,146
5	122	Other employees	1,608,795	876,205	2,485,000	341,860	341,860	2,826,860
	148	Grand Total	2,528,760	1,386,891	3,915,651	678,407	678,407	4,594,058

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

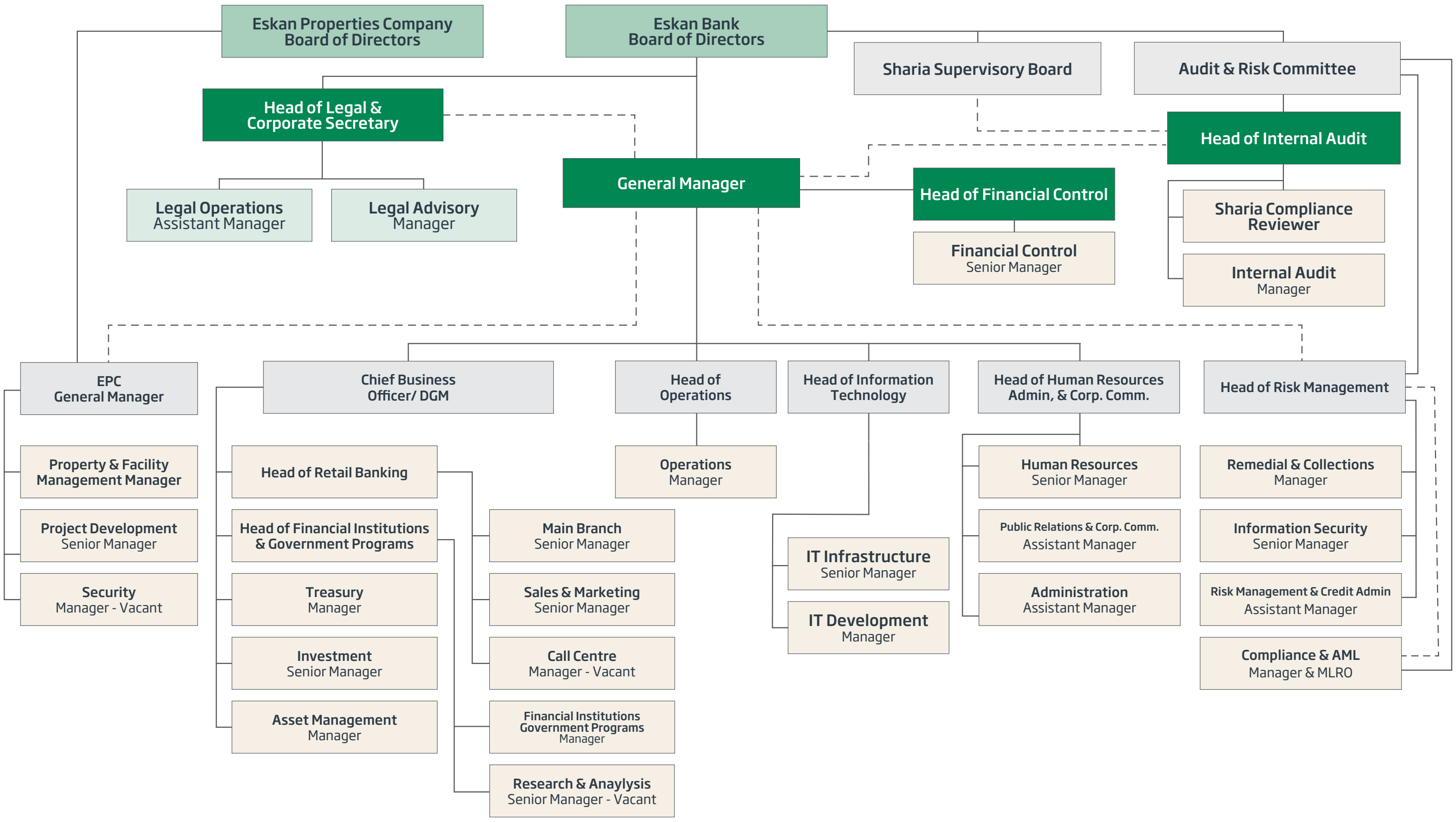
* Include BD 800 paid to one board member for attending board of directors meetings in one of Bank's subsidiaries.

Pillar - III Disclosures - 2021

31st December 2021

10. ORGANISATION CHART

Eskan Bank Organisation Structure



There has been no major change in the organizational structure from prior year. The Board of directors has established reporting lines within the board and management structure that demonstrate segregation of duties as shown above. *There is no reporting line for Board Executive Committee and Remuneration, Nomination & Corporate Governance Committee.

COMMUNICATION STRATEGY

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

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

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

Pillar – III Disclosures - 2021

31st December 2021

11. CAPITAL

11.1 Capital Structure

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

CET1 capital consists of:

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

b) Disclosed reserves including: i) General reserves; ii) Legal / statutory reserves; iii) Share premium; iv) Retained earnings or losses (including net profit/ loss for the reporting period, whether reviewed or audited),

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

AT1 capital consists of:

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

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

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

d) Regulatory adjustments applied in the calculation of AT1.

T2 capital consists of:

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

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

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

d) Expected Credit Loss stage 1 and stage 2,

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

f) Regulatory adjustments applied in the calculation of T2.

In accordance with the CBB's Basel III capital adequacy framework, certain exposures are required to be deducted from regulatory capital rather than included in RWAs. The CBB's Basel III capital adequacy framework requires that most of the deductions to be made from the CET1. At present, the T2 capital of Eskan Bank consists solely of Expected Credit Loss stage 1 and stage 2 exposures.

There is also a restriction on the amount of Expected Credit Losses (ECL) reserve that may be included as part of T2 capital, which should be a maximum of 1.25 percent of the credit risk weighted assets.

There are no impediments on the transfer of funds or regulatory capital within the Group other than restrictions over transfers to ensure minimum regulatory capital requirements are met for subsidiary companies.

Table 1: CAPITAL STRUCTURE

The following table summarizes the eligible capital after deductions for Capital Adequacy Ratio (CAR) calculation as of 31 December 2021.

	CET1	AT1	T2
Components of capital			
Tier 1 Capital			
Common Equity Tier 1 (CET1)			
Issued and fully paid ordinary shares	108,300	-	-
General reserves	22,450		
Statutory reserves	54,462	-	-
Retained earnings	140,618	-	-
Current interim profits	27,219	-	-
Cumulative fair value changes on FVOCI investments (Equities)	(572)	-	-
Total CET 1 Capital prior to the regulatory adjustments	**352,477**	**-**	**-**
Less: Regulatory adjustments			
Intangibles other than mortgage servicing rights	(525)		
Total CET 1 Capital after the regulatory adjustments	**351,952**	**-**	**-**
Other Capital (AT1 & T2)			
Expected Credit Losses (ECL) Stages 1 & 2 (1.25% of credit risk weighted assets)	-	-	**1,958**
Net available Capital	**351,952**	**-**	**1,958**
Total Capital			**353,910**

Pillar – III Disclosures - 2021

31st December 2021

11. CAPITAL (CONTINUED)

Table 2: CAPITAL ADEQUACY RATIOS

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

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

Following are Capital Adequacy Ratios for total capital and Tier 1 capital as of 31 December 2021:

CET1 Capital Adequacy Ratio	**160%**
T1 Capital Adequacy Ratio	**160%**
Total Capital Adequacy Ratio	**161%**

Following are the total risk weighted exposures for each category of risk the Bank is exposed to as of 31 December 2021:

Credit Risk Weighted Exposures	156,649
Operational Risk Weighted Exposures	62,750
Market Risk Weighted Exposures	-
Total Risk Weighted Exposures	**219,399**

11.2 Capital Adequacy

The Group's policy is to maintain a strong capital base so as to market confidence and to sustain the future development of the business. The Bank maintains adequate capital levels consistent with its business and 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 Internal Capital Adequacy Assessment ("ICAAP") framework, which aims to ensure that capital supports business growth for its future activities, stipulates that the Bank should maintain an excess cover relative to the statutory requirement.

12. INTERNAL AUDIT

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

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

13. CREDIT RISK

13.1 Overview of Credit Risk Management

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

The Credit Risk is risk of loss to the Group due to failure of clients, customers or counterparties, including sovereigns, to fully honour their obligations including the whole and timely payment of principal, interest, collateral and other receivables. The failure there by causes the Group to incur a financial loss. The credit risk that the Bank faces arises from loans and advances together with the counterparty credit risk arising from treasury activities.

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

Pillar – III Disclosures - 2021

31st December 2021

13. CREDIT RISK (CONTINUED)

13.1 Overview of Credit Risk Management (continued)

The Bank has well defined policies and procedures for identifying, measuring, monitoring and controlling credit risk in all of the Bank's activities. The Credit Risk Policy is approved by the Board of Directors. The Bank also draws up comprehensive Risk Statements annually and monitors the compliance against the BOD-approved limits.

The Bank has a tiered approval authority level matrix in place and has established management level-committees responsible for monitoring credit risk exposures. The Bank applies a systematic risk reporting at all levels of the organisation and openness in the reporting to the Bank's stakeholders.

13.2 Definition, Assumptions and Technique for Estimating Impairment

Significant increase in credit risk

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

The Bank assumes that the credit risk on a financial asset has increased significantly since initial recognition if contractual payments are past due "for more than 14 days". This assumption will always hold true unless the Bank can prove, through reasonable and fact-based information, the risk has not increased significantly after being past due "for more than 14 days".

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

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

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

Probability of Default (PD)

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

Credit-impaired financial assets

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- The restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise; or it is probable that the borrower will enter bankruptcy or other financial reorganization.

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

Incorporation of forward-looking information

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

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

Pillar – III Disclosures - 2021
31st December 2021

13. CREDIT RISK (CONTINUED)

13.2 Definition, Assumptions and Technique for Estimating Impairment (continued)

Measurement of ECL

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

The Bank applies a three-stage approach to measuring expected credit losses (ECL) on financial assets carried at amortised cost, debt securities at FVOCI and loan commitments. These items migrate through the following three stages based on the change in credit quality since initial recognition.

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

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

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

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

ECLs are discounted at the effective interest rate of the financial asset. The key inputs into the measurement of ECL are the term structure of the following variables:

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

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

PD estimates are estimates at a certain date, PDs are estimated considering the contractual maturities of exposures.. Market data is used to derive the PD for banks and sovereign counterparties.

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

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

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

The following table summarises the total past due loans including other assets and provisions disclosed by industry as of 31 December 2021:

	Below 3 months	3 months up to 1 year	1 up to 3 years	Over 3 years	Total
Retail mortgage social loans	34,048	43,597	8	-	77,653
Retail mortgage commercial loans	685	452	650	1,650	3,437
Other assets	453	65	228	157	903
	35,186	**44,114**	**886**	**1,807**	**81,993**

Pillar – III Disclosures - 2021
31st December 2021

13. CREDIT RISK (CONTINUED)

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

	Total amount	ECL stage 1& 2	ECL stage 3
Retail mortgage social loans	77,653	13,983	31,150
Retail mortgage commercial loans	3,437	77	2,492
Other assets	903	-	315
	81,993	**14,060**	**33,957**

Impaired loans:

	Loan amount	ECL stage 3
Retail mortgage social loans	88,158	52,883
Retail mortgage commercial loans	2,925	2,607
	91,083	**55,490**

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

Loans:	Stage 1 & 2	Stage 3	Total
Expected credit loss as 1 January 2021	13,346	34,657	48,003
Net transfer between stages	5,750	(5,750)	-
Write off during the year - social loan	(439)	(11,441)	(11,880)
Charge for the year - Social Loans	11,748	37,181	48,929
(Release) / charge for the year- Commercial Loans	(70)	843	773
Expected credit loss as 31 December 2021	**30,335**	**55,490**	**85,825**

Other assets:	Stage 3	Total
Expected credit loss as 1 January 2021	205	205
Charge for the period	110	110
Expected credit loss as 31 December 2021	**315**	**315**

The Group's entire past due and provision balances as at 31 December 2021 relates to its operations in the Kingdom of Bahrain.

Restructured Assets

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

If the terms of an exposures subject to credit risk are renegotiated or modified or an existing exposures subject to credit risk is replaced with a new one due to financial difficulties of the borrower, the exposures subject to credit risk should be derecognized and ECL is calculated using the cash shortfalls from the existing exposures subject to credit risk that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing exposures subject to credit risk. The 12 month cooling off period is considered sufficient to test the adequacy of the cash flows and to test satisfactory performance under the revised terms of restructuring.

The total principal outstanding amount of social loans restructured (excluding those past dues as of year-end) during the year is BD 48.5 million and the ECL on restructured loans as of year-end is BD 7.7 million.

Pillar – III Disclosures - 2021

31st December 2021

13. CREDIT RISK (CONTINUED)

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

The following table summarizes the regulatory capital requirements for credit risk by type of standard portfolios that are subject to standardized approach as of 31 December 2020:

	* Gross Exposures	Risk Weighted Exposures	** Capital Charge
Standard Portfolio			
Cash items	111	-	-
Claims on sovereign	849,599	-	-
Claims on Banks****	8,104	1,621	203
Claims on investment firms	179	90	11
Mortgage	4,665	3,499	437
Past due exposure	275	275	34
Equity investments	1,015	1,522	190
All other holdings of real estate ***	94,431	147,916	18,490
Other assets	1,726	1,726	216
	960,105	**156,649**	**19,581**

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

*** Calculated at 12.5% of RWA*

**** Includes real estate exposure relating to social housing projects amounting BD 27,297 thousand which are credit risk weighted at 50% as per CBB concessions and have capital charge of BD 1,706 thousand.*

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

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

The following table summarises the amount of gross funded and unfunded exposure and average gross funded and unfunded exposures as of 31 December 2021:

	Gross Exposures	* Average Exposures
Funded Exposure		
Cash and cash equivalents	85,472	59,691
Investments	7,223	5,371
Loans	749,670	746,522
Investment in associates	4,189	4,235
Investment properties	59,474	52,362
Development properties	13,779	14,916
Other assets	14,394	13,925
	934,201	**897,022**
Unfunded Exposure		
Loan related	18,669	17,769
Capital Commitments	14,588	7,670
	33,257	**25,439**

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

The Group holds collateral against loans in the form of mortgage on residential property (refer section 14).

Pillar – III Disclosures - 2021

31st December 2021

13. CREDIT RISK (CONTINUED)

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

	Kingdom of Bahrain	Total
Funded Exposures		
Cash and bank balances	85,472	85,472
Investments	7,223	7,223
Loans	749,670	749,670
Investment in associates	4,189	4,189
Investment properties	59,474	59,474
Development properties	13,779	13,779
Other assets	14,394	14,394
	934,201	**934,201**
Unfunded Exposures		
Loan related	18,669	18,669
Capital Commitment	14,588	14,588
	33,257	**33,257**

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

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

The following table summarises the distribution of funded and unfunded exposure by industry type as of 31 December 2021:

	Government	Banks and financial institutions	Real estate and construction	Residential mortgage	Tourism	Other	Total
Funded Exposures							
Cash and bank balances	67,209	18,262	-	-	-	-	**85,471**
Investments	3,593	-	2,615	-	643	372	**7,223**
Loans	-	-	-	749,670	-	-	**749,670**
Investment in associates	-	-	4,189	-	-	-	**4,189**
Investment properties	-	-	59,474	-	-	-	**59,474**
Development properties	-	-	13,779	-	-	-	**13,779**
Other assets	40	16	11,810	333	-	2,194	**14,393**
	70,842	18,278	91,867	750,003	643	2,566	**934,199**
Unfunded Exposures							
Loan related	-	-	-	18,669	-	-	**18,669**
Capital Commitment	-	-	14,588	-	-	-	**14,588**
	-	-	14,588	18,669	-	-	**33,257**

13.3 Related Parties Transactions

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

The details of the related party disclosures are incorporated in the relevant section of the consolidated financial statements for the year ended 31st December 2021.

Pillar – III Disclosures - 2021

31st December 2021

13. CREDIT RISK (CONTINUED)

Table 13: Intra-group transactions as of 31 December 2021 (In BHD Thousands)

The Bank disclosed its intra-group transactions with its subsidiaries on standalone basis. The following table summarises intra-group transactions as of 31 December 2021:

	Eskan Bank	Eskan Property Co.	Dannat Al Lawzi	Total
Assets				
Balances with Banks	-	1,923	-	**1,923**
Development Properties	148	-	160	**308**
Investment properties	74	-	-	**74**
Investments in subsidiaries	8,651	-	-	**8,651**
Other Assets	439	349	3,379	**4,167**
	9,312	**2,272**	**3,539**	**15,123**
Liabilities and Equity				
Non-Bank Deposits	1,504	-	-	**1,504**
Current Accounts	419	-	-	**419**
Other Liabilities	3,722	435	10	**4,167**
Share Capital & Reserves	(1,267)	49	10,250	**9,032**
	4,378	**484**	**10,260**	**15,122**

13.4 Large Exposures

A Large exposure is any exposure to individual **counterparties** which is greater than, or equal to, 10% of consolidated **capital base**. The Bank did not have any large exposure as at 31st December 2021.

14. CREDIT RISK MITIGATION

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

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

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

- First legal mortgage over real estate/ property

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

Valuation of the Collaterals

- **Residential Mortgage Loans (commercial):**

The valuation of collateral is carried out by an external evaluator, at the time of approval. A fresh external valuation of loans is taken if the same is mandated by regulatory authorities.

- **Residential Mortgage Loans (Social):**

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

15. COUNTERPARTY CREDIT RISK FOR DERIVATIVE AND FOREIGN EXCHANGE INSTRUMENTS

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

Pillar – III Disclosures - 2021

31st December 2021

16. LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its funding requirements.

Liquidity risk can be caused by market disruptions or a credit downgrade which may cause certain sources of funding to dry up immediately. To guard against this risk, the Bank has diversified funding sources, assets are managed with liquidity in mind and liquidity positions are monitored, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities. In addition, the Bank maintains various statutory deposits with central banks and has taken lines of credit from various banks and financial institutions. The Bank's ability to maintain a stable liquidity profile is primarily on account of repayments from the Loan Portfolio, syndicated loan and the long term nature of the Government Account.

The Bank has in place a Liquidity Risk Management policy, which describes the roles and responsibilities of Asset Liability Committee ("ALCO") and stipulates the broad guidelines with regard to minimum liquid assets to be maintained by the Bank, gap limits for time bucket of the maturity ladder, cumulative outflow of cash limits for time buckets and various liquidity ratios to be maintained which are approved by the ALCO based on the liquidity strategy.

The Bank also draws up contingency plans to deal with extraordinary conditions of liquidity risk after comprehensive scenario analysis.

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

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

	1-7 Days	7 Days - 1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	3-5 Years	5-10 Years	10-20 Years	Above 20 Years	Total
Cash and bank balances	36,473	48,999	-	-	-	-	-	-	-	-	**85,472**
Investments	-	70	80	3,349	-	3,374	350	-	-	-	**7,223**
Loans	-	2,477	5,010	7,654	15,535	64,096	66,105	168,620	314,816	105,357	**749,670**
Investment in associates	-	-	-	-	-	-	-	-	-	4,189	**4,189**
Investment property	-	-	-	-	-	-	-	-	59,474	-	**59,474**
Development property	-	-	-	3,954	3,954	5,871	-	-	-	-	**13,779**
Other assets	11	261	3,370	9,067	332	935	213	204	-	-	**14,393**
Total Assets	**36,484**	**51,807**	**8,460**	**24,024**	**19,821**	**74,276**	**66,668**	**168,824**	**374,290**	**109,546**	**934,200**
Interbank borrowings	10,000	-	-	-	-	-	-	-	-	-	**10,000**
Customer current accounts	8,547	-	-	-	-	-	-	-	-	-	**8,547**
Government accounts	-	4,175	-	-	20,000	40,000	-	-	-	405,010	**469,185**
Term loans	-	-	-	-	-	-	-	75,000	-	-	**75,000**
Other liabilities	4	651	254	1,127	1,520	1,793	1,171	13	-	-	**6,533**
Total Liabilities	**18,551**	**4,826**	**254**	**1,127**	**21,520**	**41,793**	**1,171**	**75,013**	**-**	**405,010**	**569,265**
Mismatch	**17,933**	**46,981**	**8,206**	**22,897**	**(1,699)**	**32,483**	**65,497**	**93,811**	**374,290**	**(295,464)**	**364,935**
Cumulative Mismatch	**17,933**	**64,914**	**73,120**	**96,018**	**94,319**	**126,802**	**192,298**	**286,109**	**660,399**	**364,935**	**364,935**

17. MARKET RISK

17.1 Overview of Market Risk Management

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

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

Pillar – III Disclosures - 2021

31st December 2021

18. OPERATIONAL RISK

18.1 Overview of Operational Risk Management

Operational risk is the risk of an adverse outcome resulting from inadequate or failed internal processes, people, systems or from external events. The Bank's objective is to maintain its exposure to operational risk at levels that are within its risk appetite, taking into account the market it operates in, the characteristics of its businesses as well as its economic and regulatory environment.

18.2 Management of Operational Risk

The Bank's Operational Risk Management comprises of three core building blocks; policies, processes, systems and reports and risk methodologies.

Policies:

There are policies, standards, tools and programmes in place to govern Operational Risk Management (ORM) practices across the Bank. Specifically, the ORM Policy sets an overall approach for managing operational risk in a structured, systematic and consistent manner.

Processes, systems and reports:

Robust internal control processes and systems are integral in identifying, assessing, monitoring, managing and reporting operational risk. Hence, all Bank's units are responsible for the day-to-day management of operational risk in their products, processes, systems and activities, in accordance with the various frameworks and policies. The operational risk unit, operational risk champions (ORCs) and control functions:

- Oversee and monitor the effectiveness of operational risk management
- Assess key operational risk issues with the units
- Report and/ or escalate key operational risks to Risk Management Committee with recommendations on appropriate risk mitigation strategies

The Bank uses an in-house developed operational risk management solution for monitoring and reporting of operational risk and capturing operational loss data in accordance with Basel III/Central Bank of Bahrain guidelines.

Risk Methodologies

To manage and control operational risk, various tools are being used, including risk and control self-assessment, Operational Risk Champions (ORCs) and key risk indicator monitoring.

The three lines of defence adopts one common risk taxonomy, and a consistent risk management approach to managing operational risk. Risk and control self-assessment is conducted by each business or support unit to identify key operational risk and assess the effectiveness of internal controls. When control issues are identified, the units develop action plans and track the resolution of the issues.

Operational risk events are classified in accordance with Basel standards. Such events, including any significant incidents that may impact the Bank's reputation, must be reported based on certain established thresholds. Key risk indicators with pre-defined escalation triggers are employed to facilitate risk monitoring in a forward-looking manner.

ORCs have been introduced for each department and have been intended to become trusted partners within their respective business areas; serving as intermediaries between the functions that develop risk policies and strategies and the employees who must carry out those strategies. Risk Management Department ensures providing relevant training and implements assurance processes in order to promote a strong operational risk culture within the entity.

Also, each new product, service or outsourcing arrangement is subject to a risk review and sign-off process where relevant risks are identified and assessed. Variations of existing products or services and existing outsourcing arrangements are also subject to a similar process.

Other mitigation programmes

A robust business continuity management plan is in place to ensure that essential banking services can continue in the event of unforeseen events or business disruptions. This includes a crisis management plan to enable quick response to manage incidents. Exercises are conducted annually, simulating different scenarios to test business continuity plans and crisis management protocols. The effectiveness of these exercises as well as the Bank's business continuity readiness and our alignment to regulatory guidelines are communicated and tested by senior management to the Board.

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

Operational Risk Measurement Methodology

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

Pillar – III Disclosures - 2021
31st December 2021

18. OPERATIONAL RISK (CONTINUED)

The following table summarizes the amount of exposures pertaining to operational risk and related capital requirements as of 31 December, 2021:

Year	2019	2020	BHD 000's **2021**
Gross income	31,712	33,107	35,589
Average Gross income			33,469
Multiplier			12.5
			418,363
Eligible portion for purpose of the calculation			15%
Total operation risk weighted exposures			62,750
Minimum capital requirement (12.5%)			**7,844**

19. EQUITY POSITIONS IN THE BANKING BOOK

The Equity position as at 31 December 2021 comprise investments in subsidiaries and associates which are not subject to regulatory consolidation treatment for capital adequacy calculation purposes and other investments.

Table 15: Equity Position in the Banking Books (in BHD thousands)

	Gross Exposures	Privately Held	Quoted	Risk weighted	Capital charge
FVTOCI	3,630	3,630	-	6,753	844
Investments in associates	4,189	-	4,189	8,379	1,047
Investments in unconsolidated subsidiaries	8,401	8,401	-	4,200	525

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

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

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

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

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

20. INTEREST RATE RISK IN THE BANKING BOOK

Interest rate risk is the exposure of the Bank's financial condition to adverse movements of interest rates. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature or re-price in a given period. Excessive interest rate risk can pose a significant threat to the Bank's earnings and capital base. Accordingly, an effective risk management process that maintains interest rate risk within prudent levels is essential to the safety and soundness of the Bank.

It is the Bank's policy to keep its assets and liabilities mismatches at stable and acceptable levels to maintain a steady net interest income. The Bank's current interest rate sensitive assets and liabilities are limited in nature with fixed maturity dates.

The Bank considers earning-based ("NII") measures for management of IRRBB and applies rate shocks of 100 bps and 200 bps to gauge the adverse impact of IRRBB on net interest income. The impact of 100 bps and 200 bps rate shocks on the Bank's earning is BD 237k and BD 475k. Meaning, if interest rates rise by 1%, the net interest income will increase by BD 237k and vice versa. The aforementioned is 0.84% of the net interest income for the year 2020.

Bucket	Overnight	Overnight - 1 month	1-3 months	3-6 months	6-9 months	9-12 months	Total BD 000's
1% Shock	-	38	66	74	44	15	237
2% Shock	-	76	132	148	89	30	475

Pillar – III Disclosures - 2021
31st December 2021

20. INTEREST RATE RISK IN THE BANKING BOOK (CONTINUED)

Table 16: Sensitivity Analysis- Interest Rate Risk (in BHD thousands)

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

	31 December 2021	Changes in basis points (+/-)	Effect on net profit (+/-)
ASSETS			
Placements with financial institutions	83,531	200	1,671
Loans - social loans	1,089,695	200	21,794
Loans - commercial loans	7,547	200	151
Investment in Debt Securities	3,593	200	72
Rate sensitive Assets	**1,184,366**		**23,688**
LIABILITIES			
Deposits from financial and other institutions	10,000	200	200
Term Loans	75,000	200	1,500
Rate sensitive Liabilities	**85,000**	200	1,700
Total			**21,988**

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

21. AUDIT FEES

Information relating to the fees paid to external auditors for audit and non-audit services including the review of interim financial statements, agreed upon procedures services related to CBB quarterly prudential report, anti-money laundering, CBB annual and semi-annual additional public disclosure requirements are maintained at the Bank and available upon request. KPMG Fakhro were re-appointed as the external auditors of the Bank for the financial year ending 2021. The assessment for the re-appointment of the external auditors was recommended by the Audit,Risk and Compliance Committee and approved by the Board of Directors.

22. CBB Penalties

The CBB penalties imposed upon the Bank during the year amounted to BD 1,760 related to Electronic Fund Transfer Services (EFTS).

Composition of Capital Disclosure Requirements

31st December 2021

Step 1: Balance sheet under the regulatory scope of consolidation

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

Particulars	FS	PIR	Ref
ASSETS			
Cash and balances at central banks	67,320	67,320	
Placements with banks and similar financial institutions	18,166	8,104	
of which Expected Credit Loss (stage 1 & 2)	(14)	-	
Loans and advances to banks and non-banks	780,005	780,005	
of which Expected Credit Loss (stage 1 & 2)	(30,336)	-	a
Investment at fair value through other comprehensive income	3,630	3,630	
Investments at Amortized Cost	3,593	3,593	
Investment properties	59,474	58,798	
Interest in unconsolidated subsidiaries and associated companies - Note 1	4,189	12,590	
Interest receivable	389	374	
Property, plant, and equipment (PPE)	220	220	
Other Assets	27,564	19,527	
of which: intangible assets deducted from regulatory capital	525	525	b
Total Assets	**934,201**	**954,161**	
NON-CAPITAL LIABILITIES			
Deposits from banks	10,000	10,000	
Deposits from non-banks	8,547	8,547	
Certificates of deposits issued	-	-	
Debt securities in issue	-	-	
Financial liabilities at fair value through profit and loss	-	-	
Term borrowings	75,000	75,000	
Securities sold under repos	-	-	
Dividend payable	-	-	
Interest payable	163	163	
Other liabilities	475,555	477,637	
Total non-capital liabilities items	**569,265**	**571,348**	

Composition of Capital Disclosure Requirements

31st December 2021

Reconciliation of published financial balance sheet to regulatory reporting as at 31 December 2020 (continued)

Particulars	FS	PIR	Ref
CAPITAL LIABILITIES			
Paid up share capital (net of treasury shares)	108,300	108,300	c
Share premium	-	-	
Legal reserve	54,462	54,462	d
General (disclosed) reserves	22,450	22,450	e
Retained earnings/(losses) brought forward	142,311	140,618	f
Net (loss) for the current period	-	-	
Net profit for the current period	28,710	27,219	g
Innovative capital instruments	-	-	
Minority interest in subsidiaries' share capital	9,274	-	
Fx translation adjustment	-	-	
Fixed assets revaluation reserves	-	-	
Cumulative fair value changes on FVOCI investments	(572)	(572)	h
Expected credit losses (Stages 1 & 2)	-	30,336	a
of which eligible for T2	-	1,958	i
Hybrid (debt/equity) capital instruments	-	-	
Subordinated debts	-	-	
Fair value changes on available-for-sale investments	-	-	
Fair value changes of cash flow hedges	-	-	
Short-term subordinated debts	-	-	
Total capital items	**364,936**	**382,813**	
Total capital and non-capital items	**934,201**	**954,161**	

Note 1: Unconsolidated legal entity for regulatory purposes

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

Legal Entity name	Principal activities	Entity classification as per CBB Rules & Guidelines	Treatment by the Bank for regulatory purposes	Extracts of financials as at 31 December 2021 (Amount in BD 000's)	
				Total assets	Total equity
Danat Al Lawzi B.S.C (c)	The principal activities of the Company include management and development of private property, buying and selling of properties on behalf of the Bank and property development, leasing, management and maintenance.	Commercial entity	Risk weighted	22,326	21,019

Composition of Capital Disclosure Requirements

31st December 2021

Step 3: Composition of Capital Common Template (transition) as at 31 December 2021

	Common Equity Tier 1 capital: instruments and reserves	Component of regulatory capital reported by bank	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from Step 2
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	108,300	c
2	Retained earnings brought forward	140,618	f
3	Accumulated other comprehensive income (and other reserves)	104,131	d+e+g
4	Not Applicable		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)		
6	Cumulative fair value changes on FVOCI investments (Equities)	(572)	h
7	**Common Equity Tier 1 capital before regulatory adjustments**	**352,477**	
	Common Equity Tier 1 capital: regulatory adjustments		
8	Prudential valuation adjustments		
9	Goodwill (net of related tax liability)		
10	Other intangibles other than mortgage-servicing rights (net of related tax liability)	525	b
11	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)		
12	Cash-flow hedge reserve		
13	Shortfall of provisions to expected losses		
14	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)		
15	Not applicable.		
16	Defined-benefit pension fund net assets		
17	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)		
18	Reciprocal cross-holdings in common equity		
19	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)		
20	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)		
21	Mortgage servicing rights (amount above 10% threshold)		
22	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)		
23	Amount exceeding the 15% threshold		
24	of which: significant investments in the common stock of financials		
25	of which: mortgage servicing rights		
26	of which: deferred tax assets arising from temporary differences		
27	National specific regulatory adjustments		
28	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover		
	deductions		
29	**Total regulatory adjustments to Common equity Tier 1**	**525**	

Composition of Capital Disclosure Requirements
31st December 2021

	Common Equity Tier 1 capital: instruments and reserves	Component of regulatory capital reported by bank	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from Step 2
30	**Common Equity Tier 1 capital (CET1)**	**351,952**	
	Additional Tier 1 capital: instruments		
31	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus		
32	of which: classified as equity under applicable accounting standards		
33	of which: classified as liabilities under applicable accounting standards		
34	Directly issued capital instruments subject to phase out from Additional Tier 1		
35	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)		
36	of which: instruments issued by subsidiaries subject to phase out		
37	**Additional Tier 1 capital before regulatory adjustments**	**-**	
	Additional Tier 1 capital: regulatory adjustments	**-**	
38	Investments in own Additional Tier 1 instruments		
39	Reciprocal cross-holdings in Additional Tier 1 instruments		
40	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)		
41	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		
42	National specific regulatory adjustments		
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		
43	**Total regulatory adjustments to Additional Tier 1 capital**		
44	**Additional Tier 1 capital (AT1)**	**-**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**351,952**	
	Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus		
47	Directly issued capital instruments subject to phase out from Tier 2		
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)		
49	of which: instruments issued by subsidiaries subject to phase out		
50	Provisions	1,958	i
51	**Tier 2 capital before regulatory adjustments**	**1,958**	**i**
	Tier 2 capital: regulatory adjustments		
52	Investments in own Tier 2 instruments		
53	Reciprocal cross-holdings in Tier 2 instruments		
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold) .		
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		

Composition of Capital Disclosure Requirements

31st December 2021

	Common Equity Tier 1 capital: instruments and reserves	Component of regulatory capital reported by bank	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from Step 2
56	National specific regulatory adjustments		
57	**Total regulatory adjustments to Tier 2 capital**	-	
58	**Tier 2 capital (T2)**	**1,958**	**i**
59	**Total capital (TC = T1 + T2)**	**353,910**	
60	**Total risk weighted assets**	**219,401**	
	Capital ratios		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	**160%**	
62	Tier 1 (as a percentage of risk weighted assets)	**160%**	
63	Total capital (as a percentage of risk weighted assets)	**161%**	
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement expressed as a percentage of risk weighted assets)	9%	
65	of which: capital conservation buffer requirement	2.5%	
66	of which: bank specific countercyclical buffer requirement (N/A)	NA	
67	of which: D-SIB buffer requirement (N/A)	NA	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	160%	
	National minima including CCB (if different from Basel 3)		
69	CBB Common Equity Tier 1 minimum ratio	9%	
70	CBB Tier 1 minimum ratio	10.5%	
71	CBB total capital minimum ratio	12.5%	
	Amounts below the thresholds for deduction (before risk weighting)		
72	Non-significant investments in the capital of other financials		
73	Significant investments in the common stock of financials		
74	Mortgage servicing rights (net of related tax liability)		
75	Deferred tax assets arising from temporary differences (net of related tax liability)		
	Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	30,336	a
77	Cap on inclusion of provisions in Tier 2 under standardised approach	1,958	i
78	N/A		
79	N/A		
	Capital instruments subject to phase-out arrangements		
80	(only applicable between 1 Jan 2020 and 1 Jan 2024)		
81	Current cap on CET1 instruments subject to phase out arrangements		
82	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		
83	Current cap on AT1 instruments subject to phase out arrangements		
84	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		
85	Current cap on T2 instruments subject to phase out arrangements		
	Amount excluded from T2 due to cap (excess over cap after		

Composition of Capital Disclosure Requirements
31st December 2021

Disclosure template for main feature of regulatory capital instruments

1	**Issuer**	**Eskan Bank B.S.C (c)**
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	Not applicable
3	Governing law(s) of the instrument	All applicable laws and regulations of the Kingdom of Bahrain
	Regulatory treatment	
4	Transitional CBB rules	Common equity Tier 1
5	Post-transitional CBB rules	Common equity Tier 1
6	Eligible at solo/group/group & solo	Solo & Group
7	Instrument type (types to be specified by each jurisdiction)	Equity Share
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	BD 108.3
9	Par value of instrument	BD 100
10	Accounting classification	Shareholders' equity
11	Original date of issuance	1979 , 2011
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity date
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Dividends as decided by the shareholders.
18	Coupon rate and any related index	Not applicable
19	Existence of a dividend stopper	Not applicable
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down feature	No
31	If write-down, write-down trigger(s)	Not applicable
32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not applicable
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	Not applicable