

**ANNUAL REPORT**  
**2007**





**His Highness Shaikh  
Khalifa Bin Salman Al Khalifa**  
The Prime Minister  
of the Kingdom of Bahrain



**His Majesty King  
Hamad Bin Isa Al Khalifa**  
The King of the  
Kingdom of Bahrain



**His Highness Shaikh  
Salman Bin Hamad Al Khalifa**  
The Crown Prince and  
Commander-in-Chief of the  
Bahrain Defence Force

**“ Develop a professional  
banking business ... Providing  
the best customer service ...”**

## Contents

1. Corporate Overview	8
2. Financial Summary	10
3. Chairman's Statement	12
4. Management Review	17
6. Corporate Governance	26
7. Auditor's Report	32
8. Consolidated Financial Statements	35
9. Notes to the Consolidated Financial Statements	37
10. Contact Directory	58



**“Providing quality housing,  
developing cohesive communities  
and improving the quality of life  
for the citizens of the Kingdom of  
Bahrain”.**

# Corporate Overview

## Our Vision

Eskan Bank aspires to be an acknowledged industry leader, committed to the formation of a fair and efficient mortgage loan market in the Kingdom of Bahrain. We aim to facilitate affordable housing solutions through competitively priced mortgages, and contribute to the development of cohesive communities for the citizens of Bahrain.

## Our Mission

Eskan Bank seeks to develop a professional banking business to create and maximize value for the provision of affordable solutions to meet the housing needs of the citizens of the Kingdom of Bahrain. We aim to serve as a partner in providing the best mortgages and loan facilities for our customers, with a strong commitment to:

- Being the pre-eminent choice for affordable mortgage solutions
- Providing quality housing and developing cohesive communities
- Driving the development of a mortgage-backed securitization model for the Kingdom of Bahrain
- Enhancing our business activities with innovative, value-added services and quality products
- Providing the best customer service

## Profile

Eskan Bank was established in 1979 by Amiri (Royal) Decree to provide mortgages and banking services to the citizens in the Kingdom of Bahrain, in addition to property development.

Eskan translates literally from Arabic to mean “housing” and encapsulates the essence of the Bank.

Since formation, the Bank has become the Kingdom’s largest residential mortgage provider and a leading property development operation. To date, the Bank has provided mortgages totaling nearly BD 500 million benefiting more than 141,000 Bahraini nationals, and has been actively involved in the financing and development of social housing, community based and commercial real estate projects across the Kingdom.

Eskan Bank has become synonymous with fulfilling aspirations and making dreams of home ownership a reality. The Bank is now capitalizing on its unique market position to expand its business activities into other related sectors, and play a pivotal role in the growth and development of the national economy.

Wholly owned by the Government of the Kingdom of Bahrain, Eskan Bank has an authorized share capital of BD 40 million. At the end of 2007, total assets of the Bank stood at BD 285 million.

**“We aim to facilitate affordable housing solutions through competitively priced mortgages, and contribute to the development of cohesive communities for the citizens of Bahrain.”**



# Financial Summary 2007

	2007
Total income	BD 12 million
Net income	BD 7 million
Total assets	BD 285 million
Total equity	BD 159 million
Return on equity	4.471 %
Earnings per share	BD 47.285
Total housing loans disbursed	BD 50.34 million

“Strategically we also recognised that we needed to partner more closely with the private sector to make our work more sustainable and to speed up the process and reduce the waiting list for loans.”.



# Chairman's Message



**On behalf of the Board of Directors, I have pleasure in presenting this annual report and consolidated financial statements of Eskan Bank for 2007, and to share with you the progress that has been made delivering on the strategy that was launched in 2004.**

The Board is proud to report tangible progress in fulfilling business strategies, our vision of creating an organization capable of delivering more funds to more citizens so that they can buy a home is working. We acknowledged the necessity of realigning the objectives and functions of the Bank to enable it to respond to these changing needs. Strategically we recognized that we needed to collaborate with the private sector to achieve sustainable growth in delivering housing solutions to the citizens of Bahrain.

Eskan Bank has become synonymous with fulfilling aspirations and making dreams of home ownership a reality. The creation of new financial products and services to secure liquidity for low to medium income families is of significant note. Eskan Bank is now capitalizing on its unique market position and is expanding its horizons into other related sector activity.

In 2007, the preceding Chairman and former Minister of works and Housing, H.E. Fahmi Ali Bin Ali Al Jowder, presently Minister of Works and Minister in charge of Electricity and Water Authority, outlined the foundations that had been laid to support the transition of the organization from an institution for the disbursement of mortgage loans funded through the annual government budget, into a more diversified, financially independent and commercially organized institution. This facilitated

us meeting the changing needs of Bahraini society and supported the Kingdom's visionary program of social and economic reforms.

#### **Our vision**

To be the industry leader and, to participate fully in building a fair and efficient mortgage loan market within Bahrain remains unchanged.

We want to offer affordable housing solutions through competitively priced mortgages and to develop high quality homes within communities" Our strategy is to diversify from serving housing finance needs based on funding obtained from the Government to identifying different sources of funding and giving a greater role to market participation, securitization, project development and establishment of subsidiaries and other business oriented institutions that will assist the bank in achieving its objectives.

#### **We have made significant progress on our mission:**

- We are developing affordable mortgage solutions – both in partnership with the private sector and from our own resources.
- We are successfully developing communities – building houses and addressing the infrastructure that is needed to support families living in Bahrain.

## ...Chairman's Message (continued)

- We have listened to our customers and have enhanced our products and services, launching our own mortgage product, developing a current account product, improving our branches and working closely with key partners such as the Survey & Land Registration Bureau to speed up the purchase process.

### **Increased dynamism within the Bahrain market and a new range of products, for social and commercial purchasers**

Eskan Bank is now an active commercial participant in developing community and commercial housing and creates healthy liquidity. We are working with commercial partners to change the mortgage market, to increase the liquidity and the options for homeowners.

### **Improved financial performance**

In 2007, the Bank posted an improved financial performance over the previous year; we aim to be a cost-efficient and profitable institution. However, the Bank is not driven solely by bottom-line considerations. The success of our performance is also measured in terms of the volume and extent of activities undertaken by the Bank to meet its strategic role of enabling low-income Bahraini families to own their homes. I am extremely pleased to report that the Bank has performed well in this regard, with housing loans of over BD 50 million being disbursed in 2007, representing a record increase of 24 per cent over the previous year. For the past 30 years, Eskan Bank has provided mortgages totaling more than BD 500 million benefitting over 28,000 Bahraini families; last year for instance, more than 2,000 families were served.

On behalf of the Board of Directors, I would like to convey my best wishes and gratitude to His Majesty King Hamad Bin Isa Al Khalifa, the King of

the Kingdom of Bahrain; to His Highness Shaikh Khalifa Bin Salman Al Khalifa, the Prime Minister of the Kingdom of Bahrain; and to His Highness Shaikh Salman Bin Hamad Al Khalifa, the Crown Prince of the Kingdom of Bahrain and Commander-in-Chief of the Bahrain Defence Force, for their wise leadership and visionary reform programme.

I would also like to take this opportunity to thank our shareholder, the Government of Bahrain, for its confidence and financial support; and to acknowledge the cooperation, professional advice and guidance received from the Government's Ministries and official bodies, in particular The Ministry of Housing, The Ministry of Finance, The Central Bank of Bahrain, the Tender Board, The Authority of Electricity & Water and The Ministry of Industry & Commerce.

Finally, I would like to express my sincere appreciation to our customers for their loyalty and trust; to our business partners for their support and encouragement; and to our management and staff for their commitment and contribution.

**Ebrahim Bin Khalifa Al Khalifa**  
Chairman





## Comparative Results 2004 to 2007 (BD 000's)

### Statement of Income

	2004	2005	2006	2007
Operating Income	3,874	4,493	6,326	11,908
Expense & other charges	2,423	2,410	3,121	4,815
Net Income	1,680	2,362	3,515	7,093

### Deployment of Funds

	2004	2005	2006	2007
Fixed Assets	1,566	2,669	3,123	1,626
Cash/Inter bank deposits	14,431	20,372	36,276	60,091
Loans	72,399	97,370	132,114	172,812
Other Assets	55,582	47,997	46,019	50,110

### Source of Funds

	2004	2005	2006	2007
Long Term Debt			15,000	55,000
Short Term Debt	99	31	647	-
Other Liabilities	1,295	23,919	53,987	71,010
Equity	142,587	144,458	147,897	158,632

### Key Ratios

	2004	2005	2006	2007
Return on Equity	1.18%	1.64%	2.38%	4.47%
Cost to Income (efficiency)	62.50%	53.60%	49.30%	40.44%
Earning per shares (BD)	11.2	15.749	23.438	47.285

# Management Review



**Housing is one of the fundamental needs all human beings share. Owning your own home is a dream for many people and one that Eskan is helping Bahraini families to realize. We are addressing both the financing of loans and the provision of housing. We are working towards sustainable housing solutions for our citizens.**

Eskan Bank is in a unique position within Bahrain. We are the main point of contact for citizens who are accessing Government funds in order to buy their homes. 2007 was a year that saw us focused on building on solid foundations. Eskan Bank has become synonymous with fulfilling aspirations and making dreams of home ownership a reality. We are well poised to capitalize on our unique market position by diversifying our business activities to include banking services, corporate finance and property development, as well as tourism.

We are an organization that is expanding its activities. We have listened to the needs of Bahraini citizens and have strengthened our structure to meet our purpose. We are transforming our role to become a catalyst and a wealth creator. We are well positioned to access private funding which will flow into furthering Bahrain's social housing agenda.

#### **Our successes**

In 2007, we have had a successful year, disbursing a record BD 50 million for social loans, a 25 per cent increase on the previous year. We saw the start of our commercial business with Eskan Bank offering its own Al Dar mortgages. We have focused on simplifying our processes and establishing clear criteria for prospective borrowers and we are very optimistic moving forward.

During 2007 we experienced a satisfying shift in momentum and in our capacity to get things done. We realized the value of initiatives made in 2006, both in our own organization and in the new products and services developed for our customers.

Many of the initiatives that we started last year have come to fruition; for example, we are very proud to have launched the issuance of BD30 million worth of residential mortgage backed securities (RMBS), backed by a pool of Bahraini mortgage loans originated by our Bank, this very successful product launch was 1.74 times oversubscribed.

These innovative structures and groundbreaking partnerships with the private sector will help Eskan Bank to meet the needs of Bahraini citizens more effectively, by providing access to a new form of liquid funding. This will create a sustainable program for Bahrain. It will have the effect of reducing the waiting time for people who want an affordable way of purchasing their homes and it will increase the supply of funds into the sector, ensuring that more people can benefit from Ministry of Housing support

## ...Management Review (continued)

We have made progress on developing the Mortgage Guarantee System (MGS), an initiative to create a complete system encompassing both the primary and the secondary mortgage loan market in line with developments in other international markets. We received approval from the cabinet in November 2007 to implement this initiative and establish the necessary legal entities. These will be institutions that will facilitate and encourage private sector financial institutions to enter the housing finance market, via innovative instruments that include guarantees against possible defaults of borrowers, advances of cash subsidies as well as the creation of a liquid secondary market.

We retain a strong focus on providing housing solutions through the creation of flexible financing options. Our Public Private Initiative (PPI) will effectively help provide the finance for developing social housing. This is a shift from our historic role of disbursing Government funds and we are working hard to communicate the power and significance of this change. This change in emphasis has the full support of our shareholder and the cabinet.

### **Our Strategy**

We aspire not to depend largely on government backing and subsidies for our funding requirements. Our strategy is based on approaching private financial institutions and the capital market for the future funding of the needs of the Bank. In this regard, we aim to improve our organizational capabilities and to develop alliances and strategic partnerships with prominent international financial institutions that could assist the Bank in achieving the best funding solutions and enable the Bank to provide appropriate mortgage housing loans and in managing an efficient mortgage market in the Kingdom of Bahrain.

### **Our services**

2007 has been a year of progress on a range of fronts. We are becoming active participants in the mortgage markets as social innovators, working together with the private sector to create sustainable solutions for Bahraini homeowners.

His Majesty The King's Royal Decree (reducing the installments of social loans customers by 50%) was effective December 2006 and, by May 2007, the bank had reconciled more than 20,000 customer accounts, and customers were gaining the benefits this afforded.

We have streamlined the way that mortgage applications are processed. We plan new ways of working with the Survey & Land Registration Bureau. This will include having a member of its team within each of our branches to expedite the registration process, which will result in significantly reducing the processing time of loan applications.

We have shifted the dynamics of the market and addressed the challenges that we identified last year, including the exclusion of private sector money and thinking in the development of social housing. We have now put in place innovative and groundbreaking products tailored for the Bahraini market. Once these two elements are combined, we believe we can open up possibilities that will allow more money to flow into the social housing pool. This in turn will enable private sector mortgage providers and developers to take a stake in the provision of public and private sector housing and services solutions, which will help Bahrain to prosper.

## ...Management Review (continued)

### **Building sustainable funding**

The three groundbreaking macro-economic and social initiatives that were started last year, in collaboration with the Ministry of Housing and the Ministry of Finance have progressed during 2007. These initiatives, which involve the participation of the private sector, are designed to provide sustainable solutions to the Kingdom's housing needs.

The first initiative involves the Bank being mandated to develop a Mortgage Guarantee System (MGS) to increase the supply of real estate financing through the development of a primary as well as a secondary mortgage loans market. The second is the creation of a Public Private Initiative (PPI) to provide structured finance solutions. This is initially for public housing projects and will eventually be for the provision of more affordable housing. This has led to a cabinet resolution in October 2007 approving a PPI structuring of seven housing projects. The third initiative is the introduction of Residential Mortgage Backed Securities (RMBS) to fund the Bank's projects - the first in the Kingdom and one of the first in the GCC region, which was 1.74 times oversubscribed when it was issued on 07th October 2007.

We have established a property development subsidiary, which has been working on projects worth BD 500 Million to develop new projects on behalf of Eskan Bank, and will continue to establish new businesses that help us to deliver our strategy under the Eskan umbrella.

### **Putting the customer at the heart of what we do**

Considering our social roots, which remain at the heart of our business, we will continue to use our commercial activities to enable us to do more

developments and services on the social side of our business.

We are focused on improving the customer experience and have begun to establish service standards, so that all of our customers can expect a loan to be approved, documented and disbursed in a defined period.

To ensure that the products and services that we provide meet their needs, we have commissioned a survey of our customers. As a result of listening to customer feedback we will be offering a full service current account in the second quarter of 2008.

In response to customer demand, we will be upgrading our branches, and providing new means of delivering our products, including kiosks in selected locations. Subject to the necessary regulatory approvals, we will launch a range of Shariah compliant deposit products in 2008, to complement our Shariah compliant mortgages.

### **Wholesale banking activity**

In order to make the maximum use of our banking license, we will launch a range of corporate banking products during 2008, targeting high quality companies operating in the real estate sector.

We expect that we will be moving up and down the value chain in real estate terms, working with valuers, contractors, and other companies operating in this sector.

Our Corporate Finance Department will be seeking further opportunities to work on structuring real estate development transactions to bring them to market as quickly as possible.

## ...Management Review (continued)

Finally, we will build a Securitization capability during 2008, to generate cash flows that can be used to accelerate the development of social housing.

### **Treasury**

The Treasury Department of the Bank is currently mainly involved in deploying the bank's surplus liquidity, principally through inter-bank placements. The Bank is risk averse as far as the taking of any positions is concerned, and our balance sheet is almost entirely made up of Bahraini Dinar assets and liabilities. As the Bank evolves, we expect to borrow as well as lend in the inter-bank market, and become a more conventional Treasury operation, with a wider range of products and currencies.

### **Asset management**

In 2007, the Asset Management team progressed, through efficient management of the sites owned by the bank, on a number of existing and new property development projects. Also during the year, the team identified ways of enhancing its investment and IRR at other strategic sites.

Driven by unique insight and intellectual resources, the unit was successful in finalizing the transfer of several sites and obtaining building permits to evaluate developments through the coordination with the government regulations; these include mixed commercial and residential projects, managing over twelve sites in various locations, over 37 shops and a total area of more than 5,600 square meters.

In line with its strategy to actively pursue new property business growth opportunities, our future plans include mounting strategic alliances with renowned consultants, developers and investors; to expand the prime properties owned by the bank.

### **Building a Strong Operational Infrastructure Operations and Technology**

We have continued to focus on building a strong operational, resource and delivery foundation upon which the Bank's business teams can execute a wider range of customer service and revenue generating initiatives and significant progress has been made during 2007.

The substantial investment made in our new Core Banking System from MISYS in 2006 has now provided the technology platform for our operations to provide better product and service delivery, improved customer service and enhanced sales activities. We have also benefited from better management information which has helped our risk management and decision making by the Bank's management.

We have continued to review and develop business processes, methodologies and systems to create the right infrastructure to support the Bank's plans and activities. We have commenced a program to upgrade our delivery channels (branches, ATM, call centre and internet) considering all the customers' needs together rather than designing things around individual products or business lines. We are making sure these channels all have a consistent look and feel to support the Eskin brand.

The Bank's multi-distribution channel approach means we are increasing the number and quality of branches, kiosks and other distribution points (eg ATMs) . We will do this to deliver economic and service benefits by using the full potential of our Core Banking System.

Our IT system developments have already begun to build on the capabilities of the Core Banking System to create stronger and shorter connections

## ...Management Review (continued)

and communication between the Bank's product and processing teams. We will continue to build an enhanced product and service development "engine" capable of providing greater product and service options and the speed to market that can meet the needs of the Bank's wider range and growing number of customers. In other words we will continue to exploit our technology to provide great products and deliver service benefits faster to our customers.

We have been integrating our business processes so that we can reduce the number of processes and steps. This is creating higher productivity and economies of scale in our processing and administration to enable us to handle the anticipated higher business volumes across the Bank's product range.

We have begun to build a more complete understanding of our operational costs, stronger cost management and controls and a cost conscious culture. This will enable us to take more informed decisions whether to "outsource" or undertake activities "in-house", centralize or decentralize support activities.

Facilities and space management are a central component of long-term cost control and human resources management. Developments at the Eskin Bank Head Office building and Isa Town branch premises have been at the core of our planning.

We have continued to support the development of strong governance and risk management structures including development of a new Operational Risk Management framework and Basel II preparatory work. We have taken steps to develop the Bank and subsidiary companies' current and future operations within a "Group" organization structure to promote

self-sufficiency whilst ensuring that there is full alignment to and strong focus upon the Bank's business strategies and plan objectives.

### People

Organization and people development have remained central to our success. Our people will continue to be the fundamental source of service excellence and competitive differentiation.

We have continued to focus on recruiting capable people into the right roles. Growth in employee numbers will continue and will be carefully matched to specific need and the potential for business growth.

We have implemented a number of programmes to develop and retain a Bank "talent pool" of increasingly skilled customer and service orientated employees in both business and support teams. Our Graduate Trainee Program (Al Nokhbah) has been designed to develop young talent in a challenging, diverse and highly rewarding environment. From Treasury, Banking Operations, Retail Banking and Risk Management to Property Development and Human Capital there are opportunities in nearly every area of our banking practice to develop our budding talent. Through the Graduate Trainee Program, which includes an initial intensive twelve month training programme in association with the leading Bahrain Institute of Banking and Finance, our talent pool will now be regularly strengthened and will contribute to the achievement of business outcomes by developing our leaders of the future.

We have continued to seek capable top and middle management who will provide the strong leadership required to deliver high performance. Recruitment, training performance management and development processes have been developed

## ...Management Review (continued)

to provide career paths for high potential employees and detailed succession planning for key positions.

We have implemented a competitive range of remuneration and retention strategies that are being employed to match the more diversified business lines that the Bank is developing and address increased market pressures. The introduction of our Employee Saving Scheme is designed to encourage and motivate staff to save. It will provide an additional source of retirement income that can be built up during their employment and offers flexible and rewarding benefits.

We have continued to actively encourage a more flexible, team working culture driven around achieving customer service excellence within the necessary framework of governance and risk management controls.

The need of our business for new skills and capabilities has been factored into our recruitment plans in response to the expansion of the range and quality of our products and services.

As our business grows and our services need more complex support we have continued to develop and selectively recruit staff who have proven track records and experience in managing technology, project execution and change management to ensure that we have the resources necessary to meet our stretching targets.

### **Risk Management Review**

The nature of the Bank's business with an exclusive focus on the domestic market presently, and a conservative investment and liquidity management policy has ensured that it has been untouched by the troubles in the sub-prime mortgage market.

Eskan Bank gives significant priority to risk management and seeks to manage appropriately all the risks that arise from its activities. The principal risks inherent in the business are credit risk, market risk, liquidity risk and operational risk. These risks are highly interdependent and events that affect one area can have adverse implications for a range of other risk categories. The Management of the Bank continues to accord the highest priority to maintain and improve the ability of the Bank in identifying, measuring, monitoring and controlling these risks and the overall risk profile of the Bank. Further, in accordance with the growth in the lines of business of the Bank, it has continued to evolve, widen and intensify the Risk management function to cover not only the traditional areas of social loans but also those of commercial residential mortgage loans, property development and Islamic finance. Consequently, risk management systems with greater degree of sophistication are in the process of being implemented.

A formal structure has been evolved for managing risks based on detailing and documenting various risk policies and procedures, establishing a Risk Management Division staffed by appropriately qualified and experienced personnel to set limits consistent with the risk appetite and to generally provide an oversight role in relation to risk management and finally establishing a Committee structure comprising senior management functionaries to support the risk management within the institution. In addition to these management committees, oversight of the risk management and controls is provided by the Audit Committee on behalf of the Board of Directors.

### **Credit Risk**

Credit Risk is the risk that a customer or counterparty will not be able to meet its obligations

## ...Management Review (continued)

to the bank when they fall due. The building blocks put in place for effective management of credit risk comprise the following:

- **Independent Functions:** The initial credit decision pertaining to mortgage loans has been distanced from the Customer Service team, by routing the proposals to a specialist Loans Department which considers the acceptability of the credit. It is also ensured that pre-disbursal review of the loan is done independently of the originating team.
- **Credit Policies and Procedures:** The Risk Management Division is guided in its functioning by credit policies and procedures that have been documented and approved by the Board of Directors of the Bank. Procedures complementing these, to ensure proper credit controls are in place, have been approved by the Senior Management of the Bank prior to final approval by the Board of Directors of the Bank.
- **Credit Approving Authority:** The credit approving authority has been defined and documented in the Credit Policy document and by an Authority Matrix which is approved by the Board. Delegations of authority are dependent both on the hierarchical seniority of the approver and on the risk of the transaction as demonstrated by its size and conformity with approved normal policy, with higher risk exposures requiring sanction by the Risk Management Committee.
- **Prudential Limits:** Prudential limits are also in place for exposure to borrowers and sectors which helps in mitigating credit concentration risk. To mitigate the risk of concentration of placement with any one bank, limits for inter bank placements have been approved for each bank, which is monitored on a daily basis.

### **Market and Liquidity Risk**

Market risk is defined as the potential loss in value or earnings from changes in value of financial instruments. The Bank has instituted comprehensive Asset and Liability Management practices to achieve these objectives. Daily management of the liquidity position is carried out by the Treasury Division which manages the portfolio of liquid assets and contingency funding plans. A Liquidity Risk policy has been approved by the Board which provides for the identification, assessment, control and monitoring of liquidity risk. The liquidity risk is closely monitored on an ongoing basis, with Treasury reporting to ALCO meetings formally held once a month, to monitor and control the liquidity risk encountered by the Bank. The Bank's assets presently being denominated in the local currency, it does not run any significant foreign currency risk.

### **Operational Risk**

Operational Risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes or systems, human error or external events. External events include legal and regulatory risks, disasters and infrastructure failures, business risks and outsourcing and supplier risks.

The Bank's approach is to ensure business managers identify, assess, prioritise and effectively manage all substantive risks and that a coordinated, cost-effective approach is adopted. This involves a combination of internal control systems, detailed processes, appropriate insurance cover and contingency arrangements. To this end, the core banking system from MISYS has been successfully implemented thereby providing enhanced system control and mitigation of risk in some areas of operations.

## ...Management Review (continued)

The Bank has during the year extended and expanded its various operations, products, processes and systems, which have given rise to some or all of the risks detailed above. In order to effectively assess, manage and control these risks the Risk Management Division has been further streamlined and correspondingly staffed. The Bank has also commenced the process of implementation of Basel II norms and will be adhering to the standardised approach for its regulatory credit risk capital adequacy and the basic Indicator approach for regulatory capital for Operational Risk. The Bank is expected to be fully compliant with the Basel II norms in the year 2008.

### Subsidiaries

#### **Southern Tourism Company B.S.C.**

Southern Tourism Company (STC) is a wholly owned subsidiary of Eskan Bank, established in 2000 to capitalize on the projected high growth potential of the Kingdom of Bahrain's tourism sector. The prime objective of STC is to promote tourism and related activities such as marine transport services, management of private resort properties, and jetty facilities. These are designed to enhance Bahrain as a desirable tourist destination in the Middle East.

The company currently owns and manages 47 chalets in Hawar Islands and is currently planning to develop and landscape the surrounding areas of the chalets, in addition to 10 more chalets. The proposed plan also includes the development of a supermarket, a café and a swimming pool for the guests.

In addition to the chalets in Hawar Islands, the company manages 27 chalets owned by "Southern Area Development Company" in which the Bank has a 28% stake.

To support our commitment to our country and tourism, in 2007, STC has invested in a speed boat that reduces the journey time from Bahrain to Hawar by 40%. The boat has been designed according to international standards to transport 54 passengers. Since its launch the boat has navigated 111 trips to Hawar with a total of 4,822 passengers.

STC currently has a fleet of 13 boats in different sizes that include "Zahrat Bahar" that can carry 160 passengers, 2 speedboats with a capacity of 25 passengers each, 4 tug boats and 2 emergency speedboats.

#### **Eskan Property Company B.S.C.**

Eskan Property Company is a wholly owned subsidiary of Eskan Bank, established toward the end of first quarter in 2007; the company operates in a highly regulated environment. Providing good value propositions to clients and stakeholders alike, Eskan Property Company is able to offer competitive pricing based on land granted from the Government.

Eskan Property Company is by virtue of its commercial and social projects mandate, required to develop both, residential and commercial schemes. The critical cornerstone to Eskan Property Company's success will hinge on focusing mainly on residential schemes whilst attracting joint venture partners to participate in the more complex commercial schemes. This will create added value in terms of offering communities lifestyle, live and play environment.

## ...Management Review (continued)



We have taken a relentless approach to projects, ensuring our highly qualified team is engaged in managing all aspects of the work. This ranges from idea generation, through to concept initiation and, planning and overseeing the development, through to final delivery and subsequent sales and, in some cases, managing the properties.

Today, we have completed projects all across the Kingdom of Bahrain, covering residential, commercial and retail developments.

### **Building a successful future**

As the Bank's achievements during 2007 illustrate, we are succeeding in meeting the challenges presented and converting them into opportunities. Eskan Bank now has in place the organizational infrastructure and institutional capability that is required to support its ambitious mission and strategic objectives. With housing solutions, affordable mortgages, property development and investment banking increasingly taking centre

stage in the social and economic growth of the Kingdom of Bahrain, we will leverage Eskan Bank's core competencies to capture these new business opportunities.

Looking ahead, I see that we can contribute to the future prosperity of Bahrain through the creation of a sustainable, well-funded mortgage market and high quality affordable housing that will mean more people than ever get the opportunity to own their homes. We have an organization in place that is well managed, has effective processes and our people are accountable and responsible for delivering our vision.

I would like to thank the Board and all of our staff for their continuous efforts this year and look forward to working on our exciting and challenging agenda in 2008.

**Sabah K. Almoayyed**  
General Manager

# Corporate Governance

## Shareholder

The shareholder of Eskan Bank is the Government of the Kingdom of Bahrain. The issued and paid up share capital is 37.5% of the authorized share capital and is entirely held by the Government of the Kingdom of Bahrain.

## Board of Directors – responsibilities

The Board of Directors is responsible for the overall corporate governance of Eskan Bank, 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, financial, operational, internal control and compliance issues. The Board's remit includes charting the direction of the Bank, setting objectives, formulating strategy, establishing policy guidelines, and appointing the external auditors. The Board is also responsible for monitoring Management's running of the business according to an agreed framework. The Board is ultimately accountable and responsible for the affairs and performance of the Bank.

## Board of Directors – members

The Board currently consists of seven independent directors, who are appointed by the Prime Minister of the Kingdom of Bahrain. The Chairman is the Minister of Housing, while the Vice Chairman and Members are prominent and widely experienced bankers and business persons.

## Board of Directors – committees

**The Board has formed three sub committees with specific delegated responsibilities – the Executive Committee, the Audit Committee and the Remuneration Committee.**

### Executive Committee

The Executive Committee is entrusted and delegated with part of the authorities and duties of the Board of Directors in order to meet more frequently to assist management with timely decisions on Board issues that may require prompt action in between Board meetings

#### Members:

Mr. Murad Ali Murad – Chairman  
Mr. Mohamed Hussain – Member  
Mr. Nezar Al Saie - Member

### Audit Committee

The Audit Committee is authorised by the Board to take all necessary actions so as to ensure that a solid control environment exists within the Bank and that any matters of control and compliance are adequately dealt with in a timely and efficient manner by the management of the Bank.

#### Members:

Mr. Faisal M. Al Alwan – Chairman  
Mr. Abdul Hameed Kadhim - Member

### Remuneration Committee

The Remuneration Committee is authorised by the Board of Directors to review and approve the Bank's policy on the remuneration of directors, other Board Committees, the General Manager and Executive Management.

#### Members:

Shaikha Hind Bint Salman Al Khalifa – Chairman  
Mr. Mohamed Hussain - Member

### Management Responsibilities

The board has delegated the authority for management of the business to the General Manager, who is responsible for the performance and operations of the Bank.



**“The Management is responsible for the performance and operations of the Bank”.**

## ...Corporate Governance (continued)

### Management - committees

The General Manager is supported by a number of Management Committees.

#### Management Committee

Supervise and support the activities of bank departments and committees.

Provide a forum for collective management decision making, ensuring that all material decisions have the benefit of detailed consideration and approval.

#### Members

General Manager – Chairman  
 Head of Legal and Compliance - Secretary  
 Chief Business Officer  
 Chief Operating Officer  
 Chief Risk Officer  
 Deputy Chief Development Officer  
 Head of Human Capital  
 Head of Strategic Planning and Development

#### Risk Management Committee

Identify, monitor and assess the risk profile of the Bank as a whole, focus on issues relating to risk management; and manage credit and review market and operational risk policies and procedures and recommend the same to the Board for its approval.

#### Members

Chief Risk Officer – Chairman  
 Risk Manager - Secretary  
 General Manager  
 Chief Business Officer  
 Chief Operating Officer  
 Head of Compliance & Legal  
 Head of Banking Operations

#### Assets & Liabilities Committee (ALCO)

To develop, institute an active and integrated approach to managing the Bank's balance sheet within regulatory, other guidelines on structure and capital adequacy. To set, monitor the liquidity and market risk strategy policies of the Bank.

#### Members

General Manager – Chairman  
 Head of Financial Control - Secretary  
 Chief Business Officer  
 Chief Operating Officer  
 Chief Dealer

#### IT Steering Committee

To oversee and secure IT strategic direction, and provide effective IT services across the Bank, through assessing opportunities to better manage technology resources and knowledge, and acquire best-fit IT solutions to meet the Bank's growing needs.

#### Members

Chief Operating officer – Chairman  
 Head of Information Technology - Secretary  
 Head of Banking Operations  
 Head of Assets Management  
 Head of Financial Control  
 Head of Marketing & Corporate Communications  
 Head of Operations

## ...Corporate Governance (continued)

### Code of Conduct

The Bank conducts itself in accordance with the highest standards of ethical behaviour. The Bank's Code of Business Conduct governs the personal and professional conduct of all stakeholders.

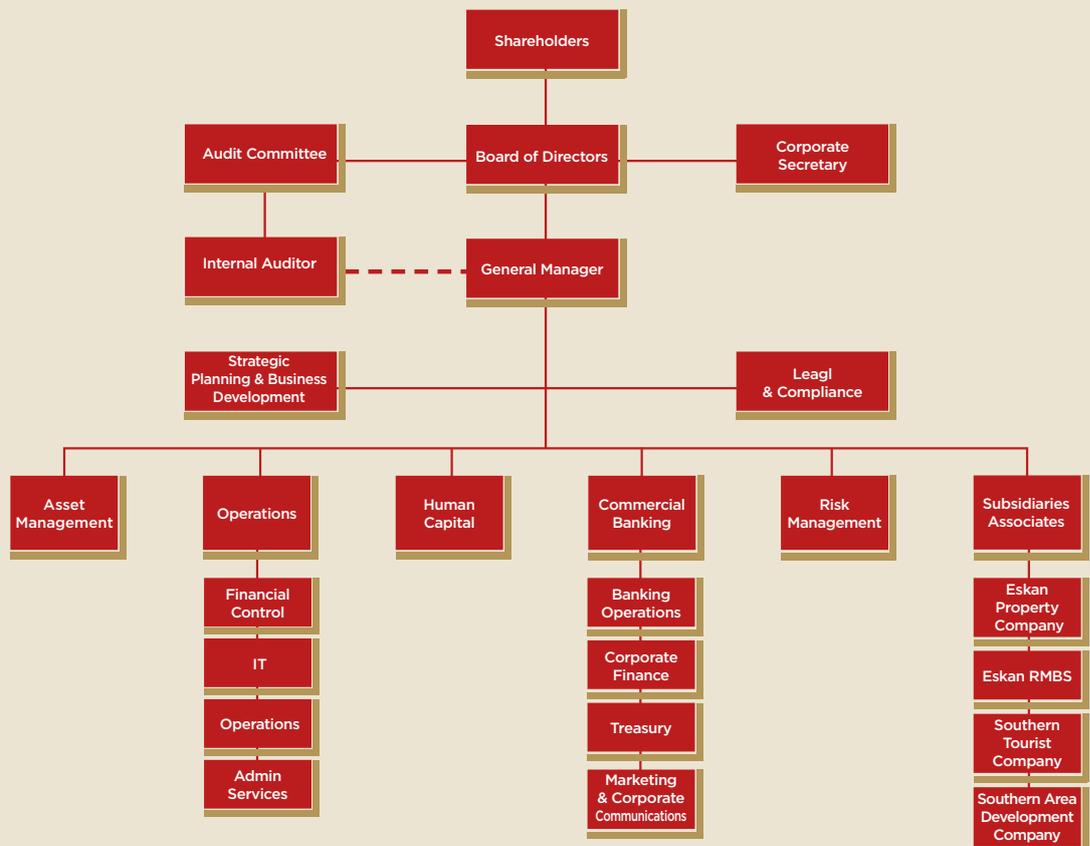
### Compliance

The Bank has in place comprehensive policies and procedures to ensure full compliance with the relevant rules and regulations of the Central Bank of Bahrain, including anti-money laundering reporting and prudential reporting.

### Communications

The Bank conducts all communications with its stakeholders in a professional, honest, transparent, understandable, accurate and timely manner. The main communications channels currently include the annual report, corporate brochure and corporate website, with regularly scheduled announcements in the local media.

Eskan Bank Corporate Chart



“Our goal is to enable people to move into well-designed affordable houses at a cost that means they are able to live enjoyable and productive lives, securing a prosperous future for their children, and in turn for Bahrain as a whole.”.



## REPORT OF THE AUDITORS TO THE SHAREHOLDERS

### The Eskan Bank B.S.C. (c)

Manama, Kingdom of Bahrain

#### Report on the financial statements

We have audited the accompanying consolidated financial statements of Eskan Bank B.S.C. (c) (“the Bank”), and its subsidiaries (together “the Group”) which comprise the consolidated balance sheet as at 31 December 2007, the consolidated income statement, the consolidated statement of changes in equity and the consolidated statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### Responsibility of the directors for the consolidated financial statements

The directors of the Bank are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### Auditors' responsibility

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

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

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

#### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards. Without qualifying our opinion, we draw attention to note 11 in respect of Government account balances.