



beyond
the horizon

Annual Report 2009





His Royal Highness
Prince Khalifa bin
Salman Al Khalifa

The Prime Minister of the
Kingdom of Bahrain



His Majesty
King Hamad bin
Isa Al Khalifa

The King of the
Kingdom of Bahrain



His Royal Highness
Prince Salman bin
Hamad Al Khalifa

The Crown Prince
and Deputy Supreme
Commander of
Bahrain Defence Force

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our mission and vision

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 totalling more than BD 543.8 million benefiting over 33,965 Bahraini families, 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 capitalising 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 authorised share capital of BD 40 million. At the end of 2009, total assets of the Bank stood at BD 440.9 million.

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 maximise value for the provision of affordable solutions to meet the housing needs of citizens of the Kingdom of Bahrain. We aim to serve as a partner in providing the best mortgages and loans 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 securitisation model for the Kingdom of Bahrain
- Enhancing our business activities with innovative value added services and quality products
- Providing the best customer services

achievements

- The Gulf Real Estate Fundamentals Conference 2009 Award for the mixed-use development project.
- Awarded the WIFCMC 2008 Innovation award for most innovative mortgage.
- Saar Shopping Complex, a joint venture formed between Eskan Bank and Seef Properties with a value of BD 21 million.
- The Bank provided (to date) mortgages totalling more than BD 543.8 million benefiting over 33,965 Bahraini families.



financial highlights

Eskan Bank continues to build its strategy to provide housing finance solutions to Bahraini citizens, in accordance with the Ministry of Housing policies and within the framework of the Government's Vision 2030 strategy.

(12 month period ended 31 December 2009)

Net Income

BD 3.5m

Operating Income

BD 13.42m

Total Assets

BD 440.96m

Total Equity

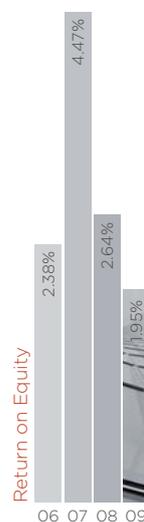
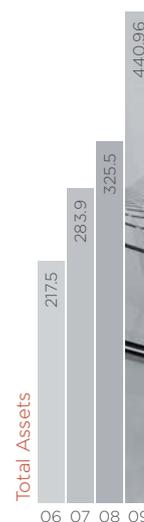
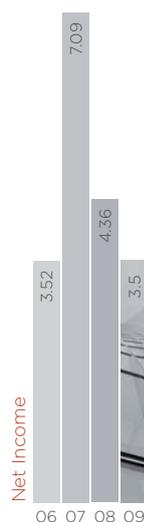
BD 179.7m

Return on Equity

1.95%

Earnings per Share

BD 23.36





Drawing inspiration
from a rich past and
building on the
successes of the
present, Eskan Bank
is now looking
beyond the horizon

30 years at a glance

1975 | Ministry of Housing established

Mar 1979 | Eskan Bank founded as The Housing Bank with 22 employees, with BD 40 million in authorised capital and paid-up capital of BD 15 million

1980 | Rebuilding of commercial stores in Isa Town by the Bank

1985 | Development of markets and commercial stores at Al Lawzi suburb of Hamad Town; light industrial workshops in Isa Town, Salmabad, Sitra and Busaiteen

1987 | Completion of the first social complex (Alrawdā) in Hamad Town

1995 | Seef Properties, a subsidiary, was established to manage commercial malls and stores owned by Eskan Bank

1995 | Southern Area Development Company formed with Eskan Bank as a 25% shareholder

Nov 2000 | Southern Tourism Company founded as a subsidiary of Eskan Bank

Dec 2000 | H.M.King Hamad bin Isa Al Khalifa decreed a second reduction in repayments on housing projects of 25%

2001 | Seef Tower (17 floors) constructed



1975

1983-1984 | 2.9 million square feet of land reclaimed in Arad, Busaiteen and Qalali; Reclamation financed for the National Museum, Fateh Mosque and the Islamic Centre; 3.9 million sqm of land reclaimed in Seef District

1983-1985 | 20 Villas in Hamad Town and 10 in Seef District constructed by the Bank

Aug 1989 | Number of employees in Eskan Bank grew to 46

May 1992 | First royal waiver decreed by late Amir Shaikh Isa bin Salman Al Khalifa that reduced repayments on housing projects by 25%

1993 | Commercial stores constructed in Isa Town

1994 | The Bank's Isa Town branch was opened

1997 | Seef Mall opened

1998 | Eskan Bank contributed to the marketing of 64 apartments in Sanabis and Isa Town; loans issued for the first time to purchase land for housing purposes

Jul 1999 | The Bank's employee number grew to 88

2002 | First phase of Eskan Bank's computer network completed

Feb 2002 | Seef Properties partly privatised; Execution of the 3rd waiver by H.M King Hamad bin Isa Al Khalifa for 50% of repayments of housing loans

2004 | Electronic archiving of all Eskan Bank's records

Jan 2005 | Sharia-compliant social loans issued for the first time

Jan 2005 | Restructuring of Housing Bank to create a full fledged Bank; Changes in the articles of association approved by the legislative body; Core Banking System implemented

May 2006 | New brand identity launched. The Housing Bank changes its name to Eskan Bank and broadens the scope of its activities

Jul 2006 | Eskan Bank raised BD 100 million to finance the strategic housing initiatives of the Ministry of Works and Housing

Sept 2006 | Eskan Property Company established with the Bank as a 99% shareholder

Dec 2006 | Fourth royal waiver decreed by H.M King Hamad bin Isa Al Khalifa reducing installments from social loans by 50%

Apr 2007 | Commencement of the Bank's commercial business with the issue of its own Al Daar Mortgages

Jun 2007 | New ferry boat launched by Southern Tourism Company

July 2007 | Eskan Bank became a member of the Union of Arab Banks

Aug 2007 | Corporate banking products launched targeting companies in the real estate sector



Dec 2005 | Permission granted by the Central Bank of Bahrain for the Bank to expand into commercial services

Feb 2006 | Eskan Bank moved its headquarters to Almoayyed Tower in Seef district

Mar 2006 | 14 villas constructed in Busaiteen were sold

Jul 2006 | Memorandum of Understanding signed with Enmaa Development Company for housing projects in Al Lowzi, Al Sehla, Dar Kulaib and Arad, where a total of 680 houses and 1,020 apartments were to be built for the Ministry of Works and Housing

Aug 2006 | Health insurance introduced for staff and families

May 2007 | The Bank issued its first Annual Report and unveiled its new identity

May 2007 | First securitisation of part of social loan portfolio completed; BD 30 million issue in Residential Mortgage-Backed Securities (RMBS) launched

Aug 2007 | 8 villas in Busaiteen and 32 in Hamad Town were sold

Nov 2007 | Approval received to form The Mortgage Guarantee System benefiting eligible Bahrainis

Nov 2007 | Eskan Bank given approval to establish Building Material Company (MAWAD) with 10% shareholding



Jan 2008 | The Bank's Diplomatic Area headquarters converted to a branch

Jan 2008 | Al Ebdaa Bank formed; Eskan Bank takes a 20% stake

Jan 2008 | Savings scheme launched for staff

Oct 2008 | Naseej Company formed with the Bank as a 3.03% shareholder

Feb 2009 | Isa Town branch renovated and staff has increased to enable full services to be offered

Oct 2009 | Eskan Bank was the Gold sponsor for BIPEX '09

Oct 2009 | Gulf Real Estate Awards; Best Mixed Use for the Isa Town Project

Dec 2009 | The Building Material Company was established in 2009 and is a wholly owned subsidiary of Eskan Bank. The specific charter of the company is to create the entire value chain for the manufacturing of cost effective environmentally efficient home materials



May 2008 | Eskan Bank awarded by the 4th Annual World Islamic Funds & Capital Markets Conference for its mortgage product

Jul 2008 | Number of employees grew to 174

Jul 2008 | Mehza Mall was inaugurated in Sitra; Initial planning stages started on Segayya complex

Aug 2009 | Eskan Bank and Seef Properties Co. signs agreement for Saar project. A BD 21 million project of mixed use retail space

Sept 2009 | The ATM network and debit cards are now EMV compliant and carry the Master Card brand. This affords our customers better card safety features as well as usage in ATMs and point of sales worldwide

“We are focused on the future, preparing for the new generation of customers and their needs. Our goal is to be the leader in customer relationships, real estate financing and affordable mortgage solutions.”

past

Established in March 1979 by decree as The Housing Bank, ESKAN Bank is wholly owned by the Government of Bahrain. It has an authorised share capital of BD 40 million, of which BD 15 million is paid up. ESKAN Bank's basic aim is to assist Bahraini citizens to own their own homes and to support urbanisation and the construction sector in accordance with the policies of the Bahrain government.

Of importance to the Bank when it was established, as it is today, are the issues of social housing and the support of urbanisation of Bahrain in accordance with the Government's plans and the housing needs of Bahrainis.

Throughout its history, ESKAN Bank has pursued a number of real estate activities which, when combined, have contributed considerably to Bahrain's urban development. Above all, the Bank has been a pioneer in providing commercial facilities in different residential areas, so helping to improve

the lives of local residents. The Bank has also constructed villas in a number of townships. However, one of its biggest achievements has been to establish commercial shopping malls in Isa Town and Seef District. The latter was the first and largest commercial mall in Bahrain when constructed.

Creating a Modern Urban Environment

Throughout the past 50 years, the Bahrain Government has attended to the needs of its people by creating jobs, providing health and education services, generating electricity and desalinating water and, most important, by building townships and social housing. Bahrain today has become a modern urban environment, well-served by its growing infrastructure, its high-rise, state-of-art shopping malls and complexes, as well as many hotels and serviced apartments. Such urbanisation has been actively encouraged by the Government and ably supported by the local banking community, especially by ESKAN Bank.

present

ESKAN Bank is focused on helping its customers to meet their financial needs and achieve home ownership. Our ability to develop deeper and long-lasting relationships with customers and to generate long-term growth for our shareholder and stakeholders is driven by a business culture based on common values: Trust, Teamwork and Accountability.

We are the country's leading provider of housing and real estate financing solutions and mortgages, providing affordable housing at competitive prices. We have played a key role in the Government's Vision 2030 strategy to develop and provide a better quality of life through affordable housing for the citizens of Bahrain.

Through Investment and Corporate Banking, we offer wholesale and corporate banking products targeted at high quality companies working in the real estate sector, innovative packages to finance public private partnerships and joint ventures to allow the fast and effective development of social housing in the Kingdom of Bahrain. Furthermore, we are actively engaged in developing tourism and holiday resorts through our wholly-owned subsidiary, Southern Tourism Company (STC).

We support the development of infrastructure for the Kingdom of Bahrain which includes sustainable urban development, social housing and national landmarks as well as community and socially responsible projects in the townships such as affordable, multi-utility shops and supermarkets.

future

We are focused on the future, preparing for the new generation of customers and their needs. Our goal is to be the leader in customer relationships, real estate financing and affordable mortgage solutions. We aim to introduce competitive products and enhance existing ones to attract more of our customers' business to ESKAN Bank, whether they are looking for mortgage solutions, insurance or investing for their children's future. A priority for ESKAN Bank is to ensure that we offer customers a consistent and high-quality experience. We are focused on enhancing the

Bank's IT and delivery channels. Through these channels we offer our customers flexibility and choice, whether through our branches, e-banking, at home, at work, or through their mobile telephones.

Enhancements to our branch network will include customer centric redesign, interactive multi media, and new buildings planned over the next three years. To meet our customers' financial needs, we are instilling a sales and advisory culture within the Bank as well as customer touchpoints.

board members



Ebrahim bin Khalifa Al Khalifa
Chairman
 Appointed 2007



Dr. Anwar Khalifa Alsada
Vice Chairman
 Appointed 2008
 Master & Doctorate degrees in Philosophy from University of Surrey - UK.
Chairman: Bahraini Saudi Bank.
Advisor: Al Salam Bank, Bahrain.
Previously: **Deputy Governor:** The Central Bank of Bahrain.
Awards: WIBC 2006 for Contribution in Islamic Banking.



Mr. Abdul Razaq Abdulla Alqassim
Member
 Appointed 2008
Chief Executive Officer: National Bank of Bahrain and a board member of the Bank.
Chairman: Benefit Network Company; Corporate Governance Committee in Ministry of Industry and Commerce; Board of Trustee of Ahlia University.
Deputy Chairman: Oasis Capital Bank; the Arab Academy for Education and Research and Chairman of Executive Committee of it.
Board Member: Esterad Investment Company and Investment committee member of the company; Bahrain Telecommunications Company (Batelco) and Executive committee member; Bahrain Stock Exchange and Executive committee member; Bahrain Duty Free and Investment committee member; the Crown Prince International Scholarship Programme.



Mr. Nedhal Saleh Alaujan
Member
 Appointed 2008
Chief Executive Officer: Bahrain Development Bank.
Chairman: Gulf Diabetes Specialist Centre; Arabian Taxi Company.
Board Member: Bahrain Telecommunications Company (Batelco); Venture Capital Bank; Retail Arabia; Gulf Membrane & Coating Industries WLL.
Chairman of the Executive Committee: Bahrain Specialist Hospital and Bahrain Business Incubator Centre.



Dr. Ala'a Hasan Alyusuf
Member
 Appointed 2008
 Master & Doctorate degrees in Economics from University of Oxford.
Chief Economist: Gulf Finance House.
Founding Member: Bahrain Competitiveness Council.



Dr. Jasim Yusuf Al-Ajmi
Member

Appointed 2008
Ph.D. degree in Accounting from University of Exeter, UK .
Director: Associate Professor of Finance & Continuing Education Program; College of Business Administration, University of Bahrain.
Founder, President & Executive Director: Bahrain Transparency Society.
Founder & Vice Chairman: Bahrain Competitiveness Council.
Member: National Committee for Establishing Corporate Governance Code for Bahraini Companies; Scholarships Awarding Committee of Gulf Arab Countries Cooperation Council Accounting & Auditing Organisation.
Advisor: Corporate Governance Issues in Bahrain - Centre for International Private Enterprises, Washington DC, USA.

Dr. Taqi Abdulrasool Al Zeera
Member

Appointed 2008
Doctorate of Philosophy - Political Economics - from American University, USA .
Co-Founder and Executive Director: Arab Business Consultants.
President: Gulf Academy for Development of Human Resources.
Board Member: Telecommunications Regulatory Authority.
Founding Member: Bahrain Society for Training & Development.
Registered Consultant: IMF; WTO; UNIDO; UNDP; UNCTAD; GCC Commercial Arbitration Centre.

Mr. Ausama Abdulrahim Alkhaja
Member

Appointed 2008
Certificate Public Accountant from California - USA
Chief Executive Officer: Royal Arabian. **Executive Manager - Director Projects Development:** Kuwait Finance House. **Chairman:** Meena Towers Company; KFH Industrial Oasis Company. **Vice Chairman & Managing Director:** Crans Montana Forum - Middle East.
Board Member: Al Kindi Pharmaceuticals Industries Company. **Vice Chairman:** National Institute for Industrial Training. **Member:** Bahrain Society of Accountants; American Institute of Certified Public Accountants; Education & Training Society, Student Fund; Bahrain Chamber of Commerce & Industry - SME Committee; LMRA - Financial Committee.

Mrs. Sabah Khalil Almoayyed
Member

Appointed 2008
Master in Finance and Marketing from University of Depaul, Chicago - USA
General Manager: Eskan Bank.
Board Member: Southern Development Company; Bahrain Bayan School; Bahrain Mumtalakat Holding Company; Naseej Company. **Chairman:** Southern Tourism Company; Eskan Property Company.
Independent member of the Executive Committee: Ebdaa Bank.
Previously:
Member: Consultative Committee of the Gulf Arab Countries Cooperation Council.
President: Bankers Society of Bahrain; Supreme Council of Women.
Trustee Member: American University of Beirut - Lebanon, Society of Honor "Deltamio" in USA.

chairman's statement

On behalf of the Board of Directors, I take pleasure in presenting the Annual Report and Consolidated Financial Statements of Eskan Bank for the year to the end of December, 2009, the 30th since its foundation. Despite obvious signs of recovery by economies around the world, 2009 was another difficult year for many in banking and real estate. Governments everywhere have had to prime their economies and to maintain a watchful eye on their trade, industry and markets.

Bahrain was no exception. However, thanks to the leadership and example provided by the Government and the Central Bank of Bahrain, the Kingdom's economy escaped much of the upheaval that has affected those of other countries in the region and elsewhere in the world. Eskan Bank has a clear mandate to contribute to the urbanisation of Bahrain, while helping its citizens to afford homes of their own. And to this end the Bank has had another successful year.

I am pleased to report that, in 2009, Eskan Bank produced a solid performance at all levels. The value of housing loans disbursed during the year was BD 41.2 million. The Bank's total assets at the end of the year were BD 440.96 million, a rise of 35.5 per cent. Total income was also up by 1.3 per cent to BD 13.42 million.

In keeping with the Government's Vision 2030 strategy, a plan to transform the economy by that date, Eskan Bank also embarked on a series of initiatives during the year to set its own business on a different course. Under the terms of a five-year strategy unveiled in 2009, the Bank took steps to diversify its business while holding on firmly to the responsibilities set out by the Government when the Bank was formed 30 years ago. These include building sustainable communities, helping Bahrainis to own their own homes and joining forces with the private sector to realize these goals.

The Bank continued to seek out partners with whom it could deliver new and innovative products and services to its customers, commercial as well as retail. During the

**Ebrahim bin Khalifa
Al Khalifa
Chairman**



year, the Bank launched the Building Material Company, a wholly-owned subsidiary. The company's charter is clear: to help the Government increase the number of affordable homes built for its citizens, while ensuring that such buildings are constructed to modern specifications and are friendly to the environment. Buildings using these technologies are not only faster and more cost effective to erect; they are also more efficient to run.

Two other ventures launched during the year – Saar Shopping Complex and Naseej – aim to capitalise on the Bank's reputation in the market and its growing involvement in commercial development. Saar Shopping Complex, a joint venture between Eskan Bank and Seef Properties, is to be built on land owned by the two groups. Work is expected to be completed within two years. Naseej, whose shareholders come from the private as well as the public sectors, is to specialize in affordable housing and infrastructure.

Last but not least, Eskan Bank extended its reach to include the disbursement of small loans and other forms of microfinance to low-income families in Bahrain by becoming a founding shareholder of Ebdaa Bank. The institution was launched during 2009 by Her Royal Highness Princess Sabeeka bint Ibrahim Al Khalifa, wife of His Majesty the King of Bahrain. Ebdaa Bank is now in the process, among other things, of helping families start small businesses by offering small loans. Such efforts are an example of the importance that the Bank attaches to corporate responsibility and the need to contribute towards the social and economic fabric of Bahrain. Eskan Bank has come a long way in the 30 years since its inception. It has met a lot of challenges and made a growing



mark on Bahrain and its people. The next 30 years are likely to be just as eventful. With a clear sense of its mandate and role within the Kingdom's economy, the focus will be on the partnership with the private sector to support the housing market and meet the Government's Vision 2030 strategy.

Eskan Bank must meet the needs of a new generation of customers. They will still want affordable housing of their own. They will still want the opportunity to be part of new communities being built across Bahrain. But they will also want access to a range of other financial services which the Bank plans to provide through its links with partners. To meet this challenge, Eskan Bank has already taken steps to upgrade its technology, its infrastructure and the way it does business.

Not only is the number of the Bank's branches expanding; customers can soon take advantage of our services through other channels such as the internet. The Bank's links with corporate customers will also expand. By combining our expertise with those of others in real estate and finance, we aim to contribute to the development and diversification of Bahrain's economy in line with the Government's Vision 2030 strategy set out by the Economic Development Board.

Although the scope of the Bank's business has expanded, we remain committed to the goals with which we were entrusted more than a quarter of a century ago. We are determined to further Bahrain's urbanisation and to provide affordable homes for its citizens. To do this, the Bank is committed to working with other financial institutions and with the capital markets to reduce the burden on the Government's budget.

Eskan Bank's success could not have been accomplished without the efforts of the shareholders, council of ministers, Boards of Directors and the dedication of the Management team and every employee of the Bank. Eskan Bank has made history by meeting the needs of our customers, helping many of them to own their own homes, and by playing a part in the economic development of the Kingdom as well

as the building of sustainable communities. In doing so, the Bank has supported the aims of the Government, those of our stakeholders and the citizens of Bahrain.

We expect 2010 again to be a year of challenges for our Bank and for financial institutions elsewhere in the region. Yet we remain confident of meeting these challenges and in our ability to manage the Bank's affairs in the best interests of both our shareholder and our customers.

On behalf of the Board of Directors, I convey my gratitude to His Majesty King Hamad bin Isa Al Khalifa, the King of the Kingdom of Bahrain; to His Royal Highness Prince Khalifa bin Salman Al Khalifa, the Prime Minister; and to His Royal Highness Prince Salman bin Hamad Al Khalifa, the Crown Prince, Deputy Supreme Commander, and Chairman of the Economic Development Board. I thank them for their wise leadership and visionary reforms. I also 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 Finance, the Ministry of Housing, the Ministry of Industry and Commerce, the Ministry of Municipalities and Agriculture Affairs, the Ministry of Works, the Electricity & Water Authority, the Central Bank of Bahrain, the Economic Development Board, the Ministry of Justice, the Directorate of Land Registration and Nationalisation and the Tender Board.

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 hard work. Collectively, our stakeholders have contributed to yet another successful year for Eskan Bank during 2009. I look forward to even greater success in 2010.

Ebrahim bin Khalifa Al Khalifa
Chairman

general manager's report

During 2009, economic conditions within the countries of the Gulf Co-operation Council and elsewhere in the world remained as difficult as any in recent times. However, our clear mandate and determination to make progress allowed Eskan Bank to post another strong performance in 2009, the 30th anniversary of its founding. The Bank produced positive financial results, made sound progress in furthering the aims set out in its five-year strategy, and developed significant opportunities for new business.

Financial performance

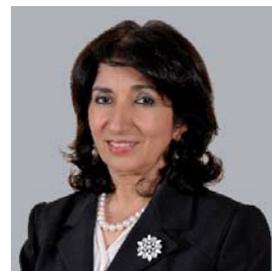
The Bank reported a positive result for the year to the end of December, 2009. Housing loans grew by 16.7 per cent to BD 260 million, compared to the figure for the previous year. The Bank's total assets at the end of the year were BD 440.96 million, an increase of 35.5 per cent over 2008. The improvement in disbursements was matched by a rise in total income to BD 13.420 million, compared to BD 13.247 million for the previous year, while net income for 2009 was BD 3.5 million, a reduction of 23.11 per cent on the figure for 2008 and earnings per share of BD 23.36 (2008: BD 28.76).

Strategic progress

The Bank's strategy is based on four pillars: our social role in building sustainable communities as well as providing mortgages for Bahrainis seeking affordable housing; an increasing reliance on investment banking to provide funding for such projects; our efforts to capitalise on commercial opportunities to strengthen our overall capabilities; and our efforts to encourage the private sector to help us fulfill these roles.

Despite a gradual return of confidence as the year progressed, the property market in Bahrain continued to suffer from the loss of confidence in the region and in other countries affected by the recession. This was reflected not just in the demand for new mortgages but in the pace of development, particularly on the commercial side. Some developments were scaled back; others were delayed until the outlook began to improve. There

Sabah K. Almoayyed
General Manager



was also a reduction in the number of new homes completed in Bahrain which caused demand for mortgages to soften.

Throughout the year the Bank maintained its tight controls and succeeded in minimizing the impact of the uncertainty on its business. As before the bulk of the Bank's resources were directed at the core business under its mandate: providing loans to low-and middle-income families in Bahrain seeking affordable housing within sustainable communities.

Despite the continued uncertainty in credit markets, Eskan Bank continued to build on its links with the financial community and to broaden its sources of funding. The Bank again attracted an encouraging level of corporate deposits. In addition, the management successfully extended the repayment period for a syndicated loan taken out in 2006 and drew down additional funding in support of the Bank's business. This compensated in part for the fact that fewer funds were redeployed in the wholesale markets. Eskan Bank also met in full its obligations to the Central Bank of Bahrain in complying with standards laid down under Basel II.

Business initiatives

During the year, Eskan Bank continued to broaden the scope of its activities, often in partnership with leaders in their fields. The Bank's range of activities now includes retail and commercial banking; the financing of corporate real estate, asset and property management, treasury, investment, Islamic banking, the development and management of property, both commercial and residential, and tourism. In addition, the Bank now supports initiatives in micro-finance, the manufacturing of building materials and industrial incubators as well as other areas which have a bearing on real estate.

In 2009, we successfully launched an Islamic Desk which is to build on the Bank's reputation for conventional finance



by offering our customers services which comply with Sharia. Such services will include not just Islamic mortgages but current and structured accounts which are to be developed during 2010.

In addition, the Bank launched a number of subsidiaries and became a shareholder in associate companies with the aim of extending our role in specialist markets. In many of these initiatives, technology was the key. Building Material Company, a wholly-owned subsidiary, will revolutionize the Kingdom's approach to building affordable homes that are also friendly to the environment. An aim is to reduce the cost as well as to increase the speed with which such buildings are constructed.

Work on Saar Shopping Complex, a joint venture with Seef Properties, is expected to start during 2010. The development will include shops, cinemas and other facilities for entertainment. During 2009, the Bank was appointed as an advisor to the development and Eskan Properties as its project manager. As a founder shareholder in Naseej, a joint venture between the public and private sectors, the Bank aims to extend its scope in building affordable housing. Ebdaa Bank, another new venture which Eskan Bank helped to establish, intends during its first year of operation to support a thousand Bahrainis in starting new businesses. In the third year, the target for such micro loans is expected to reach 5,000.

Organisational developments

Despite the difficult economic climate, the Bank continued to make headway in strengthening its own structure. This involved extending its knowledge base while adding new skills and disciplines; developing its corporate culture; building on processes and procedures; and ensuring that effective internal controls were in place. During a year when the Bank, like the rest of the financial community, took steps to meet new regulatory requirements, we also strengthened important areas such as risk management, financial control and corporate governance. Eskan Bank continued to invest in technology during the year and to upgrade its operations. This included migrating the Bank

to a new platform with the aim of becoming virtually paperless within two years. At the same time, the Bank upgraded its systems to comply with EMV, an international standard used for debit and credit cards, or chip technology. Our customers are now able to use their MasterCard debit card worldwide as well as access ATM machines at the Bank's modernised branches.

In addition, Eskan Bank became a member of SWIFT, a secure network set up by the financial-services industry to exchange messages about money around the world. On the retail side of the business in early 2010, we will be widening the choices open to our 30,000 or so customers by offering internet banking as well as opening a call centre for those who prefer direct access to our staff.

During 2009, Eskan Bank took steps to reinforce its franchise in new markets and among stakeholders, both public and private. For this reason, we sponsored the BIPEX exhibition, a property event with a growing following. The Bank was also gratified to win an award for a mixed-use development in Isa Town, a sign that our efforts to build sustainable communities have begun to pay off. On the operational side, we created a new department for Property Management and Quality Control. This is to ensure that projects are completed within budget and meet their objectives. The Bank also brought Asset Management

“Despite the difficult economic climate, the Bank continued to make headway in strengthening its own structure: extending our knowledge base, adding new disciplines, developing corporate culture and ensuring effective internal controls.”

general manager's report continued

under the umbrella of Investment Banking, a decision which will streamline the work of both departments and enable them to benefit from synergies. In future, the management of existing properties and the financing of new developments, particularly those on the commercial side of the business, are to operate under a joint remit.

Corporate responsibility

As befits our role in helping to build sustainable communities across the Kingdom, the Bank maintained its active approach to corporate social responsibility. In 2009, such activities included supporting ventures to boost entrepreneurship among nationals, helping to create opportunities for tourism and other such industries in Bahrain's outlying islands, and encouraging partners in their efforts to diversify the economy.

Economic and market outlook

While there remain questions about the strength and durability of the recovery in the world economy, there can be little doubt that Bahrain has managed to steer a path through the worst of the difficulties brought on by the international credit crisis. Real estate values in the Kingdom remained sound, despite the slowdown in demand from buyers elsewhere in the Gulf. Bahrain remains the second most popular destination for investors after the United Arab Emirates.

Bahrain's economy continued to grow during 2009, even though the pace of expansion was markedly less than that enjoyed the previous year. Thanks in part to the foresight shown by the Central Bank of Bahrain, the financial sector also weathered the worst of the storm which affected banks and other such institutions around the world. Indeed, as the recovery gathered pace, particularly in emerging markets, Bahrain was able to reinforce its role as a financial hub for the region.

Looking Ahead

The year 2009 marks an important anniversary in the development of Eskan Bank. For 30 years, the Bank has forged strong ties with its customers as well as with other important stakeholders such as the Ministry of Housing and other arms of Government. As a part of the social and economic fabric of Bahrain, we are committed to the country's urbanisation. Our main role is to provide mortgages to the citizens of Bahrain so that they have an opportunity to afford housing of their own. In doing so, we seek ways to involve our partners in the private sector in order to reduce the burden on the Government's budget.

At the same time, the Bank is committed to the Government's efforts to diversify the Kingdom's economy through its Vision 2030. Indeed, Eskan Bank's own five-year strategy aims to broaden and strengthen our business so that we can contribute to these goals through our own efforts and balance sheet.

On behalf of Eskan Bank's management team, I would like to thank all of our employees – past and present – for their professionalism, dedication and contribution to the past 30 years of achievement. We owe our success to the commitment of our people, to the Government's vision in providing the means to enable its citizens to buy affordable housing, and to our search for new ways to build sustainable communities. In doing so, we have also contributed in no small way to the development of Bahrain's economy.

In conclusion, I would like to thank our Shareholder, the Chairman and my fellow Directors for their continued commitment, support and dedication. I would like to extend my personal thanks to all members of the management and staff for their professionalism, which has contributed to another successful year for Eskan Bank during challenging times.

Sabah K. Almoayyed
General Manager & Director



review of
operations

review of operations

Mortgage Operations

2009 was a year of sustained growth in a difficult market while enhancing the Bank's services and capability. We continued to focus on our objective to be the primary provider of mortgages for our customers and the citizens of Bahrain. Our strategy is to deepen the relationship with our customers by meeting more of their financial needs. To do this, we will continue to leverage our real estate expertise and home building capabilities, while delivering a consistent service to our customers as well as providing financial products and mortgage solutions that meet our customers needs across all touch-points and delivery channels.

Achievements

Despite difficult market conditions, Retail Banking achieved a reasonable level of growth relative to the market conditions for social home loans during 2009, with the monthly average of BD 2.8 million. The Bank's commercial mortgage program – Al Daar – which was launched in 2007, experienced admirable growth. Non-performing loans in the commercial portfolio remained at zero. We aim to keep risk mechanisms and collections procedures in place to mitigate the chances of delinquency. We now have in place a dedicated Islamic desk and have expanded our range of products to include the Ijara Islamic mortgage.

Our ATM network and debit cards now comply with EMV, an international standard with chip technology and carry the Master Card brand. This affords our customers better safety features as well as enabling them to use their cards in ATMs and point of sales worldwide. We have rationalised our product offerings to provide simpler and more tailored solutions for customers at the point of sale.

In addition, we have further simplified our processing procedures and speeded up approval times on social and commercial loans, reducing turnaround times by half. To improve our services to our customers, Personal Financial Consultants now make visits to their places of business; this new measure has increased sales volumes and provides extra value for our customers. Our sales and service culture remains a priority. In particular, we have placed emphasis on training our front line people where we have focused on disciplines around customer care, cross-selling and following up.

Looking Forward

In 2010, we plan to improve the level of service offered to customers still further by establishing a Call Centre. We also plan to expand our distribution channels by providing new delivery channels such as internet and mobile banking and

by focusing on meeting the younger generation's financial needs. We will also introduce an interest bearing current account. At the same time, we will seek to increase our mortgage portfolio through a combination of employer schemes and promotions.

Corporate Real Estate Financing

Corporate Real Estate Financing has evolved over 2009. We now have in place a fully fledged team offering comprehensive corporate banking services including financing solutions to many of the ministries, government entities and companies involved in real estate. We have an unswerving dedication to our clients, and are committed to their growth. We are providing banking services required to contribute to the development of the Bahrain economy and promote sustainable urban development.

Our objective is to provide government and institutional clients a range of integrated credit, wholesale and corporate banking products and services in the real estate sector. Our strategy is to provide innovative capital solutions and advisory expertise across a wide range of real estate related industries as well. These include the structuring of real estate development transactions so as to bring them to market at the earliest opportunity. Corporate Real Estate Financing is also a major contributor toward raising funds for Eskan Bank through the securitisation of mortgage loans and other mechanisms to help the Bank to facilitate more social housing projects.

Achievements

During the year, we worked hard to identify new opportunities to benefit from our commercial banking license. The Bank launched a range of wholesale and corporate banking products targeted at companies working in the real estate sector. By strengthening our relationships with the government entities, we attracted more than BD 8 million in new deposits. We expect this to grow in 2010 along with the Bank's lending activities.

Throughout the year, we successfully coordinated efforts to extend the Bank's syndicated loan and assisted Treasury to establish extended lines with commercial banks as well as developing treasury relationships with Islamic banks through the introduction of the Wakala Islamic product. Furthermore, we embarked on a number of initiatives including contributing toward the drafting of a policy on corporate risk.

Looking Forward

To improve our performance and grow our business in the future, we expect to offer extended liability products, create a quality lending portfolio, and offer Bid and Performance Bonds as well as trade finance products to capture a broader share of our customers' business.

Investment Banking

During 2009, we made significant progress in expanding our investment services to serve clients in new markets for the Bank as well as taking on new responsibilities of the Bank's assets, Southern Tourism Company and Islamic banking. The objective of Eskan Bank's newly-established investment division is to maintain and build its strength as a leading adviser for the Bank, for Government, and high-net worth individuals. In addition, the division is to advise on corporate transactions, asset management, fund raising for real estate projects, real estate development and joint venture activities. Our strategy is to provide solutions that facilitate structures, joint ventures, access to credit and real estate markets as well as to provide advisory capabilities. We will accomplish this by emphasising profitability and risk management in all of our activities. We have also identified investment opportunities in our subsidiaries and affiliate companies that will add value.

Asset Management

For Asset Management, 2009 was a year of sustained growth in our services and capabilities. Asset Management is now under the umbrella of Investment Banking. We continued to acquire properties and land, transferring projects to developers, and then either leasing or selling the developments. We are also responsible for the management of all properties owned by the Bank. The department works closely with the Bank's subsidiary, Eskan Properties Company. Highlights in 2009 were the leasing of 11 retail shops from existing projects and the leasing of 19 shops in Hamad Town. This followed the successful transfer and registration of land to the Bank for development in

Hamad Town, Isa Town, Gudaibiya, Sitra and Saar, with an additional five plots to be transferred and registered before the end of 2010. New developments to be leased and rented in November include Isa Town Building and Muharraq Building, both with mixed use of four shops and the same number of flats. Further developments to take place in 2010 are six community centres in Hamad Town and Al Hamala consisting of 4,062 sq metres of retail space and the start of construction for the Segaya Plaza, a residential and commercial complex of 5,469 sq metres. Additional community and commercial projects are planned and will be developed in conjunction with the Bank's subsidiary, Eskan Properties Company.

Achievements

We participated in some of the most notable deals of 2009, including the Saar Shopping Complex which is a joint venture between Eskan Bank and Seef Properties, with a value of BD. 21 million. The Bank was appointed as financial advisors, Eskan Properties is to be appointed as project manager and Seef Properties will be appointed as property manager following the completion of the project. The project is to be developed on adjacent land owned by Eskan Bank and Seef Properties. The project will include shops, entertainment facilities; cinemas and an executive office for the management of the mall. Construction is expected to commence at the beginning of 2010 and will take around two years to complete. During 2010 we expect to launch a trust fund to finance Segaya Plaza and a mixed use development in Isa Town. We have also tendered for six community projects in Hamad Town and Hamalla at a cost of BD. 2.5 million which Eskan Properties will develop.

Looking Forward

A number of projects are expected to be developed during 2010, for which the Bank will develop various structures and will manage the funds. In order to diversify the Bank's sources of funding during 2010, we expect to place a great emphasis on active fund raising.



review of operations continued

Islamic Banking

During 2009, the Bank appointed a Sharia Supervisory Board, and we advanced our Islamic product ability to help customers meet the growing demand for Sharia-compliant products and services. Accordingly, we launched the Ijara Muntahiya Be Tamleek to cover the housing sector demand and we have established a dedicated Islamic desk to meet customer needs. In addition, we expanded our Islamic products and service both on the retail and investment level. Wakala Placing and Taking is now in effect in our treasury operations. For 2010, we intend to launch additional Islamic Banking products, including current and savings accounts, Mudarabah, Diminishing Musharaka and Istisna'a.

Treasury

In 2009, Treasury increased the Bank's limits and broadened its activities to include taking deposits and providing services to clients and Government institutions in both conventional and Islamic instruments. Treasury devoted considerable effort to managing the effects of the economic crisis and its impact on financial markets. Treasury maintained a well-diversified liquidity profile to ensure that the Bank was fully protected. We now offer customers Wakala and tailored services according to their needs.

Functional Groups

Operations

Operations embarked on a number of initiatives designed to reduce the Bank's operating expenses, improve the level of customer service, increase operational efficiency and provide increased security to the Bank and its customers. We placed greater emphasis on improving staff efficiency in products and systems. To meet this challenge, we re-engineered work processes and focused our efforts throughout the year on training the existing staff. The result was improved work processes, enhanced control mechanisms, shorter turnaround times and improved results for customers. In accordance with guidelines laid down by the Central Bank of Bahrain, the Bank now has the BCRP countrywide credit check in place to control credit risks. The Bank now also complies with CBB's requirements on cheque standardisation and truncation, both of which have enhanced controls against fraud. Another achievement is a reduction in the time taken to disburse cheques for social loans (down from 14 to 5 days). Government payments are now processed in 24 hours. By becoming a member of SWIFT, a network set up by the financial services industry, the Bank has also reduced the time needed to transmit money and the cost of doing so.

Business Continuity Management

The Bank completed the implementation of a comprehensive

Business Continuity Management system adopted from the BS25999 international standard. The BCM provides coverage and protection of the Bank's information against disasters and unforeseen events and enables its critical processes to resume with a minimal amount of delay. The BCM provides a framework for crisis and emergency management, IT disaster recovery and for the recovery of critical business processes.

Information Technology

Over the year IT focused on a number of initiatives designed to deliver greater efficiency across the Bank and to provide us with the technology to increase our competitive leverage through innovative processes and systems. A milestone was the rollout of new EMV compliant chip cards for all customers. In September 2009, customers were able for the first time to use ATM/Debit cards conforming to Master Card standards. The smart chip technology enables customers to make transactions more securely, both within the Kingdom of Bahrain and worldwide.

As a part of our commitment to improving standards through technology, the Bank has introduced new applications to reach customers wherever they are. During the year the Bank developed Request For Expenditure (RFE) applications, which streamline internal requests for expenditure. The process is now automated and integrated within the core banking system.

Human Capital

Human Capital continued to implement the initiatives commenced in 2008. These included consolidating the revisions made to job descriptions, policies and procedures, as well as the performance appraisal processes to ensure that the Bank aligns the performance of employees and the allocation of rewards. We now have in place quarterly performance management; which enables employees at all levels of the Bank to examine their own role in meeting their targets, objectives and in developing customer focus and the level of service orientation, whether they are in the front line or the back office. Managing performance is key to building long-term, sustainable growth for the Bank's employees, customers and stakeholders.

Eskan Bank's Employee Performance Management (EPM) process ensures that employees are clear about expectations and how their individual goals support the goals of their business and of Eskan Bank overall. In addition to goals specific to their roles and line of business, all senior management and employees have common ones related to Eskan Bank's vision and mission. The overall process which includes goal setting, a mid-year check and a final year-end performance review



provides the opportunity for managers and employees to:

- Share ownership for success which includes measures to address developmental needs;
- Have a dialogue about progress against goals, objectives and how to build on success or address any shortfalls;
- Engage in a year-end review and arrive at a final performance rating.

In the later part of 2009, a new system was successfully implemented to serve the employees and to streamline procedures. To keep employees engaged and informed, we stepped up our internal communications with weekly information and an interactive e-newsletter. Progress was made in reviewing the Bank's succession and career development policies, with the aim of building a strong pipeline of talent to support the long-term development of the Bank. Through the Tamkeen Program, we are encouraging fresh young graduates to join the Bank. In partnership with Retail Banking, we focused on developing the service, sales and operational skills of front-line Personal Financial Consultants, with a view to enhancing the customer experience. Also during the year, the Administration department was moved under Human Capital.

The Bank is committed to providing comprehensive health insurance which supports the health, wellness and long-term financial security of employees.

Project Management Office and Quality Assurance

The PMO and Quality Assurance was newly formed this year for the specific purpose of planning, organising and managing resources to bring about the successful completion of key projects' goals and objectives according to predetermined milestones and within budget; in addition to ensuring the creation and complete documentation of quality assurance policies for all projects and that the technical infrastructure is capable of implementing the Quality Assurance Policies.

Marketing and Corporate Communications

Throughout 2009, the Marketing & Communications Group continued to manage the brand and image of the Bank and its subsidiaries, and to improve the quality of external and internal communications. The group conducted a branch audit review within the context of the overall business strategy of the Bank and worked with other divisions to develop the Bank's branch delivery strategy. In addition, several new products and projects were developed, with the focus on enhancing customer value, relationship management and identifying cross-selling opportunities. A strategic marketing and communications program was developed with key real estate developers and ran throughout the year. To engage our customers, we redesigned and launched a new corporate website that cross sells our products and connects customers to our strategic partners. Plans for 2010 include initiatives to improve the level of customer service; expanding the range of products and services; expanding delivery channels; and introducing enhanced facilities at the Bank's branches through new design.

Financial Control

The activities of Financial Control were realigned and upgraded during 2009, with the introduction of advanced accounting procedures in line with the growth and diversification of the Bank's business activities. The core activities of the Financial Control department include providing senior management with timely financial reports to aid decision making; preparing quarterly and annual consolidated financial statements; and assisting the Board and its appropriate committees to ensure that effective processes and procedures for financial control are in place, and monitored regularly. The department is also responsible for ensuring that the Bank adheres to the financial regulatory reporting requirements of the Central Bank of Bahrain, and adopts new and amended International Financial Reporting Standards (IFRS) as well as those laid down by the International Financial Reporting Interpretations Committee (IFRIC).



review of operations continued

Risk Management

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 Bank continues to accord the highest priority to maintaining and improving its ability to identify, measure, monitor and control these risks and the overall risk profile of the Bank. Furthermore, 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 those of commercial residential mortgage loans, property development and Islamic finance. Consequently, risk management systems with a greater degree of sophistication have been implemented.

A formal structure has evolved to manage those risks to which Eskan Bank is exposed. This is based on detailing and documenting various risk policies and procedures; establishing a Risk Management division staffed by appropriately qualified and experienced personnel to set policies and limits consistent with the Bank's risk appetite and to provide oversight in relation to risk; as well as a Committee made up of senior management to support the management of risk within the Bank. In addition to these committees, the oversight of risk management and controls is provided by the Audit Committee and Risk Committee on behalf of the Board of Directors.

During 2009, Eskan Bank extended and expanded its various operations, products, processes and systems, which gave rise to some or all of the risks detailed above. In order to assess, manage and control these risks, the Risk Management division was streamlined and correspondingly staffed. During the year, the Bank implemented the Basel II requirements with the assistance of external consultants by developing a number of new policies and procedures; installed an Operational Risk system and an Asset and Liability Management system; and implemented and tested the Business Continuity and Disaster Recovery Plan.

A comprehensive risk framework was also formulated for the property development business, with the assistance of external advisors, and approved by the Board. During the year, the Bank's risk profile was also reviewed by an external reviewer as mandated by CBB. The Bank adheres to the standardised approach for its regulatory credit risk

capital adequacy and the basic indicator approach for regulatory capital for operational risk. The nature of the Bank's business, with its focus on the domestic market, and a conservative policy towards investment and liquidity management, has ensured that it was unaffected by the troubles in the sub-prime mortgage market.

Credit Risk

Credit Risk is the risk that a customer or counterparty will not be able to meet its obligations 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 & independent credit control department which considers the acceptability of the credit. This ensures 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 relevant policies and procedures that have been documented and approved by the Board of Directors of the Bank. Procedures complementing these, to ensure proper controls are in place, have been approved by the 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 Committee or Board of Directors.

■ Prudential Limits:

Prudential limits are also in place for exposure to borrowers and sectors, which helps in mitigating credit concentration risk. To mitigate the risk of concentration of placement with any one bank, limits for inter bank placements have been approved for each bank, which are 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. At present, the Bank does not have a trading portfolio or foreign exchange exposure and therefore no exposure to market risk. In addition, the Bank does not have any foreign exchange risk, deal in commodities or have off-balance sheet transactions.

“The Bank continues to accord the highest priority to maintaining and improving its ability to identify, measure, monitor and control risk.”

However, to cater to emerging business exigencies, a Market Risk Policy has been formulated and approved by the Board.

The Bank has instituted comprehensive asset and liability management practices to achieve its objectives of effective liquidity risk management. Daily management of the liquidity position is carried out by the Treasury division, which manages the portfolio of liquid assets and contingency funding plans. The Bank’s liquidity risk policy provides for the identification, assessment, control and monitoring of liquidity risk. The liquidity risk is closely monitored on an ongoing basis, with Treasury reporting to ALCO meetings to monitor and control the liquidity risk encountered by the Bank. With assets presently being predominately in the local currency (Bahraini Dinars) and a limited amount in US Dollars, the Bank 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, providing enhanced system control and mitigation of risk in some areas of operations. The Bank has also, with the assistance of specialist consultants, reviewed the policies and procedures of various departments of the Bank, and installed an Operational Risk management tool to monitor and manage operational risk.

Credit Control

The department was set up during the last quarter of 2009. The key objectives of the Credit Control Department are to ensure the effective monitoring of credit and control on collaterals and documentation. The department reviews related procedures, policies, guidelines and standards to ensure prudent practices in Credit Control, to minimise risk and ensure that all collateral and documentation are accurate and in place. The department has identified and assessed what is required to safeguard the Bank’s collateral. The department initiates and makes improvements to policies, procedures, guidelines and standards to ensure prudent practice in the Credit Administration Department. The department also monitors internal controls to ensure their adequacy and, where necessary, takes corrective action. Lastly, the department ensures that all documentation, including that relating to security, is properly executed and filed.

Legal

The Legal department is responsible for all legal and judicial functions that aim to protect the Bank’s rights and interests. It also offers legal advice to the senior management and businesses, as well as drafting, reviewing and preparing all contracts and agreements.



review of operations continued

Eskan Bank Subsidiaries and Associated Companies Eskan Properties

Eskan Properties, a subsidiary of Eskan Bank, commenced operations in April 2007. The company has evolved and is recognised as a leader in offering a full range of property development services with an emphasis on residential and commercial development in Bahrain. Our strategy is to develop cohesive, sustainable communities through quality real estate developments aimed at improving the quality of life for the citizens of the Kingdom of Bahrain. Eskan Properties has a mandate to work in partnership with the private sector as well as government across all real estate services, offering expertise to encourage the regeneration and creation of sustainable communities. We continue to identify and pursue opportunities in key markets and areas to build and strengthen our reputation as a respected real estate company. Today, we have completed projects across Bahrain, covering residential, commercial and retail developments. As the property development arm of Eskan Bank, the Company works closely with the Bank's business divisions, subsidiaries and associate companies in developing social, community and commercial projects. The Company helps in defining sustainable guidelines for urban development; recommends appropriate architectural design quality; manages construction; and develops sales and marketing strategies. Eskan Properties Company provides comprehensive management, operation and maintenance

services for the properties owned by the Bank as well as assessing projects, providing design management, project management, quantity surveying, sales and marketing, and property and facility management.

Key achievements during 2009 were the sponsorship of the BIPEX exhibition and the Gulf Real Estate Awards which included Best Mixed Use for the Isa Town Project, the handing over of 40 Villas in Hamad Town and Busaiteen as well as the completion of two community projects in Hamad Town consisting of 19 shops. During the year, we laid the groundwork for many projects due to be completed in 2010. These include Segaya Plaza, a mixed-use residential and commercial complex as well as Isa Town Mixed Use, Saar, Seef Tower and six community projects in Hamad Town and Hamala. Construction projects to be completed in 2010 include the Isa Town and Muharraq buildings. Also underway are the Saar Complex, Segaya Plaza, Isa Town mixed use and six community projects at Hamad Town and Hamala. Eskan Properties Company was assigned by Southern Area Development Company to manage the development of the detailed master plan for Danaat Hawar project. Five international companies have been shortlisted, and the evaluation process is complete.

The Southern Tourism Company (STC)

One of our key objectives for 2009 was to re-evaluate the business and assets of Southern Tourism Company (STC) to meet the needs of today, and opportunities for future tourism, business to business use and sea transportation. With the renewed interest in tourism and development on Hawar Island and the opening of the "Golden Tulip Hawar Resort" a 4 star hotel, we recognised a need to expand our ferry fleet to meet these challenges. STC undertook a feasibility study and business analysis of our existing operations and assets to meet the needs of transporting passengers and cargo for the hotel and to capitalise on our unique position, touristic license and the location of our jetty relative to the path of the Qatar-Bahrain Causeway.

“Our sales and service culture remains a priority. We have placed emphasis on training our frontline people, focusing on customer care, cross-selling and following up.”





In 2009, STC purchased two new speed boats with a capacity for 5 and 16 passengers respectively, to meet the increasing demand. Both boats will be in service in the first quarter of 2010. STC is the only provider approved by the government to transport passengers and cargo between mainland Bahrain and the Hawar Islands.

In 2009, we arranged to purchase a new passenger ferry boat and a speed boat to accommodate the increased traffic to and from the hotel. Both boats will be in service early in the first quarter of 2010. Last year we also maintained our fleet of 13 vessels consisting of dhows, ferries, speedboats and barges and extended our Al Dur Harbor to 32 jetties for rent. We upgraded our commercial harbor facilities. STC plans to develop the Al Dur jetty and the surrounding area to provide better amenities for passengers and to improve beach resort for tourists. The Company also finalised plans to develop its site at Hawar, where it owns 47 chalets. The plan entails refurbishing chalets, and providing new services for visitors, including a supermarket, cafeteria and a swimming pool.

Southern Area Development Company (SDC)

Southern Area Development Company (SDC), is responsible for developing the Hawar Islands and surrounding area into a major tourist attraction. In 2008, the hotel at Hawar was transferred to Golden Tulip Hawar Resort for management, and subsequently was upgraded to 4-star status. The hotel was refurbished by SDC, and re-opened in November 2009 under the new name of "Golden Tulip Hawar Resort". In addition, the design for the Danaat Hawar project was approved, and a feasibility study conducted by a consultant. The next stage will be to compile and execute a detailed masterplan. Drawings are expected to be completed in the first part of 2010. The project, which will be carried out in three phases over the next five years, will help to boost Bahrain's tourist industry.

Building Material Company

The Building Material Company was established in 2009 and is a wholly-owned subsidiary of Eskan Bank. The company's specific charter is to create the entire value chain to manufacture cost-effective, environmentally-efficient homes for the less advantaged. We will also import a range of building products and raw materials such as gravel, cement, bricks, marbles, electrical and sanitary wares. We intend to construct warehouse facilities to support the business.

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

Ebdaa Bank

During 2009, Ebdaa Bank was established and began disbursing micro-finance to low and middle income Bahrainis, providing each beneficiary with an opportunity to start a new business, to become financially independent and to hold out the promise of a better quality of life. The Bank aims to support 1,000 Bahrainis during its first year of operations, rising to 5,000 at the end of its third year. Throughout the year, Eskan Bank supported the development of Ebdaa Bank in an advisory capacity with human capital, financial and management expertise. Eskan Bank is a founding shareholder of Ebdaa (Creativity) Bank, which was launched in early 2009 by Her Highness Princess Shaikha Sabeeka bint Ibrahim Al Khalifa, wife of His Majesty the King of Bahrain, and President of the Supreme Council for Women. Backed by a \$5 million fund for micro-financing, the pioneering initiative reflects the commitment of the Kingdom's leadership to protect the less advantaged and vulnerable members of the community and to ensure their welfare and growth.

Naseej

Eskan Bank is a founder shareholder of Naseej, which was established in 2008 by private sector and public sector institutions to offer, for the first time in Bahrain, a complete solution for development housing and infrastructure. Working in tandem with varied private sector institutions, it now has a number of projects slated for 2010. This has created unprecedented synergies that will help to provide among other things, affordable housing to the citizens of Bahrain. Bahrain alone has approximately \$7.5 billion in projects already on site or under construction, with projects underway with an estimated value of \$18.5 billion. The Company is operational and is expected to play a major role in the Real estate and construction market.

corporate responsibility

Our Customers

We are committed to treating our clients with respect, providing products and services in a professional manner and safeguarding our clients' personal information and privacy. Our Code of Best Practices, available in branches and online, outlines our commitment to client service, fee transparency, privacy protection and confidentiality. The Eskan Bank Code of Conduct for employees and comprehensive training programs include a strong focus on maintaining our clients' privacy and confidentiality as well as on detecting fraud and money laundering.

Our Employees

Our employees are the most important element of Eskan Bank's strategy to deliver consistent, sustainable performance over the long term. Our priority is to create a positive experience for employees and a supportive work environment where our employees can excel and fulfill Eskan Bank's vision of being the leader in client relationships and real estate advisory. Eskan Bank's Code of Conduct is one of the ways we promote our values. It guarantees every employee the right to be respected, to receive fair and equitable treatment, to be free from harassment or discrimination and to be protected from retaliation if they report a contravention of the Code.

We continue our focus on training and development as a critical element of our employees' success and Eskan Bank's own success. To help our employees grow, develop and achieve their full potential, we expanded our human capital group, which is responsible for providing training and development programs across the Bank and its subsidiaries. Furthermore, we improved our core capabilities such as project management and presentation skills. Eskan Bank is committed to building a workforce that reflects the customers and communities we serve.

Communities contributions

Eskan Bank is committed to supporting causes that matter to our customers, our employees and our communities. We aim to make a difference through corporate donations,

“As a leader in community investment, we are committed to supporting causes that matter to our clients, our employees and our communities.”

sponsorships and the volunteer spirit of employees. With a strategic focus on youth, education and health and employee support for causes including the Cancer walkathon, Planting Trees, Gifts to the Elderly, Save our Beaches, Blood Donations and the Eskan Bank Youth Art Program.

Our Communities

As a leader in community investment, we are committed to supporting causes that matter to our clients, our employees and our communities. We are proud of our strategic focus on youth, education and health and employee support for causes including the International Health Day Better Partnership, Better Health walkathon. Also towards the last quarter of 2009, the Bank has nominated staff members to participate in Injaz Bahrain teaching and awareness program to high school students.

Our Environment

Eskan Bank is committed to being an organisation that is environmentally responsible. We demonstrate this through continued enhancements to our environmental management initiatives to minimise Eskan Bank's impact on the environment, promotion of environmental stewardship practices and support of strategically-aligned environmental organisations such as the "Saving the Bahraini Environment Society". Through our commitment to environmental responsibility, Eskan Bank has reduced its paper consumption by 10 per cent, moving to electronic documents and e-communication formats. Paper that is consumed is recycled and donated to charitable causes.





corporate
governance

corporate governance

Shareholder

The shareholder of Eskan Bank is the Government of the Kingdom of Bahrain. The Bank was founded with an authorised capital amounted to BD 40 million, and capital issued and paid the value of BD 15 million. The issued and paid up share capital is 37.5 per cent of the authorised share capital, and is entirely held by the Government of the Kingdom of Bahrain.

Board of Directors

Eskan Bank's Board has been appointed by Decree No. 38 of 2008 dated 16 October 2008 in line with Legislative Decree No. 4 of 1979 with respect to the establishment of the Housing Banks amended by Law No. 75 of 2006. The Board of Directors is comprised of a majority of Directors drawn from leading Bahraini Banking and Finance Professionals and Academics.

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.

Membership

The Board currently consists of nine 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. Profiles of the Directors are listed separately in this annual report.

Committees

The Board has formed four sub-committees with specific delegated responsibilities – the Audit Committee, Investment Committee, Risk Committee and Remuneration Committee.

Audit Committee

The primary function of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities by reviewing the Bank's financial information that is provided to the shareholder and others; the framework of internal controls established by the Management and the Board of Directors and the audit process.

Members:

Dr. Anwar Khalifa Alsada (Chairperson)
Dr. Jasim Yusuf Al-Ajmi (member)
Mr. Waleed Abdulla Rashdan (Independent member)

Investment Committee

The purpose of the Investment Committee is to assist the Board of Directors in maintaining its oversight over the Bank's investment portfolio.

Members:

Mr. Nedhal Saleh Alaujan (Chairperson)
Dr. Taqi Abdulrasool Al Zeera (member)
Mrs. Sabah Khalil Almoayyed (member)

Risk Committee

The role of the Risk Committee is to assist the Board in fulfilling its oversight function in respect of those risk activities throughout the Group that give rise to credit, market, liquidity, interest rate, operational or reputational risk.

Members:

Dr. Ala'a Hasan Alyusuf (Chairperson)
Mr. Ausama Abdulrahim Alkhaja (member)
Dr. Khalid Abdulla Ateeq (Independent member)



Remuneration Committee

The purpose of the Remuneration Committee is to recommend Human Resources policies and procedures for the Bank and to assist the Board in reviewing and approving the Bank's policy for the remuneration of Employees, Directors, Board Committee members, the General Manager and Executive Management.

Members:

Dr. Jasim Yusuf Al-Ajmi (Chairperson)
Mr. Ausama Abdulrahim Alkhaja (member)
Mr. Nedhal Saleh Alaujan (member)

Management

The Board has delegated the authority for management of the business to the General Manager, who is responsible for the day-to-day performance and operations of the Bank. The General Manager is supported by a well qualified and experienced Management Team and Management Committees – Management Committee, Management Risk Committee, Asset & Liability Management Committee, IT Steering Committee, New Product Committee and Human Capital Committee.

Management Committee

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

Members:

GM (Chairperson)
Chief Business Officer
Chief Investment Officer
Chief Risk Officer
Chief Development Officer
Head of Human Capital

Management Risk Committee

The responsibility of the Management Risk 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.

Members:

Chief Risk Officer
General Manager (Chairperson)
Chief Business Officer
Chief Investment Officer
Head of Banking Operations
Head of Human Capital Group
Senior Manager – Risk Management (ex officio Secretary)

Asset & Liability Management Committee

The function of the Asset & Liability Management Committee (ALCO) is to develop and institute an active and integrated approach to managing the Bank's balance sheet 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 balance sheet.

Members:

GM (Chairperson)
Head of Financial Control (Secretary)
Chief Business Officer
Chief Investment Officer
Chief Risk Officer
Head of Treasury

IT Steering Committee

The IT Steering 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 better manage IT resources and knowledge, and acquire 'best fit' IT solutions to meet the growth of the Bank.

Members:

Chief Business Officer (Chairperson)
Head of Information Technology & Operations (Secretary)
General Manager
Chief Investment Officer
Chief Risk Officer (Non-voting Member)
Head of Finance
Head of Internal Audit (Non-voting Member)

New Product Committee

The role of the New Product Committee is to oversee 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.

Members:

Chief Business Officer (Chairperson)
Head of Marketing & Communications (Secretary)
Head of Corporate Real Estate Finance
Head of Information Technology & Operations
Senior Manager Mortgage Loans
Manager of Islamic Banking

Human Capital Committee

The function of the Human Capital 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.

Members:

Head of Human Capital & Administration (Chairperson)
Senior Manager – HC & Administration (Secretary)
General Manager
Chief Business Officer & DGM
Chief Investment Officer & DGM
Head of Information Technology & Operations
Head of Banking Operations

Other attendees or deputies in members' absence may attend as appropriate by invitation from the Chairperson.

Internal Audit Role

To provide assurance to the management and the board that the Bank's framework of risk management, control and governance processes is adequate and functioning properly.

Code of Conduct

Eskan Bank conducts itself in accordance with the highest standards of ethical behaviour. The Bank's Code of Business Conduct governs the personal and professional behaviour 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. These include anti-money laundering reporting and prudential reporting.

Communications

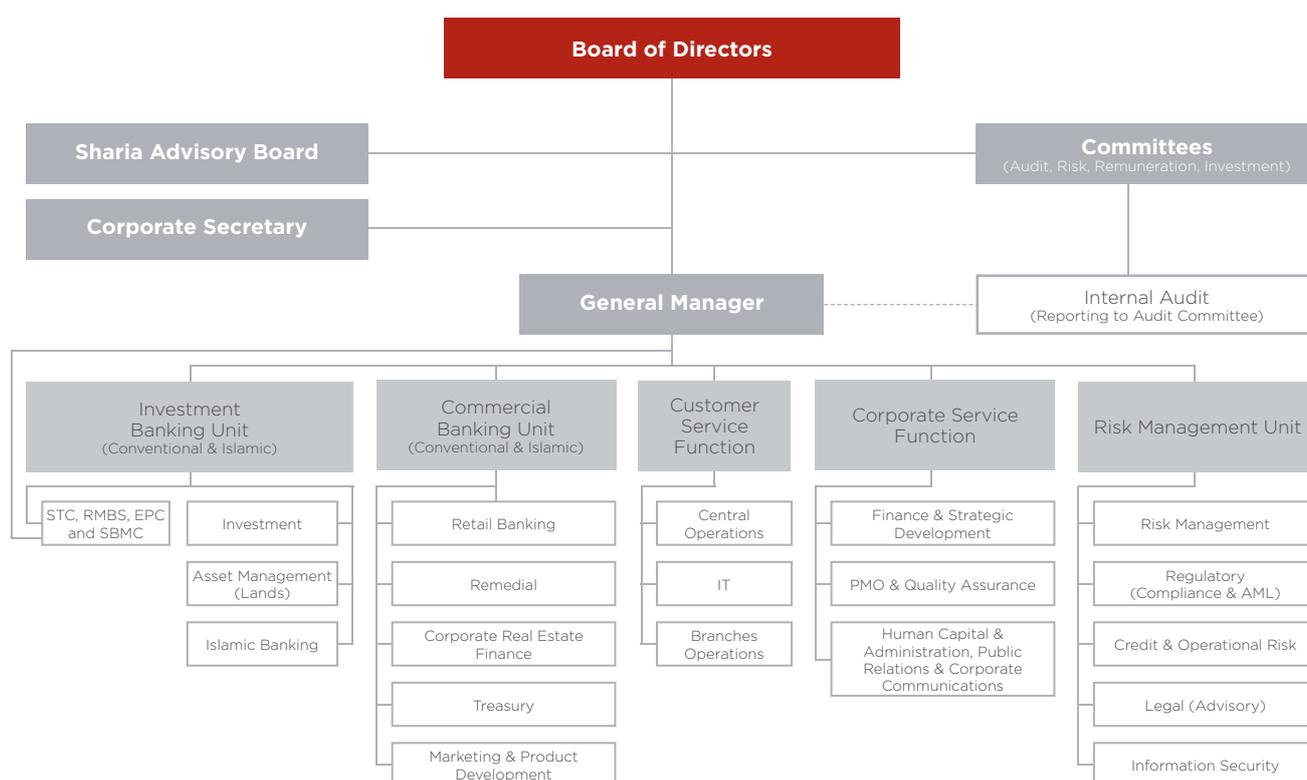
The Bank conducts all communications with its stakeholders in a professional, honest, transparent, understandable, accurate and timely manner. Main communications channels currently include the annual report, corporate website and corporate brochure, newsletter and regular announcements in the appropriate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

Investments in subsidiaries and associate companies

- 100% ownership in Southern Tourism Company (BD 250K total share capital)
- 28.125% ownership of Southern Area Development Company (BD 8,000K total share capital)
- 99% ownership of Eskan Properties Company (BD 250K total share capital)
- 99% ownership in Residential Mortgage Backed Securities (BD 1000K total share capital)
- 20% ownership in Ebdaa Bank (USD 5m total share capital)
- 100% ownership in Building Material Company (BD 250K total share capital)
- 45% ownership in Saar Company, joint venture with Seef Properties (BD 20,000 total share capital)



organisation chart



senior management

Mrs. Sabah K. Almoayyed
General Manager & Director

Mr. Keith Scott
Chief Business Officer & DGM

Mr. Ebrahim Shehab
Chief Investment Officer & DGM

Mr. Srikanth Sheshadri
Chief Risk Officer

Dr. Naeema Aldosseri
Head of Group, Human Capital Administration & Communications

Mr. Jamal Gamber
Head of Information Technology & Operations

Mr. Tawfiq Almaskati
Head of Asset Management Group

Mr. Robert Johnson
Head of Marketing & Corporate Communications Group

Mr. Tariq Aljalahma
Head of Banking Operations

Dr. Bakri Bashir
Head of Investment

Mr. Khalifa Najim
Head of Corporate Real Estate Finance

Mr. Hassan Ali
Head of Project Management & Quality Assurance

Mrs. Samar Agaiby
Head of Credit Control Risk

Mr. Hani Nayem
Head of Internal Audit

Eskan Properties Company

Mr. Fadi Jamali
Chief Development Officer

Mr. Eyad Obaid
Deputy Chief Development Officer

Southern Tourism Company

Mr. Hassan Ali
Acting General Manager

Bahrain real estate indicators

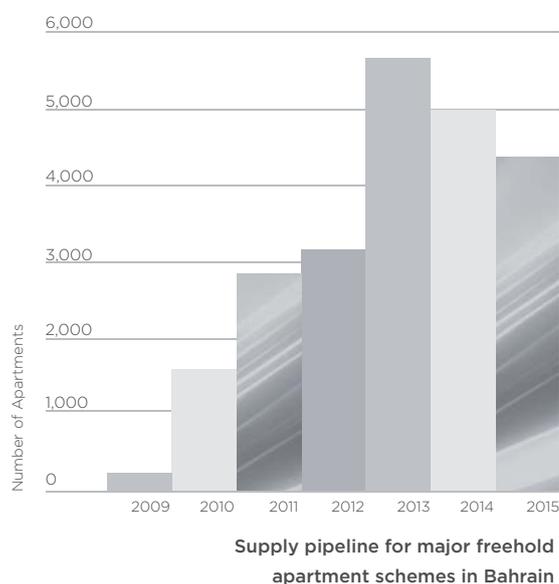
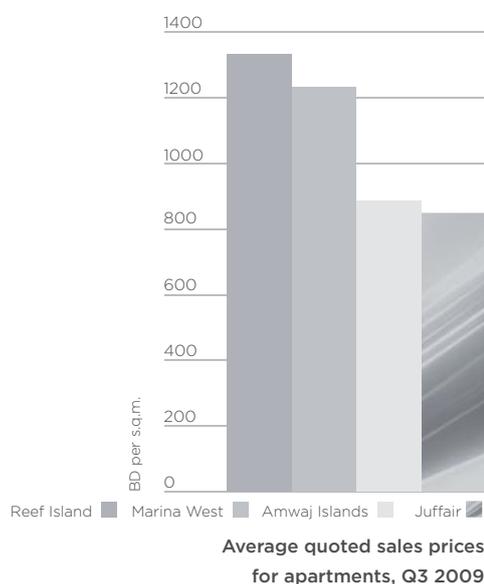
After a sustained growth for nearly 10 years, real estate experienced a slowdown during 2010, with residential and office space being the most affected. Despite the pressures, residential property developers resisted reducing their prices.

Rents held up more strongly for villas than apartments. Seef area continued to be in high demand. And thanks to new developments, the number of retail spaces for rent have increased and rents have remained relatively stable.

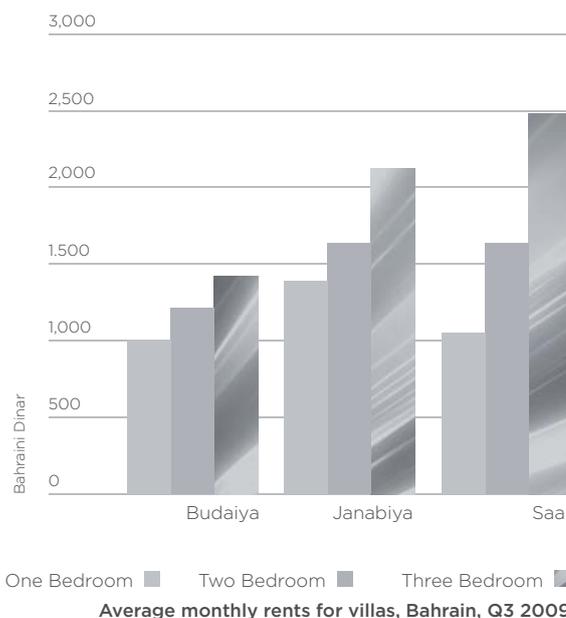
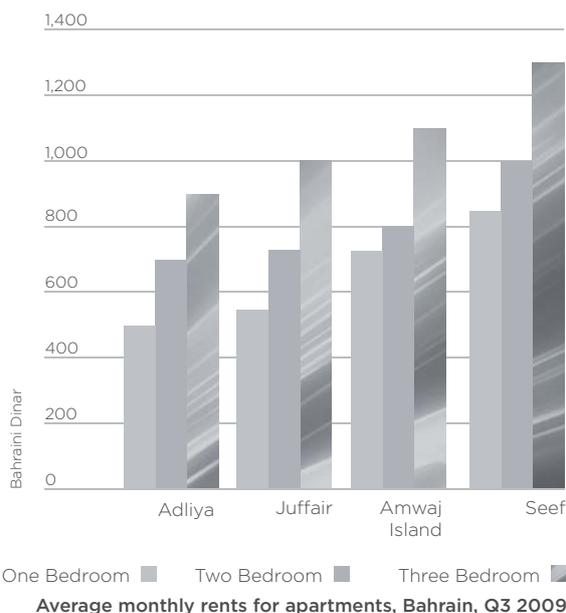
Market for Residential Property

After sustained growth for nearly ten years, Bahrain's market for residential property experienced a sharp slowdown during 2009. The market for freehold real estate came to a virtual standstill as off-plan purchases dried up. As a result, a number of developments were put on hold, either temporarily or indefinitely.

Despite the slowdown, many developers resisted pressure to reduce their prices, either for sales or rentals. Rents held up more strongly for villas than apartments. Developers can expect another difficult year as the market suffers from an over-supply of properties in most sectors.



Source for all figures on this spread: DTZ



Market for office space

The reduction in the number of investment companies launched in Bahrain during 2009 has had a significant impact on the market for offices. The contraction in demand has not only been restricted to financial services, most commercial and business sectors have also been affected. The demand has remained surprisingly strong in some areas including

Seef, with landlords and developers reluctant to reduce the level of rents quoted. On average, smaller offices have been taken up more quickly than larger ones. We expect demand for offices to remain sluggish during 2010 as firms re-examine their needs in the light of the pace of recovery in the world economy.

	Percentage of total office stock	Vacancy rate
Diplomatic Area	24%	13%
Central Manama	48%	28%
Seef & Sanabis	28%	10.8%

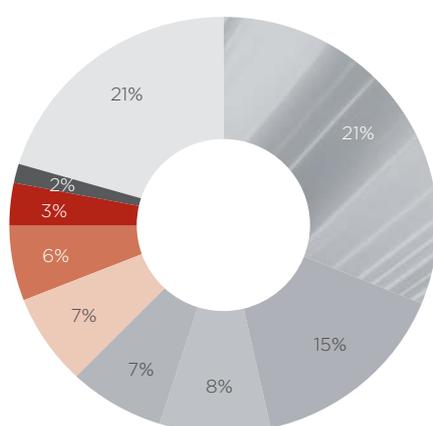
Distribution of Office Stock by Location

Bahrain real estate indicators continued

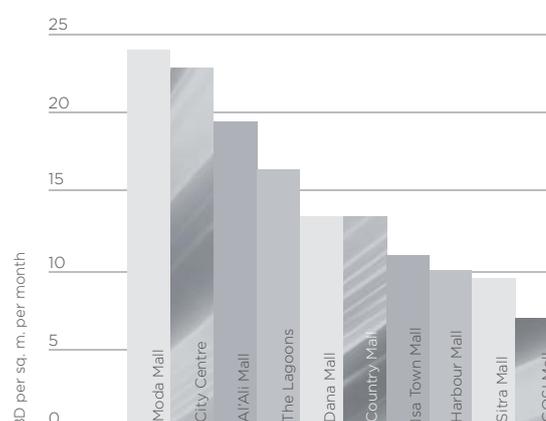
Market for Retail Space

Bahrain's stock of retail space for rent has more than doubled during the past decade. Thanks to a spate of new developments coming on stream, the total is expected to increase again by 80 per cent over the next five years. Despite the rise in the local population and demand from visitors from elsewhere in the Gulf, particularly Saudi Arabia, Qatar and Kuwait, the pace of growth in retail rents

is expected to slow over the next year. Average rents have remained relatively stable during the past year, though there is a wide variation between the top and the bottom of the market. Landlords' success in pushing through increases in rental levels for retail property will depend on the strength of sales.



Distribution of gross lettable area by Mall, Q4 2009



Average monthly retail rental rates for selected Malls in Bahrain, Q3 2009

Name of Scheme	Location	Estimated Completion	GLA (sq m)
Bab Al Bahrain Mall	Manama	2009	2,500
Centrepont	East Riffa	2009	12,000
Palm Square	Budaiya	2009	1,500
Ramli Mall	A'ali Town	2010	40,000
Enma Mall	Riffa	2010	27,000
Muharraq Shopping Mall	Muharraq	2011	15,000
Villamar	BFH	2011	9,500
Amwaj Retail Centre	Amwaj Islands	2012	67,000
Raffles City	Bahrain Bay	2012	70,000
Saar Mall	Saar	2012	14,000
Diyar Al Muharraq	Diyar Al Muharraq	2013	27,500
Reef Mall	Reef Island	2014	24,000
Durrat Al Bahrain	Durrat Al Bahrain	2014	52,500
Water Garden	Water Garden City	2014	22,500

Source for all figures on this page: DTZ



financial statements

ESKAN BANK

independent auditors' report to the shareholders

The Eskan Bank B.S.C. (c)
Manama, Kingdom of Bahrain, 4 March 2010

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 statement of financial position as at 31 December 2009, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Responsibility of the directors for the consolidated financial statements

The Board of directors of the Bank is 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 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

In addition, in our opinion, the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith. We have reviewed the accompanying report of the chairman and confirm that the information contained therein is consistent with the consolidated financial statements. We are not aware of any violations of the Central Bank of Bahrain and Financial Institutions Law 2006 or the terms of the Bank's license or its memorandum and articles of association having occurred during the year that might have had a material effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by the management in response to all our requests.

KPMG

4th March 2010



ESKAN BANK

consolidated statement of financial position

as at 31 December 2009

	Note	2009	Bahraini dinars 2008
ASSETS			
Cash and cash equivalents	6	110,915,359	39,834,030
Investments	7	4,112,117	1,030,476
Loans	8	260,064,654	222,833,057
Investment in associates	9	2,400,902	2,034,667
Investment property	10	55,710,771	46,814,446
Development property		5,049,727	2,415,023
Advance towards purchase of investments		-	5,377,000
Other assets	11	2,710,563	5,168,791
Total assets		440,964,093	325,507,490
LIABILITIES			
Deposits from financial and other institutions		32,322,118	-
Government accounts	12	90,473,150	70,961,207
Zayed Town Account	13	646,589	517,078
Term loans	14	130,000,000	80,000,000
Other liabilities	15	7,792,371	8,464,359
Total liabilities		261,234,228	159,942,644
EQUITY			
Share capital	1.2	15,000,000	15,000,000
Contribution by a shareholder	1.2	16,983,509	6,287,173
Statutory reserve		7,761,896	7,761,896
Reserve for voluntary retirement scheme		-	35,737
Retained earnings		139,984,460	136,480,040
Total equity (page 6)		179,729,865	165,564,846
Total liabilities and equity		440,964,093	325,507,490

The consolidated financial statements were approved by the Board of Directors on 4 March 2010 and signed on its behalf by:

Ebrahim bin Khalifa Al Khalifa
Minister of Housing
Chairman of Eskan Bank

Sabah Khalil Al Moayyed
General Manager and Director

The accompanying notes 1 to 27 form an integral part of these consolidated financial statements.

ESKAN BANK

consolidated statement of comprehensive Income

for the year ended 31 December 2009

	Note	2009	Bahraini dinars 2008
Management charges	16	8,104,040	7,142,121
Interest income	17	1,766,716	2,180,957
Net fair value gain / (loss) on investments designated at fair value through the profit or loss	7	167,562	(242,787)
Income from investment property	18	267,262	1,880,978
Share of loss of associate	9	(19,765)	(15,097)
Other income	19	3,135,120	2,301,370
Total income		13,420,935	13,247,542
Staff cost		3,955,283	3,939,950
Interest expense		3,894,620	3,114,865
Other expenses	20	1,653,243	1,878,248
Impairment on loans	8	191,012	-
Impairment on investment property	10	222,357	-
Total expenses		9,916,515	8,933,063
Profit for the year		3,504,420	4,314,479
Other comprehensive income		-	-
Total comprehensive income for the year		3,504,420	4,314,479
Weighted average number of shares outstanding during the year		150,000	150,000
Basic earnings per share		23.36	28.76



Ebrahim bin Khalifa Al Khalifa
Minister of Housing
Chairman of Eskan Bank



Sabah Khalil Al Moayyed
General Manager and Director

The accompanying notes 1 to 27 form an integral part of these consolidated financial statements.



ESKAN BANK

consolidated statement of changes in equity

for the year ended 31 December 2009

Bahraini dinars

2009	Share capital	Contribution by a shareholder	Statutory reserve	Reserve for retirement scheme	Retained earnings	Total
At 1 January	15,000,000	6,287,173	7,761,896	35,737	136,480,040	165,564,846
Total comprehensive income for the year					3,504,420	3,504,420
Transfer of land (note 10)	-	10,696,336	-	-	-	10,696,336
Remittance of retirement scheme				(35,737)	-	(35,737)
At 31 December	15,000,000	16,983,509	7,761,896	-	139,984,460	179,729,865

Bahraini dinars

2008	Share capital	Contribution by a shareholder	Statutory reserve	Reserve for retirement scheme	Retained earnings	Total
At 1 January	15,000,000	3,668,321	7,761,896	35,737	132,165,561	158,631,515
Total comprehensive income for the year	-	-	-	-	4,314,479	4,314,479
Transfer of land (note 10)	-	2,618,852	-	-	-	2,618,852
At 31 December	15,000,000	6,287,173	7,761,896	35,737	136,480,040	165,564,846

The accompanying notes 1 to 27 form an integral part of these consolidated financial statements.

ESKAN BANK

consolidated statement of cash flows

for the year ended 31 December 2009

	2009	Bahraini dinars 2008
OPERATING ACTIVITIES		
Net profit for the year	3,504,420	4,314,479
Adjustments for:		
Fair value gains / (losses) on investments	(167,562)	242,787
Share of loss of the associate company	19,765	15,097
Impairment allowances on investment property	222,357	-
Impairment allowance on loans	191,012	-
Depreciation	521,407	446,301
Operating profit before working capital changes:	4,291,399	5,018,664
Decrease / (Increase) in other assets (net)	2,247,967	(2,611,009)
Increase in loans	(37,422,609)	(50,021,198)
Increase in development property	(368,509)	(1,397,317)
Increase in investment property	(688,541)	829,192
Increase in deposits from financial and other institutions	32,322,118	-
Increase / (decrease) in other liabilities	(671,987)	4,609,582
Remittance of retirement scheme	(35,737)	-
Cash flows from operating activities	(325,899)	(43,572,086)
INVESTING ACTIVITIES		
Receipts on sale / redemptions of investments	358,649	1,087
Acquisition of investments	(9,000)	-
Purchase of equipments	(311,147)	(632,481)
Refund / (payment) of advance towards investments	1,727,272	(5,377,000)
Cash flows from investing activities	1,765,774	(6,008,394)
FINANCING ACTIVITIES		
Net movement in Zayed Town account	129,511	129,587
Proceeds from term loan	58,333,333	25,000,000
Repayment of term loan	(8,333,333)	-
Net movement in Government accounts	19,511,943	4,193,468
Cash flows from financing activities	69,641,454	29,323,055
Net increase / (decrease) in cash flows during the year	71,081,329	(20,257,425)
Cash and cash equivalents at 1 January	39,834,030	60,091,455
Cash and cash equivalents at 31 December 2009 (note 6)	110,915,359	39,834,030

The accompanying notes 1 to 27 form an integral part of these consolidated financial statements.

notes to the 2009 consolidated financial statements

1 STATUS AND OPERATIONS

- 1.1 The 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 Licence issued by the Central Bank of Bahrain. The Bank is wholly owned by the Government of the Kingdom of Bahrain ("the Government") and is dependent on the continuous support from the government to finance its operations.
- 1.2 The authorised share capital of the Bank is BD 40,000,000. The issued and fully paid up capital is BD 15,000,000 which consist of 150,000 shares at BD 100 each. The Government transferred property of BD 10,696,336 (2008: BD 2,618,852) as additional contribution.
- 1.3 The Bank's principal activities include administering housing loans to Bahrain nationals as directed by the Ministry of Housing ("MOH"), developing construction projects within the Kingdom of Bahrain and acting as a collection agent for rent and mortgage repayments on behalf of the MOH.
- 1.4 The Bank also acts as an administrator for 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 Ministry of Finance ("MOF") based on annual budgetary allocations for housing loans. The Bank also records certain transactions based on instructions by MOH and MOF and decisions taken by the Government of Kingdom of Bahrain.
- 1.5 Transactions with the MOH and MOF are recorded by the Bank through current accounts maintained by the Bank with the Ministries. These accounts are separately disclosed in Note 12 to the consolidated financial statements.
- 1.6 Contracts relating to the rents and mortgage repayments are retained with the MOH. The related obligations are therefore, not reflected in the consolidated financial statements of the Group.

Subsidiaries

- 1.7 The Bank owns 100% of the shares of the **Southern Tourism Company B.S.C. (c) ("STC")**, which is incorporated in the Kingdom of Bahrain, whose principal activities are providing transportation to and from, and accommodation facilities, at the Hawar Islands.

The Bank owns 99% in the **Eskan RMBS Company BSC (c) ("RMBS")** incorporated in the Kingdom of Bahrain, whose principal activities are to issue Asset Backed private debt securities for the purpose of securitisation of housing loans.

The Bank owns 99% in the **Eskan Properties Company BSC (c)** incorporated in the Kingdom of Bahrain, whose principal activities are managing certain investment properties.

Associate company

- 1.8 The Bank owns 28% in **Southern Area Development Company BSC (c) ("SADC")**, which is registered in the Kingdom of Bahrain, whose principal activity is to promote tourism on the Hawar Islands.

notes to the 2009 consolidated financial statements (continued)

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards.

(b) Basis of preparation

The consolidated financial statements are presented in Bahraini Dinars, being the principal currency of the Group's operations. They are prepared on the historical cost basis except for the measurement at fair value of investment securities carried at fair value through profit and loss.

The preparation of the consolidated financial statements in conformity with the IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

The accounting policies have been consistently applied by the Bank and its subsidiaries (together the "Group"), and are consistent with those used in the previous year except for the following:

Standards, amendments and interpretations effective on or after 1 January 2009

IAS 1 (revised), 'Presentation of financial statements'

During the year, the Group adopted Revised IAS 1 "Presentation of Financial Statements" on its required application date of 1 January 2009. Revised IAS 1 introduces the term "total comprehensive income", which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either 1) a single statement of comprehensive income (effectively combining both the Statement of comprehensive income and all non-owner changes in equity in a single statement), or 2) in an statement of comprehensive income and a separate statement of comprehensive income. The Group has opted to present comprehensive income a single statement.

Accordingly, a new primary statement of comprehensive income has been included in the consolidated financial statements along with the required comparative information.

Amendments to IFRS 7, 'Financial instruments: Disclosures'

The amendment to IFRS 7 requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the group. These additional disclosures have been presented for the current financial reporting period and in line with the transitional provisions, comparative information has not been provided.

Improvements to IFRS (May 2008)

'Improvements to IFRS' issued in May 2008 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments effective for annual periods beginning on or after 1 January 2009 have been considered by the Group and there have been no material changes to accounting policies as a result of these amendments.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises (including special purpose vehicles) controlled by the Bank. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases.

(ii) Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the associate's total recognised gains and losses. When the Group's share of losses exceeds its interest in an associate, 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 an associate.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(d) Foreign currency transactions

(i) Functional and presentation currency

Items included in the consolidated financial statements of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Bahraini Dinars, which is the Bank's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

(e) Loans

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

Social Housing loans represent loans disbursed to the Bahraini nationals for the purposes of buying, constructing and repairing houses, based on the directives from the MOH.

Loans are stated at amortised cost using the effective interest rate method as described in 2 (r), less subsidies, reductions granted by the Government, and provision for impairment, if any.

notes to the 2009 consolidated financial statements (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Investments

(i) Classification

Investments carried at **fair value through profit or loss** are investments which upon initial recognition are designated by the Group as at fair value through profit or loss.

The Group has designate investments at fair value through the profit or loss when the investments are managed, evaluated and reported on internally on a fair value basis.

Available-for-sale investments are investments that are not investments carried at fair value through the profit or loss account or held to maturity or loans. These mainly comprise investments in unquoted equity securities.

(ii) Recognition and de-recognition

Investments are initially recognised at fair value, plus transaction costs for all investments not carried at fair value through profit or loss. In case of Investments carried at fair value through the profit or loss, transaction costs are expensed in the period in which they arise. Investment are derecognised when the rights to receive cash flows from the investments have expired or where the Group has transferred substantially all risk and rewards of ownership.

(iii) Measurement

Subsequent to initial recognition, investments at fair value through profit or loss and available-for-sale investments are re-measured to fair value.

Gains and losses arising from a change in the fair value of investments carried at fair value through the profit or loss are recognised in comprehensive income in the period in which they arise. Gains and losses arising from a change in the fair value of available-for-sale investments are recognised in other comprehensive income and when the investments are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised is transferred to the income statement. The fair value of investment traded in active markets is based on quoted prices, including quotations obtained from lead managers, brokers and dealers. The bid price is used to measure the investment securities.

Available-for-sale investments which do not have a quoted market price or other appropriate methods from which to derive reliable fair values are stated at cost less impairment allowances, if any.

(g) Placements with financial institutions and others

Placement with financial institutions and others are stated at amortised cost using the effective interest rate method described in note 2(r), less provision for impairment.

(h) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central bank and placement with financial institutions with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Impairment of financial assets

a) *Assets carried at amortised cost*

A provision for impairment is established where there is objective evidence that the Group will not collect all amounts due, including both principal and interest, in accordance with the contractual terms of the credit facility. Objective evidence that a financial asset is impaired may include a breach of contract, such as default or delinquency in interest or principal payments, the granting of a concession that, for economic or legal reasons relating to the borrower's financial difficulties, that would not otherwise be considered, indications that it is probable that the borrower will enter bankruptcy or other financial reorganisation, the disappearance of an active market, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

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

The provision for impairment is determined based on the difference between the net carrying amount and the recoverable amount of the financial asset. The recoverable amount is measured as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at the inception of the credit facility.

Provisions for impairment are recognised in the consolidated statement of comprehensive income and are reflected in an allowance account against loans and advances.

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

b) *Assets classified as available-for-sale*

For equity securities classified as available-for-sale, a significant or prolonged decline in fair value below cost is considered in determining whether a security is impaired. Where such evidence exists, the cumulative net loss that has been previously recognised directly in statement of comprehensive income is removed from equity and recognised in the consolidated statement of comprehensive income. Impairment losses on available-for-sale equity instruments are reversed directly to other comprehensive income.

notes to the 2009 consolidated financial statements (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment of non-financial assets

The carrying amount of the Group's assets (other than for financial assets covered above), are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use or fair value less costs to sell. An impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

(k) De-recognition of financial assets and liabilities

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent de-recognition. Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

(l) Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(m) Investment property

Investment property are properties held for the purposes of development for rental or capital appreciation or for both. Investment property is stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated on cost by the straight-line method at annual rates, which are intended to write off the cost of the investment property over their estimated useful lives. No depreciation is charged on freehold land. Expenditure subsequent to initial recognition is capitalised only when it increases future economic benefits embodied in the property. All other expenditure is recognised in the consolidated statement of comprehensive income as an expense when incurred. Rental income from investment property is accounted for as described in accounting policy 2(r).

(n) Development property

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

(o) Government accounts

Government accounts are non interest bearing and are payable on demand.

(p) Term loans

Term loans comprising Residential Mortgage Backed Securities and Syndication loan are measured at amortised cost using the effective interest rate method as described in note 2(r).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Other provisions

Other provisions are recognised when there is an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

(r) Revenue recognition

Management charges on social housing loans, is recognised taking account of the sanctioned amount and the rate applicable. Management charges, **interest income and expense** are recognised using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or liability. The application of the effective interest rate method has the effect of recognising management charges, interest income and interest expense evenly in proportion to the amount sanctioned in the case of housing loans or amount outstanding for other financial instruments over the period to maturity or repayment. In calculating the effective interest rate, cash flows are estimated taking into consideration all contractual terms of the financial asset or liability but excluding future credit losses. Fees, including loan origination fees and early redemption fees, are included in the calculation of the effective interest rate to the extent that they are considered to be an integral part of the effective interest rate.

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

Income from tourism services provided by the Group is recognised when the service is rendered.

(s) Employees 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 if the Bank 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 General Organisation for Social Insurance scheme, which is a “defined contribution scheme” in nature, and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. Contributions by the Bank are recognised as an expense in statement of comprehensive income when they are due.

(t) Statutory Reserve

According to the Bahrain Commercial Companies Law, the Bank can resolve to discontinue annual transfers to the reserve when the balance in the reserve equals 50% of the paid-up share capital. As the minimum 50% requirement has been met, no further transfer to the reserve has been made for the purpose of any distribution in such circumstances as stipulated in the Bahrain Commercial Companies Law.

(u) Reserve for Voluntary Retirement Scheme

This reserve represents amounts set aside towards the Group’s future voluntary retirement scheme for the employees.

notes to the 2009 consolidated financial statements (continued)

3 FUTURE ACCOUNTING DEVELOPMENTS

The International Accounting Standards Board (IASB) have issued a number of new standards, amendments to standards, and interpretations that are not yet effective and have not been applied in the preparation of the consolidated financial statements for the year ended 31st December 2009. The relevant new standards, amendments to standards, and interpretations, are as follows:-

IFRS 9 Financial instruments part 1: Classification and measurement

IFRS 9 was issued in November 2009 and is applicable for reporting period beginning on or after 1 January 2013. This standard replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

The Bank is considering the implications of the standard, the impact on the Bank and the timing of its adoption by the Bank.

IAS 24 Related Party Disclosures (revised 2009)

The revised standard is applicable for reporting period beginning on or after 1 January 2011. The revised IAS 24 Related Party Disclosures amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The revised standard will result into changes in certain disclosure relating to Related Parties.

Improvements to IFRS (issued in April 2009)

Improvements to IFRS issued in April 2009 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments are effective for annual periods beginning on or after 1 January 2010 with early adoption permitted. No material impact is expected as a result of these amendments.

4 ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of certain financial assets, liabilities, income and expenses.

The use of estimates and assumptions is principally limited to the determination of provisions for impairment of loans and the estimated useful life of investment property of the Group as explained in more detail below:

Judgements

Classification of investments

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as investments designated at fair value through profit or loss, or available-for-sale investment securities. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification [refer note 2 (f)].

Estimations

Provisions for impairment

Financial assets are evaluated for impairment on the basis set out in note 2 (i)

Provision for impairment of loans is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about the counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy, and estimate of cash flows considered recoverable.

5 CLASSIFICATION OF FINANCIAL INSTRUMENTS

The classification of the financial assets and liabilities by accounting categorisation was as follows:

					Bahraini dinars
	Loans	Fair value through profit or loss	Available-for-sale	Liabilities at amortised cost	Total
2009					
Cash and cash equivalents	110,915,359	-	-	-	110,915,359
Investments	-	570,845	3,541,272	-	4,112,117
Loans	260,064,654	-	-	-	260,064,654
Other assets	592,432	-	-	-	592,432
Total assets	371,572,445	570,845	3,541,272	-	375,684,562
Deposits from financial & other institutions	-	-	-	32,322,118	32,322,118
Government accounts	-	-	-	90,473,150	90,473,150
Zayed Town Account	-	-	-	646,589	646,589
Term loans	-	-	-	130,000,000	130,000,000
Other liabilities	-	-	-	6,446,331	6,446,331
Total liabilities	-	-	-	259,888,188	259,888,188

notes to the 2009 consolidated financial statements (continued)

5 CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

	Bahraini dinars				
	Loans	Fair value through profit or loss	Available-for-sale	Liabilities at amortised cost	Total
2008					
Cash and cash equivalents	39,834,030	-	-	-	39,834,030
Investments	-	761,932	268,544	-	1,030,476
Loans	222,833,057	-	-	-	222,833,057
Advance towards purchase of investments	5,377,000	-	-	-	5,377,000
Other assets	2,526,264	-	-	-	2,526,264
Total assets	270,570,351	761,932	268,544	-	271,600,827
Government accounts	-	-	-	70,961,207	70,961,207
Zayed Town Account	-	-	-	517,078	517,078
Term loans	-	-	-	80,000,000	80,000,000
Other liabilities	-	-	-	3,064,575	3,064,575
Total liabilities	-	-	-	154,542,860	154,542,860

6 CASH AND CASH EQUIVALENTS

	Bahraini dinars	
	2009	2008
Cash and bank balances		
Cash	91,633	47,326
Balances with banks	1,394,463	4,499,544
Balances with the Central Bank	372,982	496,470
	1,859,078	5,043,340
Short term placements (within 3 months)		
Placement with banks	69,313,281	9,790,690
Placement with Central Bank	39,743,000	25,000,000
	109,056,281	34,790,690
	110,915,359	39,834,030

7 INVESTMENTS

	2009	Bahraini dinars 2008
Investments designated at fair value through the profit or loss		
Managed funds		
Balance at 1 January	761,932	1,005,806
Additions		-
Repayment of capital	(358,649)	(1,087)
Fair value changes	167,562	(242,787)
Balance at 31 December	570,845	761,932
Available for sale investments (unquoted at cost less impairment)		
Equity securities		
Balance at 1 January	268,544	268,544
Additions	3,272,728	-
Balance at 31 December	3,541,272	268,544
Total	4,112,117	1,030,476

The group intends to exit these investments by means of sale to strategic investors

8 LOANS

	2009	Bahraini dinars 2008
(i) Social loans		
Loans (net off reductions and waivers written off)	254,709,236	224,127,533
Less: Provisions for 50% subsidy under Amiri Decree No. 18/1977 [b]	(13,554,758)	(11,880,321)
	241,154,478	212,247,212
(ii) Commercial loans		
Gross Loans	19,101,188	10,585,845
Less: collective provision for impairment	(191,012)	-
	18,910,176	10,585,845
Total loans	260,064,654	222,833,057

The cost of subsidy, reduction and waivers are charged to Government accounts.

[a] The housing loans are stated after writing off the following reductions / waivers:

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

notes to the 2009 consolidated financial statements (continued)

8 LOANS (continued)

(ii) On 16 December 2000, an additional reduction of 25% ("2000 Reduction") was granted on monthly instalments for loans that were outstanding as of 15 December 2000. Similar to the treatment for the 1992 Reduction, this was originally determined to be on the total balance outstanding on 15 December 2000 but only accounted for when actual repayments were made.

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

(iii) On 15 February 2002, His Majesty, King Hamad bin Isa bin Salman Al Khalifa, the King of the Kingdom of Bahrain announced a waiver of 50% ("2002 Reduction") of the housing loans granted. As no formal decree or directive was issued by the Government, the Bank's management interpreted this to mean 50% and 2000 Reductions re-calculated as mentioned (ii) above rather than on either the actual or contractual amounts outstanding on 15 February 2002.

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 (b) below. Management have assumed that the 2002 Reduction included borrowers whose loans had been approved on or before 15 February 2002, but not disbursed.

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

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

9 INVESTMENT IN AN ASSOCIATE

	2009	Bahraini dinars 2008
Balance at 1 January	2,034,667	2,049,764
Acquisitions	386,000	-
Share of loss	(19,765)	(15,097)
At 31 December	2,400,902	2,034,667
Summarised financial information of the associate		
	2009	2008
Total assets	7,179,604	7,271,397
Total liabilities	27,289	24,549
Total revenues	15,124	107,497
Total net loss	(70,277)	(53,677)

10 INVESTMENT PROPERTY

	2009	Bahraini dinars 2008
At 1 January	46,814,446	45,024,786
Transfers from development properties	737,958	11,888
Transfers to development properties	(2,266,195)	(800,041)
Lands received	10,696,337	2,618,852
Depreciation	(49,418)	(41,039)
	55,933,128	46,814,446
Less: Impairment allowance	(222,357)	-
At 31 December	55,710,771	46,814,446
	2009	2008
Land at Sanabis	1,339,973	3,606,168
Land at Bander Al-Seeef area	37,509,907	37,509,907
Land at Muharaq	55,004	55,004
Land at Seqaya	3,208,499	3,208,499
Land at Hamad Town	2,234,625	1,627,561
Land at Hamala	29,612	29,612
Land at Isa Town	6,094,694	161,638
Land at Gudaibya	47,899	-
Land at Jaw	1,938,783	-
Land at Saar	1,903,251	-
Land at Sitra	427,892	-
Shops (accumulated depreciation BD127,803 (2008 BD78,385))	1,142,989	616,057
	55,933,128	46,814,446
Impairment allowance	(222,357)	-
	55,710,771	46,814,446

The fair value of investment properties, based on independent market valuation, as at 31 December 2009 was BD 448,576,559 (2008: BD 505,439,906). During the year, lands with fair value of BD 10,696,336 (2008: BD 2,618,852) were transferred to the Bank by the Government and accordingly has been treated as additional contribution by a shareholder.

11 OTHER ASSETS

	2009	Bahraini dinars 2008
Equipment and other assets (net book value)	1,294,437	1,504,697
Escrow account	-	1,885,000
Staff loans	155,651	178,718
Reserve with CBB	20,000	20,000
Receivable on sale of villas	-	560,826
Other receivables	1,240,475	1,019,550
	2,710,563	5,168,791

notes to the 2009 consolidated financial statements (continued)

12 GOVERNMENT ACCOUNTS

	2009	Bahraini dinars 2008
Ministry of Finance:		
Credit balance at 1 January	(117,194,987)	(86,343,457)
Subsidies on houses	435,272	315,137
Amounts received during the year	(34,000,000)	(31,166,667)
Credit balance at 31 December	(150,759,715)	(117,194,987)
Ministry of Housing:		
Debit balance at 1 January	46,233,780	19,575,718
Subsidies, reductions, waivers on account of deceased borrowers, discounts and others charged during the year	8,731,455	10,454,693
House instalments and rentals collected on behalf of the MOH including sale of lands and flats against housing loans	(4,949,614)	(5,053,479)
Net movement in Housing Rehabilitation towards the Demolished Houses	1,202,449	1,562,643
Expenses paid on behalf of the MOH and other items	72,853	34,911
Rental allowance	(966,794)	119,946
Sale of flats and houses tamleek on behalf of MOH (net)	(3,853,382)	(510,641)
Payment for projects on behalf of MOH	13,773,237	20,028,472
Expenses on Mortgage Guaranteed securities	66,581	52,939
Financing sale of Shakhora Land	(24,000)	(31,422)
Debit balance at 31 December	60,286,565	46,233,780
Net credit balance in Government accounts	(90,473,150)	(70,961,207)

The transactions for the MOH and MOF are recorded by the Bank through current accounts maintained by the Bank with the Ministries.

13 ZAYED TOWN ACCOUNT

	2009	Bahraini dinars 2008
Balance at 1 January	517,078	387,491
House instalments collected	195,229	192,828
Expense paid	(65,718)	(63,241)
At 31 December	646,589	517,078

14 TERM LOANS

	2009	Bahraini dinars 2008
Syndicated Bank Term Loan	100,000,000	50,000,000
RMBS Bonds	30,000,000	30,000,000
At 31 December	130,000,000	80,000,000

Syndicated term loan bears interest determined at Bibor plus a fixed margin and mature in 2012. (the interest cost is reimbursed by the Ministry of Housing.)

RMBS bonds are mortgage backed securities which are secured against a pool of housing loans. The group did not default on principal, interest, or other breaches with respect to these securities during 2009 and 2008. The RMBS Bonds carry a floating rate interest determined at Bibor plus a fixed margin and mature in 2017.

15 OTHER LIABILITIES

	2009	Bahraini dinars 2008
Employees benefit	118,013	114,670
Interest payable on term loans	2,105,700	859,544
Accrued expenses	1,898,531	3,543,118
Escrow account	-	1,885,000
Contractor retentions	230,990	320,021
Employee savings scheme	212,695	102,597
Current accounts	1,574,822	-
Other liabilities	1,651,620	1,639,409
	7,792,371	8,464,359

16 MANAGEMENT CHARGES

Represents charges for administering social housing loans. (refer note 8)

17 INTEREST INCOME

	2009	Bahraini dinars 2008
Interest on placements with financial and other institutions	429,280	1,456,075
Interest on commercial loans (refer note 8)	1,337,436	724,882
	1,766,716	2,180,957

notes to the 2009 consolidated financial statements (continued)

18 INCOME FROM INVESTMENT PROPERTY

	2009	Bahraini dinars 2008
Rent received from shops and flats (net of depreciation BD49,418 (2008: BD41,039))	78,995	77,059
Gain on sale of investment property	188,267	1,803,919
	267,262	1,880,978

19 OTHER INCOME

	2009	Bahraini dinars 2008
Land reclamation fees	4,638	7,205
Miscellaneous income	426,652	245,272
Interest reimbursed by the Government of Bahrain	2,703,830	1,748,893
Compensation from the Government of Bahrain	-	300,000
	3,135,120	2,301,370

20 OTHER EXPENSES

	2009	Bahraini dinars 2008
Depreciation	471,989	405,262
Rent	222,741	219,319
Legal and consultancy	117,390	277,152
Computer maintenance	120,842	160,704
Telephone	57,046	57,846
Electricity	46,834	48,919
Marketing cost	127,208	190,629
Others	489,193	518,417
	1,653,243	1,878,248

21 COMMITMENTS AND CONTINGENCIES

	2009	Bahraini dinars 2008
Housing loan commitments approved by MOH	48,457,868	57,549,041
Commitment to invest	1,727,272	1,727,272
	50,185,140	59,276,313

- a. The Bank has filed cases against its ex-employees on grounds of misconduct. If the Bank is successful in proving its case, it will result into a receipt of BD 322,988 (2008: BD 322,988).

22 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Transactions with related parties are at rates agreed between the parties. The amounts due to and from related parties are settled in the normal course of business.

The Bank's transaction with related parties is transactions with MOF and MOH and transactions with the associate in the ordinary course of business. Transactions with the Ministries and related balances are disclosed in note 12. An investment in an associate company is disclosed in note 9.

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 Board of Directors, General Manager, Chief Business Officer and Chief Operating Officer and other senior officers. The key management personnel compensation is as follows:

	2009	Bahraini dinars 2008
Short term employee benefits	842,937	952,650
Long term employee benefits	35,529	23,188

notes to the 2009 consolidated financial statements (continued)

23 MATURITY PROFILE OF ASSETS AND LIABILITIES

Maturities of assets and liabilities have been determined on the basis of remaining period, at the balance sheet date, to the contractual maturity date.

The maturity profile of the assets and liabilities at 31 December was as follows:

Bahraini dinars

2009	0-3 months	3 to 12 Months	Total upto 12 months	1-3 years	3-5 years	Above 5 years	Total
Assets							
Cash and cash equivalents	110,915,359	-	110,915,359	-	-	-	110,915,359
Investments	-	-	-	-	-	4,112,117	4,112,117
Loans	171,486	45,872	217,358	647,120	968,758	258,231,418	260,064,654
Investment in an associate	-	-	-	-	-	2,400,902	2,400,902
Investment property	-	-	-	-	-	55,710,771	55,710,771
Development property	-	-	-	-	-	5,049,727	5,049,727
Advance towards investments	-	-	-	-	-	-	-
Other assets	900,025	411,808	1,311,833	616,565	738,787	43,378	2,710,563
	111,986,870	457,680	112,444,550	1,263,685	1,707,545	325,548,313	440,964,093
Liabilities							
Deposits from financial and other institutions	32,322,118	-	32,322,118	-	-	-	32,322,118
Government accounts	90,473,150	-	90,473,150	-	-	-	90,473,150
Zayed Town Account	646,589	-	646,589	-	-	-	646,589
Term loans	-	41,833,333	41,833,333	72,666,667	6,500,000	9,000,000	130,000,000
Other liabilities	4,862,871	1,427,979	6,290,850	303,405	11,634	1,186,482	7,792,371
	128,304,728	43,261,312	171,566,040	72,970,072	6,511,634	10,186,482	261,234,228
Commitments	11,400,000	35,927,272	47,327,272	2,857,868	-	-	50,185,140

23 MATURITY PROFILE OF ASSETS AND LIABILITIES (continued)

Bahraini dinars

2008	0-3 months	3 to 12 Months	Total upto 12 months	1-3 years	3-5 years	Above 5 years	Total
Assets							
Cash and cash equivalents	39,834,030	-	39,834,030	-	-	-	39,834,030
Investments	-	-	-	-	-	1,030,476	1,030,476
Loans	136,570	75,983	212,553	638,522	1,075,760	220,906,222	222,833,057
Investment in an associate	-	-	-	-	-	2,034,667	2,034,667
Investment property	-	-	-	-	-	46,814,446	46,814,446
Development property	-	-	-	-	-	2,415,023	2,415,023
Advance towards investments	-	5,377,000	5,377,000	-	-	-	5,377,000
Other assets	663,925	2,919,805	3,583,730	198,644	1,087,057	299,360	5,168,791
	40,634,525	8,372,788	49,007,313	837,166	2,162,817	273,500,194	325,507,490
Liabilities							
Deposits from financial and other institutions	-	-	-	-	-	-	-
Government accounts	70,961,207	-	70,961,207	-	-	-	70,961,207
Zayed Town Account	517,078	-	517,078	-	-	-	517,078
Term loans	-	16,666,666	16,666,666	41,833,334	6,000,000	15,500,000	80,000,000
Other liabilities	2,471,856	5,775,236	8,247,092	217,267	-	-	8,464,359
	73,950,141	22,441,902	96,392,043	42,050,601	6,000,000	15,500,000	159,942,644
Commitments	12,310,578	28,047,169	40,357,747	18,918,566	-	-	59,276,313

The gross cash flows payable by the Group under financial liabilities, based on contractual maturity dates, was as follows:

Bahraini dinars

	0-3 months	3 to 12 months	1-3 years	3-5 years	Above 5 years	Total
2009						
Deposits from financial and other institutions	32,322,118	-	-	-	-	32,322,118
Government accounts	90,473,150	-	-	-	-	90,473,150
Zayed Town Account	646,589	-	-	-	-	646,589
Term Loans	1,927,086	47,261,839	78,142,112	7,363,631	9,791,403	144,486,071
Total Liabilities	125,368,943	47,261,839	78,142,112	7,363,631	9,791,403	267,927,928

notes to the 2009 consolidated financial statements (continued)

23 MATURITY PROFILE OF ASSETS AND LIABILITIES (continued)

Bahraini dinars

	0-3 months	3 to 12 months	1-3 years	3-5 years	Above 5 years	Total
2008						
Deposits from financial and other institutions	-	-	-	-	-	-
Government accounts	70,440,138	-	-	-	-	70,440,138
Zayed Town Account	517,078	-	-	-	-	517,078
Term Loans	9,457,907	9,448,446	44,853,291	8,606,500	16,221,500	88,587,644
Total Liabilities	80,415,123	9,448,446	44,853,291	8,606,500	16,221,500	159,544,860

The figures in the table above do not agree directly to the carrying amounts in the consolidated balance sheet as they incorporate all cash flows, on an undiscounted basis, related to both principal as well as those associated with future coupon and interest payments. Coupons and interest payments for periods for which the interest rate has not yet been determined have been calculated based on the relevant forward rates of interest prevailing at the balance sheet date.

24 FINANCIAL RISK MANAGEMENT

Overview

Financial instruments of the Group include cash and cash equivalents, placement with banks, investments, loans, government accounts, term loans and certain other assets and liabilities. Accounting policies for financial instruments are set out in note 2.

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Market risk
- Liquidity risk

This note presents information about the Group's exposure to each of the above risks, and the Group's objectives, policies and processes for measuring and managing risk.

Risk management framework

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 which is overseen by the Chief Risk Officer reports directly to the General Manager who reports to the Board of Directors.

The Board of Directors has overall responsibility for establishing our risk culture 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. The RMD, together with the 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.

24 FINANCIAL RISK MANAGEMENT (continued)

Risk management framework (continued)

The RMD submits a periodic Risk Review report to the Board of Directors. The Risk Review report describes the potential issues for a wide range of risk factors and provides comments as to how risk factors are being addressed by the Group.

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 loans, investment securities, placements with banks and other receivables.

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 Bank to make disbursements to the borrowers. These loans are guaranteed by the Government and therefore present no credit risk to the Bank. The Group monitors the sanctioned housing loans regularly, non performing loans are aggressively pursued by the Group and are written-off based on ministerial order.

Other financial assets

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.

Maximum exposure to credit risk

The gross maximum exposure to credit risk before applying collateral, guarantees and other credit enhancements was as follows:

			Bahraini dinars
2009	Cash and cash equivalents	Loans	Investment and other assets
Past due but not impaired (*)	-	1,251,716	-
Neither past due nor impaired	110,915,359	259,003,950	1,162,319
Less collective provision	-	(191,012)	-
Total	110,915,359	260,064,654	1,162,319

notes to the 2009 consolidated financial statements (continued)

24 FINANCIAL RISK MANAGEMENT (continued)

Maximum exposure to credit risk (continued)

2008	Bahraini dinars		
	Cash and cash equivalents	Loans	Investment and other assets
Past due but not impaired (*)	-	952,750	-
Neither past due nor impaired	39,834,030	221,880,307	3,288,196
Total	39,834,030	222,833,057	3,288,196

(*) Pertains to social loans guaranteed by the Government and accordingly the Bank is not exposed to credit risk on these loans.

There were no renegotiated loans during either the year ended 31 December 2009 or 31 December 2008.

Collateral

The Group holds collateral against loans in the form of mortgages on residential property and guarantees. The amount and type of collateral is dependent upon the nature of the loan. Collateral is not usually held against securities or placements and no such collateral was held at either 31st December 2009 or 31st December 2008.

The Group did not take possession of any collateral as a result of a loan default during either the year ended 31 December 2009 or 31 December 2008.

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 Groups assets and liabilities are concentrated in the Kingdom of Bahrain.

b) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. Market risk principally arises from the Groups investments, placement with banks, loans and term loans. The Group does not have a trading portfolio therefore there is no exposure to market risk.

Management of market risks

As a matter of general policy, the Group shall not assume trading positions on its assets and liabilities, and hence the entire balance sheet is a non-trading portfolio. All foreign exchange risk, if any, within the Bank is transferred to the Treasury. Presently, all the Group's assets and liabilities are denominated in the local currency and USD which is pegged against the Bahraini Dinar and hence the Group does not have any foreign exchange risk. Interest rate risk is managed principally through monitoring interest rate gaps. Overall authority for market risk is vested in the Asset Liability Committee (ALCO). RMD is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

24 FINANCIAL RISK MANAGEMENT (continued)

Exposure to Interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. The Group's exposure to interest rate risk arises on the following interest bearing financial instruments:

	2009	Bahraini dinars 2008
Assets		
Cash and cash equivalents	110,915,359	39,834,030
Liabilities		
Term loans	130,000,000	80,000,000

An analysis of the Group's sensitivity to an increase or decrease in a 100 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:

	2009	Bahraini dinars 2008
At 31 December	±408,501	±243,056

c) Liquidity risk

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

Management of liquidity risk

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

Exposure to liquidity risk

The Groups exposure to liquidity risk is detailed in note 23.

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 is committed to recruitment in addition to training of staff. 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 Basel II Capital Accord.

e) Fair values of financial instruments

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

notes to the 2009 consolidated financial statements (continued)

24 FINANCIAL RISK MANAGEMENT (continued)

e) Fair values of financial instruments (continued)

Except for available-for-sale investments of BD 3,541,272 carried at cost less impairment, the fair value of the Bank's other financial assets and liabilities are not materially different from their carrying values.

25 CAPITAL MANAGEMENT

The Group's regulator Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Group as a whole. In implementing current capital requirements CBB requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets. The group has adopted the Basel II from 2008.

The Group's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, capital contribution, retained earnings, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities and the element of the fair value reserve relating to unrealized gains on equity instruments classified as available-for-sale

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank has complied with all externally imposed capital requirements throughout the period. The subsidiaries of the Bank are not subject to any externally imposed capital requirements.

There have been no material changes in the Group's management of capital during the period.

Capital allocation

Majority of the Group's capital is allocated towards Housing Loans.

The risk asset ratio calculated in accordance with the capital adequacy guidelines of the CBB was as follows:

	31 December 2009	Bahraini dinars 31 December 2008
Regulatory capital base (A)	178,465,405	164,097,999
Total risk-weighted exposure (B)	131,232,026	88,425,000
Capital adequacy ratio (B/A)	135.99%	185.58%

26 FUTURE FUNDING REQUIREMENTS

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

27 COMPARITIVES

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



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1 Introduction

The Central Bank of Bahrain's (CBB) Basel 2 guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1st January 2008. These disclosures have been prepared in accordance with the CBB requirements. The disclosures in this report are in addition to or in some cases, serve to clarify the disclosures set out in the consolidated financial statements for the year ended 31st December 2009, presented in accordance with the International Financial Reporting Standards (IFRS).

Scope of Application

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

The Bank has following four subsidiaries:

- The Bank owns 100% of the shares of the **Southern Tourism Company B.S.C. (c) ("STC")**, which is incorporated in the Kingdom of Bahrain, whose main objective is promoting tourism and related activities such as, Dhow transport services, management and development of private resort properties and jetty facilities at the Hawar Islands.
- The Bank owns 99% in the **Eskan RMBS Company BSC (c) ("RMBS")** incorporated in the Kingdom of Bahrain, whose principal activities are to issue Asset Backed private debt securities for the purpose of Securitisation of housing loans.
- The Bank owns 99% in the **Eskan Properties Company BSC (c)** incorporated in the Kingdom of Bahrain, in order to successfully execute the various projects being taken up. The main objectives are to carry out all operations in relation to management, operation and maintenance for all types of real estate owned by the bank, governmental institutions and ministries or others.
- The Bank owns 100% in **Smart Building Material Company**, which is registered in the Kingdom of Bahrain and whose principal activities include to create the entire value chain to manufacture cost-effective, environment friendly homes for the citizens of Kingdom of Bahrain. SBMC will also import a range of building products and raw materials such as gravel, cement, bricks, marbles, electrical and sanitary wares, & intend to construct warehouse facilities to support the business.

The Bank has three associate companies:

- The Bank owns 28% in **Southern Area Development Company BSC (c) ("SADC")**, which is registered in the Kingdom of Bahrain, and whose principal activity is the promotion of tourism on the Hawar Islands.
- The Bank entered into a joint venture with Seef Properties in November 2009 to form **Saar Complex Company WLL**. The bank owns 45% of the Company, which is registered in the Kingdom of Bahrain and whose principal activity is the management and development of Saar Commercial Complex in Saar district on land owned by the shareholders. In addition the company can exercise real estate activities, invest excess liquidity, perform all suitable activities for the accomplishment of the company's objectives. The company has been established to carry out property development activities in joint venture with Seef Properties Company.
- During 2009, **Ebdaa Bank** was established and began disbursing micro-finance to low and middle - income Bahrainis, providing each beneficiary with an opportunity to start a new business, to become financially independent and to hold out the promise of a better quality of life. Eskan Bank is a founding shareholder of Ebdaa Bank, holding 20% stake.

There is no deficiency in the capital of any of the subsidiaries of the Bank as on December 31, 2009. There are no restrictions on the transfer of funds or regulatory capital within the Group.



Eskan RMBS 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.

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

Subsidiaries	Country of Incorporation / residence	Percentage of ownership	Percentage of Voting Power (If different from Ownership)	Risk Weight
Southern Area Development Company BSC (c)	Kingdom of Bahrain	28%	-	150%
Southern Tourism Company (STC)	Kingdom of Bahrain	100%	-	150%
Smart Building Material Company	Kingdom of Bahrain	100%	-	200%
Eskan Properties Company BSC (c)	Kingdom of Bahrain	99%	-	150%
Saar Complex Company	Kingdom of Bahrain	45%	-	200%
Ebdaa Bank	Kingdom of Bahrain	20%	-	150%

2 Financial performance and position

In 2009, the Bank has shown substantial growth in the size of its assets, along with healthy profits. The Bank registered a net profit of BD 3.707 million for the financial year ended 2009. Other growth parameters have also been positive as detailed below:

a) Asset Growth & Quality:

- **Quantity:** The Balance Sheet grew by 35.58 % to BD 442 million in 2009 from BD 326 million in 2008. The bulk of this growth was from the loan portfolio under Social Loans and commercial mortgage loan and interbank placements.
- **Quality:**
 - **Loan Portfolio:** The bank's portfolio is of high quality despite the bulk of the banking assets being residential mortgage loans. Primarily, these loans are "social loans" where the credit risk does not reside with the bank. On the other hand, in case of the commercial-basis residential mortgage loans extended by the bank, the approach has been conservative. Out of this portfolio, about 98% has Loan to Value (LTV) ratio of less than 80% and about 97% has Debt- Service Ratio of less than 60%, and there are no impaired loan accounts (NPAs).
 - **Other Investments:** The other banking assets are mainly in inter-bank placements with banks in the Kingdom all of which are short term (less than 3 months).
 - The bank has no investments, other than small legacy investments, nor exposures to the sub-prime crisis.
- **Capital Adequacy Ratio (CAR):** The bank continued to have strong capital adequacy ratio, with the CAR of 136% as of 31st December, 2009.
- **Solvency:** The Bank 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.

The Bank's business has also recorded good growth over the year:

- **Disbursals of Social Loans:** The social loan portfolio grew by 13.6% over last year by an amount of BD 28.9 million.

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- **Disbursals in Commercial basis Residential mortgage loans:** The pace of growth in Residential mortgage loans offered on commercial terms accelerated in 2009. The portfolio has increased by BD 8.515 million, to reach BD 19.101 million, registering a growth of over 80% during the year.

Earnings & Financial Position:

Particulars	BD Million's				
	2009	2008	2007	2006	2005
Earnings					
Net Interest Income	5.96	6.17	6.21	6.02	4.56
Other Income	3.31	3.49	4.78	0.17	-0.25
Operating Expenses	5.15	5.49	4.05	2.84	2.18
Impairment Allowance	0.41				
Net Income	3.71	4.17	6.93	3.36	2.13
Financial Position					
Total Assets	441.65	325.57	283.16	216.2	167.26
Loans	260.06	222.83	172.81	132.11	97.37
Total Liabilities	263.18	161.47	125.85	69.47	32.82
Shareholders Equity	178.47	164.09	157.31	146.73	143.44
Earnings: Ratios (Per Cent)					
Return on Equity	2.08%	2.54%	4.41%	2.29%	1.48%
Return on Assets	0.84%	1.28%	2.45%	1.55%	1.27%
Cost-to-Income ratio	68.74%	67.45%	45.57%	45.81%	27.38%
Net Interest Margin	60%	66.20%	78.02%	100.00%	100.00%
Capital:					
Shareholders Equity as per cent of Total Assets	40.41%	50.40%	55.56%	67.87%	85.76%
Total Liabilities to Shareholders Equity	147.47%	98.40%	80.00%	47.35%	16.61%

b) Performance of the group companies:

- **Southern Tourism Company (STC):** An operating loss of BD 141,510 was reported for the period ended 31 Dec 2009, Corrective actions were applied late 2009 whereby the staff number has been reduced by 11 members, thus staff costs are expected to decline and the result of which will be more explicit in 2010 improving the company efficiency ratio.
- **Southern Area Development Company (SDC):** SDC currently owns Hawar Island's only four star hotels - Golden Tulip Hotels and a number of fully furnished chalets on the island. The Bank has equity participation of 28% in the company. The Company registered loss of BD 70,277 for the year 2009. However it is optimistic of good growth in business during the current year due to refurbishment of the Hotel and new management.
- **Eskan Properties Company (EPC):** The property development arm of the Bank is a full fledged company. The registered and paid up share capital is BD 250,000 with a shareholding of 99% by Eskan Bank and 1% by Southern Tourism Company (wholly owned by Eskan Bank). The company has wherewithal for executing various property development projects being taken up. Further, the operations of the Company has been streamlined and strengthened by appointing senior management functionaries.

The Bank has initiated various steps to have a strategic alliance with consultants/ developers/financial investors to develop the prime properties owned by the Bank. Presently, various projects are underway at different



stages ranging from concept design formulation, completion of master plan, evaluation of consultants/contractors to Tender Board approval. In the coming 12 to 18 months, the priority for the company is to commence construction of those properties whose design stage is completed.

In this connection, the Bank is also preparing to structure and launch a Property Fund, and will shortly be approaching the CBB for approval of the Fund.

Financial highlights	31-Dec-09	31-Dec-08
Net profit (loss) for the period	(70,134)	8,980
Total assets	628,923	258,980
Total equity	188,846	258,980

- **Residential Mortgage Backed Securities Company (SPV):** In 2007, ESKAN Bank set up a Special Purpose Vehicle (SPV) subsidiary for the purpose issuing RMBS bonds. The issue of BD30 million of residential mortgage backed securities was considered as a stimulating initiative for the development of the securities market in the Kingdom of Bahrain.

The success of this innovative initiative, the first of its kind in the Kingdom of Bahrain and one of the firsts in the Middle East Region, was recognised during the fourth World Islamic Funds & Capital Markets conference held in Bahrain by conferring the Innovative Product award to the Bank.

The proceeds of the RMBS bonds have been utilised to fund the Commercial activities of the Bank. The registered and paid up share capital is BD 1,000 with a shareholding of 99% by ESKAN Bank and 1% by Southern Tourism Company (wholly owned by ESKAN Bank).

Financial highlights	31-Dec-09	31-Dec-08
Net profit for the period	1,007,360	1,138,333
Total assets	33,037,808	31,966,870
Total equity	2,188,473	1,181,113

Smart Building Material Company

The registered and paid up share capital is BD 250,000 which is wholly owned by the ESKAN Bank group. The ISBMC was formed in the later half of 2009, and the operations have not been commenced, there are no financial results.

Saar Complex Company

The registered and paid up share capital is BD 20,000 with 45% owned by ESKAN Bank group and 55% owned by Seef Properties. The Saar Complex Company was formed in the later half of 2009, and the operations have not been commenced, there are no financial results.

Ebdaa Bank

The registered and paid up share capital is USD 5,000,000 with ownership as follows:

- AG Fund \$ 2,000,000 (40%)
- Bahrain Development Bank \$ 1,000,000 (20%)
- ESKAN Bank \$ 1,000,000 (20%)
- Abdulhameed Deewani \$ 400,000 (8%)
- Khalid M. Kanoo \$ 400,000 (8%)
- Mona AlMoayyed \$ 200,000 (4%)
(Representing Y. K. Al Moayyed & Sons)

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3 Future Business prospects:

The Bank's asset and liability profile in Year 2010 will be similar to last year. The major portfolio for the Bank will continue to be mortgage loans and investment properties. Under its corporate banking segment, the Bank has started accepting government institution deposits in 2009 and plans to start corporate real estate financing in 2010.

4 Corporate governance and transparency

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

The Bank has adopted the following principles to ensure best practices in corporate governance:

- The Board Members are qualified for their positions and have a clear understanding of their roles in corporate governance
- The Bank's strategic objectives and corporate values are approved by the Board of Directors (BoD)
- Clear lines of responsibility and accountability are set throughout the organisation
- The BoD ensures proper oversight by senior management
- The BoD ensures that the Bank's compensation policies and practices are consistent with the Bank's corporate culture, long term objectives and strategy, and control environment
- The governance of the Bank is conducted in a transparent manner

5 Board and Management Committees:

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

6 Board of Directors

HE Shaikh Ebrahim bin Khalifa Al Khalifa

Minister of Housing

Appointed as Chairman of ESKAN Bank in 2007

Dr. Anwar Khalifa Alsada

Vice Chairman

Appointed in 2008

Master & Doctorate degrees in Philosophy from University of Surrey - UK

More than 25 years of work experience

Chairman, Bahraini Saudi Bank

Advisor to Al Salam Bank-Bahrain

Previously held the post of Deputy Governor of the Central Bank of Bahrain

Mr. Abdul Razaq Abdulla Alqassim

Member

Appointed in 2008

Master's degree in Management Sciences and Sloan Fellowship from MIT (Massachusetts Institute of Technology, USA).

More than 30 years of work experience

Chief Executive Officer, National Bank of Bahrain

Chairman, Benefit Network Company; **Board of Trustee** of Ahlia University

Deputy Chairman, Oasis Capital Bank, Arab Academy for Education and Research

Board Member of National Bank of Bahrain, Esterad Investment Company; Batelco, Bahrain Duty Free Company,



Arab Academy for Education & Research Company, Bahrain Stock Exchange
Member: Corporate Governance Committee in Ministry of Industry and Commerce.

Mr. Nedhal Saleh Alaujan

Member

Appointed in 2008

MBA with more than 20 years of work experience

Chief Executive Officer: Bahrain Development Bank

Chairman: Gulf Diabetes Specialist Centre; Arabian Taxi Company

Board Member: Batelco; Venture Capital Bank; Retail Arabia, Gulf Membrane & Coating Industries WLL

Chairman of Executive Committee: Bahrain Specialist Hospital; Bahrain Business Incubator Centre

Dr. Ala'a Hasan Alyusuf

Member

Appointed in 2008

Master & Doctorate degrees in Economics from University of Oxford

More than 20 years of work experience

Chief Economist: Gulf Finance House

Founding Member: Bahrain Competitiveness Council

Dr. Jasim Yusuf Al-Ajmi

Member

Appointed in 2008

Ph.D. degree in Accounting from University of Exeter, UK

More than 25 years of work experience

Director: Associate Professor of Finance & Continuing Education Program, College of Business Administration, University of Bahrain

Founder, President & Executive Director: Bahrain Transparency Society

Founder and Vice Chairman: Bahrain Competitiveness Council

Member: National Committee for Establishing Corporate Governance Code for Bahraini Companies; Scholarships Awarding Committee of Gulf Arab Countries Cooperation Council Accounting & Auditing Organisation

Advisor: Corporate Governance Issues in Bahrain – Centre for International Private Enterprises, Washington DC, USA.

Dr. Taqi Abdulrasool Al Zeera

Member

Appointed in 2008

Doctorate in Philosophy – Political Economics – from American University, USA

More than 30 years of work experience

Co-Founder and Executive Director: Arab Business Consultants

President: Gulf Academy for Development of Human Resources

Board Member: Telecommunications Regulatory Authority

Founding Member: Bahrain Society for Training & Development

Registered Consultant: IMF; WTO; UNIDO; UNDP; UNCTAD; GCC Commercial Arbitration Centre

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Mr. Ausama Abdulrahim Alkhaja

Member

Appointed in 2008

Certified Public Accountant

More than 20 years of work experience

Chief Executive Officer: Royal Arabian

Executive Manager: Director Projects Development, Kuwait Finance House

Chairman: Meena Towers Company, KFH Industrial Oasis Company

Vice Chairman & Managing Director: Crans Montana Forum – Middle East

Board Member: Al Kindi Pharmaceuticals Industries Company

Vice Chairman: National Institute for Industrial Training

Member: Bahrain Society of Accountants, American Institute of Certified Public Accountants, Education & Training Society, Student Fund, Bahrain Chamber of Commerce & Industry, SME Committee; LMRA, Financial Committee.

Mrs. Sabah Khalil Almoayyed

Member

Appointed in 2008

Master in Finance and Marketing from University of DePaul, Chicago – USA

More than 20 years of work experience

General Manager: Eskan Bank

Board Member: Southern Development Company (SDC); Bahrain Bayan School; Bahrain Mumtalakat Holding Company; Naseej Company; Chairman of Southern Tourism Company (STC) and Eskan Property Company (EPC), Independent member of the Executive Committee of Ebdaa Bank

Previous Position:

Member – Consultative Committee of the Gulf Arab Countries Cooperation Council, President – Bankers Society of Bahrain, Supreme Council of Women,

Trustee Member: American University of Beirut – Lebanon, Society of Honor “Deltamio” in USA.

7 The members of the Executive Management Team of Eskan Bank

1. Mrs. Sabah Khalil Almoayyed , General Manager

Mrs. Sabah Almoayyed has held many senior positions with leading banks in Bahrain, including Assistant General Manager and CEO with major institutions such as Citibank, National Bank of Bahrain, and Al Ahli Commercial Bank. Other than banking, she has professional experience in areas including organisational restructuring, marketing, investments, and mergers and acquisitions.

Mrs. Almoayyed holds an MBA from Kelastat Business School, University of De Paul, Chicago, USA; and a BSc in Economics & Business Administration from the American University of Beirut, Lebanon. Her numerous Board, professional association, and non-profit organisation memberships are listed in her profile as a Member of the Board of Directors of Eskan Bank in 2009.

Board Member: Southern Development Company (SDC); Bahrain Bayan School; Bahrain Mumtalakat Holding Company, Naseej Company, Chairman of Southern Tourism Company (STC) and Eskan Property Company (EPC) , Independent member of the Executive Committee of Ebdaa Bank.

Previous Position:

Member – Consultative Committee of the Gulf Arab Countries Cooperation Council; President – Bankers Society of Bahrain, Supreme Council of Women;

Trustee Member: American University of Beirut – Lebanon, Society of Honor “Deltamio” in USA.

She assumed the present position in 2004.



2. Mr. Keith Scott, Chief Business Officer & Deputy General Manager

Mr. Keith Scott has nearly forty years of international experience in banking, and has worked for leading institutions such as Midland Bank (now part of HSBC), Riyad Bank and Arab National Bank. Prior to joining Eskan bank, he was General Manager with Alliance Housing Bank in Muscat, Oman.

An Associate of the Institute of Bankers in the UK, Mr. Scott holds a First Class BSc (Hons) from the University of Manchester, UK.

He assumed the present position in 2007.

3. Mr. Ebrahim Shehab, Chief Investment Officer & Deputy General Manager

Mr. Ebrahim Shehab has more than 20 years of experience in the banking sector. He worked for several banks since 1976 such as Chase Manhattan Bank, Arab Asian Bank and National Commercial Bank. He was Assistant Undersecretary of Human Resources & Finance at the Ministry of Health in Bahrain.

Mr. Shehab holds an MBA from the University of Hull, UK.

He assumed the present position in 2008.

4. Dr. Naeema Aldosseri, Head of Group, Human Capital Administration & Communications

Dr. Naeema Aldosseri has 25 years experience in Human Resource management, and has worked with leading Islamic investment banks such as Gulf Finance House and Capinvest.

Dr. Aldosseri holds a PhD in Human Resources Management from University of Leicester, UK. She is a member of a number of professional organisations, including the Supreme Council for Women, the Strategic Planning Association, and the Human Development Committee of the Bahrain Chamber of Commerce and Industry.

She assumed the present position in 2008.

5. Mr. Srikanth Sheshadri, Chief Risk Officer

Mr. Srikanth Sheshadri has over 20 years experience in the banking and financial services industry. During the course of his career, he has worked in credit and risk management functions with Emirates Bank Group in Dubai, Banque Saudi Fransi in Riyadh, and in Bahrain with ABN Amro Bank NV and Ahli United Bank.

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

He assumed the present position in 2007.

6. Mr. Hani Abdulmahdi Jasim Nayem, Head of Internal Audit

Mr. Hani Nayem has over 7 years of experience in the banking industry covering various fields such as internal audit, compliance, credit analysis, investment analysis, Islamic profit, financial controls and operations. He has worked for reputable regional and international banks such as Al Baraka Islamic Bank, Shamil bank of Bahrain, Ithmaar Bank, BDO Jawad Habib, Arthur Andersen, CPA firm.

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

He assumed the present position in 2009.

7. Mr. Jamal Qamber, Head of Information Technology & Operations

Jamal Qamber holds a B.Sc. in Computer Science and a Masters degree in Business Administration. His experience in IT spans more than 24 years. Prior to joining Eskan Bank, he was Head of IT Business Development at Gulf Air.

He assumed the present position in 2009.

8. Mr. Hassan Ghulam Ali, Head of Project Management Office and Quality Assurance

Hassan Ali holds a B.Sc. in Accounting. He has 12 years extensive experience in the field of Audit, and worked with Gulf International Bank in Bahrain, prior to joining Eskan Bank.

He assumed the present position in 2009.

9. Mr. Fadi Jamali, Chief Development Officer - Eskan Properties Company

Mr. Fadi Jamali has twenty two years of experience in various architectural and urban development organisations in France, Lebanon and the MENA region. Prior to joining Eskan Bank he was with Solidere - Lebanon and Solidere International as Urban Planning Manager for 12 years.

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Mr. Jamali holds an Executive Masters degree in Business Administration, and a BSc degree in Architecture and Urban Planning.
He assumed the present position in 2008.

8 Additional Governance Measures

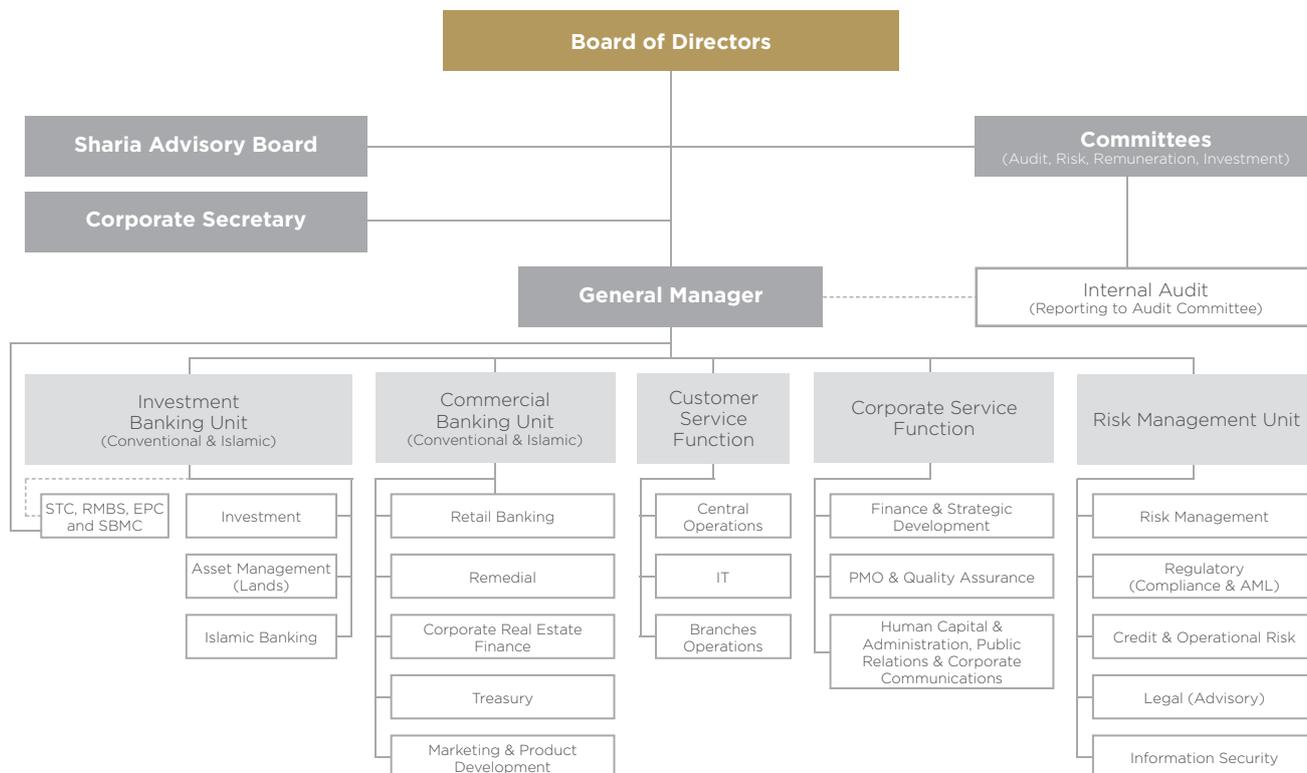
In addition to the Board and Management committee structures, the Board of Directors has approved a number of policies to ensure clarity and consistency in the operations of the Bank.

9 Remuneration Policy:

The Remuneration Committee is authorised by the Board of Directors to recommend the remuneration policy of the Bank and the remuneration of those senior executives whose appointment requires Board approval.
The Directors are paid annual fees and sitting fees for attending meetings of the Board & its Committees.
The Bank's Remuneration Policies are applicable to all employees including the General Manager. The remuneration primarily consists of monthly salaries and allowances.

10 Organisation Chart

The organisation structure of the bank is as follows:



11 Communication Strategy

At the end of each financial year, the consolidated statement of financial position, the consolidated Statement of comprehensive income, and a report on the Bank's activities are presented to Board of Directors for the financial year which ended. All these documents are subsequently sent to the Council of Ministers.



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

The Bank also follows the disclosure requirements as stipulated by Central Bank of Bahrain. The Bank has been publishing the audited financial results on its website since the year 2009 and as a policy intends to display the audited financial results every year in its website.

12 Capital

12.1 Capital Structure

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

Tier I Capital, includes ordinary share capital, capital contribution, retained earnings, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes

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

	(In BD '000)	
Total Capital of ESKAN Bank	Amount	Total Amount
Eligible capital (Tier I and Tier II)		
Tier I		
Share Capital	15,000	15,000
Reserves		
Statutory Reserve	7,762	
Total Reserves	7,762	7,762
Retained Earnings (Brought Forward)	135,013	135,013
Capital Contribution	16,983	16,983
Profit for the current Year	3,707	3,707
Total Tier I Capital		178,465
Tier II	-	-
Total Tier II Capital	-	-
Total Eligible capital (Tier I and II)		178,465

	(In BD '000)
Capital Base / Risk Weighted Exposures	Amount
Credit Risk Weighted Exposures	113,750
Operational Risk Weighted Exposures	17,483
Market Risk Weighted Exposures	-
Total Risk Weighted Exposures	131,233
Total Eligible capital	178,465
Tier I Capital Adequacy Ratio	135.99%
Tier II Capital Adequacy Ratio	-
Total Capital Adequacy Ratio	135.99%

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12.2 Capital Adequacy

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

The Bank uses trigger rate of 12.5% as against the rate of 12% stipulated by CBB.

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

13 Credit Risk

13.1 Overview of Credit Risk Management

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

The Credit Risk Management Framework is summarised as under:

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

The Bank uses external ratings from Standard & Poors', Moody's, Fitch and Capital Intelligence Ratings (accredited external credit assessment institutions), for rating the balances with banks and placements with Banks. Wherever ratings are applicable/ available, bank has used the same in calculation of risk weighted assets. The Bank uses an internal rating mechanism for rating its retail clients. The ratings range from EB1 to EB10.

The initial Credit Rating assigned to the retail commercial mortgage loans portfolio as a whole is EB 4, (EB 4 is considered to be Good to fair credit quality). Migration exercise is carried out on a regular basis of the retail mortgage loans portfolio based on the past dues in the account. During the loan life, based on the loan performance, the initial credit rating of EB4 undergoes change and the best proxy for quality of loan is considered to be the past dues in the loan. As such, based on the number of days past due, the credit rating is changed moving from EB4 all the way down to EB10.

The Bank adopts a Board approved mechanism to indicate the relationship of the internal credit ratings with those of External Credit Assessment Institutions (ECAI) ratings.



13.2 Definition and classification of Impaired loans (NPA)

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

There were no Impaired Loans (NPAs) under Commercial Mortgage Loans as of 31.12.2009

The past due loans in case of social loans are internally considered as Impaired Loans (NPAs) when more than six equated monthly installments are overdue, considering the nature of the loans. Social loans are approved by the Government and losses on these viz: waiver, subsidy, write off etc are charged to the Government Fund account. Hence, the Bank does not pass any provision entry on account of social loans.

Age wise analysis of past dues but not impaired loans showing outstanding balance in the accounts (BD'000)

	1 to less than 90 days	91 to 180 days	181 days to 1 year	Above 1 year to 3 years	Above 3 years
Loans & Advances					
Retail Commercial Mortgage Loans	11,045	-	-	-	-
Social Loans*	33,523	11,653	6,091	3,056	579

* Social loans are not exposed to credit risk

Credit Portfolio details (in BD '000)

Asset Category	Average Assets*	On / Off Balance Sheet Exposures before CRM (in BD '000)	Unsecured Portion of the credit exposure (in BD '000)	Risk Weighted Value (in BD '000)	Capital charge **
Cash items	114	91	91	-	-
Total Claims on Sovereigns	266,073	305,499	305,499	-	
Total Claims on Banks	41,664	70,702	70,702	21,640	2,705
Mortgage	15,730	18,910	18,910	14,183	1,773
Investments in Securities	4,871	3,729	3,729	5,594	699
Holding of Real Estate	3,261	4,521	4,521	9,042	1,130
Other Assets and Holding of Securitisation Tranches	62,368	63,291	63,291	63,291	7,911
Total Assets	394,082	466,743	466,743	113,750	14,219

*This represents average quarterly credit exposure as reported in the quarterly reviewed prudential information report during the year.

** Calculated at 12.5%

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Geographic Distribution of Exposures (in BD '000)

Geographic Distribution of Exposures

Particulars	Bahrain	United States	Total
Fund Based	441,610	41	441,651
Non-fund Based	50,185	-	50,185
Total Exposure	491,795	41	491,836

Geographic Distribution of Provisions

Particulars	Bahrain	United States	Total
Specific Provision	222	-	222
General Provision	191	-	191

Investment properties are properties held for the purposes of development for rental or capital appreciation or for both. They are assed on annual basis and are stated at cost less accumulated depreciation and any impairment losses. The bank obtained the fair market valuation of the properties and specific provision of BD222K was made being the difference between the book value and fair market value of the property.

13.3 Related Parties Transactions

The details of the related party disclosures are incorporated in the relevant section of the consolidated financial statements for the year ended 31 December 2009.

13.4 Large Exposures

A **Large exposure** is any exposure to a counterparty or a group of **closely related counterparties** which is greater than, or equal to, 10% of consolidated **capital base**.

The Bank's large exposure as at 31st December, 2009 was interbank placements with various banks for a short term up to 3 months and as per CBB guidelines interbank exposure up to 6 months falls in Exempt category. The bank's placement with various banks is for a period less than 6 months and there are no other large exposures that the Bank has taken, as such the Bank had no large exposure to be reported for the year ended 31st December, 2009.

13.5 Classification of Loans and Advances

The bank presently has extended only mortgage loans on social basis and commercial basis.

A) Social Loans

There is no credit risk to the Bank arising of these loans. Loss, if any, arising from impairment of Social Loans, can be claimed from the government. Consequently, these loans are zero risk weighted assets.

B) Commercial Loans

Most residential mortgage loans offered on commercial terms have been extended to individuals who are existing borrowers under the social loans, with the mortgaged security being common to the social and commercial loans. There were no non-performing loans under this portfolio as at 31.12.2009.



The total exposure under these two portfolios as at 31.12.09 was BD 260.918 million

(In BD '000)

Classification of Loans and Advances

S. No.	Category	Principal and interest outstanding	Specific provisions against losses and anticipated losses	Book Value/ Net Loans
i.	Standard	260,918	-	260,918
ii.	Substandard	-	-	-
iii.	Doubtful	-	-	-
iv.	Loss	-	-	-
v.	Problem country debt	-	-	-
vi.	Total (i + v inclusive)	260,918	-	260,918
vii.	Collective impairment provision	191	-	191
viii.	Net Loans & Advances (vi - vii)	260,727	-	260,727
ix.	Restructured Loans	39	-	39

In terms of Credit Risk Policy of the Bank and as a matter of prudent approach, the Bank has made a nominal collective provision of BD 0.191 million being 1% on its standard retail mortgage commercial loan portfolio of BD 19.10 million. The loans are extended to Bahraini nationals in Bahrain. Provisioning is done on overall portfolio for retail loans.

13.6 Impaired Loans- Social Loans

Social loans are approved by the Government and losses on these viz: waiver, subsidy, write off etc are charged to the Government Fund account. As the credit risk of these loans does not reside with the Bank, no impairment / provisions are being made.

13.7 Impaired Loans- Commercial Mortgage Loans

As at 31 December 2009, the Bank did not have any impaired commercial mortgage loans. However one account was rescheduled during the year. The loan outstanding in this rescheduled account as of 31st Dec 2009 was BD 39K.

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13.8 Residual Contractual Maturity Breakdown of Assets and Liabilities (in BD '000)

2009 Assets	0 - 3 Months	3 to 12 Months	1 - 3 Years	3 - 5 Years	5 - 10 Years	10 - 20 Years	Above 20 Years	Total
Cash and cash equivalents	110,910	-	-	-	-	-	-	110,910
Investment	-	-	-	-	4,112	-	-	4,112
Loans and receivables	171	46	647	969	10,682	90,710	156,839	260,065
Investment in an a subsidiary	-	-	-	-	-	-	747	747
Investment in an associate	-	-	-	-	-	-	2,401	2,401
Investment in property	-	-	-	-	-	-	55,711	55,711
Development Property	-	-	-	-	-	-	5,050	5,050
Other assets	897	687	568	492	11	-	-	2,655
	111,978	733	1,215	1,460	14,805	90,710	220,747	441,651
Liabilities and equity								
Deposits from financial and other insituations	33,626	-	-	-	-	-	-	33,626
Government accounts	90,473	-	-	-	-	-	-	90,473
Zayed Town Account	647	-	-	-	-	-	-	647
Term Loans	-	41,833	72,667	6,500	9,000	-	-	130,000
Other liabilities	5,326	1,641	274	12	1,186	-	-	8,439
Equity	-	-	-	-	-	-	178,466	178,466
	130,072	43,475	72,941	6,512	10,186	-	178,466	441,651

The gap under buckets up to 5 years maturity band is negative on account of the Government account with a balance of BD 90.473 million which has been bucketed under 0 to 3 months maturity band. The Government deposits are considered as core deposits in view of the fact that the deposit balances in these accounts are maintained at the same level. Accordingly, the liquidity situation of the bank is comfortable.

Sector-wise Distribution of Exposures (in BD '000)

Maturity Band	Banks and financial institutions	Real estate and construction	Residential Mortgage	Tourism	Other	Total
Cash and bank	110,910	-	-	-	-	110,910
Investments	-	3,272	-	-	840	4,112
Loans and receivables	-	-	260,065	-	-	260,065
Investments in subsidiaries	-	497	-	250	-	747
Investment in associates	377	9	-	2,015	-	2,401
Other assets	-	60,760	-	-	2,656	63,416
Non funded assets	-	1,727	48,457	-	-	50,184
Total credit exposure	111,287	66,265	308,522	2,265	3,496	491,835

14 Credit Risk Mitigation

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



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

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

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

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

15 Counterparty Credit Risk for derivative and foreign exchange instruments.

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

16 Securitisation

The Bank does not have any investments in Securitisation portfolio.

Eskan RMBS Company BSC (c) ("the Company") is a closed shareholding company incorporated on 19 April 2007 and registered with the Ministry of Commerce in the Kingdom of Bahrain under commercial registration number 64889.

The Company is a special purpose vehicle ("SPV") incorporated for the purpose of raising funds through an issuance of Residential Mortgage Backed Securities ("RMBS Bonds") on behalf of Eskan Bank BSC (c) ("the Parent"). The issued share capital of the Company consists of 100 shares of BD 10 each fully owned by the Eskan Bank BSC (c) and its subsidiary. The Parent receives all the benefits and bears all the risks arising from the business of the Company.

The Company has issued 300 RMBS Bonds for a nominal value of BD 100,000 each, raising BD 30,000,000 on 8 October 2007. These are secured by a pool of mortgage assets administered by the Parent, having tenor of 3, 5, 7 and 10 years, but are redeemable prior to maturity in the event of prepayment of the mortgage transactions resulting in collections being in excess of forecast cash flows.

The Parent acts as the originator and servicer of the RMBS Bonds, responsible for transferring monthly instalments collected from mortgage assets to a collection account. OHAD Trust Corporate and Financial services WLL, acts as the Registrar, issuing agent, transfer agent and bond agent to the RMBS Bonds and is authorised to operate the collection account as a representative of the RMBS Bond holders.

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17 Liquidity Risk

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

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

The Treasury Department monitors the maturity profile of assets and liabilities so that adequate liquidity is maintained at all times.

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

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

17.1 Management of Liquidity Risk:

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 managing cash and cash equivalents and the continued support from the Government to meet any future commitments.

18 Market Risk

18.1 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' and thus exposure to market risk is limited to non- trading portfolio.
- Investments are primarily in 'Available for Sale' category
- Market risk for the bank is limited to balances in Nostro accounts in USD but as BD is pegged to USD, the Bank does not have any foreign exchange risk.
- The Bank has adopted the Standardised Approach for computation of capital charge for market risk and is already fully compliant with such CBB guidelines.

19 Operational Risk

19.1 Overview of Operational Risk Management

Operational risk is the risk of losses owing to

- Deficient or erroneous internal procedures and processes
- Human or system errors
- External events, including legal risks



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

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

In addition, the following policies, inter alia, have been defined for the business & support areas and RMD:

- Operational Risk Management Policy
- Key Risk Indicator Policy
- Loss Data Management Policy
- Outsourcing Policy
- New Product Policy
- Books & Records Policy

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

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

	(BD '000)
Operational Risk	
Average Gross income	9,324
Risk Weighted Exposures	17,483
Capital Charge (@12%)	2098

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

19.2 Contingencies

The quantitative information on material legal contingencies including pending legal actions, and estimate of the claims made by the Bank, in addition to qualitative statements is given below.

- The Bank has filed cases against its ex-employees on grounds of misconduct. If the Bank is successful in proving its case, it will result into a receipt of BD 322,988 (2008: BD 322,988).

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- The Bank manages and controls all such legal risks through its full fledged legal department and engages the services of external legal advisors when necessary.

20 Equity Positions in the Banking Book

The Equity position as at 31 December 2009 comprise investments in subsidiaries and associates which are not subject to consolidation treatment for capital calculation purposes and other investments.

(in BD '000)

Type	Un-quoted investments		Quoted investments		
	Value disclosed in Balance Sheet	Fair value	Value disclosed in Balance Sheet	Fair value	Publicly quoted share values (if materially different from fair value)
Equities	3,158	3,158	-	-	-

(in BD '000)

S. No.	Particulars	Specific Provisions against Investments	Collective Impairment Provisions
1.1	At beginning of the year	100	0
1.2	Amounts written off	-	0
1.3	Write backs/cancellation due to improvement	-	
1.4	Additional provisions made	223	191
1.5	Exchange adjustment and other movements	-	
1.6	Notional interest on impaired assets	-	
	Balance at reporting date (1.1 - 1.2 - 1.3 + 1.4 + 1.5 - 1.6)	323	191

21 Interest Rate Risk in the Banking Book

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

Analysis of the Group's sensitivity to an increase or decrease in a 100 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:

	BD
At 31st December, 2009	± 408,501

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