



ENGAGING THE COMMUNITY

ANNUAL REPORT 2010

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**His Royal Highness,
Prince Khalifa bin Salman
Al Khalifa**

The Prime Minister of
The Kingdom of Bahrain



**His Majesty King
Hamad bin Isa
Al Khalifa**

The King of the
Kingdom of Bahrain



**His Royal Highness,
Prince Salman bin Hamad
Al Khalifa**

The Crown Prince & Deputy
Supreme Commander

Our vision

Eskan Bank aspires to be an acknowledged industry leader, committed to the formation of a fair and efficient mortgage loan market in (“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 B.S.C.(c) (“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 Bahrain. We aim to serve as a partner in providing the best mortgages and loans facilities for our customers, with a strong commitment to:

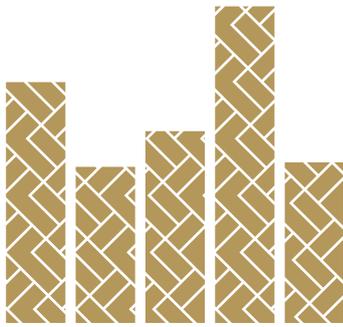
- Being the pre-eminent choice for affordable mortgage solutions
- Providing quality housing and developing cohesive communities
- Driving the development of a mortgage backed securitisation model for Bahrain
- Enhancing our business activities with innovative, value added services and quality products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



- Disbursed BD 31 million of social and commercial housing loans to 2,630 families
- Launched new BD 30 million Musharaka Trust to provide financing for major projects
- Enhanced customer service with new Call Centre and new branch at Hamad Town
- Introduced bancassurance services in collaboration with Takaful International
- Offered special discounts at 30 local merchants for users of Eskan Bank ATM/debit cards
- Completed 2 community projects in Isa Town and Muharraq
- Started construction on 6 new community projects in Hamad Town and Hamala
- Completed partnership with private sector to construct 50 affordable homes at Al Markh near Saar Village
- Appointed contractor for Segaya Plaza affordable residential and commercial project
- Expanded partnerships with private sector financial institutions and property developers
- Signed Memorandum of Understanding with Civil Service Bureau to achieve certification to ISO 9001:2008
- Won e-Government Excellence Award and Best Affordable Housing Initiative 2010 Award
- Signed agreement with Tamkeen for career progression training of junior staff
- Number of Bahrainis employed by Eskan Bank increased to 90% (Group 84%)
- Successfully commissioned new Business Continuity Site to support Business Continuity Plan
- Introduced redesigned website with more information and improved functionality
- Strengthened corporate governance, risk management, and internal controls framework

Net Income
(Million Bahraini Dinars)

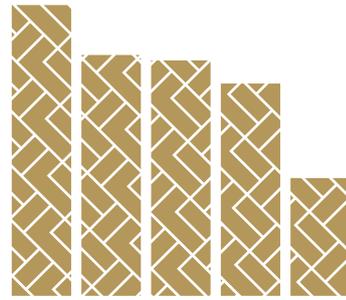
5.4m



2010 2009 2008 2007 2006
5.4 3.5 4.3 7.1 3.6

Operating Income
(Million Bahraini Dinars)

16.3m



2010 2009 2008 2007 2006
16.3 13.5 13.2 11.9 6.6

Total Assets
(Million Bahraini Dinars)

423.5m



2010 2009 2008 2007 2006
423.5 441.0 325.5 284.6 217.5

Total Equity
(Million Bahraini Dinars)

188.0m



2010 2009 2008 2007 2006
188.0 179.7 165.6 158.6 147.9

Return on Equity
Annual%

2.87%



2010 2009 2008 2007 2006
2.87% 1.95% 2.61% 4.47% 2.43%

Earnings per Share
(Bahraini Dinars)

36.00m

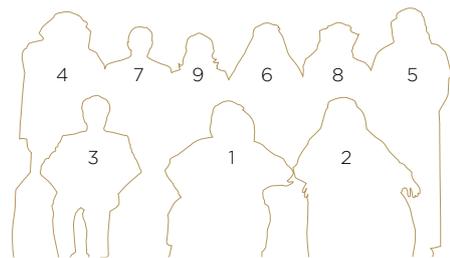


2010 2009 2008 2007 2006
36.00 23.36 28.76 47.29 23.96

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.



1. HE Sh. Ebrahim bin Khalifa Al Khalifa
2. Dr. Anwar Khalifa Alsada
3. Mr. Abdul Razaq Abdulla Alqassim
4. Mr. Nedhal Saleh Alaujan
5. Dr. Ala'a Hasan Alyusuf
6. Prof. Jasim Yusuf Al-Ajmi
7. Dr. Taqi Abdulrasool Al Zeera
8. Mr. Ausama Abdulrahim Alkhaja
9. Mrs. Sabah Khalil Almoayyed



HE Sh. Ebrahim bin Khalifa Al Khalifa

Chairman
Appointed 2007

Dr. Anwar Khalifa Al-Sada

(Independent / Non - Executive)
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 to Islamic Banking.

Mr. Abdul Razaq Abdulla Alqassim

(Independent / Non - Executive)
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: 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 Telecommunication Company (Batelco) and Executive Committee member; Bahrain Stock Exchange and Executive Committee member; Bahrain Duty Free and investment Committee member; Crown Prince International Scholarship Program

Mr. Nedhal Saleh Alaujan

(Independent / Non - Executive)
Member
Appointed 2008

Chief Executive Officer: Bahrain Development Bank.

Chairman: Gulf Diabetes Specialist Centre; Arabian Taxi Company.

Board Member: Bahrain Telecommunication 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. Alaa Hassan Alyusuf

(Independent / Non - Executive)
Member
Appointed 2008

Master & Doctorate degrees in Economics from University of Oxford.

Chief Economist: Gulf Finance House.

Founding Member: Bahrain Competitiveness Council.

Prof. Jasim Yusuf Alajmi

(Independent / Non - Executive)
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 Organization.

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

Dr. Taqi Abdulrasool Al Zeera

(Independent / Non - Executive)
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; UN

IDO; UNDP; UN CTAD; GCC Commercial Arbitration Centre.

Mr. Ausama Abdulrahim Al Khaja

(Independent / Non - Executive)
Member
Appointed 2008

Certificate Public Accounting 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

(Executive Director)
Member
Appointed 2008

Master in Business Administration - Finance 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 "Deltamiu" in USA.



**HE Sh. Ebrahim
bin Khalifa Al Khalifa,**
Chairman

“Eskan Bank’s capital adequacy ratio remained very strong at 97%, while liquidity continued to be healthy with liquid assets representing 17.3% of total assets.”

On behalf of the Board of Directors, I have the privilege to present the annual report and consolidated financial statements of Eskan Bank for the year ended 31 December 2010. Despite the ongoing challenges posed by the aftermath of the global financial crisis, I am pleased to report that the Bank posted a strong performance in 2010. This was highlighted by sound strategic and operational progress; positive financial results; and continued support for the Government’s commitment to provide quality affordable housing and sustainable communities for the citizens of the Kingdom of Bahrain.

While 2010 proved to be another challenging year for the GCC region, Bahrain was successful in weathering the worst of the financial storm. The Government’s prudent economic growth strategy and diversified approach resulted in real GDP growth of just over four per cent, compared with three per cent the previous year. Growth is forecast to reach five per cent in 2011, making Bahrain one of the faster-growing Gulf economies. Throughout the year, we continued to implement the Bank’s five-year strategy that was introduced in 2009. This involves Eskan Bank evolving from an institution for the disbursement of housing loans funded through the annual Government budget, to a more diversified, financially independent, and commercially-oriented banking partner for individuals and businesses.

Central to the Bank’s strategy is our social and community role to contribute to the betterment of society and the quality of life of Bahraini citizens. In this respect, we continued to support the

development of Ebdaa Bank, which provides micro-financing for low-to-middle income Bahrainis unable to secure commercial banking loans, to help them start new businesses and become financially independent. Another example is our establishment of the Building Materials Company (MAWAD), which will introduce new technologies in the building sector for the construction of energy-saving and environmentally-efficient social and affordable housing units.

Naseej, the first fully integrated real-estate and infrastructure development company in the MENA region, in which the Bank holds an investment, was established to act as a catalyst in addressing the need for affordable housing in the Kingdom, and enable more Bahrainis on middle incomes to afford home ownership. To support such initiatives, and develop the Bank’s project funding ability, we launched the BD 30 million Bahrain Property Musharaka Trust in 2010. This will also open up additional opportunities for partnerships with the private sector.

In order to sustain the Bank’s strategic progress, we continued to reinforce our institutional capability during 2010. A number of new initiatives were implemented to improve operational effectiveness and efficiency, and we further strengthened our corporate governance and risk management framework. At the same time, we continued to diversify our products and services to meet the changing needs and growing expectations of our retail customers and corporate clients.

I am pleased to report that Eskan Bank posted a solid financial

BD 278.5 million

Total loans and advances.

performance for 2010. Net income increased by 54.1% to BD 5.4 million, and total equity rose by 4.6% to BD 188 million. Return on equity almost doubled to 2.9%, while the cost-to-income ratio improved from 58.9% to 50.5%. Although there was no deterioration in the Bank's asset quality during the year, we took the prudent decision to make a general loan loss provision of BD 44.9 thousand compared with BD 191 thousand in 2009 in terms of disbursement of mortgages. Eskan Bank's capital adequacy ratio remained very strong at 97.4%, while liquidity continued to be healthy with liquid assets representing 17.3% of total assets.

However, while we aim to continually enhance our profitability and cost-efficiency, we are not driven solely by bottom-line considerations. Our performance is also measured in terms of how we meet our primary strategic role of enabling more low-to-medium-income Bahraini families to own their homes. In this respect, Eskan Bank continued to perform well during 2010, albeit at a slower rate than 2009 in terms of disbursement of mortgages due to a slowdown of activities in the real estate sector, with BD 31 million of home loans being disbursed to more than 2,600 families. At the end of the year, total loans and advances stood at BD 278.5 million, an increase of 7.1% over 2009. Since inception, the Bank has provided mortgages totalling more than BD 573 million to over 44,000 Bahraini families.

Due to our successful achievements during the year, Eskan Bank is more strongly positioned to play its role in supporting Bahrain's 2030

Economic Vision and the associated National Economic Strategy for 2011-2014. We remain committed to working with the Ministry of Housing, other Government stakeholders, and the private sector, to create a sustainable, well-funded mortgage market and provide high quality affordable housing, to enable more citizens to realise the dream of owning their own homes. We enter 2011 with renewed optimism, fully focused on keeping our valued customers at the centre of all our business initiatives. Over the years, we have positioned Eskan Bank to meet the growing needs of our customers, and we firmly believe that our leading market position in the Kingdom, healthy liquidity and time-tested strategy, will enable us to achieve our strategic and business goals.

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; for their wise leadership and visionary reform program.

I take this opportunity to thank our shareholder, the Government of Bahrain, for its confidence and financial support. I also acknowledge the cooperation, professional advice and guidance received from Government 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 Urban Planning, 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 2010, and I look forward to even greater success in 2011.

HE Sh. Ebrahim Bin Khalifa Al Khalifa

Chairman



Sabah K. Almoayyed
Board Member and General
Manager

“Our achievements in 2010 have strengthened the ability of Eskan Bank to continue its contribution to the social and economic development of the Kingdom of Bahrain.”

I am pleased to report that Eskan Bank recorded a solid performance in 2010, despite continued volatile and testing market conditions. The year was highlighted by sound strategic progress, strong financial results, new business initiatives, and significant organisational developments.

Strategic progress

We made excellent progress in implementing the Bank's strategy during 2010. This is based on four key pillars: our social role in building cohesive communities and providing mortgages for Bahrainis seeking affordable housing; expanding our investment banking activities to generate funding for our projects; capitalising on commercial opportunities to enhance our overall capabilities; and encouraging greater participation by the private sector to help us fulfill our goals.

I would like to highlight a number of key achievements that illustrate our strategic progress. Eskan Bank continued to be the leading mortgage lender in the Kingdom of Bahrain in 2010, disbursing 2,630 social housing loans and commercial mortgages with a total value of BD 30.5 million. We completed two new community projects in Isa Town and Muharraq, and launched an additional six community projects in Hamad Town and Hamala; while receipt of the 'Best Affordable Housing Initiative 2010' award at the Middle East Affordable Housing Summit in October provided further endorsement of the Bank's important social role. Another significant development in 2010 was the launch of the Bank's BD 30 million Bahrain Property Musharaka

Trust, which will be used to provide funding for major community-related projects. Also during the year, we continued to progress a number of social and commercial opportunities, and develop our partnerships with private sector financial institutions and real estate developers.

Financial performance

Eskan Bank posted a strong financial performance in 2010. Net income increased by 54% to BD 5.4 million, while total income grew by 21% to BD 16.3 million. These results illustrate the continued diversification of the Bank's revenue streams, with increased contributions from insurance services, project management fees, investments in sukuk, and effective asset liability management, in addition to our core mortgage business. They also reflect the successful implementation of our business goal to evolve Eskan Bank into a more diversified, financially independent, and commercially-oriented banking group, with full commitment to carrying out our social and community role.

Business initiatives

During the year, we placed particular emphasis on enhancing the level of service to our customers. In this respect, we established a new Call Centre, expanded our branch network, introduced new bancassurance products, and finalised plans for the introduction of new e-services in 2011. New innovative business initiatives include the establishment of business centers that can support housing, industrial and agricultural initiatives by small-to-medium enterprises;

54%

Increase of Net Income

and construction of a specialised accommodation complex for medical faculty staff and students to meet growing demand. Also during the year, the Bank's subsidiary, Eskan Properties Company finalised the detailed master plan for the Danaat Hawar tourism project, and expanded the range of services it offers to the real estate sector; while another Eskan Bank subsidiary, the Smart Building Materials Company, finalised plans for the start of operations in 2011.

Organisational developments

During 2010, we continued to build the institutional capability of the Bank. Developments include additional organisational restructuring and further streamlining of operating processes and procedures. We also maintained our substantial investment in human capital and information technology. In addition, we reviewed and updated the Bank's corporate governance and risk management framework to ensure full compliance with new regulatory requirements. As a result, Eskan Bank continued to evolve into a professional, efficient and service-oriented institution, with a performance-related culture that embraces empowerment and teamwork.

Social responsibility

Eskan Bank has an enduring commitment to support the local community and contribute to the development of the Kingdom's banking and financial services sector. In 2010, through our corporate social responsibility programme, we continued to provide financial and practical

support for various charitable, cultural and educational initiatives and organisations. Eskan Bank also sponsored and participated in a number of Government initiatives and industry conferences and exhibitions.

Looking ahead

Our achievements in 2010 have strengthened the ability of Eskan Bank to continue its contribution to the social and economic development of the Kingdom of Bahrain. This is in line with the overall Economic Vision 2030, and more specifically, the strategy of the Ministry of Housing, which includes the objective of reducing the waiting list for social housing to a maximum of five years, and providing more affordable homes for citizens.

As an integral part of the social fabric and economy of Bahrain, we are committed to providing housing solutions and affordable mortgages that will enable more Bahraini citizens to own their own homes and live in cohesive communities. To achieve this goal, our plans for 2011 include intensifying our approaches to private financial institutions and the capital market to meet the future funding needs of the Bank, expanding our private sector partnerships, and supporting the development of our subsidiary and associate companies such as the Smart Building Company and Naseej.

Acknowledgements

In conclusion, I would like to thank our shareholder, the Government of Bahrain, our Chairman and my fellow Directors for their guidance

and support; our business partners for their encouragement and cooperation; our customers for their loyalty and trust; and our management and staff for their commitment and professionalism. Their valuable collective contributions have resulted in another successful year for Eskan Bank.

Sabah K. Almoayyed

Board Member and General
Manager

Business Group

Eskan Bank's commitment to provide customers with a greater choice of products and services, discussions regarding a reciprocal arrangement with another financial institution reached the final stage towards the end of the year.



Retail Banking

During 2010, Eskan Bank continued to grow its retail banking business, albeit at a slower rate than previous years due to general slowdown in Bahrain's real estate sector. The monthly disbursement of social housing loans on behalf of the Ministry of Housing averaged BD 2.2 million compared with BD 2.8 million in 2009, while the Bank's commercial mortgage program - Al Daar - disbursed 102 loans totaling BD 5.1 million in 2010.

A notable achievement during the year was a significant enhancement in customer service and convenience. The Bank merged its social and commercial mortgage loan teams, with Personal Financial Consultants being responsible for the entire product range of social and commercial loans, current accounts, and bancassurance. A new Call Centre - Hala Eskan - was launched and proved to very popular with customers, while the Bank's website was totally redesigned to provide more information with improved functionality. A third branch office was opened at Hamad Town, and the opening time at all branches was extended to six days a week, with longer working hours. A new bancassurance arrangement with Takaful International

was also launched in 2010, with good initial take-up by customers.

As part of the Bank's restructuring during the year, Marketing was combined with Product Development in a new department under the umbrella of Retail Banking to maximise synergies. New initiatives in 2010 included a re-launch of the Current Account to raise awareness in the market, and special discounts made available at over 30 local merchants for users of the Bank's Debit/ATM card. The 'How to Build Your House' booklet, which was first published in 2009, was reprinted during the year due to popular demand. The Bank also introduced a rolling programme of visits targeting employees in Ministries, Government and Semi-government Institutions, with Retail Banking staff being on hand at selected premises for one week to answer queries and market the Bank's services.

In line with the Bank's commitment to provide customers with a greater choice of products and services, discussions regarding a reciprocal arrangement with another financial institution reached the final stage towards the end of the year. The arrangement, which has received final regulatory approval, will enable both



5.4m

Net Income (Million Bahraini Dinars)

2010	2009	2008	2007	2006
5.4	3.5	4.3	7.1	3.6



institutions to play to their respective strengths, and provide a wider choice of products and services to customers. Also planned for 2011 is the introduction of e-Services including Internet banking; the ongoing expansion of customer touch points; and extended bancassurance offerings.

Islamic Financing

During 2010, Eskan Bank continued to meet the growing demand of customers for Sharia-compliant products and services. Following its launch in 2009, the Ijara Muntahiya Be Tamleek is now the preferred choice of mortgage financing, while the Wakala placing and taking Treasury product has proved to be successful in helping to manage the Bank's liquidity.

New products planned for 2011 include current accounts, Mudaraba, Diminishing Musharaka and Istisna'a.

Property Development And Investments

The Bank's property development and investment activities embrace real estate investment, funding, property management, and raising funding to support the construction of affordable houses, and community

and commercial projects. The Bank aims to become a significant player in the property development market through its wholly-owned subsidiary, Eskan Properties Company, in areas related to its core business and in line with Bahrain's Economic Vision 2030.

A key development in 2010 was the establishment of a new fund – the BD 30 million Bahrain Property Musharaka Trust – the first Islamic property Musharaka trust to be approved by the Central Bank of Bahrain. The Fund will be used for developing two mixed-use affordable residential and commercial projects at Segaya and Isa Town. Placement of the Fund began towards the end of the year and is expected to be closed in early 2011. This innovative initiative has laid the foundations for the future growth and development of project funding by the Bank, and will open up new opportunities for partnership with the private sector.

Projects completed during the year included two community projects in Isa Town and Muharraq, with shops and flats for rent, marking the first time that flats have been made available. Under construction are six community projects in Hamad Town and Hamala, which are due to be completed in 2011.

As part of the Bank's restructuring during the year, Marketing was combined with Product Development in a new department under the umbrella of Retail Banking to maximise synergies.

Business Group Continued



Partnerships with the private sector include the construction of 50 affordable houses at Al Markh near Saar Village, in a BD 3.7 million joint venture with Al Saraya Properties Company. The proposed selling price of the properties will be from BD 80,000 to BD 90,000 for middle income earners, and are due to be completed ready for sale in mid-2011. In another joint venture, Eskan Bank is partnering with Seef Properties in the construction of the BD 21 million Saar Shopping Complex.

During 2010, Eskan Bank demonstrated its social commitment to encourage and support its associate Ebdaa Bank through the construction of centres for entrepreneurs and small businesses on the agricultural and industrial fronts. As part of this initiative, the Bank signed a Memorandum of Understanding with the Ministry of Municipalities & Urban Planning to finance the first phase of an Agricultural Incubator at Horrat A'ali. This involves the construction of 16 greenhouses and associated facilities for incubation at an initial development cost of BD 300,000. Eskan Bank is also planning to deliver work in progress for more community projects in various Governorates in the Kingdom of Bahrain located within the Ministry of

Housing's social housing units. The Bank's objective is to support the development of these communities.

Property Management

The Bank currently manages 82 retail outlets through the provision of world class services. By the end of 2011, the number of outlets under its portfolio is expected to double.

Treasury

The Bank's Treasury business continued to perform profitably in 2010. The Wakala Islamic interbank product – involving both placing and taking – was successfully implemented. Eskan Bank extended its counterparty relationships and credit lines, generated increased deposits, and invested excess liquidity in conservative treasury products. Plans for 2011 include the introduction of new products such as Treasury Bills, hedging instruments, forex market arbitrage tools, and the establishment of a bond portfolio.

Eskan Bank is also planning to deliver work in progress for more community projects in various Governorates in the Kingdom of Bahrain located within the Ministry of Housing's social housing units.

Support Group



Operations

During 2010, the Bank continued to monitor targets for improving the turnaround time of the loans process. It also further streamlined its back office processes and procedures to free front office staff from unnecessary administrative tasks, so that they could focus on marketing and customer service activities.

Information Technology

Eskan Bank has invested over BD 1.5 million during the past four years to upgrade its IT infrastructure through a state-of-the-art core banking system, and continues to enhance software capabilities to support expanding business initiatives. The Bank continued to enhance its core banking system during the year. Developments include the introduction of a new staff self-service feature for the HR management system; further automation of Treasury transactional processes; successful commissioning of the Disaster Recovery Site; and internal penetration testing of the Information Security system. Regulatory requirements were also addressed: The Benefit Company e-format cheques for the Bahrain Cheque Truncation System (BCTS); and

compliance with International Bank Account Number (IBAN) regulations.

The Bank also continued its involvement with e-Government initiatives, and focused on expanding its range of e-Services. A feasibility study was conducted, including a scope survey and gap analysis, to identify additional delivery channels including Internet banking. A strategic roadmap and proposal was produced, with the aim to improve e-Business services by the Bank and its subsidiaries. These include plans for the Bank to handle the application process for social loans from the Ministry of Housing. The first phase – customer front-end system and process – was completed; the second phase will involve linking the process to the core banking system. In

2010, Eskan Bank received the 'e-Maturity' award from e-Government for its infrastructure and information security, and extensive use of e-Systems across the organisation.

Financial Control

The Bank maintained its focus during 2010 by continuously supporting the business units, and

BD 21m

construction cost of Saar Shopping Complex

Support Group continued



providing critical and timely information in line with their growth and diversification of business activities. The department is 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 International Financial Reporting Interpretations Committee (“IFRIC”). The department played an active role in budget planning and performance monitoring, and in the Asset Liability Management Committee by providing critical information for decision making.

Internal Audit

During 2010, the Internal Audit department continued to monitor the Bank’s activities, evaluate the adequacy of controls in the Bank and its subsidiaries, ensure compliance with regulatory requirements, and report its findings to the Board’s Audit Committee. The department developed a risk-based plan to prioritise assignments and ensure that all high risk areas are covered, and that proper corrective actions are taken for all opportunities for improvement. Internal Audit is working closely with Risk Management to develop enterprise risk management in order to identify and manage inherent risks, and maintain the residual risks to an acceptable level. In addition, the department actively

participated in providing opinions and advice to other departments, and proposed a number of controls that enhanced internal controls and efficiency throughout the Bank.

Quality Management

Eskan Bank has successfully positioned itself as the leading provider of mortgages in the Kingdom of Bahrain by providing housing solutions and other innovative banking products to its customers. The Bank endeavours to develop new projects and products, strive for higher performance, and exceed the expectations of all stakeholders. To further enhance service standards, Eskan Bank is planning to introduce quality management initiatives, which include certification to the ISO 9001:2008 quality management system. In this respect, the Bank signed a Memorandum of Understanding with the Civil Service Bureau (“CSB”) Quality team. With the guidance of CSB officials, Eskan Bank has completed the mandatory documentation as per ISO standards, and is in the process of selecting a quality certification body in order to obtain ISO 9001:2008 accreditation in 2011.

Human Capital

The success of the Bank’s ongoing strategic and business growth depends upon attracting, developing



2.87%

Return on Equity - Annual %

2010	2009	2008	2007	2006
2.87%	1.95%	2.61%	4.47%	2.43%



and retaining the best people in the industry. Accordingly, during 2010, Eskan Bank continued to place the highest priority on building a world class human capital capability. At the end of the year, the total number of Bahrainis employed by the Bank and its subsidiaries had increased to 84% (90% for Eskan Bank alone), which illustrates the Bank's commitment to provide employment and career opportunities for Bahraini nationals. The Bank is also committed to providing equal opportunities for women, who now comprise over 37% of the management team within the Bank and its subsidiaries (40% for Eskan Bank alone). A number of departments were restructured during the year to meet business needs and improve efficiency, with staff benefiting from job enrichment, enlargement and rotation.

Eskan Bank continued to place the highest priority on ensuring the professional development and personal welfare of its people. The number of staff attending in-house courses increased by 100%, and participation in BIBF programmes grew by 34%. Through an agreement with Tamkeen, 13 junior Bahraini staff from across the Bank and its subsidiaries, took part in a special nine-month career progression training programme; while two graduates attended Power Workshops organised by the Young Arab Leaders Bahrain Chapter. In

addition, special awareness workshops for staff were conducted, covering topics such as Sharia-compliant banking and insurance products, anti-money laundering, corporate governance, customer service and sales. A special current account for staff, featuring no charges for transfers or use of ATM cards, was introduced during the year, resulting in greater confidentiality, speed, and accuracy in the processing of salaries. Enhancement of overall staff benefits will continue in 2011.

A new Human Resource Management System (HRMS), which automates personnel procedures such as payroll administration, leave requests and report generation, was successfully implemented during the year. At the same time, the development of a comprehensive HR Procedures Manual was completed, and progress was made on revising the staff appraisal process as part of the Bank's Employee Performance Management system. These initiatives will help to improve the overall performance of the Human Capital department, and to enhance the level of service provided to its internal customers across the Bank.

Eskan Bank has successfully positioned itself as the leading provider of mortgages in the Kingdom of Bahrain by providing housing solutions and other innovative banking products to its customers.

Subsidiaries and Associates



SUBSIDIARIES

Eskan Properties Company (“EPC”) (Wholly-owned subsidiary of Eskan Bank)

As the Bank’s property development arm, EPC continued to assist the Bank’s investment divisions, subsidiaries and associates during 2010 in developing social, community and commercial projects. At the same time, the EPC actively pursued its mandate to work in partnership with the private sector as well as the Government, across the entire real estate value chain. EPC also expanded its range of services, which covers project assessment, design management and planning, project development management, quantity surveying, sales and marketing, and property and facilities management.

A notable achievement during the year was the completion of a detailed master plan for the Southern Area Development Company for the Danaat Hawar tourism project. This covers an area of over 12 million square metres of sea and land, incorporating a land development area of three million square metres, with an overall project cost of BD 720 million. Also during 2010, EPC appointed a contractor for the Segaya

Plaza mixed-use project; proceeded with tendering for consultancy services for the Isa Town mixed-use project; and commenced the permit process for the Agricultural Incubator project. Additionally, EPC completed two community projects in Isa Town and Muharraq, while six new community projects in Hamad Town and Hamala are currently under construction, and due for completion during 2011.

Southern Tourism Company (STC) (Wholly-owned subsidiary of Eskan Bank)

The sole official provider of transportation of passengers and cargo to the Hawar Islands, STC issued tenders in 2010 to increase its ferry fleet through the acquisition of two new state-of-the-art vessels. A refurbishment programme for STC’s 47 chalets on the Island was completed, together with plans to develop the Al Dur jetty and the surrounding area to provide enhanced passenger amenities and a beach resort for tourists.

A notable achievement during the year was the completion of a detailed master plan for the Southern Area Development Company for the Danaat Hawar tourism project.



Building Materials Company (“SBMC”)

(Wholly-owned subsidiary of Eskan Bank)

Established in 2009, the SBMC finalised its business plan during 2010, with operations planned to start in 2011. This will include construction of a purpose-designed warehousing, assembly and distribution complex. SBMC’s charter is to provide all necessary materials required to manufacture cost-effective and environmentally-efficient social and affordable housing units; and to import a range of building materials such as cement, sand, steel and timber, and finishings such as marble and sanitary ware, and electrical fittings.

ASSOCIATES

Southern Area Development Company (“SADC”)

(28.125% shareholding by Eskan Bank)

SADC is responsible for developing the Hawar islands and surrounding area into a major tourist attraction. Following its extensive renovation, the Golden Tulip Hawar Resort Hotel was successful in attracting an increased number of tourists to the Island during 2010. In addition, a detailed master plan for the Danaat

Hawar tourism project was completed for SADC by an international consortium of consultants managed by EPC, who acted as client representative. Construction of this BD 720 million project will be carried out in three phases over a five-year period, with the first phase - infrastructure - planned to commence in the next three years.

Al Ebdaa Bank (“Ebdaa Bank”)

(20% shareholding by Eskan Bank)

Ebdaa Bank was established in 2009 to provide micro-financing for low-to-middle income Bahrainis unable to secure commercial banking loans, to help them start new businesses and become financially independent. Ebdaa Bank commenced full operations in 2010 and plans to be supporting 5,000 Bahrainis in three years’ time. A founding shareholder of this pioneering initiative, Eskan Bank supports the ongoing development of Ebdaa Bank in an advisory capacity, with human capital, financial and management expertise.

BD 720m

Danaat Hawar tourism project overall project

Risk Management

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

The Management of the Bank continues to accord the highest priority to maintain and improve the ability of the Bank in identifying, measuring, monitoring and controlling these specific risks, and the overall risk profile of the Bank. Further, in accordance with the growth in its business lines, the Bank has continued to evolve, widen and intensify the risk management function to cover not only the traditional areas of social loans, but also 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 been evolved for managing 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 risk appetite and to provide an oversight role in relation to risk; and a Committee structure comprising senior management functionaries to support the management of risk within the Bank. In addition to these management committees, oversight of risk management and controls is provided by the Audit Committee and Risk Committee on behalf of the Board of Directors. During 2010, the Bank continued to review on an ongoing basis, the implementation of Basel II norms; developed new policies; and reviewed a suite of existing policies and procedures to better fit the Bank's risk appetite and comply with the regulator's requirements.

Credit Risk

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

- Independent Functions:

The initial credit decision pertaining to mortgage loans has been distanced from the Customer Service team, by routing the proposals to a specialist Loans Department and 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 that have been documented and approved by the Board of Directors of the Bank. Procedures complementing these, to ensure proper controls have also been formulated, approved and put in place by management.

- Credit Approving Authority:

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

- Prudential Limits:

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

Market 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. However, to cater for emerging business exigencies, a Market Risk Policy has been formulated and approved by the Board. With assets presently being predominantly in the local currency (Bahraini Dinars) and a limited amount in US Dollars, the Bank does not run any significant foreign currency risk.

Liquidity Risk

Liquidity risk is the risk of the Bank being unable to meet its liabilities when payments are due, assessed

under normal and stress conditions. The Bank has instituted comprehensive asset and liability management practices to achieve its objectives of effective liquidity risk management. Daily management of the liquidity position is carried out by the Treasury division, which manages the portfolio of liquid assets and contingency funding plans. The Bank's liquidity risk policy provides for the identification, assessment, control and monitoring of liquidity risk. The liquidity risk is closely monitored on an ongoing basis, with Treasury reporting to Asset & Liability Committee ("ALCO") meetings to monitor and control the liquidity risk encountered by the Bank.

Operational Risk

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

Credit Control & Operational Risk Department

The Department's key objective is to ensure effective monitoring of credit control on collaterals, documentation and monitoring of operational risks. The department reviews related procedures, policies, guidelines and standards to ensure prudent practices in Credit Control, to minimise credit risk and ensure that all collaterals and documentations are accurate and are in place. In 2010, the department continued to make improvements in policies, procedures, guidelines and standards to ensure that prudent practice is followed in the Credit Control Department. The department also monitors operational risks by overseeing the operational risk management process including participating in the Risk Control & Self Assessment ("RCSA") sessions of various departments of the Bank and by ensuring that the Operational Risk tools in place are effective in monitoring and managing the operational risks on an ongoing basis throughout the bank.

Compliance

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

Information Security

The Information Security Department is responsible for overseeing the overall confidentiality, integrity and availability of the Bank's valuable information assets. The department is responsible for monitoring security events, and information risk identification and resolution. The overall coordination of the Bank's Business Continuity Management System is in alignment with international standards and best practices.

Legal Affairs

The Legal Affairs Department is responsible for all legal and judicial matters relating to the Bank. The main objective of the department is to protect the Bank's rights and interests, and to provide legal advice to Senior Management and all departments of Eskan Bank. The department also undertakes the drafting, reviewing and preparation of all legal contracts and agreements, as well as managing the bank's exposure to regulatory and legal risk.

Anti-Money Laundering ("AML")

The Bank's current procedures and guidelines for anti-money laundering and for combating the financing of terrorism ("AML/CFT") conform to the legal and regulatory requirements of the Kingdom of Bahrain. These legal and regulatory requirements reflect the Financial Action Task Force ("FATF") recommendations on Money Laundering and special recommendations on Terrorist Financing.

Eskan Bank's AML/CFT procedures and guidelines apply to all of the Bank's branches and subsidiaries. Systems are in place to ensure that business relationships are commenced with clients whose identity and activities can reasonably be established to be legitimate; to collect and record all relevant client information; to monitor and report suspicious transactions; to provide periodic AML/CFT training to employees; and to review with external auditors the effectiveness of the AML/CFT procedures and controls.

Corporate Governance Report -2010

I. Corporate governance policy

The Board has laid down the Bank's corporate governance policy and framework which are in line the corporate governance code of the Central Bank of Bahrain. The Board also ensures that the Bank's dealings are exercised professionally and in accordance with the applicable laws and regulations of the Kingdom of Bahrain. The Board of Directors has also established the Remuneration, Nomination and Corporate Governance Committee of the Board to oversee effective application of the corporate governance principles within the Bank.

II. Shareholder information

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

- **Shareholders notification**

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

- **Periodic reports**

Annual Financial Statements of Eskan Bank are submitted to the Ministry of Housing, Ministry of Finance, Ministry of Industry and Commerce, National Audit Court, and the Central Bank of Bahrain.

The Bank is committed to applying to the Tenders and Auctions Law to obtain goods and services, and obtain the approval of the Legislation and Legal Opinions Commission on the obligations and contracts entered into by the Bank.

III. Board of Directors information

- **Board composition**

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 Eskan Bank amended by Law No. 75 of 2006. The Board of Directors comprises a majority of directors drawn from leading Bahraini banking and finance professionals, and academics.

The Board currently consists of nine directors, who are appointed for 3 years by virtue of an order from the Council of Ministers by the Prime Minister of the Kingdom of Bahrain. The Minister of Housing is the ex-officio Chairman of the Bank.

- **Board Secretary**

The Board is supported by the Board Secretary who provides professional and administrative support to the Board, Board committees and Board members. The appointment of the Board Secretary is subject to the approval of the Board.

- **Director's roles and responsibilities**

The Board of Directors is responsible for the overall corporate governance of Eskan Bank, which is in line with CBB corporate governance principles ensuring that the Bank is run in an efficient and effective manner. The Board meets regularly throughout the year and maintains full and effective control over strategic, finance, operational, internal control and compliance issues. The Board's remit includes charting the direction of the Bank, setting objectives, formulating strategy, establishing policy guidelines, and appointing the external auditors. The Board is also responsible for monitoring Management and the running of the business according to an agreed framework. The Board is ultimately accountable and responsible for the affairs and performance of the Bank. The Board of Directors in practice has delegated certain duties to the General Manager.

- **Whistle-blowing policy**

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

- **Code of Conduct**

The Board has approved a Code of Conduct for Eskan Bank Directors. The Board has also approved a Code of Ethical Behaviour for the Management and employees. These codes outline areas of conflict of interest, confidentiality, and best practices.

IV. Board Committees

The Board has formed four committees with specific delegated responsibilities: Audit Committee, Executive Committee, Risk Committee, and Remuneration, Nomination & Corporate Governance Committee.

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

Executive Committee

Members:

Mr. AbdulRazaq Abdulla Hasan
Alqassim (Chairperson)
Mr. Ausama Abdulrahim Abdulla Alkhaja
Mr. Nedhal Saleh Khaled Alaujan
Dr. Taqi Abdulrasool Abdulnabi Alzeera
Mrs. Sabah Khalil Ebrahim Almoayyed

Summary terms of reference:

- Five members are appointed by the Board
- The Committee shall meet at least quarterly or as frequently as required to perform its role effectively (actual meetings held in 2010 were five).
- At least 3 directors are required to attend the meetings to ensure a quorum.
- Usually, concerned chiefs, heads and managers are invited to attend the meetings.

Summary of responsibilities:

The role of the committee is to assist the Board in the discharge of its functions. Consequently the committee is empowered to exercise such powers of the Board of Directors as are delegated to it under its terms of reference or from time to time.

Audit Committee

Members:

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

Summary terms of reference:

- Three members are appointed by the Board
- Minimum number of meetings required each year 4, (actual meetings held in 2010 were five).
- At least 2 directors are required to attend the meetings to ensure a quorum.
- Usually, the General Manager and concerned chiefs, heads and managers are invited to attend the meetings. The committee should meet at least twice with the external auditor, out of which one should be in the absence of Bank's executive management

Summary of responsibilities:

The primary function of the committee is to assist the Board in fulfilling its oversight responsibilities by reviewing the Bank's financial information that is provided to the stakeholders, and the internal controls framework established by the Management and the Board of Directors.

Remuneration, Nomination & Corporate Governance Committee

Members:

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

Summary terms of reference:

- Three members are appointed by the Board
- Minimum number of meetings required each year is 3 (actual meeting held in 2010 were five).
- At least 2 directors are required to attend the meetings to ensure a quorum.
- Usually, the General Manager and concerned chiefs, heads and managers are invited to attend the meetings.

Summary of responsibilities:

The purpose of the committee is to recommend human resources policies and procedures for the Bank; assist the Board in reviewing and approving the Bank's policy for the remuneration of employees, directors, Board Committee members, the General Manager and Executive Management; and to follow up the policies, rules, and the best practices of corporate governance. The responsibilities in relation to Corporate Governance were assigned to this committee in late 2010.

Risk Committee**Members:**

Dr. Alaa Hasan Alyusuf (Chairperson)
Mr. Ausama Abdulrahim Alkhaja
Dr. Khalid Abdulla Ateeq (non-voting member)

Summary terms of reference:

- Three members are appointed by the Board.
- Minimum number of meetings required each year four (actual meetings held in 2010 were four).
- At least 2 directors are required to attend the meetings to ensure a quorum.
- Usually, the General Manager, concerned chiefs, heads and managers are invited to attend the meetings.

Summary of responsibilities:

The role of the 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

IV. Board meeting and attendances

The Board of Directors holds at least four meetings during the financial year at the summons of its Chairman. A meeting of the Board of Directors shall be valid if attended by not less than five Directors in person. During 2010, four Board meetings were held in the Kingdom of Bahrain as follows:

- **Board of Directors meetings 2010**

Members	11 Jan	12 May	10 Aug	30 Nov
Sh. Ebrahim bin Khalifa Al Khalifa	✓	✓	✓	✓
Dr. Anwar Khalifa Al Sadah	✓	x	✓	✓
Dr. Alaa Hasan Abdulla Alyusuf	✓	✓	x	✓
Pro. Jasim Yousif Ali Alajmi	✓	✓	✓	✓
Mr. Ausama Abdulrahim Alkhaja	✓	✓	✓	✓
Mrs. Sabah Khalil Ebrahim Al Moayyed	✓	✓	✓	✓
Mr. Abdul Razaq Abdulla Hasan Al Qassim	✓	✓	x	x
Dr. Taqi Abdulrasool Al Zeera	x	✓	✓	✓
Mr. Nedhal Salah Khaled Alaujan	x	✓	x	✓

Corporate Governance Report -2010 continued

- **Board Committee meetings 2010**

- BOD Executive Committee Meetings

Members	12 Apr	28 Jun	30 Sep	17 Oct	28 Nov
Mr. Abdul Razaq Abdulla Hasan Al Qassim	✓	✓	✓	✓	x
Mr. Ausama Abdulrahim Alkhaja	✓	✓	✓	✓	✓
Mrs. Sabah Khalil Al Moayyed	✓	✓	✓	✓	✓
Dr. Taqi Abdulrasool Al Zeera	x	✓	✓	✓	✓
Mr. Nedhal Saleh Al Aujan	x	✓	x	✓	✓

- BOD Audit Committee Meetings

Members	24 Feb	6 May	4 Jul	10 Nov	22 Dec
Dr. Anwar Khalifa Al Sadah	✓	✓	✓	✓	✓
Pro. Jasim Yousif Ali Alajmi	✓	✓	✓	✓	✓
Mr. Waleed Abdulla Rashdan (None voting member)	✓	✓	x	✓	✓

- BOD Remuneration, Nomination & Corporate Governance Committee Meetings

Members	8 Feb	3 Mar	24 Jun	12 Oct	26 Dec
Pro. Jasim Yousif Ali Alajmi	✓	✓	✓	✓	✓
Mr. Nedhal Saleh Al Aujan	✓	x	✓	✓	✓
Mr. Ausama Abdulrahim Alkhaja	✓	✓	✓	✓	✓

- BOD Risk Committee Meetings

Members	10 Mar	23 June	19 Sep	28 Nov
Dr. Alaa Hasan Abdulla Alyusuf	✓	✓	✓	✓
Mr. Ausama Abdulrahim Alkhaja	✓	✓	✓	✓
Dr. Khalid Abdulla Mohamed Ateeq (Independent member)	✓	✓	✓	✓

V. Shari'a Supervisory Board (SSB)

The Shari'a Supervisory Board of the Bank was formed in 2009 by the Bank's Board.

Members	Summary of Responsibilities
Dr. Sh. Abdul Sattar Abu Ghuddah (Chairperson)	The Shari'a Supervisory Board reviews and approves the Islamic business offered by the Bank to ensure that these are compliant with Islamic Shari'a principles.
Sh. Nezam Yacouby (Deputy Chairperson)	
Dr. Sh. Abdul Hussain AL Oraibi (Member)	

VI. Management

The Board has delegated the authority for management of the Bank's 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. The Bank's day-to-day operations are guided by a number of management committees such as Management Committee, Management Risk Committee, Asset & Liability Management Committee, IT Steering Committee, New Product Committee, and Human Capital Committee.

Management Committee	Summary of responsibilities:
Members: GM (Chairperson) Head of Quality Management (Secretary) DGM & Chief Business Officer DGM & Chief Investment Officer Chief Risk Officer Chief Development Officer Head of Group, Human Capital, Administration & Corporate Communications Head of Information Technology & Operations Chief Finance Officer	The role of the Management Committee is to ensure the proper functioning of the business divisions and support functions of the Bank.

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

Corporate Governance Report -2010 continued

Management Risk Committee

Members:

General Manager (Chairperson)
 Chief Risk Officer (Secretary)
 DGM & Chief Business Officer
 DGM & Chief Investment Officer
 Head of Retail Banking
 Senior Manager - Risk Management

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

Summary of responsibilities:

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

Asset & Liability Management Committee (ALCO)

Members:

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

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

Summary of responsibilities:

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

IT Steering Committee

Members:

DGM & Chief Business Officer (Chairperson).
 Head of Information Technology & Operations (Secretary)
 General Manager
 DGM & Chief Investment Officer
 Chief Financial Officer
 Systems Development Senior Manager

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

Summary of responsibilities:

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

New Product Committee	Summary of responsibilities:
<p>Members: DGM & Chief Business Officer (Chairperson) Head of Sales & Marketing (Secretary) Head of Real Estate Investment Head of Information Technology & Operations Manager of Islamic Banking</p> <p>Other attendees or deputies in members' absence may attend as appropriate by invitation from the Chairperson.</p>	<p>The role of the 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.</p>

Human Capital Committee	Summary of responsibilities
<p>Members: Head of Group, Human Capital, Administration & Corporate Communications (Chairperson) Senior Manager - HC (Secretary) General Manager DGM & Chief Business Officer DGM & Chief Investment Officer Head of Information Technology & Operations Head of Retail Banking</p> <p>Other attendees or deputies in members' absence may attend as appropriate by invitation from the Chairperson.</p>	<p>The function of the committee is to provide a forum for consultation and exchange of ideas and decision making, on all matters relating to the planning and management of the Bank's human capital.</p>

VII. Compliance and Anti-money Laundering

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

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

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

Corporate Governance Report -2010 continued

VIII. Communication strategy

The Bank has adopted a communication disclosure policy consistent with CBB requirements.

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

IX. Internal Audit role

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

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

X. Subsidiaries and Associate Companies

Name/Entity	Nationality	Legal Statues	Percentage	Share value
Southern Tourism Company	Bahraini	B.S.C. (close)	100%	BD 250K
Southern Area Development Company	Bahraini	B.S.C. (close)	28.125%	BD 2,250K
Eskan Properties Company	Bahraini	B.S.C. (close)	100%	BD 250K
Eskan RMBS Company	Bahraini	B.S.C. (close)	100%	BD 1000
Ebdaa Bank	Bahraini	B.S.C. (close)	20%	USD 1 million
Smart Building Material Company	Bahraini	S.P.C.	100%	BD 250K
Naseej	Bahraini	B.S.C. (close)	3%	BD 3,27 million
Saar Complex	Bahraini	W.L.L.	45%	BD 9K

Social Responsibility

Eskan Bank has an enduring commitment to contribute to the betterment of the local community, and to play its role in supporting the socio-economic development of the Kingdom of Bahrain.

In 2010, through its corporate social responsibility (CSR) programme, the Bank continued to provide financial and practical support for various charitable, cultural and educational initiatives and events. Particular focus was placed on developing the potential of young Bahrainis, protecting the environment, promoting affordable housing, and encouraging staff to participate in the community. Some examples of Eskan Bank's CSR activities in these areas during the year are listed below.

Developing the potential of young Bahrainis

Two managers from Eskan Bank acted as volunteers for the Injaz Bahrain schools training programme in 2010. Injaz partners with businesses and educators, with the aim of providing students in intermediate and secondary schools with a business-oriented outlook, and the knowledge, skills, tools and hands-on experience to participate in the real world.

Eskan Bank maintained its support for the Ministry of Education's Internships Programme, providing groups of high school students with one week's working experience; and also provided university students with summer internships, across different areas of the Bank.

The Bank's Plan Your Career programme provides careers advice for students about to graduate from the University of Bahrain. Through special roundtable sessions during the year, managers from different parts of the Bank described opportunities in various financial and non-financial disciplines in the banking sector.

Protecting the environment

Through its Paperless Environment Project, Eskan Bank made good progress in 2010 in reducing paper and printer usage across the organisation by a further 15%. Waste paper is recycled and donated to charitable causes.

The Bank supported a number of environment-related initiatives during the year, including participation in the Bahrain International Garden Show and the Green Building Forum.

Promoting affordable housing

Eskan Bank sponsored and participated in a number of major conferences and exhibitions during the year, including the Affordable Housing Summit Middle East, the Bahrain International Property Exhibition (BIPEX), and the Mortgage Summit of the Gulf.

How to Build Your Home – a free booklet published by Eskan Bank – was reprinted in 2010 in response to popular demand.

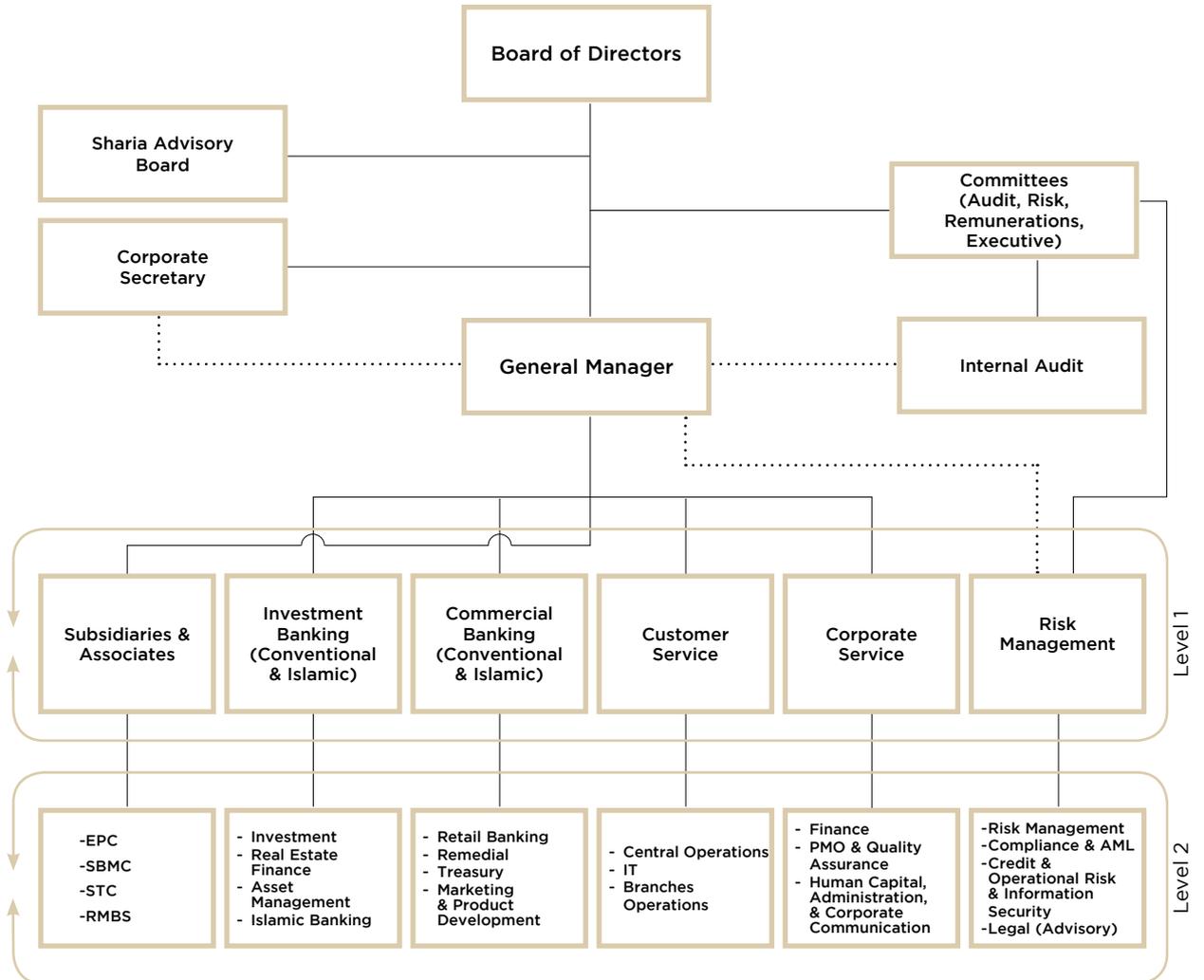
The Bank's efforts in providing affordable housing and helping to build cohesive communities were recognised during the year by receipt of the Best Affordable Housing Initiative 2010 Award at the Affordable Housing Summit Middle East.

Encouraging staff participation in the community

A team comprising Eskan Bank staff took part in a charitable soccer tournament organized by the Rotary Club in aid of diabetic children.

Staff also participated in other community and charitable outreach activities.

Organizational Chart



Management Profile

Mrs Sabah K. Almoayyed

Board Member & General Manager
Joining date: 11/12/2004

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.

Mr Keith Scott

Chief Business Officer – Deputy General Manager
Joining date: 09/09/2007

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

Mr Ebrahim M. Shehab

Chief Investment Officer – Deputy General Manager
Joining date: 14/09/2008

Mr Shehab holds an MBA from the University of Hull, UK; and a BSc in Business Administration from Beirut Arab University.

Mr Fadi Jamali

Chief Development Officer
Joining date: 05/06/2008

Mr Jamali holds an Executive Masters degree (MBA) from Superior School of Business, Beirut, and a State Diploma of Architecture on Urban Planning and design from poly technique School, Algeria.

Mr Ramachandran Chellam

Chief Financial Officer
Joining date: 18/04/2010

Mr Chellam is a Chartered Accountant and also holds a degree in Commerce from the University of Mumbai, India.

Mr Srikanth Sheshadri

Chief Risk Management Officer
Joining date: 10/01/2010

A Chartered Accountant, Mr. Sheshadri holds a degree in Commerce from the University of Mumbai, India.

Dr Naeema Aldosseri

Head of Group Human Capital, Administration & Corporate Communications
Joining date: 11/05/2008

Dr. Aldosseri holds a PhD in Human Resources Management from University of Leicester, UK; and a BSc in Business Administration from the University of Bahrain.

Mr Jamal Qamber

Head of Information Technology
Joining date: 12/11/2005

Mr. Qamber holds a Masters degree in Business Administration from Glamorgan University, UK; and a BSc in Computer Science from the University of Maryland, USA.

Mr Hani Abdulmahdi Nayem

Head of Internal Audit
Joining date: 22/11/2009

A Certified Public Accountant, Mr Nayem holds a BSc in Accounting.

Mr Mohammed Essam Kamour

Head of Legal
Joining date: 24/10/2010

Mr Kamour holds a Masters degree in Law with Merit from the University of Kent, UK; and a BSc in Law from Beirut Arab University.

Consolidated Financial Statement 2010

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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 2010 and the consolidated statements of comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing.

Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error.

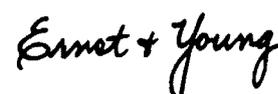
In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2010 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Regulatory Requirements

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the consolidated financial statements, and the contents of the report of the Board of Directors relating to these consolidated financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law, nor of the memorandum and articles of association of the Bank, have occurred during the year ended 31 December 2010 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position and that the Bank has complied with the terms of its banking license.



7th February 2011
Manama, Kingdom of Bahrain

Consolidated Statement of Financial Position

as at 31 December 2010

	Notes	2010	Bahraini dinars 2009
ASSETS			
Cash and cash equivalents	3	73,317,330	110,945,732
Financial investments	4	3,578,971	4,112,117
Loans and advances to customers	5	278,523,505	260,064,654
Investment in associates	6	2,031,380	2,400,902
Investment property	7	57,440,536	55,710,771
Development property		6,603,557	5,049,727
Other assets	8	1,969,889	2,680,190
TOTAL ASSETS		423,465,168	440,964,093
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from financial and other institutions		21,503,032	32,322,118
Government accounts	9	120,082,784	91,119,739
Term loans	10	88,166,667	130,000,000
Other liabilities	11	5,741,438	7,792,371
TOTAL LIABILITIES		235,493,921	261,234,228
EQUITY			
Issued share capital	12	15,000,000	15,000,000
Contribution by shareholder		19,824,588	16,983,509
Statutory reserve		7,761,896	7,761,896
Retained earnings		145,384,763	139,984,460
TOTAL EQUITY		187,971,247	179,729,865
TOTAL LIABILITIES AND EQUITY		423,465,168	440,964,093

The consolidated financial statements were approved by the Board of directors on 7th February 2011 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 attached notes 1 to 24 from part of these consolidated financial statements

Consolidated Statement Of Comprehensive Income

for the year ended 31 December 2010

	Notes	2010	Bahraini dinars 2009
Management charges		9,093,086	8,104,040
Interest income	13	2,569,171	1,766,716
Net fair value (loss) gain on investments carried at fair value through the statement of income		(69,070)	167,562
Income from investment property	14	381,159	316,680
Share of loss of associate		(369,522)	(19,765)
Other income	15	4,650,851	3,135,120
TOTAL INCOME		16,255,675	13,470,353
Staff cost		(3,708,589)	(3,955,283)
Interest expense		(5,246,187)	(3,894,620)
Other expenses	16	(1,855,694)	(1,702,661)
Impairment on loans		(44,902)	(191,012)
Impairment on investment property		-	(222,357)
TOTAL EXPENSES		(10,855,372)	(9,965,933)
PROFIT FOR THE YEAR		5,400,303	3,504,420
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		5,400,303	3,504,420

Consolidated Statement Of Cash Flows

For the year ended 31 December 2010

	Notes	2010	Bahraini dinars 2009
OPERATING ACTIVITIES			
Profit for the year		5,400,303	3,504,420
Adjustments for:			
Net fair value loss (gain) on investment carried at fair value through statement of income		69,070	(167,562)
Share of loss of associate		369,522	19,765
Provision on investment properties		-	222,357
Provision on loans and advances		44,902	191,012
Depreciation		480,160	521,407
Operating profit before working capital changes:		6,363,957	4,291,399
Increase in loans and advances		(18,503,753)	(37,422,609)
Decrease / (increase) in investment properties		108,626	(688,541)
Increase in development properties		(624,754)	(368,509)
Decrease in other assets		432,788	2,278,340
(Decrease) / increase in deposits from financial and other institutions		(10,819,086)	32,322,118
Decrease in other liabilities		(2,050,933)	(671,987)
Remittance of retirement scheme		-	(35,737)
Net cash flows used in operating activities		(25,093,155)	(295,526)
INVESTING ACTIVITIES			
Receipts on redemptions of financial investments		464,076	358,649
Acquisition of financial investments		-	(9,000)
Purchase of equipment		(129,035)	(311,147)
Refund of advance towards financial investments		-	1,727,272
Net cash flows from investing activities		335,041	1,765,774
FINANCING ACTIVITIES			
Proceeds from term loan		-	58,333,333
Repayment of term loan		(41,833,333)	(8,333,333)
Net movement in Government accounts		28,963,045	19,641,454
Net cash flows (used in) from financing activities		(12,870,288)	69,641,454
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(37,628,402)	71,111,702
Cash and cash equivalents at 1 January		110,945,732	39,834,030
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		73,317,330	110,945,732
Cash and cash equivalents comprise:			
Cash and bank balances		5,692,005	1,889,451
Placements with Banks		67,625,325	109,056,281
		73,317,330	110,945,732

The attached notes 1 to 24 from part of these consolidated financial statements.

Consolidated Statement Of Changes In Equity

For the year ended 31 December 2010

Bahraini dinars

	Share Capital	Contribution by Shareholder	Statutory Reserve	Reserve for Retirement Scheme	Retained Earnings	Total Equity
At 1 January 2010	15,000,000	16,983,509	7,761,896	-	139,984,460	179,729,865
Transfer of land (note 7)	-	2,841,079	-	-	-	2,841,079
Total comprehensive income	-	-	-	-	5,400,303	5,400,303
At 31 December 2010	15,000,000	19,824,588	7,761,896	-	145,384,763	187,971,247
At 1 January 2009	15,000,000	6,287,173	7,761,896	35,737	136,480,040	165,564,846
Transfer of land (note 7)	-	10,696,336	-	-	-	10,696,336
Total comprehensive income	-	-	-	-	3,504,420	3,504,420
Remittance of retirement scheme	-	-	-	(35,737)	-	(35,737)
At 31 December 2009	15,000,000	16,983,509	7,761,896	-	139,984,460	179,729,865

The attached notes 1 to 24 from part of these consolidated financial statements.

Notes To The Consolidated Financial Statements

1. STATUS AND OPERATIONS

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

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

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of investment securities. The consolidated financial statements are presented in Bahraini Dinars, this being the functional currency of the Group's operations.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), and are in conformity with the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law.

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in note 22.

Basis of consolidation

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

Subsidiaries are fully consolidated from the date on which the control is transferred to the Group. Control is achieved where the Group has the power, directly or indirectly, to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date of acquisition up to the date of disposal or up to when control ceases to exist, as appropriate.

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

Subsidiary	Ownership	Year of incorporation/ acquisition	Country of incorporation/ acquisition
Southern Tourism Company B.S.C.(c) ("STC") STC's principal activities are providing transportation to and from, and accommodation facilities, at the Hawar Islands.	100%	2000	Kingdom of Bahrain
Eskan RMBS Company B.S.C.(c) ("RMBS") RMBS's principal activities are to issue Asset Backed private debt securities for the purpose of securitization of housing loans.	100%	2007	Kingdom of Bahrain
Eskan Properties Company B.S.C.(c) ("EPC") EPC's principal activities are managing certain investment properties.	100%	2007	Kingdom of Bahrain
Smart Building Materials (SPC) Smart Building Materials (SPC) principal activities are to create the entire value chain to manufacture cost-effective, environmentally efficient homes for the less advantaged.	100%	2009	Kingdom of Bahrain

2.2 Significant accounting judgments and estimates

In the process of applying the Bank's accounting policies, management has exercised judgment and estimates in determining the amounts recognized in the financial statements. The most significant uses of judgment and estimates are as follows:

Going concern

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility for discount rates.

Fair value is determined for each investment individually in accordance with the valuation policies set out below:

For investments that are actively traded in organized financial markets, fair value is determined by reference to the quoted market price prevailing on the consolidated statement of financial position date.

For unquoted investments, fair value is determined by reference to recent arm's length market transactions; current fair value of another instrument that is substantially the same; and other valuation models.

For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for investments with similar terms and risk characteristics.

Investments in funds, unit trusts, or similar investment entities are carried at the latest net asset valuation provided by the fund administrator.

Impairment losses on loans and advances

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

2.3 Changes in accounting policies

The accounting policies adopted are consistent with those used in the previous financial year except that the Bank has adopted the following standards and interpretations in 2010:

IFRS 2 Share-based payments (Revised) - Cash settled share based transactions

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The adoption of this amendment did not have any impact on the financial position of the Group.

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)

IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, for future business combinations, the reported results in the period that an acquisition occurs and future reported results. IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. The changes by IFRS 3 (Revised) and IAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. The change in accounting policy was applied prospectively.

Notes To The Consolidated Financial Statements (continued)

2. ACCOUNTING POLICIES (continued)

IFRIC 17 Distributions of non-cash assets to owners

This interpretation explains how the non-cash dividends distributed to the shareholders should be measured. A dividend obligation is recognized when the dividend was authorized by the appropriate entity and is no longer at the discretion of the entity. This dividend obligation should be recognized at the fair value of the net assets to be distributed. The difference between the dividend paid and the amount carried forward of the net assets distributed should be recognized in profit and loss. IFRIC 17 was issued in November 2008 and its adoption is effective for financial years beginning on or after 1 July 2009. The adoption of this interpretation did not have any impact on the financial position of the Group.

2.4 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below:

Foreign currency translation

The consolidated financial statements are presented in Bahraini Dinars («BD»). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency at the rate of exchange prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange prevailing at the consolidated statement of financial position date. All differences are taken to 'Other income' or 'Other operating expenses' in the consolidated statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on non-monetary items held at fair value through profit or loss are recognized as part of fair value gains or loss.

Financial instruments – initial recognition and subsequent measurement

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of cash and cash equivalents, investments, loans and advances and receivables.

Financial liabilities consist of deposits from financial and other institutions, Government account, term loans and other liabilities.

Date of recognition

All financial assets and liabilities are initially recognized on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through statement of income, any directly attributable incremental costs of acquisition or issue.

Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, non-restricted balances held with the Central Bank and placement with financial institutions with original maturities of less than three months.

Placements with financial institutions and others

Placement with financial institutions and others are stated at amortized cost less provision for impairment, if any.

Loans and advances

Loans and advances are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans comprise of Social housing loans and Commercial housing loans. The Group recognizes 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. Whereas Commercial housing loans represents loans disbursed to the Bahraini nationals in the ordinary course of business.

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

Investments

Investments are initially recognized at fair value, and are classified as either «carried at fair value through statement of income» or «available for sale».

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

Investments carried at fair value through statement of income

Investments are classified as “carried at fair value through statement of income” if they are designated on the date of acquisition (i.e. initial recognition) as carried at fair value through statement of income.

Investments classified as “carried at fair value through statement of income” are subsequently remeasured at fair value. The unrealized gains and losses arising from the remeasurement to fair value are included in the consolidated statement of comprehensive income as «Net fair value gain (loss) on investments carried at fair value through statement of income».

Available for sale investments

Investments are classified as “available for sale” if they are not classified as carried at fair value through statement of income and mainly comprise of investments in unquoted equity securities.

The Bank has not designated any loans and advances or receivables as available-for-sale.

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

Government Accounts

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

Deposits from financial and other institutions and Term loans

These financial liabilities are carried at amortized cost, less amounts repaid.

De-recognition of financial instruments

Financial assets

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

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

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

Financial liabilities

A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired. The difference in between the carrying value of the original financial liability and the consideration paid is recognized in profit or loss.

Impairment of financial assets

The Group assesses at each statement of financial position date whether there is an objective evidence that a specific financial asset or a group of financial assets may be impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred “loss event”) and that the loss event(s) have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Notes To The Consolidated Financial Statements (continued)

2. ACCOUNTING POLICIES (continued)

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganization, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized 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 reorganization, 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 recognized in «Impairment on loans» in the consolidated statement of comprehensive income.

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

Available for sale investments

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

Impairment of non financial assets

The Group assesses at each reporting date if events or changes in circumstances indicate that the carrying value of a non financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

Offsetting of financial instruments

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

Recognition of income and expense**Income recognition**

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

Management charges and Interest income

Management charges on Social loans and interest income on Commercial loans is recognized using the effective interest rate method.

Rental income

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

Other income

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

Dividend income

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

Expense recognition

Expenses are recognized on the following basis:

Employees' end of service benefits

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

Taxation

There is no tax on corporate income in the Kingdom of Bahrain.

Investments in associates

The Bank's investments in associates are accounted for using the equity method of accounting. An associate is an entity in which the Bank has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in an associate is carried in the statement of financial position at cost plus post acquisition changes in the Bank's share of the net assets of the associate. Losses in excess of the cost of the investment in an associate are recognized when the Bank has incurred obligations on its behalf. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. The statement of comprehensive income reflects the Bank's share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Bank recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of comprehensive income. Profits and losses resulting from transactions between the Bank and the associate are eliminated to the extent of the interest in the associate.

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

The reporting dates of the associates and the Bank are identical and the associates' accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

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 realizable value.

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, including transaction costs, less accumulated depreciation and any impairment losses. Depreciation is calculated on cost by the straight-line method at annual rates. No depreciation is charged on freehold land. Expenditure subsequent to initial recognition is capitalized only when it increases future economic benefits embodied in the property. All other expenditure is recognized in the consolidated statement of comprehensive income as an expense when incurred.

Notes To The Consolidated Financial Statements (continued)

2. ACCOUNTING POLICIES (continued)

Premises and equipment

Premises and equipment includes computers, office equipment, fixtures and fittings and vehicles. Premises and equipment are recorded at cost less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing and amortization period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to write down the cost of premises and equipment and investment property to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

Buildings	15 years
Computer hardware	4 years
Other furniture and equipment	5 years
Investment Property	15 years

Premises and equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the different between the net disposal proceeds and the carrying amount of the asset) is recognized in 'other income' in the consolidated statement of comprehensive income in the year the asset is derecognized.

Other provisions

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

Contingent liabilities and contingent assets

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

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

Statutory Reserve

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

Reserve for Voluntary Retirement Scheme

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

Standards issued but not yet effective

The following standards have been issued by the International Accounting Standards Board ("IASB") but are not yet mandatory for these consolidated financial statements:

IAS 24 Related Party Disclosure (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Bank does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or the entire standard.

IFRS 9 Financial Instruments Part 1: Classification and measurement

IFRS 9 was issued by IASB in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. As per IFRS 9, financial assets are required to be classified into two measurement categories: a) measured subsequently at fair value; and b) measured subsequently at amortized cost. An instrument is subsequently measured at amortized cost only if it is a debt instrument. 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 the statement of income. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealized and realized

fair value gains and losses through the statement of comprehensive income rather than the statement of income. There is to be no recycling of fair value gains and losses to statement of income.

Adoption of IFRS 9 is mandatory from 1 January 2013, but earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Improvements to IFRSs (issued in May 2010)

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual period on or after either 1 July 2010 or 1 January 2011. The amendments are listed below:

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements
- IFRIC 13 Customer Loyalty Programmes

The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

3. CASH AND CASH EQUIVALENTS

	Bahraini dinars	
	2010	2009
Cash and bank balances		
Cash	152,505	91,633
Balances with banks	1,388,147	1,394,463
Balances with the Central Bank of Bahrain	4,151,353	403,355
	5,692,005	1,889,451
Short term placements (within 3 months)		
Placement with banks and other institutions	44,385,325	69,313,281
Placement with Central Bank of Bahrain	23,240,000	39,743,000
	67,625,325	109,056,281
	73,317,330	110,945,732

4 FINANCIAL INVESTMENTS

	Bahraini dinars	
	2010	2009
Investments designated at fair value through the statement of income		
At 1 January	570,845	761,932
Repayment of capital	(464,076)	(358,649)
Fair value changes	(69,070)	167,562
At 31 December	37,699	570,845
Available for sale investments		
At 1 January	3,541,272	268,544
Additions	-	3,272,728
At 31 December	3,541,272	3,541,272
TOTAL	3,578,971	4,112,117

Notes To The Consolidated Financial Statements (continued)

5 LOANS

	2010	2009
Bahraini dinars		
(i) Social loans		
Loans (net off reductions and waivers written off)	269,958,374	254,709,236
Less: Provisions for 50% subsidy under Amiri Decree No. 18/1977 [b]	(14,790,391)	(13,554,758)
	255,167,983	241,154,478
(ii) Commercial loans		
Gross Loans	23,591,436	19,101,188
Less: collective provision for impairment	(235,914)	(191,012)
	23,355,522	18,910,176
TOTAL LOANS	278,523,505	260,064,654

a) Age analysis of past due but not impaired loans and advances

	2010				
	Up to 30 days	31 to 60 days	61 to 91 days	Above 91 days	Total
Social loans	25,539,582	6,993,551	3,571,092	14,762,538	50,866,763
Commercial loans	4,164,118	580,347	154,479	-	4,898,944
	29,703,700	7,573,898	3,725,571	14,762,538	55,765,707

	2009				
	Up to 30 days	31 to 60 days	61 to 91 days	Above 91 days	Total
Social loans	22,118,344	8,717,458	5,640,697	14,943,534	51,420,033
Commercial loans	9,739,325	866,142	-	-	10,605,467
	31,857,669	9,583,600	5,640,697	14,943,534	62,025,500

None of the above past due loans are considered to be impaired and the credit risk of social loans is not with the Bank.

b) Collective impairment provision for Commercial loans

	2010	2009
Bahraini dinars		
At 1 January	191,012	-
Charge for the year	44,902	191,012
At 31 December	235,914	191,012

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 installments with effect from 1 May 1992, and subsequently restricted to loans granted prior to 31 December 1998.
- (ii) On 16 December 2000, an additional reduction of 25% («2000 Reduction») was granted on monthly installments for 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 installments 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 installments 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.

6 INVESTMENT IN ASSOCIATES

	Bahraini dinars	
	2010	2009
At 1 January	2,400,902	2,034,667
Acquisitions	-	386,000
Share of loss	(369,522)	(19,765)
At 31 December	2,031,380	2,400,902

The principal associates of the Group are:

Name	Country of Incorporation	Bahraini dinars	
		2010	2009
Southern Area Development Company	Kingdom of Bahrain	1,704,421	2,014,902
Ebdaa Bank	Kingdom of Bahrain	317,959	377,000
Saar Complex Company	Kingdom of Bahrain	9,000	9,000
		2,031,380	2,400,902

	Bahraini dinars	
	2010	2009
Summarized financial information of associates		
Total assets	9,528,223	7,179,604
Total liabilities	1,287,238	27,289
Total revenues	901,013	15,124
Total net loss	(701,850)	(70,277)

The Group has no share of any contingent liabilities or capital commitments, as at 31 December 2010 and 2009 related to its associates.

Notes To The Consolidated Financial Statements (continued)

7 INVESTMENT PROPERTY

	Bahraini dinars	
	2010	2009
Opening balance at beginning of the year	55,710,771	46,814,446
Additions during the year	2,841,079	10,696,337
Transferred to development property	(1,070,331)	(2,266,195)
Transferred from development property	141,702	737,958
Depreciation charge for the year	(73,612)	(49,418)
Others	(109,073)	-
	57,440,536	55,933,128
Less: Impairment allowance	-	(222,357)
At 31 December	57,440,536	55,710,771
Land at Sanabis	1,339,973	1,339,973
Land at Bander Al-Seef	37,509,907	37,509,907
Land at Muharaq	23,519	55,004
Land at Seqaya	3,208,499	3,208,499
Land at Hamad town	2,127,827	2,234,625
Land at Hamala	-	29,612
Land at Isa town	5,933,056	6,094,694
Land at Gudaibya	47,899	47,899
Land at Jaw	1,938,783	1,938,783
Land at Saar	1,903,251	1,903,251
Land at Riffa	893,084	-
Land at Dimistan	41,673	-
Land at Karzakan	36,167	-
Land at Busayteen	628,000	-
Shops (accumulated depreciation BD 201,415 (2009 BD 127,803))	1,898,195	1,570,881
	57,529,833	55,933,128
Impairment allowance	(89,297)	(222,357)
	57,440,536	55,710,771

The fair value of investment properties, based on independent market valuation, as at 31 December 2010 was BD 421,255,000 (2009: BD 448,576,559). During the year, lands with fair value of BD 2,841,079 (2009: BD 10,696,336) were transferred to the Bank by the Government and accordingly has been treated as additional contribution by a shareholder.

8 OTHER ASSETS

	Bahraini dinars	
	2010	2009
Equipment and other assets (net book value)	889,546	1,294,437
Staff loans	118,658	155,651
Management fee receivable	589,755	662,295
Prepayments and advances	187,914	186,326
Other receivables	184,016	381,481
	1,969,889	2,680,190

9 GOVERNMENT ACCOUNTS

	2010	Bahraini dinars 2009
Due to Ministry of Finance	186,916,421	150,759,715
Due from Ministry of Housing	(66,833,637)	(59,639,976)
	120,082,784	91,119,739

10 TERM LOANS

	2010	Bahraini dinars 2009
Syndicated Bank Term Loan	66,666,667	100,000,000
RMBS Bonds	21,500,000	30,000,000
At 31 December	88,166,667	130,000,000

Syndicated term loan bears interest repayable biannually at BIBOR plus margin of 2.75%. The interest cost is reimbursed by the MOH. The Syndicated term loan, repayable in December 2012, is secured against the assets of the Bank.

The RMBS Bonds bear interest repayable biannually at BIBOR+1.17%. The RMBS Bonds, repayable in October 2017 are secured against certain housing loans issued by the Bank.

	2010	Bahraini dinars 2009
Term loans maturing in less than 1 year	33,333,333	41,833,333
Term loans maturing in more than 1 year	54,833,334	88,166,667
	88,166,667	130,000,000

11 OTHER LIABILITIES

	2010	Bahraini dinars 2009
Employees benefit	165,044	118,013
Accrued interest payable on term loans	182,155	2,105,700
Accrued expenses	1,776,675	1,898,531
Contractor retentions	64,698	230,990
Employee savings scheme	323,926	212,695
Current accounts	1,643,817	1,823,152
Other liabilities	1,585,123	1,403,290
	5,741,438	7,792,371

Notes To The Consolidated Financial Statements (continued)

12 SHARE CAPITAL

	2010	Bahraini dinars 2009
Authorized 400,000 ordinary shares of BD100 each	40,000,000	40,000,000
Issued and fully paid up 150,000 ordinary shares of BD100 each	15,000,000	15,000,000

13 INTEREST INCOME

	2010	Bahraini dinars 2009
Interest income on Commercial loans	1,932,541	1,337,436
Interest income on placements with financial and other institutions	636,630	429,280
	2,569,171	1,766,716

14 INCOME FROM INVESTMENT PROPERTY

	2010	Bahraini dinars 2009
Realized gain on sale of investment property	207,753	188,267
Rental income	173,406	128,413
	381,159	316,680

15 OTHER INCOME

	2010	Bahraini dinars 2009
Interest reimbursed by the Government of Bahrain	4,183,857	2,703,830
Miscellaneous income	466,994	431,290
	4,650,851	3,135,120

16 OTHER EXPENSES

	2010	Bahraini dinars 2009
Computer maintenance	161,931	120,842
Depreciation	480,160	521,407
Electricity	27,981	47,377
Legal and professional	252,383	228,550
Marketing cost	117,486	127,208
Premises	231,841	260,741
Transportation and communication	156,139	121,299
Others	427,773	275,237
	1,855,694	1,702,661

17 COMMITMENTS AND CONTINGENCIES

	2010	Bahraini dinars 2009
Housing loan commitments approved by MOH	74,772,370	48,457,868
Commitment to invest	-	1,727,272
Lease commitments within one year	82,510	210,778
Lease commitments above one year	-	82,510
	74,854,880	50,478,428

The Bank has filed cases against certain 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 (2009: BD 322,988).

18 RELATED PARTY TRANSACTIONS

Related parties comprise the MOF, the MOH, directors, senior management personnel of the Group, close members of their families and entities owned or controlled by them and the Group's associates. Pricing policies and terms of the transactions relating to these related parties are approved by management. The amounts due to and from related parties are settled in the normal course of business.

The Bank's transaction with related parties is transactions with MOF and MOH and transactions with the associate in the ordinary course of business. Balance with Government and investment in an associate are disclosed on the face of the Consolidated Statement of Financial Position.

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

	2010	Bahraini dinars 2009
Short term employee benefits	787,491	842,937
Long term employee benefits	39,940	35,529

19 FAIR VALUE OF FINANCIAL INSTRUMENTS**Financial instruments**

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction.

Fair value of quoted securities are derived from quoted market prices in active markets, if available. In case of unquoted securities, the fair value is estimated using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

The fair values of unlisted funds are based on net asset values which are determined by the fund manager using the quoted market prices of the underlying assets, if available, or other acceptable methods such as a recent price paid by another investor or the market value of a comparable company.

The fair values of other financial instruments on the statement of financial position instruments are not significantly different from the carrying values included in the consolidated financial statements.

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

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

Notes To The Consolidated Financial Statements (continued)

19 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Bahraini dinars			
	Level 1	Level 2	Level 3	Total
At 31 December 2010				
Investments carried at fair value through statement of income	-	37,699	-	37,699
Investments designated as available for sale	-	3,541,272	-	3,541,272
	-	3,578,971	-	3,578,971

	Bahraini dinars			
	Level 1	Level 2	Level 3	Total
At 31 December 2009				
Investments carried at fair value through statement of income	-	570,845	-	570,845
Investments designated as available for sale	-	3,541,272	-	3,541,272
	-	4,112,117	-	4,112,117

Transfers between level 1, level 2 and level 3

None of the financial assets were transferred from level 1 to level 2 or level 1 and level 2 to level 3 during the year ended 31 December 2010.

The fair values of other on-balance sheet financial instruments are not significantly different from the carrying values included in the consolidated financial statements.

20 RISK MANAGEMENT

Overview

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

Risk management framework

Board of Directors

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

Board 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 or operational risks. The committee also periodically reviews the risk management policies and strategies.

Management Risk Committee

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

Risk Management Department

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

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

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

Audit Committee

The Audit Committee is appointed by the Board of Directors and consists of two non-executive independent Board members and one independent non-voting member. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting and risk management, the audit thereof, the soundness of the internal controls of the Group, the measurement system of risk assessment relating to the Group's capital.

Internal Audit

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

Treasury

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

Risk Measurement

The Group uses standardized approach to measure its Credit risk and Market risk and the Basic Indicator approach for Operational risk. In addition, the Group also applies various stress testing methodologies to assess its Credit, Liquidity, Interest rate and Market risk.

Risk Mitigation

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

Concentration risk

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

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 and advances, balances and placements with financial institutions and 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. There is no credit risk to the Bank arising out of these loans. Losses, if any, arising from the impairment of such loans can be claimed from the Government. Consequently these loans attract zero risk weight. The Bank monitors the sanctioned housing loans regularly, non performing loans are aggressively pursued by the Bank and are written-off based on ministerial order. The housing loans under Ministry's Housing Loan Program as at 31 December 2010 is BD255,167,983 (2009: BD241,154,478).

Other loans

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

Maximum exposure to credit risk

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

Notes To The Consolidated Financial Statements (continued)

20 RISK MANAGEMENT (continued)

	Gross maximum exposure 2010	Gross maximum exposure 2009
Balances and placements with Financial Institutions	73,164,825	110,854,098
Loans and advances - Commercial loans	23,591,436	19,101,188
Other receivables	1,058,432	1,332,647
	97,814,693	131,287,933

The credit risk of social loans is not with the Bank.

There were no renegotiated loans and advances during either the year ended 31 December 2010 or 31 December 2009.

Risk concentration of the maximum exposure to credit risk

The maximum credit exposure to any client, or counterparty, or group of closely related counterparties as of 31 December 2010 was BD 27,331,480 (2009: BD 40,063,867).

Collateral

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

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

The Group did not take possession of any collateral as a result of a default during either the year ended 31 December 2010 or 31 December 2009.

Credit quality per class of financial assets

The Group does not currently apply a standard credit rating. However, the management considers the credit quality of the Group's financial assets to be of standard quality as at 31 December 2010. Following is an analysis of credit quality by class of financial assets:

	Neither past due nor impaired	Past due but not impaired	Individually impaired	31 December 2010
Balances and placements with Financial Institutions	73,164,825	-	-	73,164,825
Loans and advances - Commercial loans	18,692,493	4,898,943	-	23,591,436
Other receivables	1,058,432	-	-	1,058,432
	92,915,750	4,898,943	-	97,814,693

	Neither past due nor impaired	Past due but not impaired	Individually impaired	31 December 2009
Balances and placements with Financial Institutions	110,854,098	-	-	110,854,098
Loans and advances - Commercial loans	8,495,721	10,605,467	-	19,101,188
Other receivables	1,332,647	-	-	1,332,647
	120,682,466	10,605,467	-	131,287,933

The credit risk of social loans is not with the Bank.

b) Market risk

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

Management of market risks

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

Interest rate risk

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

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

	31 December 2010 BD	Changes in basis points (+/-)	Effect on net profit (+/-)
ASSETS			
Balances and placements with Financial Institutions	73,164,825	100	731,648
Loans and advances - Commercial loans	23,591,437	100	235,914
LIABILITIES			
Deposits from financial and other institutions	21,503,032	100	(215,030)
Term loans	21,500,000	100	(215,000)
TOTAL			537,532

	31 December 2009 BD	Changes in basis points (+/-)	Effect on net profit (+/-)
At 31 December 2009			
ASSETS			
Balances and placements with Financial Institutions	110,854,098	100	1,108,541
Loans and advances - Commercial loans	19,101,188	100	191,012
LIABILITIES			
Deposits from financial and other institutions	21,503,032	100	(215,030)
Term loans	30,000,000	100	(300,000)
TOTAL			784,523

Currency risk

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

Notes To The Consolidated Financial Statements (continued)

20 RISK MANAGEMENT (continued)

Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of adverse changes in the levels of equity prices and the value of individual stocks. Equity price risk arises from the Group's investment portfolio. The Group conducts investment activity in unquoted private equity entities. The Group manages this risk through diversification of its investments in terms of geographical distribution and industry concentration by arranging representation on the Board of Directors within the investee company, wherever possible and by frequent monitoring via Risk Management.

The effect on equity and income (as a result of a change in the fair value of equity instruments at 31 December 2010) due to a reasonable possible change (i.e. +/-15%) in the value of individual investments, with all other variables held constant, is BD 531,190 and BD 5,655, respectively (2009: BD 531,190 and BD 85,626 respectively). The effect of decrease in the value of individual investments is expected to be equal and opposite to the effect of an increase.

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties prepay or request repayment earlier than expected. The Group is not exposed to any significant prepayment risk.

c) Liquidity Risk

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

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

Analysis of liabilities

The table below summarizes the maturity profile of the Group's financial liabilities as at 31 December 2010 and 31 December 2009 based on contractual undiscounted repayment obligations.

	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
At 31 December 2010				
Deposits from financial and other institutions	21,520,340	-	-	21,520,340
Term loans	-	36,443,681	58,140,229	94,583,910
TOTAL	21,520,340	36,443,681	58,140,229	116,104,250
At 31 December 2009				
Deposits from financial and other institutions	32,322,118	-	-	32,322,118
Term loans	1,927,086	47,261,639	95,297,146	144,485,871
TOTAL	34,249,204	47,261,639	95,297,146	176,807,989

d) Operational risk

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

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.

The fair values of financial instruments as of the consolidated statement of financial position date, other than those stated at amortized cost, approximates to their carrying values.

21 CAPITAL MANAGEMENT

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

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

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

	2010	Bahraini dinars 2009
Tier 1 capital	187,744,628	179,260,903
Tier 2 capital	-	-
Total regulatory capital (A)	187,744,628	179,260,903
Total Risk-weighted exposure (B)	192,863,171	180,153,390
Capital adequacy ratio (A/B)	97.35%	99.50%

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

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.

22 MATURITY PROFILE OF ASSETS AND LIABILITIES

Maturities of assets and liabilities have been determined on the basis of remaining period, at the statement of financial position date, to the contractual maturity date. The maturity profile of the assets and liabilities was as follows:

	Less than 12 months	Over 12 Months	Bahraini dinars Total
At 31 December 2010			
ASSETS			
Cash and cash equivalents	73,317,330	-	73,317,330
Financial investments	-	3,578,971	3,578,971
Loans and advances to customers	12,361,412	266,162,093	278,523,505
Investment in associates	-	2,031,380	2,031,380
Investment property	-	57,440,536	57,440,536
Development property	-	6,603,557	6,603,557
Other assets	1,293,246	676,643	1,969,889
	86,971,988	336,493,180	423,465,168
LIABILITIES			
Deposits from financial and other institutions	21,503,032	-	21,503,032
Government accounts	-	120,082,784	120,082,784
Term loans	33,333,333	54,833,334	88,166,667
Other liabilities	4,708,784	1,032,654	5,741,438
	59,545,149	175,948,772	235,493,921
NET LIQUIDITY SURPLUS (GAP)	27,426,839	160,544,408	187,971,247

Notes To The Consolidated Financial Statements (continued)

22 MATURITY PROFILE OF ASSETS AND LIABILITIES (continued)

	Bahraini dinars		
	Less than 12 months	Over 12 Months	Total
At 31 December 2009			
ASSETS			
Cash and cash equivalents	110,945,732	-	110,945,732
Financial investments	-	4,112,117	4,112,117
Loans and advances to customers	11,074,900	248,989,754	260,064,654
Investment in associates	-	2,400,902	2,400,902
Investment property	-	55,710,771	55,710,771
Development property	-	5,049,727	5,049,727
Other assets	1,281,460	1,398,730	2,680,190
	123,302,092	317,662,001	440,964,093
LIABILITIES			
Deposits from financial and other institutions	32,322,118	-	32,322,118
Government accounts	-	91,119,739	91,119,739
Term loans	41,833,333	88,166,667	130,000,000
Other liabilities	6,290,850	1,501,521	7,792,371
	80,446,301	180,787,927	261,234,228
NET LIQUIDITY SURPLUS (GAP)	42,855,791	136,874,074	179,729,865

23 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.

24 COMPARATIVES

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

Pillar- III Disclosures

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Pillar- III Disclosures

31st December, 2010

1 Introduction

The Central Bank of Bahrain's ("the CBB") Basel 2 guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1st January 2008. 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 2010, 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, together with its subsidiaries ("the Group"). The Bank operates under a Restricted Banking License issued by the CBB. The Bank is wholly owned by the Government of the Kingdom of Bahrain.

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 100% in **Eskan RMBS Company B.S.C. (c) ("RMBS")** incorporated in the Kingdom of Bahrain, whose principal activities are to issue Asset Backed private debt securities for the purpose of securitization of housing loans.
- The Bank owns 100% in **Eskan Properties Company B.S.C. (c) ("EPC")** incorporated in the Kingdom of Bahrain, 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 B.S.C. (c) ("SBMC")**, which is registered in the Kingdom of Bahrain and whose principal activities include to create the entire value chain to manufacture cost-effective, environment friendly homes for the citizens of Kingdom of Bahrain. ISBMC 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 interest in two associate companies and a joint venture:

- The Bank owns 28.125% in **Southern Area Development Company B.S.C. (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 W.L.L. ("SCC")**. 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, **Al Ebdaa Bank B.S.C. (c) ("Ebdaa Bank")** was established and began disbursing micro-finance to low and middle - income Bahrainis, providing each beneficiary with an opportunity to start a new business, to become financially independent and to hold out the promise of a better quality of life. Eskan Bank is a founding shareholder of Ebdaa Bank, holding 20% stake.

There is no deficiency in the capital of any of the subsidiaries of the Bank as on 31st December 2010. 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 B.S.C. (c)	Kingdom of Bahrain	28.125%	-	150%
Southern Tourism Company B.S.C. (c)	Kingdom of Bahrain	100%	-	150%
Smart Building Material Company B.S.C. (c)	Kingdom of Bahrain	100%	-	200%
Eskan Properties Company B.S.C. (c)	Kingdom of Bahrain	100%	-	150%
Saar Complex Company W.L.L.	Kingdom of Bahrain	45%	-	200%
Interest in Associate deducted from the capital				
Al Ebdaa Bank B.S.C. (c)	Kingdom of Bahrain	20%	-	

2 Financial performance and position

In 2010, the Bank achieved steady growth and maintained its profitability during the year despite the challenges faced in the aftermath of the financial crisis.

The performance for the year is the result of the Bank's focus on maintaining asset quality, judicious deployment of available liquidity at best possible yields and efficiently managing the operating expenses. The bank has managed to reduce its cost income ratio from 59% in 2009 to 50% in 2010. Although there was no deterioration in the Bank's asset quality, the Bank on its own initiative decided to make a general loan loss provisions in line with its prudent approach to risk.

The Bank has disbursed BHD 31 million during 2010 which reflects the Bank's commitment to stay true to its core objectives which is in line with the vision 2030 strategy. The shareholders' equity at BHD 188 million at the end of 2010 is up by 4.6% compared to BHD 180 million as at 31st December 2009. Capital Adequacy Ratio remains very strong at 97.35%. Liquidity continues to be comfortable with liquid assets (Cash and balances with central banks and placement with financial institutions) representing 17% of the total assets

a) Asset Growth & Quality:

- **Quantity:** The total Balance Sheet of the Bank stood at BHD 423 million as at 31st December 2010 compared to BHD 441 million as at the previous year-end. The Bank's loans and advances as at 31st December 2010 stood at BHD 279 million, which reflects a growth of 7% as compared to 2009.
- **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. There are no impaired loan accounts classified as Non-Performing Assets ("NPAs") for this portfolio.
 - Other Investments: The other banking assets are mainly in inter-bank placements with banks in the Kingdom of Bahrain all of which are short term (3 months & less).
 - Financial Investments: The Bank has investment in Naseej a real estate related company and other small legacy investments.

Pillar- III Disclosures

31st December, 2010

2 Financial performance and position (continued)

- **Capital Adequacy Ratio (CAR):** The Bank continued to have strong capital adequacy ratio, with the CAR of 97.35% as of 31st December, 2010
- **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:

- **Social Loans:** The social loan portfolio grew by 5.8% over last year by an amount of BHD 15 million.
- **Commercial basis Residential mortgage loans:** The residential commercial mortgage loans increased by BHD 14.45 million, to reach BHD 23.6 million, registering a growth of over 23% over the previous year.

• Earnings & Financial Position (in BHD thousands):

	2010	2009	2008	2007	2006
Earnings					
Net Interest Income	6,416	5,976	6,208	6,211	6,025
Other Income	4,593	3,600	3,924	5,261	612
Operating Expenses	5,564	5,658	5,818	4,379	3,043
Impairment Allowance	45	413	-	-	
Net Income	5,400	3,504	4,314	7,093	3,594
Financial Position					
Total Assets	423,465	440,964	325,507	284,642	217,532
Loans	278,524	260,065	222,833	172,812	132,115
Total Liabilities	235,494	261,234	159,943	126,010	69,634
Shareholders Equity	187,971	179,730	165,565	158,632	147,898
Earnings: Ratios (Per Cent)					
Return on Equity	2.87%	1.95%	2.61%	4.47%	2.43%
Return on Assets	1.28%	0.79%	1.33%	2.49%	1.65%
Cost-to-income ratio	50.5%	58.9%	57.4%	38.2%	45.7%
Net Interest Margin	55%	61%	66.59%	77.94%	100%
Capital:					
Shareholders Equity as per cent of Total Assets	44.39%	40.76%	50.86%	55.73%	67.99%
Total Liabilities to Shareholders Equity	125.28%	145.35%	96.60%	79.44%	47.08%

b) Performance of the group companies:

- **STC:** A net loss of BHD 37,100 was reported for the period ended 31st December 2010. A corrective action was taken in 2010 to reduce operational costs by reducing the staff head count & other overheads.
- **SADC:** SADC 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 an equity participation of 28.125%. SADC registered a loss of BHD 406,648 for the year ended 31st December 2010.

- **EPC:** The property development arm of the Bank is a full fledged company. The registered and paid up share capital is BHD 250,000 with a shareholding of 100% by Eskan Bank. EPC has the ability for executing various property development projects being taken up. Further, the operations of EPC 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 EPC is to commence construction of those properties whose design stage is completed. In this connection, the Bank has launched a Property Fund.

Financial highlights (in BHD)	31st-December-10	31st-December-09
Net profit (loss) for the period	65,125	(70,134)
Total assets	357,518	278,372
Total equity	253,971	188,846

- **Residential Mortgage Backed Securities Company (“RMBS”):** In 2007, the Bank set up a Special Purpose Vehicle (“SPV”) subsidiary for the purpose of issuing bonds. The issue of 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 recognized 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 utilized to fund the Commercial activities of the Bank. The registered and paid up share capital is BHD 1,000 with a shareholding of 99% by the Bank and 1% by STC (wholly owned by the Bank).

Financial highlights (in BHD)	31st-December-10	31st-December-09
Net profit for the period	1,138,391	1,007,360
Total assets	25,847,687	33,037,808
Total equity	3,326,864	2,188,473

SBMC

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

Financial highlights (in BHD)	31st-December-10
Net profit for the period	(92,135)
Total assets	250,000
Total equity	157,865

Pillar- III Disclosures

31st December, 2010

2 Financial performance and position (continued)

SCC

The registered and paid up share capital is BHD 20,000 with 45% owned by the Group and 55% owned by Seef Properties. The SCC was formed in the later half of 2009, and as the operations have not been commenced, there are no financial results.

Ebdaa Bank

The registered and paid up share capital is BHD 1,885,000 with ownership as follows:

Shareholders	Participation Amount	Ownership
AG Fund	BHD 754,000	40%
Bahrain Development Bank	BHD 377,000	20%
Eskan Bank	BHD 377,000	20%
Abdulhameed Deewani	BHD 150,800	8%
Khalid M. Kanoo	BHD 150,800	8%
Mona Almoayyed	BHD 75,400	4%

3 Future Business prospects

The Bank's asset and liability profile in Year 2011 will be similar to last year. The major portfolio for the Bank will continue to be mortgage loans and investment properties.

4 Corporate governance and transparency

The Bank recognizes the need to adhere to best practices in Corporate Governance. The Bank's Corporate Governance policies are designed to ensure the independence of the Board of Directors ("the Board") and its ability to effectively supervise 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
- Clear lines of responsibility and accountability are set throughout the organization.
- The Board ensures proper oversight by senior management
- The Board 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 the Board committees and the Management committees refer to the 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
(Non Executive Director)

Subsequent to the year end the chairman HE Shaikh Ebrahim Bin Khalifa Al Khalifa has been replaced with Eng. Basim Yacob Al Hamer (appointed in March 2011).

Dr. Anwar Khalifa Al-Sada

Vice Chairman (Independent Non-Executive Director)

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 Hasan Alqassim

Member (Independent Non-Executive Director)

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; Corporate Governance Committee in Ministry of Industry and Commerce; Board of Trustee of Ahlia University

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

Board Member: National Bank of Bahrain; Esterad Investment Company; Batelco; Bahrain Duty Free Company; Bahrain Stock Exchange; Crown Prince International Scholarship program

Mr. Nedhal Saleh Al Aujan

Member (Independent Non-Executive Director)

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 W.L.L.

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

Dr. Ala'a Alyusuf

Member (Independent Non-Executive Director)

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

Professor. Jasim Al Ajmi

Member (Independent Non-Executive Director)

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 Cooperation Council Accounting & Auditing Organization

Advisor: Corporate Governance Issues in Bahrain - Center for International Private Enterprises, Washington DC, USA

Pillar- III Disclosures

31st December, 2010

6 Board of Directors (continued)

Dr. Taqi Al Zeera

Member (Independent Non-Executive Director)

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

Mr. Ausama Al Khaja

Member (Independent Non-Executive Director)

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 K. Almoayyed

Member (Executive Director)

Appointed in 2008

Master in Business Administration - Finance from University of DePaul, Chicago – USA

More than 20 years of work experience

General Manager: Eskan Bank

Board Member: SADC; Bahrain Bayan School; Bahrain Mumtalakat Holding Company; Naseej Company; Chairman of STC and 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 organizational 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 organization memberships are listed in her profile as a Member of the Board of Directors of Eskan Bank in 2009.

Board Member: SADC; Bahrain Bayan School; Bahrain Mumtalakat Holding Company; Naseej Company; Chairman of STCand 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 Al Dosseri, Head of Group, Human Capital & Administrator

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 organizations, 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. Ramachandran Chellam, Chief Financial Officer

Mr. Ramachandran Chellam has over 20 years experience in the Banking and financial services sector. During the course of his career he has worked for reputable banks and financial institutions such as Barclays Bank PLC India, Centurion Bank of Punjab India, Bank Muscat, Oman, IDBI Bank Ltd. India.

A Chartered Accountant, Mr. Ramachandran Chellam holds a Bachelor's degree in Commerce from the University of Mumbai, India.

He assumed the present position in 2010.

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7 The members of the Executive Management Team of Eskan Bank (continued)

7. Essam Kamour

Mr. Mohd Essam Kamour has over 20 years experience as a lawyer and legal consultant. During the course of his career, he has worked in legal Department in Banks and companies in Dubai- UAE, Saudi Arabia and England and for 8 years as manager of legal Affairs and Arbitration at Bahrain Chamber of Commerce and Industry.

Mr. Kamour holds a Master of Law degree LLM in International Commercial Law from University of Kent at Canterbury - Kent Law School- England.

He assumed the present position in 2010

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

Mr. Hani Nayem has over 8 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.

9. Mr. Jamal Gamber, Head of Information Technology & Operations

Jamal Gamber 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.

10. Mr. Fadi Jamali, Chief Development Officer / Eskan Properties Company

Mr. Fadi Jamali has twenty two years of experience in various architectural and urban development organizations 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.

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:

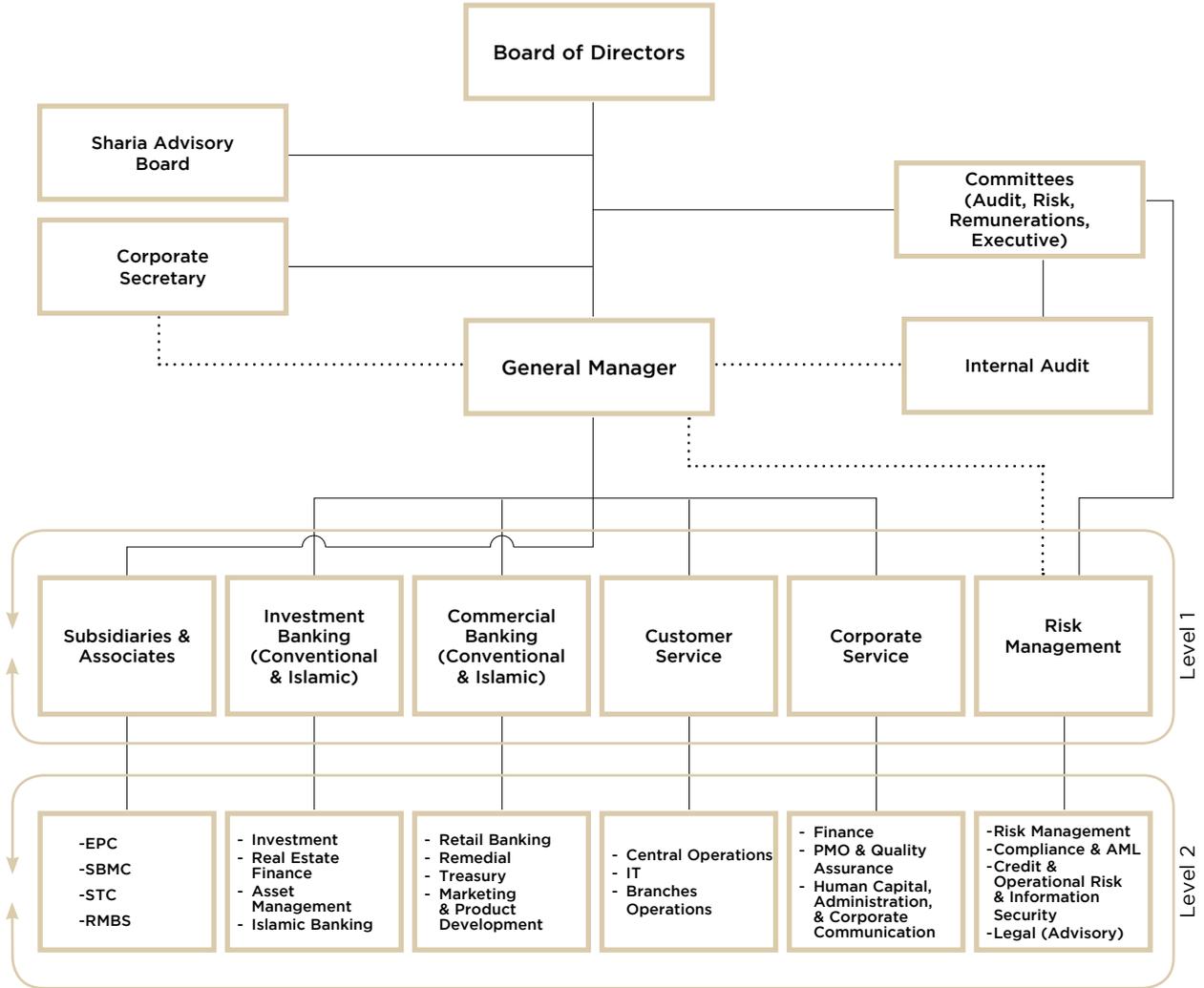
The Remuneration Committee is authorized by the Board to recommend the remuneration policy of the Bank and the remuneration of those senior executives whose appointment requires Board approval.

The Directors of the Board are paid annual fees and sitting fees for attending meetings of the Board and 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 Organization Chart

The organization structure of the bank is as follows:



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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 the Board. All these documents are subsequently sent to the Council of Ministers.

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

The Bank also follows the disclosure requirements as stipulated by the CBB. The Bank has been publishing the audited financial results on its website.

12 Capital

12. 1 Capital Structure

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

Tier I Capital, 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 unrealized gains on equity instruments classified as available -for-sale.

Total Capital of Eskan Bank (in BHD thousands)

	Tier I	Tier II
Eligible capital (Tier I and Tier II)		
Tier I		
Share Capital	15,000	
Reserves		
Statutory Reserve	7,762	
Total Reserves	7,762	
Retained Earnings (Brought Forward)	145,476	
Others	19,825	
Total Available Capital	188,063	
Less : Significant minority investments in banking, securities and other financial entities	(159)	(159)
Net Available Capital	187,904	(159)
Total Eligible capital (Tier I and II)	187,745	

Capital Base / Risk Weighted Exposures (in BHD thousands)

	Amount
Credit Risk Weighted Exposures	174,660
Operational Risk Weighted Exposures	18,203
Market Risk Weighted Exposures	-
Total Risk Weighted Exposures	192,863
Total Eligible capital	187,745
Tier I Capital Adequacy Ratio	97.35%
Total Capital Adequacy Ratio	97.35%

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% for capital adequacy ratio as stipulated by CBB.

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

13 Internal Audit

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

14 Credit Risk

14. 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 Standardized Approach for computation of capital charge for Credit Risk

The Credit Risk Management Framework is summarised as under:

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

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

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14 Credit Risk (continued)

14. 2 Definition and classification of Impaired loans or Non performing Assets (“NPAs”)

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

There were no NPAs under Commercial Mortgage Loans as of 31st December 2010.

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

Age -wise analysis of past dues but not impaired loans showing outstanding balance in the accounts (in BHD thousands)

	Up to 30 days	31 to 60 days	61 to 91 days	Above 91 days	Total
Social loans *	25,540	6,994	3,571	14,763	50,867
Retail mortgage commercial loans **	4,164	580	154	-	4,899
	29,704	7,574	3,726	14,763	55,766

Movement in provisions (in BHD thousands)

Industry	Opening balance	Charge for the year	Write off / write back	Closing balance
Social loans *	-	-	-	-
Retail mortgage commercial loans **	191	45	-	236
	191	45	-	236

* The credit Risk of Social Loans does not reside with the Bank & hence no impairment provisions are being made.

** The Group has implemented Credit Risk Policy for retail mortgage commercial loan portfolio under which the Group provides 1% of the overall retail mortgage commercial loan as a nominal collective provision.

Capital Requirements - Standard Portfolio (in BHD thousands)

	* Gross Exposures	Risk Weighted Value	** Capital Charge
Standard Portfolio			
Sovereign Portfolio	320,643	-	-
Banks Portfolio	44,831	16,916	2,030
Residential Retail Portfolio	23,356	17,517	2,102
Equity Portfolio	2,011	3,016	362
Other Exposures	69,789	137,212	16,465
Total	460,629	174,661	20,959

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

** Calculated at 12% of RWA

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

	Gross Exposures	* Average Exposures
Funded Exposure		
Cash and cash equivalents	73,317	90,597
Investments	3,579	3,916
Loans	278,524	274,281
Investment in associates	2,031	2,144
Investment property	57,441	57,455
Development property	6,603	5,681
Other assets	1,970	2,218
	423,465	436,292
Unfunded Exposure		
Loan related	74,772	81,539
Lease commitments	83	158
	74,855	81,697

* Average balances are computed based on quarter end balances.

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

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14 Credit Risk (continued)

Geographic Distribution of exposures (in BHD thousands)

	Kingdom of Bahrain	United States	United States
Cash and cash equivalents	73,274	43	73,317
Investments	3,541	38	3,579
Loans	278,524	-	278,524
Investment in associates	2,031	-	2,031
Investment property	57,441	-	57,441
Development property	6,603	-	6,603
Other assets	1,970	-	1,970
	423,384	81	423,465

Investment properties are properties held for the purposes of development for rental or capital appreciation or for both. They are assessed 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 from external independent valuers and no additional provision was made required to be made.

14. 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 31st December 2010.

14. 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, 2010 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 2010.

14. 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 31st December 2010.

The total exposure under these two portfolios as at 31st December 2010 was BHD 279 million.

14. 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.

14. 7 Impaired Loans- Commercial Mortgage Loans

As at 31st December 2010, the Bank did not have any impaired commercial mortgage loans. However one account was rescheduled during 2009. The loan outstanding in this rescheduled account as of 31st December 2010 was BHD 37,000.

There is no significant impact of the renegotiated mortgage commercial loan on the provisions as well as present and future earnings. In addition, the magnitude of the restructuring activities is immaterial.

14. 8 Residual Contractual Maturity Breakdown of Assets and Liabilities (in BHD thousands)

2010	1-7 Days	7 Days to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	3-5 Years	5-10 Years	Above 10 Years	Total
Assets										
Cash and cash equivalents	30,732	25,385	17,200	-	-	-	-	-	-	73,317
Investments	-	-	-	-	-	-	-	-	3,579	3,579
Loans	-	999	2,023	3,082	6,258	24,271	25,726	53,902	162,262	278,524
Investment in an associate	-	-	-	-	-	-	-	-	2,031	2,031
Investment property	-	-	-	-	-	-	-	-	57,441	57,441
Development property	-	-	-	-	-	-	-	-	6,604	6,604
Other assets	27	746	163	8	249	387	166	24	200	1,970
Total Assets	30,759	27,130	19,386	3,090	6,507	24,658	25,892	53,926	232,116	423,465
Liabilities										
Deposits from financial and other institutions	6,000	12,000	3,503	-	-	-	-	-	-	21,503
Government accounts	-	-	-	-	-	-	-	-	120,083	120,083
Term loans	-	-	-	16,667	16,667	39,333	6,500	9,000	-	88,167
Other liabilities	1,645	403	1,433	521	707	1,033	-	-	-	5,741
Total Liabilities	7,645	12,403	4,936	17,187	17,373	40,366	6,500	9,000	120,083	235,494
Net liquidity gap	23,114	14,727	14,450	(14,098)	(10,866)	(15,708)	19,392	44,926	112,034	187,971

There are no negative cumulative gaps reflected by this Assets Liabilities Management ("ALM") report i.e. the Bank is in a comfortable solvency position and will be able to repay its existing liabilities on their scheduled due dates from its existing assets

Sector-wise Distribution of Exposures (in BHD thousands)

	Banks and financial institutions	Real estate and construction	Residential mortgage	Tourism	Other	Total
Funded Exposures						
Cash and cash equivalents	73,317	-	-	-	-	73,317
Investments	-	3,273	-	-	306	3,579
Loans	-	-	278,524	-	-	278,524
Investment in associates	318	9	-	1,704	-	2,031
Investment property	-	57,441	-	-	-	57,441
Development property	-	6,603	-	-	-	6,603
Other assets	-	-	-	-	1,970	1,970
	73,635	67,326	278,524	1,704	2,276	423,465
Unfunded Exposures						
Loan related	-	-	74,772	-	-	74,772
Lease commitments	-	-	-	-	83	83
	-	-	74,772	-	83	74,855

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15 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.

16 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.

17 Securitization

The Bank does not have any investments in securitization portfolio.

Eskan RMBS Company B.S.C. (c) ("RMBS") 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 RMBS 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 B.S.C. (c) ("the Bank"). The issued share capital of the Company consists of 100 shares of BHD 10 each fully owned by the Eskan Bank B.S.C. (c) and its subsidiary. The Bank receives all the benefits and bears all the risks arising from the business of RMBS.

RMBS has issued 300 RMBS Bonds for a nominal value of BHD 100,000 each, raising BHD 30,000,000 on 8 October 2007. These are secured by a pool of mortgage assets administered by the Bank, having tenor between 3 to 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 Bank 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 W.L.L., 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.

18 Liquidity Risk

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

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

The Treasury 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.

18. 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 of Kingdom of Bahrain to meet any future commitments.

19 Market Risk

19. 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 United States Dollars ("USD") but as Bahraini Dinars ("BHD") is pegged to USD, the Bank does not have any foreign exchange risk.
- The Bank has adopted the Standardized Approach for computation of capital charge for market risk and is already fully compliant with such CBB guidelines.

20 Operational Risk

20.1 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.

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20 Operational Risk (continued)

In addition, the following policies, inter alia, have been defined for the business & support areas and the Risk Management Department ("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 Standardized Approach or Advanced Measurement Approach (AMA) will be reviewed in due course.

Operational Risk (in BHD thousands)	Amount
Average Gross income	9,708
Risk Weighted Exposures	18,203
Capital Charge (@12%)	2,184

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

21 Equity Positions in the Banking Book

The Equity position as at 31st December 2010 comprise investments in subsidiaries and associates which are not subject to consolidation treatment for capital calculation purposes and other investments.

Equity Position in the Banking Books	(in BHD thousands)			
	Gross Exposures	Publicly Held	Privately Held	Capital Charge
Available for sale investments	3,541	-	3,541	834
Investments in funds	38	-	38	7
Investments in associates	2,031	-	2,031	309

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

Gains on Equity Instruments

Unrealized losses recorded in the Statement of Comprehensive Income during the year amounts to BHD 69 thousand.

22 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 200 bps parallel market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) on the Group's net profit and equity:

(in BHD thousands)	31stDecember 2010 BHD	Changes in basis points (+/-)	Effect on net profit (+/-)
Assets			
Balances and placements with Financial Institutions	73,165	200	1,463
Loans and advances - Commercial loans	23,591	200	472
Liabilities			
Deposits from financial and other institutions	21,503	200	(430)
Term loans	21,500	200	(430)
Total			1,075

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.