



Nurturing Our Community

Annual Report 2012

2030
البحرين
BAHRAIN

بنك الإسكان
ESKAN BANK

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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
& First Deputy Prime Minister

Corporate Profile

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

Today, Eskan Bank is the Kingdom's leading provider of residential mortgages, and a significant player in the property development market. Since inception, the Bank has provided mortgages totaling BD 663 million benefiting 46,719 Bahraini families. Eskan Bank's property development and investment activities embrace real estate investment, and construction and property management; as well as finance for the construction of social and affordable homes, community complexes and commercial projects.

The Bank has two subsidiaries: Eskan Properties Company (EPC) and Southern Tourism Company (STC). As the Bank's property development arm, EPC develops social, community and commercial projects in partnership with the private sector and the Government. STC is the sole official provider of transportation of passengers and cargo to the Hawar Islands.

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

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

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

Wholly-owned by the Government of Bahrain, and with an authorised share capital of BD 400 million and paid-up capital of BD 108.3 million, Eskan Bank operates under a restricted conventional retail banking license issued and regulated by the Central Bank of Bahrain. At the end of 2012, total assets of the Bank stood at BD 533 million.

Operational Highlights

Strategy implementation

- Issued tenders for consultancy, design and construction of 1,500 social housing units in Hamad Town, Isa Town and Bander Al Seef, as first phase of Eskan Bank's plan to construct 2,500 social housing on its land bank by 2016
- Joint Government-Eskan Bank steering committee set up to review the Mortgage Guarantee System
- Working closely with the Government to develop a Social Housing Financing Programme

Financial performance

- Posted record financial results for fiscal year 2012
- Renewed BD 100 million medium-term syndicated loan facility

Customer Service

- Consolidated 'one-stop-shop' concept, comprising Notary Office Desk and referrals to approved suppliers for insurance and property valuation

Social Loans

- Disbursed record loans of BD 43.4 million to 3,509 families
- 46,719 social loans totaling BD 663 million disbursed to date

Islamic Finance

- All new social loans in 2012 disbursed through Shari'a-compliant financing
- Introduced new Commodity Murabaha product for Treasury
- Reverse Istisna'a and Diminishing Musharaka under development

Treasury

- Extended counterparty relationships and credit lines with regional banks
- Established new relationships with global Commodity Murabaha brokers

Community Complexes

- Leased 6 new recently-completed complexes in Hamad Town and Hamala
- Started construction of 4 new complexes in Hamad Town, Karzakan, Dumistan and Riffa
- Community retail outlets and flats now under Bank's management total 185
- Design competition to be launched for new community shopping mall in Busaiteen

Property Development

- Appointed contractor for Danat Al Madina mixed-use project in Isa Town
- Segaya Plaza mixed-use project on track for completion in early 2013
- Infrastructure works set to start for Bander Al Seef mixed-use project

Private Sector

- Signed new partnership agreements with property developers for construction of social and affordable housing units
- Participated in development of over 400 new affordable housing units through agreements with private sector developers

Tourism

- Completed first phase of holiday chalet renovations at Hawar Island
- Increased number of dry and wet moorings at Al Dur jetty

Human Resources

- Number of Bahrainis employed by Eskan Bank stands at 91 per cent
- Female staff now comprise 43 per cent of total employees and 11 per cent of management positions

Training

- Conducted special training programmes for real estate sales and marketing, and project management, to support Bank's new strategy
- Additional 11 staff participated in Tamkeen career progression programme
- Nokhbah management training programme attracted new high-calibre Bahraini graduates

Information Technology

- Implemented Storage area network (SAN) upgrade
- Completed email archiving project
Launched new IT Internal Help Desk

Operations

- Met CBB requirements for SMS Alerts, Bahrain Cheque Truncation System (BCTS) and International Bank Account Numbers (IBAN)
- Finalised plans for e-Tendering pilot project

Business Continuity

- Established new Business Continuity Model Steering Committee
- Successfully tested new remote disaster recovery site

Information Security

- Awarded tender for new Information Security management system
- Conducted simulation testing for critical business processes

Corporate Governance

- Formed Board-level Investigation Committee to review findings of National Audit Court
- Maintained compliance with requirements of CBB and Corporate Governance Code

Quality

- Achieved re-accreditation to ISO 9001:2008 quality management standard
- Conducted quality awareness training for management and staff

Social Responsibility

- Offered internships for school and university students
- Bank staff acted as volunteers for Injaz Bahrain schools training programme
- Further reduced use of printers and paper to conserve energy and protect the environment
- Conducted a staff blood donation campaign
- Organised a Charity Dish event, with proceeds going to charities concerned with diabetic children

Communications

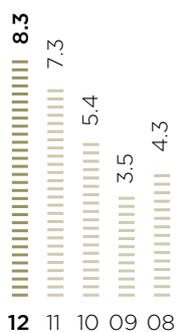
- Launched Eskan Bank's re-engineered and redesigned website, featuring enhanced navigation, more information, and additional user-friendly features



Financial Highlights

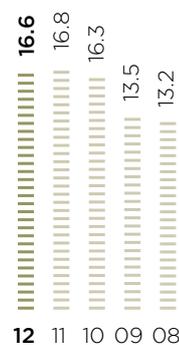
Net Income
(BD Million)

8.3



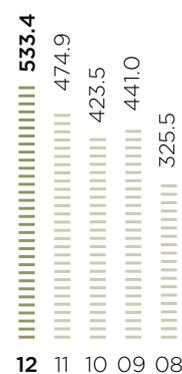
Operating Income
(BD Million)

16.6



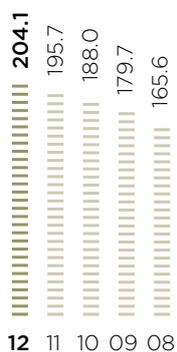
Total Assets
(BD Million)

533.4



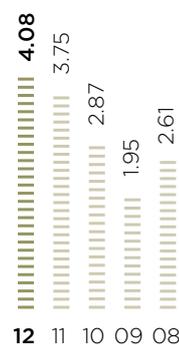
Total Equity
(BD Million)

204.1



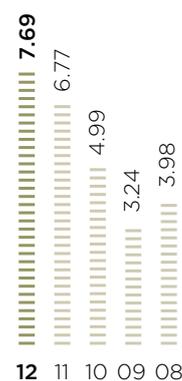
Return on Equity
(BD Million)

4.08



Earnings per Share*
(BD)

7.69



* EPS is based on number of shares resulting after capitalisation of retained earnings in 2012 and previous years stated accordingly.



Board of Directors



1. H.E. Eng. Basim Yacob AlHamer

Minister of Housing,
Chairman
(Non-Executive Director)

- Appointed as Chairman of Eskan Bank in 2011
- Master's in Project Management - Colorado State University at Boulder, Bachelors in Civil Engineering - University of California
- More than 30 years of work experience
- Chairman: Tender Board
- Board Member: National Oil and Gas Authority.
- Deputy Chairman: Secretariat General for the King Fahad Causeway.

2. Mr. Abdul Razaq Abdulla Hasan Al Qassim

Vice Chairman
(Independent Non-Executive Director).

- Resigned from the Board on 29 March 2012.
- Appointed in 2008 and re-appointed in August 2011
- 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

3. Mrs. Sabah Khalil Almoayyed Member (Executive Director)

- Appointed in 2008 and re-appointed in August 2011
- Master in Business Administration - Finance from University of DePaul, Chicago - USA
- More than 20 years of work experience
- General Manager: Eskan Bank
- Board Member: Higher Education Council, Naseej Company; Independent member of the Executive Committee of Ebdaa Bank
- Previous Position: Chairman - Southern Tourism Company (STC), Chairman - Eskan Property Company (EPC),

- Board Member - Mumtalakat, Member - Consultative Committee of the Gulf Arab Countries Cooperation Council; President for Bankers Society of Bahrain, Supreme Council of Women
- Trustee member: American University of Beirut - Lebanon, Society of Honour "Deltamiu' in USA.

4. Dr. Zakareya Sultan Al Abbasi

Member
(Independent Non-Executive Director)

- Appointed in August 2011
- Master & PHD degrees in Law from University of East Anglia - UK
- More than 27 years of work experience
- Acting Chief Executive Officer: Social Insurance Organisation.
- Board Member: Gulf Diabetes Specialist Centre.

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

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

6. Mr. Yusuf Saleh Khalaf

Member
(Independent Non-Executive Director)

- Appointed in August 2011
- ACCA professional examinations Trent University, Nottingham, UK
- Higher Diploma in Business Studies Salford College of Technology, Alford, UK
- National Diploma in Business Studies Fielden Park College Manchester, UK

- More than 30 years of work experience
- Founder & Managing Director: VisionLine Consulting
- Board Member: Bank of Bahrain & Kuwait, First Leasing Bank and Solidarity General Takaful
- Previous Position: Ex-Chief Executive Officer of Ajman Bank, Bahrain Islamic Bank

7. Mr. Ahmed Jasim Farraj

Member
(Independent Non-Executive Director)

- Appointed in August 2011
- Bachelors degree in Economics and Political Science, Kuwait University, Kuwait, 1977.
- Diploma in Financial Management, University of Hull, UK, 1995.
- More than 35 years of work experience
- Assistant Undersecretary: Financial Affairs, Ministry of Finance

8. Mr. Redha Abdulla Faraj

Member
(Independent Non-Executive Director)

- Appointed in August 2011
- A Chartered Accountant and a Fellow of the Chartered Association of Certified Accountants (FCCA), UK, one of the first Bahrainis to receive this qualification
- More than 20 years of work experience
- Founder & Executive Director: Al Faraj Consulting W.L.L.
- Board Member: Mumtalakat, BMMI, Bahrain Development Bank (BDB), Almoayyed International Group (AIG), Y.K. Almoayyed & Sons Group, Instrata capital
- Member: Bahrain Chamber for Dispute Resolution (BCDR), American Mission Hospital

9. Mr. Khalid Ali Al-Amin

Member
(Independent Non-Executive Director)

- Appointed in August 2011
- Bachelor in Marketing, Houston, Texas
- More than 20 years of work experience
- Chairman: Bahrain Youth Business Committee, Arbitration and Trade Disputes Committee
- Vice Chairman: Tamkeen
- Board Member: Ali Rashid Al-Amin Co., BSC, Bahrain Chamber of Commerce & Industry, Rotana Banader Hotel, Tazweed Qater, Food Storage Company, Saudi Arabia

10. Mr. Yousif Abdulla Taqi

Member
(Independent Non-Executive Director)

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

11. Mr. Mohamed Abdulrahman Husain Bucheri

Member
(Independent Non-Executive Director)

- Appointed in 2011
- Bachelor of Arts - Economics and Finance, Aleppo University - Syria
- Intensive Full Credit Course at Citibank Training Center - Athens, Greece
- Intermediate Credit Course at Citibank - Athens, Greece
- Registered Financial Consultant by successfully completing the Series 7 Examination required by the Securities & Exchange Commission in the United States.
- More than 33 years of work experience
- Board Member: BBK, Faysal Bank Ltd., First Leasing Bank, Ithraa Capital, Solidarity

12. Mr. Ali Yousif Fardan

Member
(Independent Non-Executive Director)

- Appointed in August 2011
- Diploma in Executive Management - University of Bahrain
- Banking Diploma (Advance level) - Bahrain Institute of Banking and Finance
- Banking Diploma (Intermediate level) - Bahrain Institute of Banking and Finance
- More than 30 years of work experience
- Board Member: Islamic International Financial Market (IIFM)
- General Manager: National Bank of Kuwait



Chairman's Statement

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 2012. This proved to be a highly successful year, marked by a number of important new initiatives to support the implementation of the Bank's new five-year strategy, and underlined by record financial results.

ESKAN Bank's new strategy, which was approved by the Board of Directors in 2011, significantly widens the scope of the Bank's activities to support the social agenda of Bahrain's Economic Vision 2030. In particular, it defines the Bank's role to assist the Ministry of Housing in achieving the Government's commitment to significantly reduce the backlog of housing applications by Bahraini families on low-to-medium incomes, by accelerating the construction of social housing units in partnership with the private sector.

Our vision is to be an acknowledged industry leader in the housing segment, with a focus on social housing solutions through the development of cohesive communities, and the formation of a fair and efficient mortgage market in the Kingdom. In this respect, during 2012, the Bank commenced the implementation of its plan to develop 2,500 social and affordable housing units on its land bank by 2016.

In addition, ESKAN Bank is working closely with the Ministry of Housing, the Ministry of Finance, and other related government institutions, on two major initiatives designed to make it economically viable for property developers and financial institutions to engage in social housing construction and financing. The Social Finance Housing Programme would give eligible beneficiaries an option to move off the current housing waiting list, and obtain housing of their choice from an approved private developer on

an immediate basis, through a mortgage from participating private sector financial institutions.

I am pleased to report that ESKAN Bank posted a record financial performance for 2012 on the back of strong mortgage loan disbursements and liquidity management. Net income increased by 13.6 per cent to BD 8.3 million, while total equity rose by 4.3 per cent to BD 204 million, resulting in an enhanced return on equity of 4 per cent. Operating expenses reduced to BD 4.97 million due to the success of cost-containment activities, with the cost-to-income ratio improving from 42 per cent to 37 per cent. With market conditions continuing to remain volatile, we took the prudent decision to make a general loan loss provision of BD 270.5 thousand compared with BD 277.8 thousand in 2011, in terms of disbursement of mortgages.

The Bank's total balance sheet strengthened to BD 533 million at the end of 2012 compared with BD 475 million at the end of the previous year. Our capital adequacy ratio remained very strong at 106 per cent; while liquidity continued to be healthy, with liquid assets representing 20 per cent of total assets. During the year, we successfully renewed a BD 100 million medium-term syndicated loan facility with domestic and international banks to meet the Bank's future funding requirements.

ESKAN Bank continues to be the largest mortgage lender in the Kingdom of Bahrain, and in 2012 we disbursed a record BD 43.4 million of social housing loans to 3,509 Bahraini families. At the end of the year, total loans and advances stood at BD 355.75 million, an increase of 13.6 per cent over 2011. Since inception, ESKAN Bank has disbursed mortgages totaling more than BD 663 million, enabling 46,719 Bahraini families of low-to-medium incomes to realise their aspirations of becoming home owners.

“ Our successful strategic, financial and operational achievements of 2012 have further strengthened the Bank’s ability to continue its unique contribution to the social and economic development of the Kingdom of Bahrain. ”

Throughout the year, we continued to fulfill our unique social and community role to contribute to the betterment of society, and improve the quality of life for Bahraini citizens. In this respect, with a commitment to deliver up to six community projects each year, the Bank commenced the construction of four new community complexes in 2012. These will provide local business and employment opportunities for entrepreneurs and small enterprises; and complement and support Ministry of Housing projects with convenient neighborhood amenities. The new complexes are expected to be completed by mid-2013, which will bring the total number of shops and flats constructed and managed by the Bank to 230 units.

Through our subsidiaries, associates and strategic investments, we continued to support the Government’s family tourism policy; provide micro-financing for people who do not qualify for commercial banking loans; and increase the availability of social and affordable housing units. In a notable development, the concession agreement for the historic BD 208 million social and affordable housing public-private-partnership (PPP), involving the construction of more than 4,000 social and affordable housing units, was signed in January 2012 between the Ministry of Housing and Naseej, in which Eskan Bank holds a strategic stake.

During the year, we took steps to further reinforce the Bank’s institutional capability. We strengthened our corporate governance and risk management framework, and implemented a number of new initiatives to enhance our human capital, IT infrastructure and quality management, through which to improve the Bank’s operational effectiveness and efficiency. We also continued to meet the changing needs and growing expectations of our

customers with the development and introduction of new Shari’a-compliant products and services.

We look forward to 2013 with renewed optimism and confidence. Our successful strategic, financial and operational achievements of 2012 have further strengthened the Bank’s ability to continue its unique contribution to the social and economic development of the Kingdom of Bahrain. Providing the opportunity of home ownership to more Bahraini citizens – which remains our enduring primary role – will contribute to greater social stability and prosperity in the nation.

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 First Deputy Prime Minister, and Chairman of the Economic Development Board; for their wise leadership and visionary reform programme.

I also take this opportunity to thank our shareholder, the Government of Bahrain, for its confidence and financial support; and to acknowledge the cooperation, professional advice and guidance received from the Government’s ministries and official bodies. These include the Ministry of Finance; Ministry of Housing; Ministry of Industry and Commerce; Ministry of Justice, Islamic Affairs and Endowments; Ministry of Municipalities and Urban Planning; Ministry of Works; the Electricity & Water Authority; the Economic Development Board; the Directorate of Land Registration and Nationalisation; the Tender Board; and all Municipalities.

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 dedication.

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



General Manager's Report

In 2012, Eskan Bank entered a new phase in its strategic evolution, partnering with the public and private sectors to expand the scope of its activities, and implementing new initiatives to reinforce its unique social and economic development role.

New strategic focus

Eskan Bank's new five-year strategy is based on five main pillars: one, to execute programmes that will assist the Ministry of Housing in alleviating the current housing shortage for social housing groups in the Kingdom; two, to develop model frameworks in partnership with the private sector for the construction of low-cost housing units; three, to create financial opportunities for the innovative funding of social housing projects; four, to offer social housing groups the opportunity to finance their homes by making social housing a priority segment for all stakeholders; and five, to use the balance sheet of Eskan Bank to generate and redeploy funds towards the development of social housing units.

During 2012, we focused our efforts in implementing this strategy on two main fronts. Firstly, in line with our new role as a player on the supply side of social housing units for low-to-medium income groups, we initiated our plan to deliver 2,500 social and affordable housing units on land owned by the Bank. This initiative is to support the development of the Ministry of Housing in achieving the Government's housing strategy to provide opportunities for social housing groups in the Kingdom of Bahrain to purchase their own homes.

Secondly, underpinning our strong belief in the importance of encouraging the greater involvement of the private sector in addressing the Kingdom's social housing needs, we collaborated with a number of government institutions on two innovative programmes. These are aimed at providing incentives for property developers and financial

institutions to participate in social housing construction and financing.

The Mortgage Guarantee System seeks to create a sustainable and affordable housing finance system by moving from a public-sector based to a market-based financing system, supported by the creation of a secondary mortgage market. The Social Housing Financing Programme aims to fast-track applications from Bahraini nationals on the housing waiting list through the construction and financing of housing units by private sector property developers and financial institutions, with Eskan Bank acting as the programme's fund manager. In addition, we established additional partnerships with private sector property developers and contractors for the construction of social and affordable housing units for Bahrainis on low-to-medium incomes.

Sustainable growth and development

Since 2005, Eskan Bank has comprehensively restructured its organisation, steadily expanded its activities, and achieved consistent financial growth. Today, the Bank benefits from a professional and state-of-the-art support infrastructure; while its activities now embrace retail banking, Shari'a-compliant financing, property development, property management, and treasury and capital management.

During this period, annual net recurring income has increased by 462 per cent from BD 1.5 million to BD 8.6 million; and the mortgage portfolio has grown from BD 72 million to BD 356 million, with an annualised growth rate of 22 per cent. Total assets have risen from BD 144 million to BD 533 million, with an annual growth of 17.8 per cent; and ROE has grown at an average annual growth rate of 9 per cent from 1.2 per cent to 4.1 per cent. This successful transformation and proven track record provides a firm foundation for the Bank's continued growth and strategic development over the next five years.

“

Once again, our winning combination of insight, innovation and implementation continued to underscore our strong performance and achievements in 2012.

”

Eskan Bank will also benefit from the growing recovery of the real estate sector, which is currently emerging from a major learning curve following the severe downturn engendered by the financial crisis in 2008. The sector is witnessing a major adjustment, with land prices returning to more sensible levels, and construction costs falling dramatically, especially steel. This has led to property developers and contractors moving away from high-end speculative developments to more demand-driven segments, such as social and affordable housing; and studying more closely the needs and aspirations of a new generation of home buyers.

Banking activities

As illustrated by the Bank's financial results, banking activities witnessed excellent growth in 2012, with a focus on maximising revenue opportunities and rationalising expenditure to achieve continued improvement of the bottom line. Eskan Bank's relentless commitment to improve services by aligning its activities with the objectives of the Ministry of Housing – with whom we have established an enduring partnership since 1979 – is reflected in the significant increase in mortgage disbursements during the year, which grew by 44 per cent. With BD 45.7 million of home loans being allocated to 3,509 people in 2012, the Bank enabled more Bahraini families on low-to-medium incomes to realise their dream of purchasing their own home.

Retail Banking strengthened its focus on enhancing customer satisfaction and convenience through the provision of a 'one-stop-shop' service. This includes the Notary Office desk at the Bank's main branch, which became fully operational during the year, providing customers with an easier and quicker title deed and land registration service; and referrals to approved suppliers of insurance

and property evaluation. The speed of documentation and registration remains the fastest in the industry.

Islamic Banking continued to make good progress in developing new Shari'a-compliant products and services in 2012. A Commodity Murabaha product for Treasury was developed for introduction in 2013, while approval was received to develop a Reverse Istisna'a for financing construction. Treasury continued to perform profitably in 2012, extending its counterparty relationships and credit lines with regional banks, and generating increased corporate deposits.

Support infrastructure

Throughout 2012, Eskan Bank maintained its focus on ensuring the professional development and personal welfare of its people, with a focus on internal recruitment, career advancement and staff motivation. At the end of the year, the total number of Bahrainis employed stood at 91 per cent, illustrating the Bank's commitment to provide employment and career opportunities for Bahraini nationals. Eskan Bank is also committed to providing equal opportunities for women, who now comprise 43 per cent of total employees, and 11 per cent of management positions within the Bank.

We continued to enhance the Bank's information and communications technology (ICT) infrastructure in order to improve efficiency and support expanding business activities in line with our new strategy. We also maintained our involvement with e-Government initiatives, and focused on ways of expanding our range of e-Services. The Bank is now ready to take over the application process for social loans from the Ministry of Housing, including links to the e-Government portal for statement queries and payments by customers.

A key development during the year was the comprehensive re-engineering and redesign of the Eskan Bank website.

This was a result of a combined team effort involving the Bank's staff from Corporate Communications, Marketing and Information Technology; and external specialists.

The new interactive site, which complies with CBB recommendations, includes the latest social media tools; and features enhanced navigation, and more comprehensive information about Eskan Bank and its subsidiaries. It also provides details of the Bank's banking products and services, including the procedures and required documentation for mortgage loan applications.

Social and community role

Eskan Bank fulfills its social and community role in a number of different ways. This includes supporting the establishment and ongoing development of innovative companies that meet underserved social needs. For example, Ebdaa Bank, in which we hold a 20 per cent stake, 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. Eskan Bank has a strategic stakeholding in Naseej, which was established to act as catalyst for addressing Bahrain's affordable housing development needs. The groundbreaking BD 208 million public-private-partnership (PPP) between Naseej and the Ministry of Housing will help to alleviate the Kingdom's housing shortage by providing more than 4,000 social and affordable housing units.

We also support the development of cohesive and sustainable communities by constructing and managing community complexes that complement Ministry of Housing social housing projects. In 2012, construction started on four new community complexes in Karzakun,

General Manager's Report (Continued)

Dumistan, Riffa and Hamad Town. The Bank currently manages a portfolio of 185 retail outlets and flats in different communities. These provide residents with local amenities; and entrepreneurs and small enterprises with new business and employment opportunities.

During 2012, through the Bank's corporate social responsibility programme, we provided financial and practical support for various charitable, cultural and educational initiatives and events. Particular focus was placed on developing the potential of young Bahrainis and encouraging staff to participate in community activities; together with implementing our commitment to protect the environment.

Property development

Eskan Bank continued to play its role in the Kingdom's property development; and social and affordable housing projects. The Bank's three flagship mixed-use affordable residential and commercial property developments made good progress during the year. Construction of Segaya Plaza is due for completion in early 2013, and there has been keen interest in both apartments and retail units for lease. A contractor has been selected for Danat Al Madina at Isa Town, with a ground-breaking ceremony planned for February 2013. Following the completion of reclamation works at Bander Al Seef, infrastructure works and the construction of 2,500 affordable housing units, are scheduled to start in the near future.

Moving forward

Once again, our winning combination of insight, innovation and implementation continued to underscore our strong performance and achievements in 2012. We will build upon these accomplishments to continue the implementation of our strategy in 2013, and enhance our contribution to the social and economic development of the Kingdom of Bahrain.

Acknowledgements

In conclusion, I would like to acknowledge the guidance and support that we continue to receive from our shareholder, the Government of Bahrain; and our Chairman and my fellow Directors.

I also sincerely thank our business partners for their encouragement and cooperation; and our customers for their loyalty and trust. Finally, I would like to pay tribute to our management and staff for their constant commitment and professionalism. Their valuable collective contributions have resulted in another successful year for Eskan Bank.

Sabah Khalil Almoayyed

General Manager - Board Member



Review of Operations

Strategic Initiatives

Mortgage Guarantee System (MGS)

In 2012, Eskan Bank continued to work with the Ministry of Housing and other Government-related bodies on the steering committee chaired by the Ministry, to develop the requirements and appoint a suitable consultant to review the proposed Mortgage Guarantee System (MGS). This is in light of economic and market changes since the scheme was initially approved by the Cabinet. The objective of MGS is to develop sources of sustainable housing finance by further developing both the primary and secondary mortgage markets; with the Government acting as regulator, and private sector financial institutions as providers.

Social Housing Financing Programme

Eskan Bank is working with the Ministry of Housing and the Ministry of Finance to develop a Social Housing Financing Programme which involves private sector developers and retail banking institutions. The main features of the programme are:

- The Government will approve developments that meet Ministry of Housing specifications to participate in the Programme.
- Eligible beneficiaries may avail of housing from any of the approved housing developments, with repayment restricted to 25 per cent of their salary.
- Beneficiaries can apply for mortgages from participating retail banks, and the Government will subsidise the difference between the actual instalment and the beneficiaries' ability to repay, with a recalibration to take place every two years.

Business Group



Retail Banking

Eskan Bank maintained its status as the largest mortgage lender in Bahrain, disbursing a record 3, 503 social housing loans with a total value of BD 43.3 million in 2012; while continuing to offer Al Daar commercial mortgages, which are primarily used for housing loan top-up purposes.

The retail banking business strengthened its focus on enhancing customer satisfaction and convenience through the provision of a 'one-stop-shop' service. This includes the Notary Office desk at the Bank's main branch, which provides customers with an easier and quicker title deed and land registration service; and referrals to approved suppliers of insurance and property evaluation.

In line with the Bank's strategic shift to become a major real estate developer, and its commitment to construct 2,500 social and affordable housing units by 2016; comprehensive plans were put in place to provide customers with a convenient 'one-stop-shop' service for both property purchase and financing. This included soft-sounding the market prior to developing sales promotional activities; conducting training in real estate sales and marketing, and project management, for Call Centre and front line staff; and putting in place the necessary systems and documentation.

In addition, a Financial Advisor will be appointed to advise on the ideal financing structure needed to fund new property development.

Islamic Finance

The growing preference by customers for Shari'a-compliant products and services was illustrated in 2012 by all new social housing loans being disbursed on an Islamic basis through Ijara Muntahiya Be Tamleek, Murabaha and Istisna'a. In line with this trend, a proposal to convert all branches to operate on an Islamic Shari'a basis (while providing a conventional financing desk at the main branch) will be implemented after obtaining final Board approval.

Under the guidance of the Shari'a Supervisory Board, the Bank continued to make good progress in developing new Shari'a-compliant products and services. A Commodity Murabaha product for Treasury was developed for introduction in 2013, while the existing Istisna'a financing product was improved through the use of a Reverse Istisna'a contract for financing construction. Additional new products will include Diminishing Musharaka, which provides financing for the purchase of land and property by individuals and corporates on a partnership basis; and restricted investment accounts, based on the Mudaraba principle.

Review of Operations

Business Group (Continued)



The Islamic Banking assets in compliance with Islamic Shari'a principals are presented below:

	2012
	BD
Ijara muntahia bittamleek - net	91,657,189
Ijara rental receivables	106,959
Wakala placements	6,000,000
Wakala income receivable	1,850
Sukuk	9,643,872
Sukuk Income receivable	4,460
	107,414,330

The Islamic Banking liabilities in compliance with Islamic Shari'a principals are presented below:

	2012
	BD
Wakala takings	13,032,518
Wakala profit payable	4,043
	13,036,561

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

	2012
	BD
Profit on Ijara Muntahia bittamleek	2,268,605
Income from wakala & Sukuk	97,512
Less: profit paid on Wakala	(80,918)
	2,285,199

Treasury

The Bank's Treasury business witnessed a busier year than 2011, and continued to perform profitably in 2012 with increased margins. The Wakala Islamic interbank product - involving both placing and taking - which was implemented in 2009, has proved to be successful in managing the Bank's liquidity by adding Islamic banks as counterparties for interbank business and providing funding to support the business units. This will be complemented in 2013 with the introduction of a Commodity Murabaha product, designed to provide the Bank with greater flexibility in dealing with more Islamic banks that prefer Murabaha-based transactions to Wakala. New relationships with global Commodity Murabaha brokers were established to complete the cycle, providing the Bank with more diversity of interbank dealings and thus less concentration risk in growing the balance sheet.

During the year, Eskan Bank extended its counterparty relationships and credit lines with regional banks, and probed the market for increased corporate deposits, with a focus on governments and quasi-government institutions. At the same time, the Bank increased its participation in bidding for Government securities



issued by the Central Bank of Bahrain. New products, including hedging instruments and forex arbitrage tools were developed and tested for planned implementation in early 2013. Eskan Bank successfully rolled over an existing BD 100 million medium-term syndicated loan facility with improved pricing with three Bahrain-based banks - National Bank of Bahrain, BBK and Ahli United Bank - in order to meet its future social funding requirements.

Property Development And Investments

The Bank's property development and investment activities embrace real estate investment, funding, and property management; and raising finance to support the construction of social and affordable housing units, community complexes and commercial projects. Through its wholly-owned subsidiary, Eskan Properties Company, the Bank implements its strategic commitment to become a major developer of social and affordable housing, and community-related commercial projects, to support the Ministry of Housing's objectives and the social agenda of Bahrain's Economic Vision 2030.

During the year, the Bank commenced the implementation of its plan to construct 2,500 social and affordable housing units on its land bank by 2016. Tenders were issued for consultancy, design and construction of 1,500 social housing units in Hamad Town, Isa Town and Bander Al Seef. This is in line with the Bank's mission to support the Ministry of Housing in achieving the Government's housing strategy to alleviate the current housing shortage by enabling social housing groups in the Kingdom of Bahrain to purchase their own homes.

The Bank continued to complement Ministry of Housing projects through the development of community complexes. These provide residents with a range of convenient neighbourhood facilities and services, while offering local business and employment opportunities for entrepreneurs and small enterprises. Construction started on four new community complexes in Karzakan, Dumistan, Riffa and Hamad Town. These are expected to be completed by mid-2013, thereby increasing the total number of retail outlets and flats under the management of Eskan Bank to 230 units.

In line with its strategy, Eskan Bank expanded its partnerships with private sector developers for the construction of social and affordable housing

units for Bahrainis on low-to-medium incomes. A new agreement was signed with ALARGAN Bahrain Company, complementing existing agreements with Al Saraya Properties Company, Manara Developments and Capital Real Estate. As a result of these partnerships, 300 new affordable housing units are currently under construction.

The Bank's three flagship mixed-use affordable residential and commercial property developments made good progress during the year. Construction of Segaya Plaza is due for completion in early 2013, and there has been keen interest in both apartments and retail units for lease. A contractor has been appointed for Danat Al Madina at Isa Town, with a ground-breaking ceremony planned for February 2013. Following the completion of reclamation works at Bander Al Seef, infrastructure works are scheduled to start in the near future. Further details of these projects are included in the report for Eskan Properties Company in the following Subsidiaries section of this annual report.

Review of Operations

Support Group



Human Capital

Throughout 2012, Eskan Bank maintained its focus on ensuring the professional development and personal welfare of its people, with a focus on internal recruitment, career advancement and staff motivation. Departmental restructuring continued in order to meet changing business needs and strategic objectives, and improve efficiency and productivity; while the Bank's management trainees' programme – Nokhbah – was successful in attracting additional high-calibre Bahraini graduates.

Employees continued to attend in-house awareness sessions that covered their daily work requirements in terms of knowledge enhancement or compliance with regulations; and also attended programmes conducted by the Bahrain Institute of Banking and Finance. Particular focus during the year was placed on tailored programmes to support the implementation of the new strategy, including real estate sales and marketing courses which were attended by staff from Retail Banking, Project Management and Real Estate Development. Through the agreement signed with Tamkeen, 11 Bahraini staff

from across the Bank and its subsidiaries took part in a special career progression training programme; while tailored career development plans were developed for staff identified as high-fliers.

At the end of the year, the total number of Bahrainis employed by the Bank stood at 91 per cent, 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 43 per cent of total employees, and 11 per cent of management positions, within the Bank.

The 'self-service' facility of the Bank's new Human Resource Management System (HRMS) – which includes the automation of personnel procedures such as payroll administration, and staff leave requests and salary confirmations – was fully activated during the year. At the same time, the Bank's personnel policies were reviewed in line with market best practice; job descriptions were reviewed and aligned with the Bank's new strategic objectives; and personal key performance indicators (KPIs) were integrated within the annual staff appraisal process.



Financial Control

The Financial Control department continued to partner proactively with all departments in 2012, helping them to analyse and understand their specific numbers. The department also supports the management team through monitoring the financial performance of the Bank, and providing critical and timely information on a regular basis for review at the monthly management meeting. The department is responsible for producing the quarterly and annual consolidated financial statements of the Bank and its subsidiaries for review and approval by the Board of Directors; and 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 as applicable. The department also plays an active role in the annual budget planning process, and in supporting the Asset Liability Management Committee in carrying out its mandate.

Internal Audit

During 2012, the Internal Audit department continued to monitor Bank's activities and risk management; evaluate the adequacy of controls in the Bank and its subsidiaries; ensure compliance with regulatory requirements; and report its findings to the Management and the Board Audit Committee. The department has developed a risk-based plan to prioritise assignments and ensure that all high-risk areas are covered and properly managed; and that required corrective actions are taken for all opportunities for improvement. Internal Audit worked closely with Risk Management to develop enterprise risk management in order to identify, update and manage inherent risks; and maintain the residual risks at an acceptable level. In addition, the department actively participated in providing opinions and advice to other departments, and proposed a number of controls to enhance internal controls and efficiency throughout the Bank.

Operations

During the year, Eskan Bank continued to identify further areas for internal process re-engineering and improvement, including the migration of additional

activities from branches to the head office. This is designed to free front office staff from unnecessary administrative functions, so that they can focus on marketing and customer service activities. In addition, certain operational procedures were further automated to reduce transactional turnaround times. The Bank successfully met new CBB regulatory requirements, including the introduction of SMS Alerting; and the integration of the Bahrain Cheque Truncation System (BCTS) and International Bank Account Numbers (IBAN) within the core banking system. In addition, plans were finalised for a pilot project to introduce e-Tendering, which will include incorporating automated processes for Requests for Proposals.

Information Technology

During 2012, Eskan Bank continued to enhance its information and communications technology (ICT) infrastructure in order to improve efficiency, and support expanding business activities in line with the Bank's new strategy. A number of key systems upgrades were implemented, including the application firewall and storage area network (SAN); while a number of new systems went 'live' during the year,

Review of Operations

Support Group (Continued)



covering CBB requirements (see under Operations), and email archiving through a central server for ease of retrieval. In addition, the new Internal Help Desk was implemented, including the ability of the Call Centre to handle IT-related queries from customers. The Bank's information security capability was also significantly enhanced during the year, while plans were finalised for a pilot e-Tendering project.

Increased focus was placed on 'process virtualisation' as a smarter way of managing the Bank's ICT infrastructure, with the number of servers being minimised to achieve improved economies of scale. The Bank also continued its involvement with e-Government initiatives, and focused on ways of expanding its range of e-Services such as Internet banking. The Bank is now ready to take over the application process for social loans from the Ministry of Housing, including links to the e-Government portal for statement queries and payments by customers.

Information Security

Ensuring the highest levels of information security is a key factor in mitigating the operational risk of the Bank. Accordingly, in 2012 Eskan Bank implemented a number of initiatives

to enhance its capability holistically. A tender was awarded for the provision of an Information Security Management Solution, comprising hardware and software, which will integrate and monitor all information systems centrally to proactively manage security. In addition, the Bank commenced its plan to achieve accreditation to the ISO 27001 international information security standard. A tender was awarded to conduct an Information Security Risk and Gap Assessment against the ISO 27001 standard, covering areas such as asset security and staff culture; and the establishment of an Information Security Risk Management Framework for the Bank.

During the year, as part of its Business Continuity Management (BCM) framework, Eskan Bank carried out simulation testing of its critical business processes at the BCM Command Centre in Jid Ali. This involved 22 staff who act as BCM champions for their respective departments. The exercise identified 21 potential security risks facing the Bank, for which corrective actions and follow-up plans were formulated. A business impact analysis was conducted to identify the most critical processes that must be recovered. In addition, a new BCM Steering Committee was



established to provide management oversight for all aspects of information security and business continuity.

Quality Management

In 2012, ESKAN Bank's accreditation to the ISO 9001:2008 international quality management standard (which was achieved the previous year) was re-certified by external auditors. A team of 10 staff, certified as 'internal quality auditors' were instrumental in preparing the Bank for this annual external surveillance audit. The audit focus in 2012 involved a change in criteria – not solely auditing procedures, but also verifying the effectiveness of processes through the use of process mapping and metrics. Members of the internal quality audit team are also tasked with implementing quality initiatives in their respective departments, and to integrate them within the ISO framework. This is an integral part of the Bank's quality roadmap, which aims to instill a quality-conscious culture across the organisation.

In order to reap the benefits of ISO accreditation, a number of initiatives were implemented during the year to increase quality awareness across the Bank. These included a dedicated

training session for the management team; ISO 9001:2008 Internal Quality Auditor Training for the Quality Audit Team ; and three meetings with the Civil Service Bureau regarding continuous improvement of quality initiatives. Focus continued to be placed on the role of quality in enhancing customer service and satisfaction, not just for customer-facing departments, but also for those departments whose activities impact the Bank's performance. Each service is analysed against a service quality threshold, and is tracked and reported on a monthly basis for conformance.

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 counsel to Senior Management and all departments. It also undertakes the drafting, reviewing and preparation of all legal contracts and agreements; as well as managing the Bank's exposure to any regulatory and legal risk.

The department also has responsibility for ensuring that the Bank's corporate governance policy is laid down in

compliance with CBB requirements and the Bahrain Code of Corporate Governance; and in accordance with all applicable laws and regulations of the Kingdom of Bahrain. Details of the Bank's corporate governance developments in 2012 are covered in the separate Corporate Governance Report later in this annual report.

Review of Operations

Subsidiaries

Eskan Properties Company

(Wholly-owned subsidiary of Eskan Bank)

As the Bank's property development arm, Eskan Properties Company (EPC) continued to assist the Bank's investment divisions, subsidiaries and associates during 2012 in developing social, community and commercial projects. At the same time, the Company actively pursued its mandate to work in partnership with the private sector and the Government, across the entire real estate value chain. EPC's range of services includes project assessment; design management and planning; project development management; quantity surveying; sales and marketing; and property and facilities management.

Three major mixed-use developments by EPC – at Segaya, Isa Town and Bander Al Seef – reported good progress during 2012. The construction of Segaya Plaza is on track to be completed in early 2013. This prime location project comprises 105 apartments for leasing, together with a range of shops and retail outlets. These will provide a sustainable source of revenue for Eskan Bank's social community complexes. The Danat Al Madina project at Isa Town is a strategically-located 'micro-city' containing 316 affordable housing apartments, commercial offices, retail outlets and showrooms. A ground-breaking ceremony is planned for February 2013. Following the completion of reclamation works at Bander Al Seef, infrastructure works are scheduled to start in the near future.

During the year, EPC successfully leased six newly-completed community complexes in Hamad Town and Hamala; and commenced construction of four new community complexes in Karzakan, Dumistan, Riffa and Hamad Town, with a total value of BD 430,000. In addition, the Company is planning to hold a design competition for a planned new community shopping mall in Busaiteen. EPC also commenced the implementation of Eskan Bank's plan to construct 2,500 social and affordable housing units on its land bank by 2016. Tenders were issued for consultancy, design and construction of 1,500 social housing units in Hamad

Town, Isa Town and Bander Al Seef.

This is in line with the Bank's mission to support the Ministry of Housing in achieving the Government's housing strategy to alleviate the current housing shortage by enabling social housing groups in the Kingdom of Bahrain to purchase their own homes.

Southern Tourism Company

(Wholly-owned subsidiary of Eskan Bank)

The Southern Tourism Company (STC) is the sole official provider of transportation of passengers to the Hawar Island, and operates a professional fleet of passenger, cargo and emergency vessels. In 2012, STC completed phase one of a major refurbishment programme for the 48 chalets that it manages on the island, with phase two planned for 2013. The Company is also planning to introduce new facilities for tourists such as entertainment and shopping outlets. During the year, STC increased its wet moorings to 24 at Al Dur jetty, which is the embarkation point for Hawar Islands, as well as installing 32 new dry mooring facilities. The Company plans to further develop the jetty and surrounding coastal area with additional tourist facilities. In line with the Bank's strategy to exit from non-core activities, Eskan Bank is in the process of transferring ownership of the Southern Tourism Company to Mumtalakat Holdings Company in 2013.

Smart Building Materials Company

(Wholly-owned subsidiary of Eskan Bank)

The Smart Building Materials Company (SBMC) was established in 2009. The Company's charter is to encompass the entire value chain to manufacture cost-effective, environmentally-efficient homes for the less advantaged. BMC will also import a range of building materials and raw materials such as gravel, cement, bricks, marble, electrical fillings and sanitaryware; and construct warehouse facilities to support the business. These initiatives will create sustainable jobs and business opportunities for the public and private sectors, and provide homes for Bahraini citizens.



Associates & Strategic Investment

Associates

Southern Area Development Company

(28.125 per cent shareholding by Eskan Bank)

The Southern Area Development Company (SADC) was established with the objective of helping to develop the Kingdom's tourism sector, especially in the Southern Area; and to encourage the growth of family tourism. SADC owns a 4-star hotel on Hawar Island, which was recently closed due to reduced tourism inflow. The Company is currently considering several options to re-open and operate the hotel, and to further develop Hawar Island and the surrounding area into a major tourist attraction.

Ebdaa Bank

(20 per cent shareholding by Eskan Bank)

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

Strategic Investment

Naseej

Eskan Bank is a founder shareholder of Naseej, which was established in 2009 by prominent private and public sector investors as a pioneering catalyst for addressing the affordable housing needs of the Kingdom of Bahrain. In January 2012, Naseej signed a concession agreement for an historic BD 208 million public-private-partnership (PPP) with the Ministry of Housing for the construction of more than 4,000 social and affordable housing units, which will help to alleviate the Kingdom's housing shortage. A financial agreement is expected to be signed in early 2013, after which construction will commence. Eskan Bank holds a 3 per cent stake in Naseej as a strategic investment aligned with the mutual objectives of both institutions to support the development of affordable housing solutions.

Mortgages

Eskan Bank continues to be the largest mortgage lender in the Kingdom of Bahrain. During 2012, the Bank disbursed a record BD 43.4 million of social housing loans to 3,509 Bahraini families, an increase of 44 per cent over the previous year.

Since inception, Eskan Bank has disbursed mortgages totalling more than BD 663 million, thereby enabling 46,719 Bahraini families on low-to-medium incomes to realise their aspirations of becoming home owners.





Community Projects

Eskan Bank supports the development of cohesive and sustainable communities by constructing and managing community complexes that provide residents with convenient neighbourhood amenities; and small enterprises with new business and employment opportunities. In 2012, the Bank commenced construction of four new community complexes, bringing the total number of managed retail outlets and flats to 230.



Property Developers

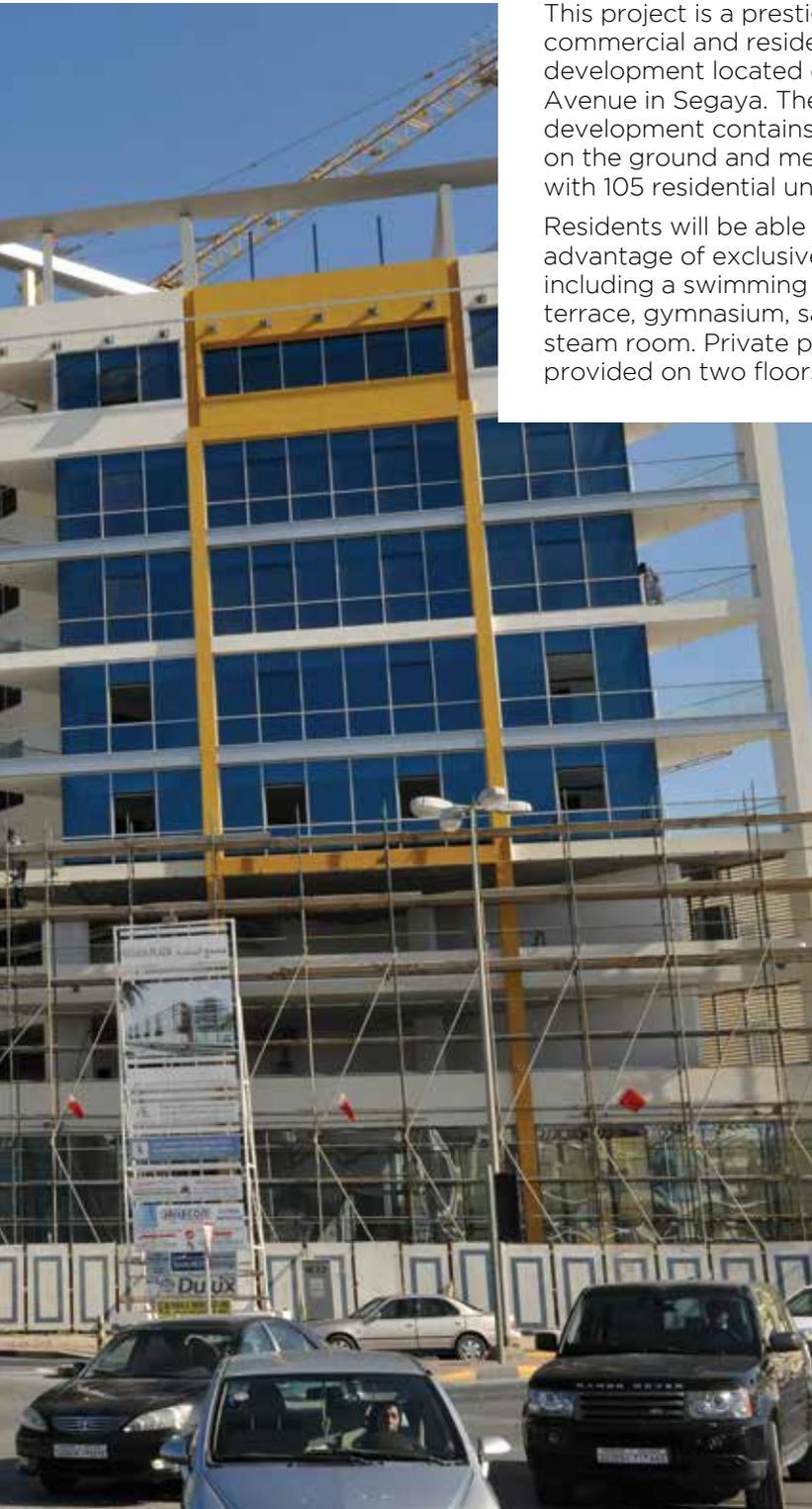
Eskan Bank is committed to encouraging the greater involvement of private sector property developers and contractors in addressing the social and affordable housing needs of Bahraini citizens on low-to-medium incomes. During 2012, the Bank signed an agreement with ALARGAN Bahrain Company, which complements existing agreements with Al Saraya Properties Company, Manara Developments and Capital Real Estate.



New Projects

Segaya Plaza
(under construction)





This project is a prestigious commercial and residential development located on Oman Avenue in Segaya. The nine-storey development contains retail outlets on the ground and mezzanine floors, with 105 residential units above.

Residents will be able to take advantage of exclusive amenities including a swimming pool, roof terrace, gymnasium, sauna and steam room. Private parking will be provided on two floors above the

ground floor for residents, while dedicated ground floor parking will be provided for commercial tenants and customers. The simple yet elegant design of the building includes a carefully selected combination of materials and colours to ensure that Segaya Plaza becomes a visual landmark in this popular and fast-expanding area. The project is expected to be completed in the first quarter of 2013.



Segaya Plaza comprises 10 three-bedroom apartments, each with a floor space of 160 square metres; 75 two-bedroom apartments of 125 square metres; and 20 one-bedroom apartments of 90 square metres.

New Projects

Danat Al Madina (Mixed Use Development)

(under construction)

The largest project to date to be executed by ESKAN Bank this is a strategically-located 'micro-city' containing 316 housing apartments, offices, retail outlets and showrooms. The majority of the residential space is targeted at low-income Bahraini citizens.

The project is located on three plots at the entrance of Isa Town by the intersection of Al Quds Avenue and Muscat Avenue. The urban design

adopted for the project emphasises the central location as a physical link between Isa Town Mall and the Local Market, providing a pleasant and convenient living environment in the vicinity of the workplace and marketplace.

The project comprises 15 six-storey buildings. The basement is a dedicated car parking space with two spaces for each apartment, covering a total area of 22,256



The office space is located separately in a prime location by the intersection of Muscat and Al Quds Avenues, and covers 8,353 square metres.



square metres. The ground floor contains the showrooms and retail spaces, with a total area of 5,639 square metres. The upper five floors contain 316 apartments, all of them with 3 bedrooms, and covering an average area of 174 square metres. In some of the buildings, apartments are also situated on the ground floor.



Risk Management

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

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

A formal structure has been evolved for managing those risks to which Eskan Bank is exposed. This is based on detailing and documenting various risk policies and procedures; the establishment of a Risk Management division staffed by appropriately qualified and experienced personnel to set policies and limits consistent with the Bank's risk appetite, and to provide an overview in relation to risk management and control; and a Committee structure comprising senior

management functionaries to support the management of risk within the Bank. In addition to these management committees, overview of risk management and controls is provided by the Audit Committee on behalf of the Board of Directors. During 2012, the Bank continued to review on an ongoing basis, the implementation of various prudential norms; developed new policies; and reviewed a suite of existing policies and procedures to better fit the Bank's risk appetite and comply with regulatory requirements.

Credit Risk

Credit Risk is the risk of a potential financial loss due to the failure of counterparty to 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 continued to be distanced from the Customer Service team, by routing the proposals to a specialist Loans Department, and an independent Credit Control Department which considers the acceptability of the credit. This ensures that pre-disbursal review of loans is carried out independently of the originating team.

- Credit Policies and Procedures

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



- **Credit Approving Authority**

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

- **Prudential Limits**

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

Market Risk

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

The Department's key objective is to ensure effective monitoring of credit control on collaterals and documentation. The department reviews related procedures, policies, guidelines and standards to ensure prudent practices in Credit Control; to minimise risk; and to ensure that all collateral and documentation are accurate and in place. In 2012, the department continued to make improvements to policies, procedures, guidelines and standards to ensure prudent practice is followed in the credit administration. The department also monitors internal controls to ensure their adequacy and, when necessary, takes corrective action.

Compliance

The Compliance Manager, who reports to the Chief Risk Officer, also has access to the Board of Directors through the Audit Committee, if required. Compliance is responsible for promoting sound compliance practices in the Bank, ensuring adherence to 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, CBB regulations and other regulatory requirements; and generally with sound practices pertinent to those activities.

Corporate Governance

1. Corporate Governance Policy

The Board has laid down the Bank's corporate governance policy and framework. In 2011 the Bank amended its governance policy in compliance with the requirements of the Central Bank of Bahrain and the Corporate Governance Code of the Kingdom of Bahrain. The Board 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 to oversee effective application of corporate governance principles within the Bank. The Audit Committee regularly reviews the Bank's policies approved by the Board of Directors. Additionally, the Bank organised a workshop in January 2013 to introduce corporate governance principles to Board Members not attending the workshop organised by the Bank in 2012, as well as Board Members of subsidiary companies.

2. Shareholder Information

The shareholder of Eskan Bank is the Government of the Kingdom of Bahrain. The Bank was founded with an authorised capital of BD 40 million, and an issued and paid-up capital of BD 15 million. In 2011, the Bank increased its capital upon the Cabinet's approval as per order no. 2113-05. Accordingly, the Bank's capital has reached BD400 million, and the paid up capital is estimated at BD 108.3 million. The increased capital was covered from retained profits available in the Bank.

Shareholders' Notification

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

Periodic Reports

Performance and activities reports, as well as financial statements of Eskan Bank, are submitted to the Ministry of Housing, Ministry of Finance, Ministry of Industry & 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 to obtaining the approval of the Legislation and Legal Opinions Commission on the obligations and contracts entered into by the Bank. It is also subject to National Audit Court supervision.

3. Board of Directors Information

Board composition

Eskan Bank's Board has been appointed by Decree No. 62 of 2011 dated 23 August 2011, in line with Legislative Decree No. 4 of 1979 with respect to the establishment of Eskan Bank amended by Law No. 75 of 2006. The Board of Directors comprises 12 directors drawn from leading Bahraini banking and finance professionals, and academics, who are appointed for a period of 3 years. The Minister of Housing is the ex-officio Chairman of the Bank. One Board Member submitted his resignation from the Board at the end of March 2012.

Board Members' Remuneration

The disbursement of Directors' remuneration (excluding His Excellency the Chairman being a minister) is in accordance with Cabinet Order No. 03-1920 dated 4 March 2007, which states the following: "Allocating a remuneration of 4,000 Bahraini Dinars annually for each of Eskan Bank's Chairman and Deputy Chairman and Board Members; and the allocation of 300 Bahraini Dinars per Chairman of the Board Committees, and the amount of 200 Bahraini Dinars to each Committee Member for attending each meeting." Aggregate remuneration paid to Board members up to the end of 2012 was BD 52,300.

Board Secretary

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

Directors' 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, financial, operational, internal control and compliance issues. The Board's remit includes charting the direction of the Bank, setting objectives, formulating strategy, and establishing policy guidelines. The Board has full authority to take decisions on setting the annual operating plan and budget; authority levels and major capital expenditure; divestitures, mergers and acquisitions; certain strategic investments and disposal of assets; capital expenditure, review of the financial statements and appointment of external auditors; as well as the implementation of corporate ethics and the Code of Conduct. The Board is also responsible for monitoring Management and the running of the business according to an agreed framework. The Board is ultimately accountable and responsible for the affairs and performance of the Bank. The Board of Directors in practice has delegated certain duties to the General Manager and Board Member.

Whistle-Blowing Policy

The Bank has a whistle-blowing policy with designated officials to whom employees can approach. The policy provides adequate protection to 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. No conflict of interest between the Bank and the Board of Directors has been recorded.

Performance Evaluation of Board Members and its Committees

In accordance with the Corporate Governance Policy, the Board has adopted the performance evaluation models for Board Members' performance and Board Committee Members' performance. The Board and its affiliated Committees conducted a performance appraisal in 2012, the results of which will be presented at the first meeting of the Remuneration, Nomination and Corporate Governance Committee in 2013.

4. Board Committees

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

Board Committees composition, roles and responsibilities

Executive Committee

Members

- 1- Mr. Abdul Razaq Abdulla Al Qassim (Chairperson)*
- 2- Mr. Mohamed Husain Bucheeri (Vice Chairperson)
- 3- Mrs. Sabah Khalil Almoayyed
- 4- Mr. Ali Yusuf Fardan
- 5- Mr. Khaled Ali Al Ameen
- 6- Mr. Ahmed Jasim Farraj

Terms of reference

- The committee is formed with a minimum of three members, most of whom shall be independent non-executive, and 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 2012 were five).
- Majority of the Members are required to attend the meetings to ensure a quorum.
- Concerned chiefs, heads and managers are invited to attend the meetings (if necessary).

Responsibilities

The role of the committee is to assist the Board in carrying out its duties. Therefore the committee is to exercise its roles and responsibilities as required by the terms of reference, or assigned by the Board of Directors from time to time.

* Mr. Abdul Razaq Abdulla Al Qassim submitted his resignation as Eskan Bank Board Member at the end of March 2012.

Corporate Governance

(Continued)

4. Board Committees (continued)

Audit Committee

Members

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

Terms of reference

- The committee is formed with a minimum of three members, most of whom shall be independent non-executive, and appointed by the Board
- A minimum number of four meetings are required to be held each year (actual meetings held in 2012 were five).
- At least two Members are required to attend the meetings to ensure a quorum.
- General Manager and concerned chiefs, heads and managers are invited to attend the meetings. (If necessary).

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

Responsibilities

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

Remuneration, Nomination & Corporate Governance Committee

Members

- 1- H.E. Eng. Basim Bin Yacob Al Hamar (Chairman)
- 2- Dr. Mohamed Ahmed Juman
- 3- Yusuf Abdullah Taqi

Terms of reference

- The committee is formed with a minimum of three members, most of whom shall be independent non-executive, and appointed by the Board.
- A minimum number of two meetings are required to be held each year (actual meetings held in 2012 were three).
- At least two Members are required to attend the meetings to ensure a quorum.
- General Manager and concerned chiefs, heads and managers are invited to attend the meetings (if necessary).

Responsibilities

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

Investigation Committee (Special Temporary Committee)

Members	Terms of reference
1- Mr. Redha Abdullah Faraj (Chairperson) 2- Dr. Mohamed Ahmed Juman 3- Dr. Zakareya Sultan Al Abbasi 4- Mr. Yusuf Saleh Khalaf	Upon the instructions of His Royal Highness the Prime Minister regarding the National Audit Court Report 2012, H.E. the Minister of Housing & Eskan Bank's Chairman issued a Decision to form a committee to investigate and ensure that the Bank's Executive Management has implemented the recommendations stipulated in the Audit Court Report concerning the Bank's human resources policies and procedures.

5. 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 the majority of the Directors in person, provided that the Chairman or Vice Chairman shall attend in person. During 2012, four Board meetings were held. The schedule below shows dates of meetings and attendance of Board Members:

Members	15 Feb. 2012 (First Meeting)	25 April 2012 (Second Meeting)	20 June 2012 (Third Meeting)	5 Dec. 2012 (Fourth Meeting- First Session)	10 Dec. 2012 (Fourth Meeting- Second Session)
H.E. Eng. Basim Bin Yacob Al Hamar (Chairman)	✓	✓	✓	✓	✓
Mr. Abdul Razaq Abdulla Al Qassim (Vice Chairman)*	✓	-	-	-	-
Mrs. Sabah Khalil Almoayyed	✓	✓	✓	✓	✓
Mr. Ali Yusuf Fardan	✓	✓	✓	✓	x
Mr. Yusuf Abdulla Taqi	✓	✓	✓	✓	✓
Dr. Mohamed Ahmed Juman	✓	✓	✓	✓	✓
Dr. Zakareya Sultan Al Abbasi	✓	✓	✓	✓	✓
Mr. Redha Abdulla Faraj	✓	✓	✓	✓	✓
Mr. Mohamed Husain Bucheeri	✓	✓	x	✓	✓
Mr. Khaled Ali Al Ameen	x	✓	✓	✓	✓
Mr. Yusuf Saleh Khalaf	✓	✓	✓	✓	✓
Mr. Ahmed Jasim Farraj	✓	x	✓	✓	✓

* Mr. Abdul Razaq Abdulla Al Qassim submitted his resignation as Eskan Bank Board Member at the end of March 2012.

Executive Committee Meetings

The Executive Committee held five meetings in 2012. The schedule below shows dates of meetings and attendance of Board Members:

Members	12 Feb. 2012 (First Meeting)	3 April 2012 (Second Meeting)	11 June 2012 (Third Meeting)	15 Oct. 2012 (Fourth Meeting- First Session)	24 Oct. 2012 (Fourth Meeting- Second Session)	24 Dec. 2012 (Fifth Session)
Mr. Abdul Razaq Abdulla Al Qassim (Vice Chairperson)*	✓	x	x	x	x	x
Mr. Mohamed Husain Bucheeri (Vice Chairperson)	✓	✓	✓	✓	✓	✓
Mrs. Sabah Khalil Almoayyed	✓	✓	✓	✓	✓	✓
Mr. Ali Yusuf Fardan	x	✓	x	✓	✓	✓
Mr. Khaled Ali Al Ameen	✓	✓	✓	✓	x	✓
Mr. Ahmed Jasim Farraj	✓	✓	x	✓	✓	✓

* Mr. Abdul Razaq Abdulla Al Qassim submitted his resignation as Eskan Bank Board Member at the end of March 2012.

Corporate Governance

(Continued)

5. Board Meeting and Attendances (continued)

Audit Committee Meetings

The Audit Committee held five meetings in 2012. The schedule below shows dates of meetings and attendance of Board Members:

Members	14 Feb. 2012	14 April 2012	12 July 2012	14 Oct. 2012	10 Dec. 2012
Mr. Redha Abdulla Faraj (Chairperson)	✓	✓	✓	✓	✓
Mr. Yusuf Saleh Khalaf (Vice Chairperson)	✓	x	✓	✓	✓
Dr. Zakareya Sultan Al Abbasi	✓	✓	✓	✓	✓

Remuneration, Nomination and Corporate Governance Committee Meetings

The Remuneration, Nomination and Corporate Governance Committee held three meetings in 2012. The schedule below shows dates of meetings and attendance of Board Members:

Members	13 Feb. 2012	27 June 2012	26 Dec. 2012
H.E. Eng. Basim Bin Yacob Al Hamar (Chairperson)	✓	✓	✓
Dr. Mohamed Ahmed Juman	✓	✓	✓
Mr. Yusuf Abdulla Taqi	✓	✓	✓

Investigation Committee Meetings

Members

Mr. Redha Abdulla Faraj (Chairperson)
 Mr. Yusuf Saleh Khalaf
 Dr. Zakareya Sultan Al Abbasi
 Dr. Mohamed Ahmed Juman

The Committee held six meetings and submitted its report to H.E Minister of Housing and Chairman of Eskan Bank.

Corporate Governance Workshop

A workshop will be organised in January 2013 to introduce Corporate Governance Principles to Board Members of Eskan Bank's Subsidiary Companies, and to Eskan Bank's Board Members that did not attend the workshop organised by the Bank in 2012.

6. Shari'a Supervisory Board (SSB)

The Shari'a Supervisory Board of the Bank was formed in May 2009 by the Bank's Board. Members are appointed for a 3-year term. Their terms were completed in April 2012, and the Board of Directors issued resolution no. 12/4 for 2012 to form a new Shari'a Supervisory Board. It will commence assumption of its roles and responsibilities at the beginning of 2013.

Members

Dr. Sh. Abdul Sattar Abu Ghuddah
(Chairperson)
Sh. Nezam Yacouby (Vice Chairperson)
Dr. Sh. Abdul Hussain Al Oraibi (Member)

Responsibilities

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.

7. 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

Members

GM (Chairperson)
DGM & Chief Business Officer
Chief Risk Officer
Chief Property Development Officer
Head of Group, Human Capital, Administration
& Corporate Communications
Head of Information Technology & Operations
Chief Finance Officer

Responsibilities

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.

Management Risk Committee

Members

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

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.

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

Corporate Governance

(Continued)

7. Management (continued)

Asset & Liability Management Committee (ALCO)

Members	Responsibilities
GM (Chairperson) Chief Financial Officer (Secretary) DGM & Chief Business Officer Chief Risk Officer Head of Treasury	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.

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

IT Steering Committee

Members	Responsibilities
General Manager (Chairperson) Chief Business Officer & Deputy General Manager Chief Risk Officer Chief Development Officer Chief Financial Officer Head of Human Capital Group Head of Internal Audit Head of IT & Operations Head of Risk Management	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.

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

New Product Committee

Members	Responsibilities
DGM & Chief Business Officer (Chairperson) Head of Sales & Marketing Head of Information Technology & Operations Manager of Islamic Banking	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.

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

Human Capital Committee

Members

Head of Group, Human Capital, Administration & Corporate Communications (Chairperson)
Senior Manager - HC (Secretary)
General Manager
DGM & Chief Business Officer
Head of Information Technology & Operations
Head of Retail Banking

Responsibilities

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

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

Senior Management Remuneration

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

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

Aggregate remuneration paid for senior management in 2012 was BDxxxx.

8. Compliance and Anti-money Laundering

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

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

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

9. Communication Strategy

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

10. Internal Audit Role

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

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

Corporate Governance

(Continued)

11. Subsidiaries and Associate Companies

Name/Entity	Headquarters	Legal Status	Percentage	Share value
Southern Tourism Company	Bahraini	B.S.C. (closed)	100%	BD 250K
Southern Area Development Company	Bahraini	B.S.C. (closed)	28.125%	BD 2,250K
Eskan Properties Company	Bahraini	B.S.C. (closed)	99%	BD 250K
Eskan RMBS Company	Bahraini	B.S.C. (closed)	99%	BD 1000
Ebdaa Bank	Bahraini	B.S.C. (closed)	20%	USD 1 million
Smart Building Material Company	Bahraini	S.P.C.	100%	BD 250K
Naseej	Bahraini	B.S.C. (closed)	3%	BD 3,27 million
Saar Complex Co.	Saar Complex Co. was liquidated in October 2012 and its assets were distributed between Eskan Bank and Seef Properties.			

Due to the unique nature of the Bank being fully owned by the Government of the Kingdom of Bahrain, and in pursuance of the Articles of Association attached to Law no. (4) for 1979, the Cabinet is the sole authorised party for appointing Board Members, for which the Bank is not required to hold the Annual General Meeting. All key resolutions issued by the Bank and that usually need Ordinary or Extraordinary General Assembly approval, will be subject to Cabinet approval.



Shari'a Supervisory Board Report

In the name of Allah, Most Gracious, Most Merciful
Praise be to Allah, and may peace and blessing be upon our
Prophet Mohammed, his family and companions.

Assalam Alaykum Wa Rahmatu Alia Wa Barakatoh

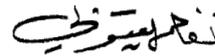
Pursuant to the power entrusted to the Shari'a Supervisory Board to supervise the Bank's activities, we hereby submit the following report.

The Shari'a Supervisory Board monitored the operations related to the Bank throughout the financial year ended on 31 December 2012 to express an opinion on the Bank's adherence to the provisions and principles of Islamic Shari'a in its activities by following the guidelines and decisions issued by the Shari'a Supervisory Board. The Shari'a Supervisory Board believes that ensuring the conformity of its activities and investments with the provisions of Islamic Shari'a is the responsibility of the Banks Management while the Shari'a Supervisory Board is only responsible for expressing an independent opinion and preparing a report thereafter.

The Shari'a Supervisory Board's monitoring function included the checking of documents and procedures to scrutinise each operation carried out by the Bank, whether directly or through the internal Shari'a audit department (the function of which has been outsourced) which has obtained all information and clarifications that were deemed necessary to confirm that the Bank did not violate the principles and provisions of Islamic Shari'a. The Shari'a Supervisory Board held several meetings throughout the financial year ended on 31 December 2012 and replied to all inquiries, in addition to approving a number of financial products presented by the Management.

The Shari'a Supervisory Board believes that:

- 1 All contracts and transactions conducted by the Bank throughout the year ended on 31 December 2012 were in accordance with the standard contracts pre-approved by the Shari'a Supervisory Board; and
- 2 The Bank was committed to the Shari'a standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).



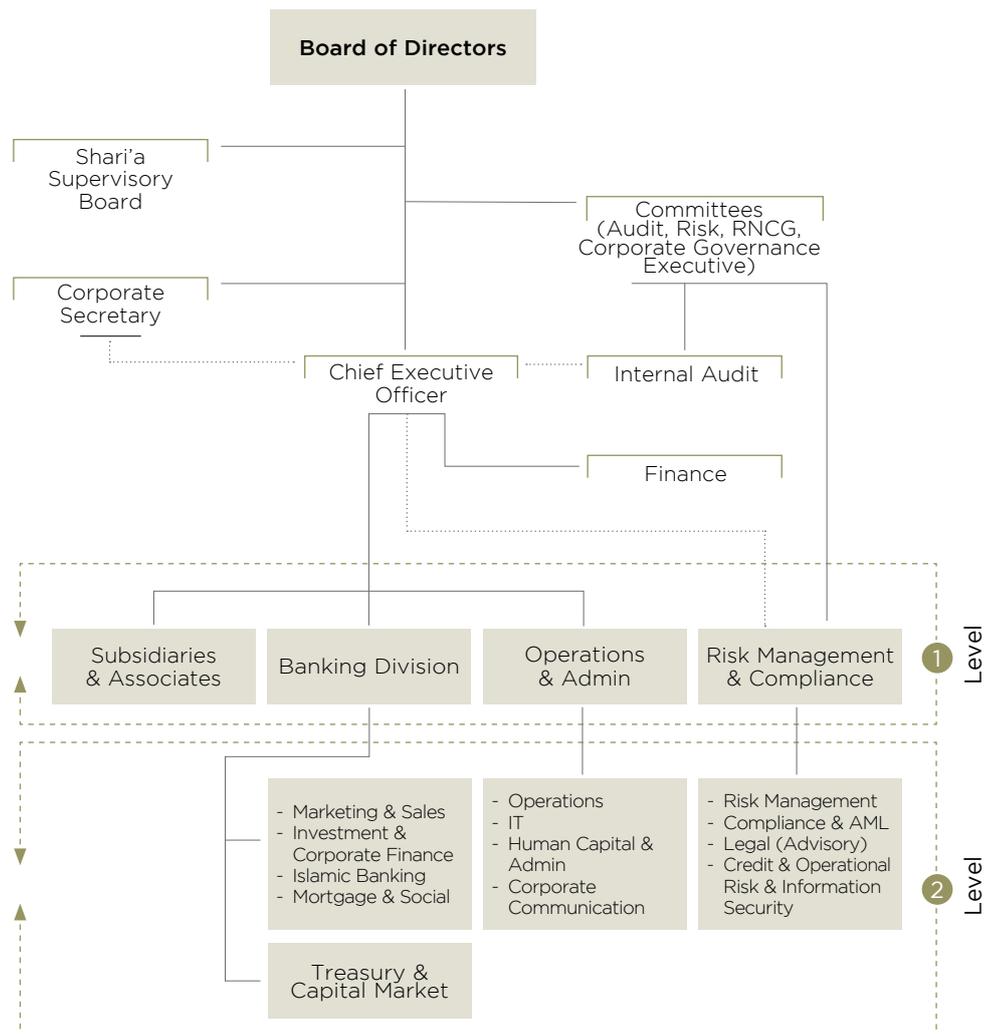
Shaikh Nezam Mohammed Saleh Yacouby
Chairman

Dr. Shaikh Abdul Aziz Khalifa Al Qassar
Vice Chairman



Sh. Abdul Nasser Omar Al Mahmood
Member

Organizational Chart



Executive Management

Mrs. Sabah Khalil Almoayyed

General Manager - Board of Director

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

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

She assumed the present position in 2004.

Mr. Ahmad Tayara

Chief Business Officer &
Deputy General Manager

Mr. Ahmad Tayara has over sixteen years of experience in both Islamic and Conventional Banking, particularly in the areas of investment banking, equity capital market, corporate finance, real estate, private equity & corporate banking. He has worked for leading institutions such as Ithmaar Bank-Bahrain. Prior to joining ESKAN bank, he was General Manager - Investment Banking, Elaf bank.

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

He assumed the present position in 2012.

Dr. Naeema Al Dosseri

Head of Group, Human Capital &
Administrator

Dr. Naeema Al Dosseri has over twenty five years of experience in Human Resource management, and has worked with leading Islamic investment banks such as Gulf Finance House and Capinvest.

Dr. Al Dosseri holds a PhD in Human Resources Management from University of Leicester, UK.

Previously she was a member of the Shura Council and Supreme Council for Women. Currently she is a member of the Strategic Planning Association, and the Human Development Committee of the Bahrain Chamber of Commerce and Industry.

She assumed the present position in 2008.

Mr. Srikanth Sheshadri

Chief Risk Officer

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

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

He assumed the present position in 2007.

Mr. Ramachandran Chellam

Chief Financial Officer

Mr. Ramachandran Chellam has over twenty years of 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 Bombay, India.

He assumed the present position in 2010.

Mr. Mohd. Essam Kamour

Head of Legal & Corporate Secretary

Mr. Mohd Essam Kamour has over twenty years of 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.

Mr. Hani Abdulmahdi Nayem

Head of Internal Audit

Mr. Hani Nayem has over ten years of experience in the Banking and Audit 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 (Now Ithmaar Bank), BDO Jawad Habib, Arthur Andersen, CPA firm.

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

He assumed the present position in 2009.

Mr. Eyad Obaid

Deputy Acting Chief Development Officer / Eskan Properties Company

Mr. Eyad Obaid has over twenty nine years of experience in various Construction Industry, Private and Governmental with wide experience in projects management, execution and Property development. Prior to joining Eskan Bank he was with Bahrain Defence Force, Military Works Directorate

Mr. Eyad holds a BSc degree in Civil Engineering.

He assumed the present position in 2005.

Social Responsibility

Eskan Bank has an enduring commitment to act as a responsible corporate citizen by contributing to the betterment of the local community; and to play its role in supporting the socio-economic development of the Kingdom of Bahrain.

In 2012, through its corporate social responsibility (CSR) programme, the Bank provided 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, and encouraging staff to participate in community activities. Some examples of Eskan Bank's CSR activities in these areas during the year are listed below.

Developing the potential of young Bahrainis

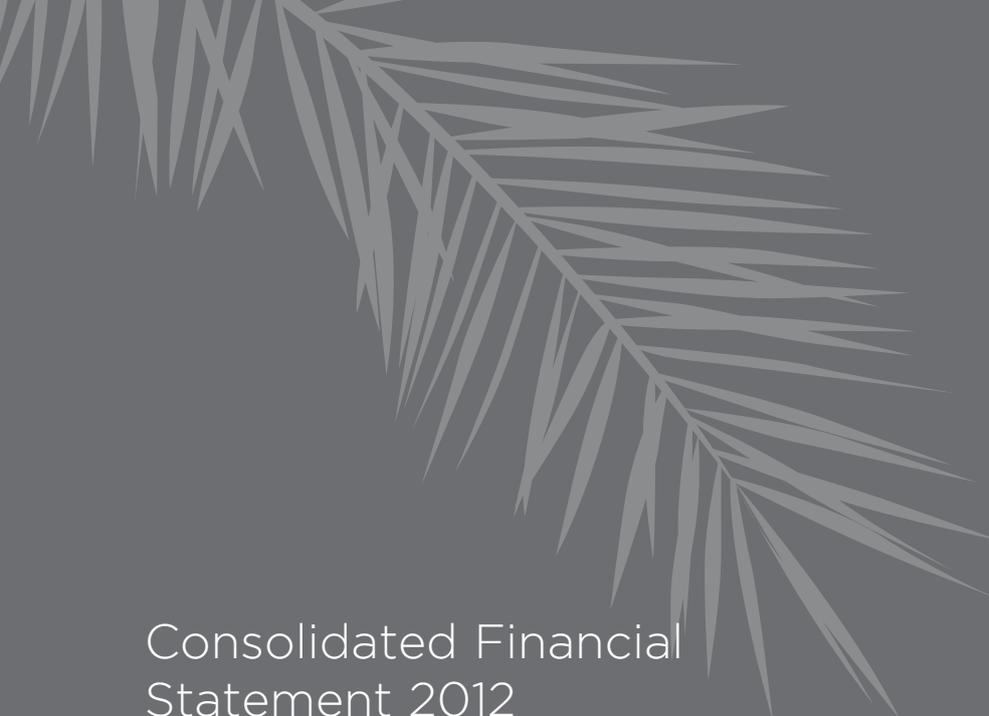
- For the third year running, Eskan Bank staff acted as volunteers for the Injaz Bahrain schools training programme in 2012. Injaz partners with businesses and educators, with the aim of providing students in intermediate and secondary schools with a business-oriented outlook; and the knowledge, skills, 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.
- The Bank continued to provide students from the University of Bahrain studying banking and finance, and information technology, with summer internships across the organisation.

Protecting the environment

- Through its Paperless Environment Project, Eskan Bank made good progress in 2012 in further reducing paper and printer usage across the organisation. All waste paper is recycled and donated to charitable causes.

Encouraging staff participation in the community

- The Social Committee of the Bank organised a Charity Dish Event, in which all food was donated by Eskan Bank staff. Proceeds from the sale of dishes were donated to charities concerned with diabetic children.
- The Bank organised a staff blood donation campaign in conjunction with Salmaniya Medical Centre.
- Staff also participated in various other community and charitable outreach activities.



Consolidated Financial Statement 2012 Contents

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

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 2012, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other regulatory requirements

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

- a) the Bank has maintained proper accounting records and the financial statements are in agreement therewith; and
- b) the financial information contained in the Report of the Board of Directors is consistent with the financial statements.

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2012 that might have had a material adverse effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests.



20 February 2013
Manama, Kingdom of Bahrain

Consolidated Statement of Financial Position

As at 31 December 2012

	Notes	2012	Bahraini dinars 2011
ASSETS			
Cash and bank balances	5	106,356,873	89,412,479
Investments	6	3,541,096	3,541,096
Loans	7	355,750,177	313,271,736
Investment in associates	8	8,939,478	6,253,760
Investment properties	9	39,007,771	38,857,706
Development properties		11,694,915	11,687,608
Other assets	10	7,697,232	11,941,758
Disposal group	21	435,690	-
TOTAL ASSETS		533,423,232	474,966,143
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from financial and other institutions		51,332,518	39,016,846
Government accounts	11	192,422,632	155,591,186
Term loans	12	65,500,000	71,500,000
Other liabilities	13	19,924,105	13,150,123
Disposal group	21	144,570	-
TOTAL LIABILITIES		329,323,825	279,258,155
EQUITY			
Share capital	14	108,300,000	108,300,000
Contribution by shareholder		20,291,984	20,228,918
Statutory reserve		54,461,896	54,461,896
Retained earnings		21,045,527	12,717,174
TOTAL EQUITY		204,099,407	195,707,988
TOTAL LIABILITIES AND EQUITY		533,423,232	474,966,143

The consolidated financial statements were approved by the Board of Directors on 20th February 2013 and signed on its behalf by:



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



Sabah Khalil Al Moayyed
General Manager and Director

The attached notes 1 to 28 form part of these consolidated financial statements

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Notes	2012	Bahraini dinars 2011
Management charges		10,738,355	9,928,148
Interest income	15	2,924,496	2,641,988
Income from investment properties	16	360,554	826,200
Other income	17	2,584,012	3,820,412
TOTAL INCOME		16,607,417	17,216,748
Staff costs		(3,429,745)	(4,243,026)
Interest expense		(2,467,686)	(3,378,448)
Other expenses	18	(1,542,968)	(1,455,317)
Net share of loss of associates	8	(614,282)	(323,046)
Impairment provision on loans		(82,383)	(244,643)
Impairment provision on properties - net	19	(142,000)	(239,857)
TOTAL EXPENSES		(8,279,064)	(9,884,337)
PROFIT FOR THE YEAR		8,328,353	7,332,411
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		8,328,353	7,332,411


Basim Bin Yacob Al HamerMinister of Housing
Chairman of Eskan Bank

Sabah Khalil Al Moayyed

General Manager and Director

The attached notes 1 to 28 form part of these consolidated financial statements

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Share capital BD	Contribution by shareholder BD	Statutory reserve BD	Retained earnings BD	Total equity BD
At 1 January 2012	108,300,000	20,228,918	54,461,896	12,717,174	195,707,988
Transfer of land (note 9)	-	63,066	-	-	63,066
Total comprehensive income	-	-	-	8,328,353	8,328,353
At 31 December 2012	108,300,000	20,291,984	54,461,896	21,045,527	204,099,407
At 1 January 2011	15,000,000	19,824,588	7,761,896	145,384,763	187,971,247
Transfer from retained earnings (note 14)	93,300,000	-	46,700,000	(140,000,000)	-
Transfer of land (note 9)	-	404,330	-	-	404,330
Total comprehensive income	-	-	-	7,332,411	7,332,411
At 31 December 2011	108,300,000	20,228,918	54,461,896	12,717,174	195,707,988

The attached notes 1 to 28 form part of these consolidated financial statements

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Notes	2012	Bahraini dinars 2011
OPERATING ACTIVITIES			
Profit for the year		8,328,353	7,332,411
Adjustments for:			
Net share of loss of associates	8	614,282	323,046
Gain on transfer of investment properties		-	(604,584)
Impairment provision on loans	7	82,383	244,643
Depreciation		422,969	483,999
Investments written off	6	-	2,184
Development properties written off		-	462,214
Development properties reversal of impairment provision		-	(133,060)
Investment properties impairment provision	9	142,000	(89,297)
Operating profit before working capital changes:		9,589,987	8,021,556
Increase in placements with banks		(6,483,767)	-
Increase in loans		(42,560,824)	(34,992,874)
Increase in development properties		(402,137)	(237,622)
(Increase) / decrease in other assets		(19,174)	165,190
Increase in deposits from financial and other institutions		12,315,672	17,513,814
Increase in other liabilities		6,918,552	7,408,685
Net cash flows used in operating activities		(20,641,691)	(2,121,251)
INVESTING ACTIVITIES			
Receipts on redemption of investments		-	35,691
Net sale / (purchase) of equipment		286,007	(661,026)
Net cash flows from / (used in) investing activities		286,007	(625,335)
FINANCING ACTIVITIES			
Repayment of term loans		(22,666,667)	(16,666,667)
Proceeds from term loans		16,666,667	-
Net movement in Government accounts		36,831,446	35,508,402
Net cash flows from financing activities		30,831,446	18,841,735
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at 1 January	5	89,412,479	73,317,330
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	5	99,888,241	89,412,479
Cash and cash equivalents comprise:			
Cash and cash equivalents	5	99,873,106	89,412,479
Disposal group - cash and cash equivalents	21	15,135	-
		99,888,241	89,412,479
Non-cash activity			
Investment in associate by transfer of receivables	8	3,300,000	-

The attached notes 1 to 28 form part of these consolidated financial statements

Notes to the Consolidated Financial Statements

As at 31 December 2012

1 CORPORATE INFORMATION

Incorporation

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

Activities

The Bank's principal activities include 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 the Ministry of Finance ("MOF") based on annual budgetary allocations for housing loans. The Bank also records certain transactions based on instructions from the MOH and the MOF and decisions taken by the Government of the Kingdom of Bahrain. The Bank's registered office is at Almoayyed Tower, Seef district, Manama, Kingdom of Bahrain.

2 BASIS OF PREPARATION

Statement of compliance

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

Accounting convention

The consolidated financial statements have been prepared under the historical cost convention as modified by the remeasurement at fair value of investments carried at fair value through profit or loss and available for sale investments.

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

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the consolidated statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in note 26.

Basis of consolidation

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

Subsidiaries are fully consolidated from the date on which 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 Group that are consolidated:

Subsidiary	Ownership for 2012	Ownership for 2011	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%	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 securitisation of housing loans.	100%	100%	2007	Kingdom of Bahrain
Eskan Properties Company B.S.C.(c) ('EPC') EPC's principal activities are managing certain investment properties.	100%	100%	2007	Kingdom of Bahrain
Smart Building Materials (SPC) Smart Building Materials (SPC) principal activities are to create the entire value chain to manufacture cost-effective, environmentally efficient homes for the less advantaged.	100%	100%	2009	Kingdom of Bahrain

3 ACCOUNTING POLICIES

3.1 Summary of significant accounting policies

The accounting policies adopted are consistent with those of the previous financial year. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below:

Cash and cash equivalents

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

Placements with financial institutions and others

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

Loans

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

Social housing loans represent loans disbursed to Bahraini nationals for the purpose of buying, constructing and repairing houses, based on directives from the MOH. Commercial housing loans represent loans disbursed to Bahraini nationals in the ordinary course of business.

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

Investments

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

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

Investments carried at fair value through profit or loss

Investments are classified as "carried at fair value through profit or loss" if they are designated on the date of acquisition (i.e. initial recognition) as carried at fair value through profit or loss.

Investments classified as "carried at fair value through profit or loss" are subsequently remeasured at fair value. The unrealised gains and losses arising from the remeasurement to fair value are included in the consolidated statement of comprehensive income as "Net fair value loss on investments carried at fair value through profit or loss".

Available for sale investments

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

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

Government accounts

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

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

Deposits from financial and other institutions and term loans

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

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2012

Fair values

The fair value of financial instruments that are quoted in an active market is determined by reference to market bid prices for assets and offer prices for liabilities, at the close of business on the statement of financial position date, without deduction for transaction costs.

The fair value of liabilities with a demand feature is the amount payable on demand.

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

De-recognition of financial instruments

Financial assets

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

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

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

Financial liabilities

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

The difference between the carrying value of the original financial liability and the consideration paid is recognised in consolidated statement of comprehensive income.

Impairment of financial assets

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

Impairment of financial assets held at amortised cost

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

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

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

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

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

3 ACCOUNTING POLICIES (continued)

3.1 Summary of significant accounting policies (continued)

Available for sale investments

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

Impairment of non financial assets

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

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

Offsetting of financial instruments

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

Recognition of income and expense

Income recognition

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

Management charges

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

Interest income

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

Rental income

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

Other income

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

Dividend income

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

Employees' end of service benefits

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

Amortised cost measurement

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

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2012

Investments in associates

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

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

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

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

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

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

Development properties

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

Investment properties

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

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

Provisions

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

Contingent liabilities and contingent assets

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

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

Statutory Reserve

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

Trade date accounting

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

3 ACCOUNTING POLICIES (continued)

3.1 Summary of significant accounting policies (continued)

Disposal group

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

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

3.2 Prospective changes in accounting policies

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

IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 "Financial Instruments: Presentation". The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and will become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work although the adoption date is subject to the recently issued Exposure Draft on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but "Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures", issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the Board will address impairment and hedge accounting. The Group will quantify the effect of the adoption of the first phase of IFRS 9 in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

The standard becomes effective for annual periods beginning on or after 1 January 2013. It replaces the requirements of IAS 27 "Consolidated and Separate Financial Statements" that address the accounting for consolidated financial statements and SIC 12 "Consolidation - Special Purpose Entities". What remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The adoption of IFRS 10 is not expected to have a significant impact on the accounting treatment of investments currently held by the Group.

IFRS 11 Joint Arrangements

The standard becomes effective for annual periods beginning on or after 1 January 2013. It replaces IAS 31 "Interests in Joint Ventures" and SIC 13 "Jointly Controlled Entities - Non-monetary Contributions by Venturers". Because IFRS 11 uses the principle of control in IFRS 10 to define control, the determination of whether joint control exists may change. The adoption of IFRS 11 is not expected to have a significant impact on the accounting treatment of investments currently held by the Bank.

IFRS 12 Disclosure of Involvement with Other Entities

The standard becomes effective for annual periods beginning on or after 1 January 2013. It includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 "Interests in Joint Ventures" and IAS 28 "Investment in Associates". These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. One of the most significant changes introduced by IFRS 12 is that an entity is now required to disclose the judgements made to determine whether it controls another entity. Many of these changes were introduced by the IASB in response to the financial crisis. Now, even if the Group concludes that it does not control an entity, the information used to make that judgement will be transparent to users of the financial statements to make their own assessment of the financial impact were the Group to reach a different conclusion regarding consolidation.

The Group will need to disclose more information about the consolidated and unconsolidated structure of entities with which it is involved or has sponsored. However, the standard will not have any impact on the financial position or performance of the Group.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2012

IFRS 13 Fair Value Measurement

The standard becomes effective for annual periods beginning on or after 1 January 2013. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRS. There are also additional disclosure requirements.

Adoption of the standard is not expected to have a material impact on the financial position or performance of the Group.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gains on hedges of net investments, exchange differences on translation of foreign operations, net movements on cash flow hedges and net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans). The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 "Investments in Associates", has been renamed IAS 28 "Investments in Associates and Joint Ventures", and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2013.

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

Annual Improvements May 2012

These improvements will not have an impact on the Group, but include:

IFRS 1 First-time Adoption of International Financial Reporting Standards

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 34 Interim Financial Reporting

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 2013.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

As at 31 December 2012

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)**Judgements** (continued)*Going concern*

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

Classification of investments

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

Estimates

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

Impairment losses on loans

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

Impairment of available-for-sale investments

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

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

5 CASH AND BANK BALANCES

	2012 BD	2011 BD
Cash and bank balances		
Cash	149,708	125,799
Balances with banks	1,042,391	1,122,145
Balances with the Central Bank of Bahrain	982,532	839,291
	2,174,631	2,087,235
Short term placements (with an original maturity of 90 days or less)		
Placements with banks and other institutions	26,510,384	30,507,932
Placements with the Central Bank of Bahrain	71,188,091	56,817,312
	97,698,475	87,325,244
Total cash and cash equivalents	99,873,106	89,412,479
	2012 BD	2011 BD
Placements (with an original maturity of more than 90 days)		
Placements with banks and other institutions	3,500,000	-
Placements with the Central Bank of Bahrain	2,983,767	-
	6,483,767	-
Total cash and bank balances	106,356,873	89,412,479

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2012

6 INVESTMENTS

Unquoted	2012 BD	2011 BD
Designated at fair value through profit or loss		
At 1 January	-	37,699
Repayment of capital	-	(35,691)
Investments written off	-	(2,008)
At 31 December	-	-
Available for sale		
At 1 January	3,541,096	3,541,272
Investments written off	-	(176)
At 31 December	3,541,096	3,541,096
Total	3,541,096	3,541,096

7 LOANS

Unquoted	2012 BD	2011 BD
(i) Social loans		
Loans (net of reductions and waivers written off)	355,526,111	303,374,598
Less: Provisions for 50% subsidy under Amiri Decree No. 18/1977 (d (v))	(27,387,842)	(18,216,245)
	328,138,269	285,158,353
(ii) Commercial loans		
Gross Loans	28,174,848	28,593,940
Less: Provision for impairment	(562,940)	(480,557)
	27,611,908	28,113,383
Total loans	355,750,177	313,271,736

a) Age analysis of past due but not impaired loans

	2012				Total BD
	Up to 30 days BD	31 to 60 days BD	61 to 91 days BD	Above 91 days BD	
Social loans	-	13,340,873	8,777,978	23,422,573	45,541,424
Commercial loans	3,742,893	380,093	120,030	-	4,243,016
	3,742,893	13,720,966	8,898,008	23,422,573	49,784,440

	2011				Total BD
	Up to 30 days BD	31 to 60 days BD	61 to 91 days BD	Above 91 days BD	
Social loans	1,162	14,074,004	6,289,737	5,248,061	25,612,964
Commercial loans	4,132,287	760,905	204,839	-	5,098,031
	4,133,449	14,834,909	6,494,576	5,248,061	30,710,995

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

7 LOANS (continued)

As at 31 December 2012

b) Age analysis of impaired loans

	2012			Total BD
	3-6 Months BD	6-12 Months BD	1-3 Years BD	
Commercial loans	327,900	246,400	548,670	1,122,970
	2011			
	3-6 Months BD	6-12 Months BD	1-3 Years BD	Total BD
Commercial loans	431,954	377,235	-	809,189

The total amount of specific impairment provision against commercial loans as at 31 December 2012 amounted to BD 292,421 (31 December 2011: BD 202,727).

c) Collective impairment provision for commercial loans

	2012 BD	2011 BD
At 1 January	277,830	235,914
Charge for the year	(7,311)	41,916
At 31 December	270,519	277,830

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

d) Social housing loans

Social 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.

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 installments.

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

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

- (iv) On 16 December 2006, His Majesty, King Hamad Bin Isa Bin Salman Al Khalifa, announced a waiver of 50% ("2006 Reduction") of the housing loans granted.
- (v) The provision of this subsidy which was made in earlier years, represents a waiver of 50% of monthly installments relating to eligible loans covered by Amiri Decree No. 18/1977. The waivers / reductions mentioned in (iv) above have also been applied to the eligible loans.
- (vi) On 26 February 2011, His Majesty, King Hamad Bin Isa Bin Salman Al Khalifa, announced a waiver of 25% ("2011 Reduction") on installments of social housing loans and a 25% reduction on outstanding balances of mortgages where the Group acts as a collection agent.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2012

8 INVESTMENT IN ASSOCIATES

	2012 BD	2011 BD
At 1 January	6,253,760	2,031,380
Acquisitions	3,300,000	4,545,426
Share of losses	(614,282)	(323,046)
At 31 December	8,939,478	6,253,760

The principal associates of the Group are:

Name	Country of Incorporation	Carrying Value	
		2012 BD	2011 BD
Bahrain Property Musharaka Trust Fund	Kingdom of Bahrain	7,325,334	4,468,883
Southern Area Development Company	Kingdom of Bahrain	1,319,267	1,448,105
Ebdaa Bank	Kingdom of Bahrain	294,877	327,772
Saar Complex Company	Kingdom of Bahrain	-	9,000
		8,939,478	6,253,760

Name	Nature of activities	Ownership for	
		2012	2011
Bahrain Property Musharaka Trust Fund	Development of two real-estate projects in the Kingdom of Bahrain.	42.92%	42.92%
Southern Area Development Company	Developing the Hawar island and surrounding area into a major tourist attraction.	28.13%	28.13%
Ebdaa Bank	Providing micro-financing to low-to-middle income Bahrainis.	20.00%	20.00%
Saar Complex Company	Manage and develop saar commercial complex in Saar district. The company was liquidated during the year.	-	45.00%

	2012 (unaudited) BD	2011 (unaudited) BD
Summarised financial information of associates		
Total assets	31,039,073	28,079,818
Total liabilities	2,041,921	8,338,050
Total revenues	483,928	918,476
Total net loss	(888,064)	(677,193)

The Group has no share of any contingent liabilities or capital commitments, as at 31 December 2012 and 2011 related to its associates.

As at 31 December 2012

9 INVESTMENT PROPERTIES

	2012 BD	2011 BD
Opening balance at beginning of the year	38,857,706	57,440,536
Transferred to investment in associates (note 9.1)	-	(9,074,395)
Transferred to development properties	(434,714)	(6,917,377)
Transferred to Ministry of Finance (note 9.2)	-	(4,713,666)
Transferred from development properties	829,544	1,741,794
Additions during the year (note 9.3)	63,066	404,330
Depreciation charge for the year	(165,831)	(112,813)
	39,149,771	38,768,409
Provision for impairment	(142,000)	89,297
At 31 December	39,007,771	38,857,706

Note 9.1

During the year ended 31 December 2011, the Bank entered into a real estate development project by contributing land in Seqaya and Isa Town and obtaining an equity stake of 42.92% in Bahrain Property Musharaka Trust Fund ("the Fund"), incorporated in the Kingdom of Bahrain. These properties were transferred at a market value of BD 10,133,553 (book value at the time of transfer was BD 9,074,374).

Note 9.2

On 15 January 2010, a Royal order was issued to transfer a land measuring 336,854 sqm located in Bandar Al-Seeef, held and owned by the Bank to MOF for the development of Medical University of Bahrain. The new title deeds for the land area was issued in December 2011.

Note 9.3

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

Investment properties comprise the following:

	2012 BD	2011 BD
Land at Bander Al-Seeef	28,584,288	28,584,288
Land at Jaw	1,938,783	1,938,783
Land at Saar	1,903,251	1,903,251
Land at Hamad town	1,331,803	1,483,042
Land at Busayteen	628,000	628,000
Land at Sanabis	262,179	262,179
Land at Samaheej	-	97,150
Land at Isa town	67,160	67,160
Land at Riffa	-	45,419
Land at Dimistan	-	41,673
Land at Karzakan	-	36,167
Land at Muharraq	23,519	23,519
Shops (accumulated depreciation BD 480,059 (2011 BD 314,228))	4,410,788	3,747,075
	39,149,771	38,857,706
Impairment allowance	(142,000)	-
	39,007,771	38,857,706

The fair value of investment properties, based on independent market valuations, as at 31 December 2012 was BD 267,721,855 (2011: BD 293,865,703). During the year, land with a fair value of BD 63,066 (2011: BD 404,330) was transferred to the Bank by the Government and accordingly has been treated as additional contribution by a shareholder.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2012

10 OTHER ASSETS

	2012 BD	2011 BD
Compensation for transfer of land (note 10.1)	4,713,666	4,713,666
Advances and receivables (note 10.2)	1,954,715	5,371,057
Equipment and other assets (net book value)	336,497	1,179,386
Management fee and interest receivable	547,249	418,006
Prepayments and advances	53,478	178,937
Staff loans	91,627	80,706
	7,697,232	11,941,758

Note 10.1

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

Note 10.2

Includes BD 1,899,969 (2011: BD 5,133,533) receivable from Bahrain Property Musharaka Trust Fund mainly representing Eskan Bank's committed capital.

11 GOVERNMENT ACCOUNTS

	2012 BD	2011 BD
Due to Ministry of Finance	252,428,222	217,247,707
Due from Ministry of Housing	(60,005,590)	(61,656,521)
	192,422,632	155,591,186

The Bank's transactions with the MOH and MOF have been recorded in a single account "Government Accounts" and are non-interest bearing. All cash transfers provided by the MOF to the Bank are credited to this account. These funds are used for financing housing programs as per Government policy. The Bank acts as collection agent for various transactions.

These accounts are mainly affected by the following:

- Collections, which are mainly monthly budgetary support received from the MOF for disbursement of new social housing loans, reimbursements of project payments processed by Eskan Bank to Contractors, collections relating to MOH houses and rentals from MOH flats;
- Reduction decrees issued by the Government from time to time;
- Write off and waivers, death benefit write offs; and
- Any other payment / transaction undertaken by the Bank of behalf of MOH / MOF in relation to housing projects.

12 TERM LOANS

	2012 BD	2011 BD
Syndicated bank term loan	50,000,000	50,000,000
RMBS bonds	15,500,000	21,500,000
At 31 December	65,500,000	71,500,000

The syndicated bank term loan bears interest repayable monthly at offer rate determined by the syndicate plus a margin of 2.25%. The interest cost is reimbursed by the MOH. The syndicated bank term loan, repayable in June 2017, is supported by the Government of Bahrain as per the Bank's Articles of Association.

The RMBS bonds bear interest repayable biannually at BIBOR plus a margin of 1.334%. The RMBS bonds, repayable in October 2017 are secured against certain housing loans issued by the Bank.

	2012 BD	2011 BD
Term loans maturing in less than 1 year	-	56,000,000
Term loans maturing in more than 1 year	65,500,000	15,500,000
	65,500,000	71,500,000

As at 31 December 2012

13 OTHER LIABILITIES

	2012 BD	2011 BD
Current accounts (note 13.1)	10,099,044	6,566,366
Unearned income for 50% subsidy under Amiri Decree (note 7)	7,139,569	3,582,245
Accrued expenses	1,315,690	1,801,148
Employee savings scheme	475,478	366,214
Accrued interest payable on term loans	256,045	227,790
Employee benefits	173,804	179,202
Contractor retentions	-	58,351
Other liabilities	464,475	368,807
	19,924,105	13,150,123

Note 13.1

These mainly include BD 7.565 million (2011: BD 4.610 million) from Bahrain Property Musharaka Trust.

14 SHARE CAPITAL

31 December 2012	Number of shares	2012 BD
Authorised ordinary share capital of BD 100 each	4,000,000	400,000,000
Issued and fully paid up ordinary share capital of BD 100 each	1,083,000	108,300,000
	Number of shares	2011 BD
31 December 2011		
Authorised ordinary share capital of BD 100 each		
Opening	400,000	40,000,000
Increased during the year	3,600,000	360,000,000
	4,000,000	400,000,000
Issued and fully paid up ordinary share capital of BD 100 each		
Opening	150,000	15,000,000
Issued during the year	933,000	93,300,000
	1,083,000	108,300,000

During the year ended 31 December 2011, the Group, based on a resolution of the Board of Directors passed in a meeting on 7 February 2011 and approval from the Ministry of Cabinet Affairs on 20 June 2011, has increased the authorised share capital to 4 million shares of BD 100 each and issued an additional 933,000 ordinary shares of BD 100 each amounting to BD 93.3 million by a transfer from retained earnings. A further BD 46.7 million was transferred from retained earnings to statutory reserve.

15 INTEREST INCOME

	2012 BD	2011 BD
Interest income on commercial loans	2,346,530	2,126,882
Interest income on placements with financial and other institutions	577,966	515,106
	2,924,496	2,641,988

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2012

16 INCOME FROM INVESTMENT PROPERTIES

	2012 BD	2011 BD
Realised gain on investment properties (note 9)	-	604,584
Rental income	360,554	221,616
	360,554	826,200

17 OTHER INCOME

	2012 BD	2011 BD
Interest on term loans reimbursed by the Government of Bahrain	1,561,042	2,565,889
Other income (note 17.1)	1,022,970	1,254,523
	2,584,012	3,820,412

Note 17.1

This mainly includes income recognised of BD 566,347 (2011: BD 600,000) from the Government contribution of BD 600,000 (2011: BD 600,000) during the year for its subsidiary, Southern Tourism Company, that provides subsidised tourism services.

18 OTHER EXPENSES

	2012 BD	2011 BD
Depreciation	422,969	483,999
Premises	221,497	226,904
Transportation and communication	101,294	120,882
Legal and professional	194,374	118,879
Computer maintenance	180,016	117,698
Marketing cost	45,478	81,408
Electricity	48,543	96,418
Others	328,797	209,129
	1,542,968	1,455,317

19 IMPAIRMENT PROVISION ON PROPERTIES - NET

	2012 BD	2011 BD
Development properties written off	-	(462,214)
Development properties reversal of impairment provision	-	133,060
Investment properties impairment provision	(142,000)	89,297
	(142,000)	(239,857)

20 COMMITMENTS AND CONTINGENCIES

	2012 BD	2011 BD
Housing loan commitments approved by MOH	97,393,490	90,196,923
Capital commitments	387,000	430,000
Lease commitments within one year	204,949	201,749
Lease commitments above one year	156,015	287,364
	98,141,454	91,116,036

The Group has filed cases against certain ex-employees on the grounds of misconduct. If the Group is successful in proving its case, it will result in a receipt of BD 322,988 (2011: BD 322,988).

As at 31 December 2012

21 DISPOSAL GROUP - SOUTHERN TOURISM COMPANY

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

As of 31 December 2012, the transfer is still in the process of finalisation subject to the relevant regulatory approvals in the Kingdom of Bahrain.

The major classes of assets and liabilities of the disposal group are as follows:

	2012 BD
Cash and cash equivalents	15,135
Property and equipment	299,744
Other assets	120,811
	435,690
Other liabilities	144,570

22 RELATED PARTY TRANSACTIONS

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

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

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:

	2012 BD	2011 BD
Short term employee benefits	776,734	869,577
Long term employee benefits	32,537	46,157

23 FAIR VALUE OF 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.

The fair values of other financial instruments on the consolidated 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.

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

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2012

At 31 December 2012	Level 1 BD	Level 2 BD	Level 3 BD	Total BD
Investments designated as available for sale	-	-	3,541,096	3,541,096
	-	-	3,541,096	3,541,096

At 31 December 2011	Level 1 BD	Level 2 BD	Level 3 BD	Total BD
Investments designated as available for sale	-	-	3,541,096	3,541,096
	-	-	3,541,096	3,541,096

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 2012.

24 RISK MANAGEMENT

Overview

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

Risk management framework

Board of Directors

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

Management Risk Committee

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

Risk Management Department

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

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

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

Audit Committee

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

Internal Audit

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

Treasury

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

As at 31 December 2012

24 FINANCIAL RISK MANAGEMENT (continued)**Risk Measurement**

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

Risk Mitigation

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

a) Credit risk

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

i) Management of credit risk

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

Housing loans under Ministry's Housing Loan Program

The decision to grant the loan is determined by the Ministry of Housing and communicated to the Group to make disbursements to the borrowers. There is no credit risk to the Group arising out of these loans. Losses, if any, arising from the impairment of such loans can be claimed from the Government. Consequently these loans attract zero risk weight. The Group monitors the sanctioned housing loans regularly, non performing loans are aggressively pursued by the Group and are written-off based on ministerial order. The housing loans under the Ministry's Housing Loan Program as at 31 December 2012 is BD 328,138,269 (2011: BD 285,158,353).

Other loans

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

ii) Maximum exposure to credit risk

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

	Gross maximum exposure 2012	Gross maximum exposure 2011
Balances and placements with financial institutions	106,221,850	89,286,680
Loans - commercial loans	27,611,908	28,113,383
Other receivables	2,705,596	5,880,486
	136,539,354	123,280,549

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

There were no renegotiated loans during either the year ended 31 December 2012 or 31 December 2011.

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 2012 was BD 75,154,390 (2011: BD 57,656,603).

iii) Collateral

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

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

The Group did not take possession of any collateral as a result of a default during either the year ended 31 December 2012 or 31 December 2011.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2012

iv) Credit quality per class of financial assets

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

	Neither past due nor impaired	Past due but not impaired	Individually impaired	31 December 2012
Balances and placements with financial institutions	106,221,850	-	-	106,221,850
Loans - Commercial loans	22,538,343	4,243,016	830,549	27,611,908
Other receivables	2,705,596	-	-	2,705,596
	131,465,789	4,243,016	830,549	136,539,354

	Neither past due nor impaired	Past due but not impaired	Individually impaired	31 December 2011
Balances and placements with financial institutions	89,286,680	-	-	89,286,680
Loans - commercial loans	22,408,890	5,098,031	606,462	28,113,383
Other receivables	5,880,486	-	-	5,880,486
	117,576,056	5,098,031	606,462	123,280,549

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

v) Concentration risk

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

b) Market risk

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

i) Management of market risks

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

ii) Interest rate risk

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

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

As at 31 December 2012

24 FINANCIAL RISK MANAGEMENT (continued)

	31 December 2012 BD	Changes in basis points (+/-)	Effect on net profit (+/-)
Assets			
Balances and placements with financial institutions	105,185,439	100	1,051,854
Loans - commercial loans	27,611,908	100	276,119
Liabilities			
Deposits from financial and other institutions	51,332,518	100	(513,325)
Term loans	15,500,000	100	(155,000)
Total			659,648
	31 December 2011 BD	Changes in basis points (+/-)	Effect on net profit (+/-)
Assets			
Balances and placements with financial institutions	88,392,789	100	883,928
Loans - commercial loans	28,113,383	100	281,133
Liabilities			
Deposits from financial and other institutions	39,016,846	100	(390,168)
Term loans	21,500,000	100	(215,000)
Total			559,893

iii) Currency risk

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

iv) Equity price risk

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

The effect on equity and income (as a result of a change in the fair value of equity instruments at 31 December 2012) due to a reasonably possible change (i.e. +/-15%) in the value of individual investments, with all other variables held constant, is BD 531,164 (2011: BD 531,164) on equity and none on income since the Bank does not have any investment at fair value through profit or loss as at 31 December 2012 and 2011. The effect of decrease in the value of individual investments is expected to be equal and opposite to the effect of an increase.

c) Liquidity Risk

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

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

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2012

Analysis of liabilities

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2012 and 31 December 2011 based on contractual undiscounted repayment obligations.

At 31 December 2012	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Deposits from financial and other institutions	51,357,587	-	-	51,357,587
Term loans	331,563	1,633,654	71,326,230	73,291,447
Total	51,689,150	1,633,654	71,326,230	124,649,034
At 31 December 2011				
Deposits from financial and other institutions	39,067,221	-	-	39,067,221
Term loans	16,902,778	40,811,642	16,858,162	74,572,582
Total	55,969,999	40,811,642	16,858,162	113,639,803

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

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

25 CAPITAL ADEQUACY

Capital management

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

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

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

	2012 BD	2011 BD
Tier 1 capital	203,918,317	195,490,251
Total regulatory capital (A)	203,918,317	195,490,251
Total Risk-weighted exposure (B)	192,250,166	195,372,617
Capital adequacy ratio (A/B)	106.07%	100.06%
Minimum requirement	12.00%	12.00%

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

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

As at 31 December 2012

26 MATURITY PROFILE OF ASSETS AND LIABILITIES

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

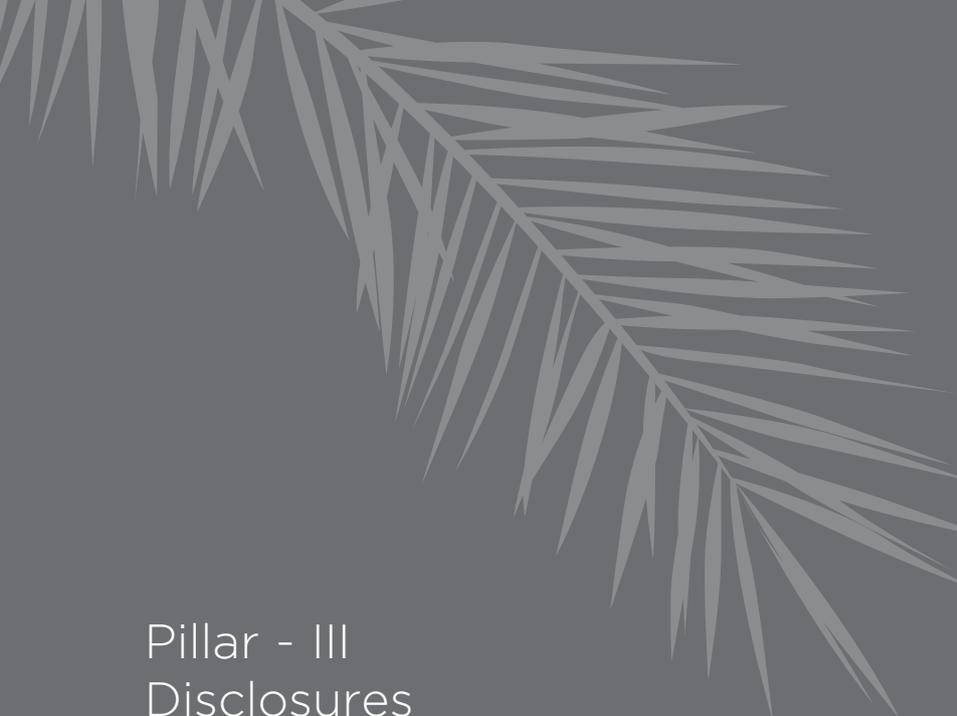
At 31 December 2012	Less than 12 months BD	Over 12 Months BD	Total BD
Assets			
Cash and cash equivalents	106,356,873	-	106,356,873
Investments	-	3,541,096	3,541,096
Loans	14,472,300	341,277,877	355,750,177
Investment in associates	-	8,939,478	8,939,478
Investment properties	-	39,007,771	39,007,771
Development properties	-	11,694,915	11,694,915
Other assets	7,301,629	395,603	7,697,232
Disposal group	435,690	-	435,690
	128,566,492	404,856,740	533,423,232
Liabilities			
Deposits from financial and other institutions	51,332,518	-	51,332,518
Government accounts	-	192,422,632	192,422,632
Term loans	-	65,500,000	65,500,000
Other liabilities	13,034,640	6,889,465	19,924,105
Disposal group	144,570	-	144,570
	64,511,728	264,812,097	329,323,825
Net liquidity (gap) surplus	64,054,764	140,044,643	204,099,407
At 31 December 2011			
	Less than 12 months BD	Over 12 Months BD	Total BD
Assets			
Cash and cash equivalents	89,412,479	-	89,412,479
Investments	-	3,541,096	3,541,096
Loans	13,992,443	299,279,293	313,271,736
Investment in associates	-	6,253,760	6,253,760
Investment properties	-	38,857,706	38,857,706
Development properties	-	11,687,608	11,687,608
Other assets	10,796,599	1,145,159	11,941,758
	114,201,521	360,764,622	474,966,143
Liabilities			
Deposits from financial and other institutions	39,016,846	-	39,016,846
Government accounts	-	155,591,186	155,591,186
Term loans	56,000,000	15,500,000	71,500,000
Other liabilities	10,317,029	2,833,094	13,150,123
	105,333,875	173,924,280	279,258,155
Net liquidity (gap) surplus	8,867,646	186,840,342	195,707,988

27 FUTURE FUNDING REQUIREMENTS

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

28 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 Contents

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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 annual consolidated financial statements for the year ended 31st December 2012, presented in accordance with the International Financial Reporting Standards ("IFRS").

a) Scope of Application

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

b) Subsidiaries of the Bank:

- The Bank owns 100% 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.

Note: During the year the MOF issued a letter dated 4 December 2012, instructing the transfer of the Bank's ownership of its subsidiary Southern Tourism Company to Mumtalakat Holding Company.

As of 31 December 2012, the transfer is still in the process of finalisation subject to the relevant regulatory approvals in the Kingdom of Bahrain.

- 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 securitisation of housing loans.
- The Bank owns 100% in **Eskan Properties Company B.S.C. (c) ("EPC")** incorporated in the Kingdom of Bahrain, to successfully execute the various housing and community projects being taken up. The main objectives are to carry out all operations in relation to management, operation and maintenance for all types of real estate owned by the Bank, governmental institutions and ministries or others.
- The Bank owns 100% in **Smart Building Material Company S.P.C ("SBMC")** which is registered in the Kingdom of Bahrain and whose principal activities include to create the entire value chain to manufacture cost-effective, environment friendly homes for the citizens of Kingdom of Bahrain. SBMC will also import a range of building products and raw materials such as gravel, cement, bricks, marbles, electrical and sanitary wares and intend to construct warehouse facilities to support the business.
- There is no deficiency in the capital of any of the subsidiaries of the Bank as on 31st December 2012. There are no restrictions on the transfer of funds or regulatory capital within the Group.

c) Associate companies of the Bank:

- The Bank owns 28.13% 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.
- During 2009, **Al Ebdaa Bank B.S.C. (c) ("Ebdaa Bank")** was established and began disbursing micro-finance to low and middle - income Bahrainis, providing each beneficiary with an opportunity to start a new business, to become financially independent and to hold out the promise of a better quality of life. Eskan Bank is a founding shareholder of Ebdaa Bank, holding 20% stake.
- During 2011 **Bahrain Property Musharaka Trust Fund** was established to fund two major affordable residential and commercial projects in Segaya and Isa Town. The size of the fund is BHD 23.3 million. The Bank holds 42.92% stake within the fund.

d) Dissolution of Saar Complex Company:

Saar Complex Company W.L.L (SCC), a limited liability company incorporated in the Kingdom of Bahrain on 3 November 2009 under the Bahrain Commercial Companies Law No. 21/2001, registered with the Ministry of Industry & Commerce under commercial registration (CR) number 73271.

The Company was owned by Seef Properties B.S.C. (55%) and Eskan Bank B.S.C. (c) (45%) with a paid up capital of BD 20,000, with an objective to develop and manage a commercial complex on adjoining lands owned by both shareholders in Saar District and to provide other property development and maintenance services to customers. The Company had not

Pillar - III Disclosures (continued)

31st December 2012

started its revenue generating activities as it was in the initial startup phase when a strategic review of the shareholders' short term priorities was undertaken at their respective main Board levels. As a result of this review, it was decided that the proposed development of the site in Saar would not be aligned with priorities and recommended to dissolve the Saar Complex Company to avoid incurring further costs.

The liquidation process was finalised in September 2012 and all related transactions and settlements were completed by year end 2012. The Bank received the net share of its investment at the time of liquidation and did not realise any gain or loss upon liquidation.

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

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

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

Subsidiaries / Associates	Country of Incorporation / residence	Percentage of ownership	Risk Weight
Weight	Kingdom of Bahrain	28.13%	150%
Smart Building Material Company S.P.C	Kingdom of Bahrain	100%	200%
Bahrain Property Musharaka Trust Fund	Kingdom of Bahrain	42.92%	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 2012, 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 42.2% in 2011 to 36.8 % in 2012. The Bank continued to make a general loan loss provisions in line with its prudent approach to risk.

The Bank has disbursed BHD 43.4 million of social loans and BHD 2.3 million of commercial loans during 2012 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 204 million at the end of 2012 is up by 4.1% compared to BHD 196 million as at 31st December 2011. Liquidity continues to be comfortable with liquid assets (Cash and balances with central banks and placement with financial institutions) representing 20% of the total assets

a) Asset Growth & Quality:

- **Quantity:** The total Balance Sheet of the Bank stood at BHD 533 million as at 31st December 2012 compared to BHD 475 million as at the previous year end. The Bank's loans and advances as at 31st December 2012 stood at BHD 356 million, which reflects a growth of 13.6% as compared to 2011.
- **Quality:**
 - **Loan Portfolio:** The Bank's portfolio is of high quality despite the bulk of the Banking assets being residential mortgage loans. Primarily, these loans are "social loans" where the credit risk does not reside with the Bank. On the other hand, in case of the commercial-basis residential mortgage loans extended by the Bank, the approach has been conservative. The impaired loan accounts classified as Non-Performing Assets ("NPAs") for this portfolio was BHD 1.1 million as at 31st December 2012.
 - **Other Investments:** The other banking assets are mainly in inter-bank placements with banks in the Kingdom of Bahrain.
 - **Financial Investments:** The Bank has investment in Naseej a real estate related company and other small legacy investments.
- **Capital Adequacy Ratio (CAR):** The Group continued to have strong capital adequacy ratio, with the CAR of 106.07% as of 31st December, 2012.
- **Solvency:** The Group has limited external borrowings and as such its solvency position, as indicated by the Asset Liability maturity profiles is satisfactory, with balances in the government account considered as not payable in the short term.

2 FINANCIAL PERFORMANCE AND POSITION (continued)

a) Asset Growth & Quality (continued):

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

	2012	2011	2010	2009	2008
Earnings					
Net Interest Income	11,195	9,192	6,416	5,976	6,208
Other Income	2,330	4,324	4,593	3,600	3,924
Operating Expenses	4,973	5,698	5,564	5,658	5,818
Impairment Allowance	224	245	45	413	-
Properties Write off	-	240	-	-	-
Net Income	8,328	7,332	5,400	3,504	4,314
Financial Position					
Total Assets	533,423	474,966	423,465	440,964	325,507
Loans	355,750	313,272	278,524	260,065	222,833
Total Liabilities	329,324	279,258	235,494	261,234	159,943
Shareholders' Equity	204,099	195,708	187,971	179,730	165,565
Earnings: Ratios (Per Cent)					
Return on Equity	4.08%	3.75%	2.87%	1.95%	2.61%
Return on Assets	1.56%	1.54%	1.28%	0.79%	1.33%
Cost-to-income ratio	36.77%	42.16%	50.54%	59.09%	57.42%
Net Interest Margin	81.94%	73.12%	55.02%	60.54%	66.59%
Capital:					
Shareholders Equity as per cent of Total Assets	38.26%	41.20%	44.39%	40.76%	50.86%
Total Liabilities to Shareholders Equity	161.35%	142.69%	125.28%	145.35%	96.60%

b) Performance of the group companies:

- **STC:** A net profit of BHD 460,159 was reported for the period ended 31st December 2012 as compared to net profit of BHD 438,666 in 2011.
- **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 properties on the lands 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 and construction of properties. In the coming 12 to 18 months, the priority for EPC is to commence construction of those properties whose design stage is completed.

Table 3: Financial highlights (in BHD):

	31st-December-12	31st-December-11
Net profit /(loss) for the year	114,298	(10,384)
Total assets	602,268	523,009
Total equity	357,885	243,587

Pillar - III Disclosures (continued)

31st December 2012

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

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

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

Table 4: Financial highlights (in BHD)

	31st-December-12	31st-December-11
Net profit for the year	1,145,887	1,150,589
Total assets	22,539,752	27,206,394
Total equity	5,623,340	4,477,453

SBMC

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

Table 5: Financial highlights (in BHD)

	31st-December-12	31st-December-11
Net profit/(loss) for the year	(3,750)	(17,900)
Total assets	250,000	253,200
Total equity	139,415	143,165

3 FUTURE BUSINESS PROSPECTS

The Bank’s assets and liabilities’ profile for next year will be similar to that of last year. The major portfolio for the Bank will continue to be mortgage loans and investment properties. The Bank intends to develop its land bank towards the development of social and affordable housing projects in order to reduce the present backlog of social housing service applicants. To meet this objective the Bank will look at fund raising by leveraging its balance sheet, securitising existing portfolios, or embarking on project finance basis. The conditions of the local, regional and international capital markets would dictate the Bank’s ability to meet its objective and the impact on financial performance.

4 CORPORATE GOVERNANCE AND TRANSPARENCY

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

The Bank has adopted the following corporate governance code principles:

Principle One: The Company must be headed by an effective, collegial and informed board

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

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

Principle Four: The company shall have rigorous procedures for appointment, training and evaluation of the board.

Principle Five: The company shall remunerate directors and officers fairly and responsibly

Principle Six: The Board shall establish clear and efficient management structure

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

Principle Eight: The company shall disclose its corporate governance

Principle Nine: Companies which refer to themselves as “Islamic” must follow the principles of Islamic Shari’a

Due to the unique nature of the Bank being fully owned by the Government of Bahrain and thus having the Council of Ministers appointing its Board of Directors, Eskan Bank does not conduct annual shareholders meetings (AGM)”

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

i. H.E. Eng. Basim Yacob AlHamer, Minister of Housing

Appointed as Chairman of Eskan Bank in 2011

(Non-Executive Director)

Master's in Project Management - Colorado State University at Boulder, Bachelors in Civil Engineering - University of California

More than 30 years of work experience

Chairman: Tender Board

Board Member: National Oil and Gas Authority.

Deputy Chairman: Secretariat General for the King Fahad Causeway.

ii. Mr. Abdul Razaq Abdulla Hasan Al Qassim

Vice Chairman (Independent Non-Executive Director). Resigned from the Board on 29 March 2012.

Appointed in 2008 and re- appointed in August 2011

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

iii. Mrs. Sabah K. Almoayyed

Member (Executive Director)

Appointed in 2008 and re- appointed in August 2011

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

More than 20 years of work experience

General Manager: Eskan Bank

Board Member: Higher Education Council, Naseej Company; Independent member of the Executive Committee of Ebdad Bank

Previous Position: Chairman - Southern Tourism Company (STC), Chairman - Eskan Property Company (EPC), Board Member - Mumtalakat, Member - Consultative Committee of the Gulf Arab Countries Cooperation Council; President for Bankers Society of Bahrain, Supreme Council of Women

Trustee member: American University of Beirut - Lebanon, Society of Honour "Deltamiu' in USA.

iv. Dr. Zakareya Sultan Al Abbasi

Member (Independent Non-Executive Director)

Appointed in August 2011

Master & PHD degrees in Law from University of East Anglia - UK

More than 27 years of work experience

Acting Chief Executive Officer: Social Insurance Organisation.

Board Member: Gulf Diabetes Specialist Centre.

Pillar - III Disclosures (continued)

31st December 2012

v. Dr. Mohamed Ahmed Juman

Member (Independent Non-Executive Director)

Appointed in August 2011

PhD in Avionics – Cranfield University – UK, MSc. In Project Management – Lancaster University – UK., B.EnG in Communications and Electronics – Concordia University, Montreal Canada, Fellow Royal Aeronautical Society and British Computer Society, Chartered Engineer – UK.

More than 29 years of work experience

Chairman and Owner of multiple businesses in the ICT, Aviation and Real Estate Sectors.

Board member: Bahrain Development Bank, Royal University for Women.

Managing Director: ATYAF International BSC., Olive VFM BSC., MENA Aerospace Enterprises.

Member: Royal Aeronautical Society, Institute of Electrical and Electronics Engineering (Senior), Institute of Electrical Engineering UK, British Computer Society, Bahrain Society of Engineers.

vi. Mr. Yusuf Saleh Khalaf

Member (Independent Non-Executive Director)

Appointed in August 2011

ACCA professional examinations Trent University , Nottingham, UK

Higher Diploma in Business Studies Salford College of Technology, Alford, UK

National Diploma in Business Studies Fielden Park College Manchester, UK

More than 30 years of work experience

Founder & Managing Director: VisionLine Consulting

Board Member: Bank of Bahrain & Kuwait, First Leasing Bank and Solidarity General Takaful

Previous Position: Ex-Chief Executive Officer of Ajman Bank, Bahrain Islamic Bank

vii. Mr. Ahmed Jasim Farraj

Member (Independent Non-Executive Director)

Appointed in August 2011

Bachelors degree in Economics and Political Science, Kuwait University, Kuwait, 1977.

Diploma in Financial Management, University of Hull, UK, 1995.

More than 35 years of work experience

Assistant Undersecretary: Financial Affairs, Ministry of Finance

viii. Mr. Redha Abdulla Faraj

Member (Independent Non-Executive Director)

Appointed in August 2011

A Chartered Accountant and a Fellow of the Chartered Association of Certified Accountants (FCCA), UK, one of the first Bahrainis to receive this qualification

More than 20 years of work experience

Founder & Executive Director: Al Faraj Consulting W.L.L.

Board Member: Mumtalakat, BMMI, Bahrain Development Bank (BDB), Almoayyed International Group (AIG), Y.K. Almoayyed & Sons Group, Instrata capital

Member: Bahrain Chamber for Dispute Resolution (BCDR), American Mission Hospital

ix. Mr. Khalid Al-Amin

Member (Independent Non-Executive Director)

Appointed in August 2011

Bachelor in Marketing, Houston, Texas

More than 20 years of work experience

Chairman: Bahrain Youth Business Committee, Arbitration and Trade Disputes Committee

Vice Chairman: Tamkeen

Board Member: Ali Rashid Al-Amin Co., BSC, Bahrain Chamber of Commerce & Industry, Rotana Banader Hotel, Tazweed Qater, Food Storage Company, Saudi Arabia

6 BOARD OF DIRECTORS (continued)**x. Mr. Yousif Abdulla Taqi**

Member (Independent Non-Executive Director)

Appointed in August 2011

A Certified Public Accountant (CPA),

More than 28 years of work experience

CEO and Board member: Al Salam Bank- Bahrain

Chairman: Manara Developments Company B.S.C. (c), Amar Holding Company B.S.C. (c) and ASB Biodiesel (Hong Kong) Limited, affiliates of ASBB,

xi. Mr. Mohamed Abdulrahman Husain Bucherrai

Member (Independent Non-Executive Director)

Appointed in 2011

Bachelor of Arts - Economics and Finance, Aleppo University - Syria

Intensive Full Credit Course at Citibank Training Center - Athens, Greece

Intermediate Credit Course at Citibank - Athens, Greece

Registered Financial Consultant by successfully completing the Series 7 Examination required by the Securities & Exchange Commission in the United States.

More than 33 years of work experience

Board Member: BBK, Faysal Bank Ltd., First Leasing Bank, Ithraa Capital, Solidarity

xii. Mr. Ali Yousif Fardan

Member (Independent Non-Executive Director)

Appointed in August 2011

Diploma in Executive Management - University of Bahrain

Banking Diploma (Advance level) - Bahrain Institute of Banking and Finance

Banking Diploma (Intermediate level) - Bahrain Institute of Banking and Finance

More than 30 years of work experience

Board Member: Islamic International Financial Market (IIFM)

General Manager: National Bank of Kuwait

7 EXECUTIVE MANAGEMENT TEAM OF ESKAN BANK**i. Mrs. Sabah Khalil Almoayyed , General Manager - Board of Directors**

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

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

She assumed the present position in 2004.

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

Mr. Ahmad Tayara has over sixteen years of experience in both Islamic and Conventional Banking, particularly in the areas of investment banking, equity capital market, corporate finance, real estate, private equity & corporate banking. He has worked for leading institutions such as Ithmaar Bank- Bahrain. Prior to joining ESKAN bank, he was General Manager - Investment Banking, Elaf bank.

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

He assumed the present position in 2012.

iii. Dr. Naeema Al Dosseri, Head of Group, Human Capital & Administrator

Dr. Naeema Aldosseri has over twenty five years of 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.

Previously she was a member of the Shura Council and Supreme Council for Women. Currently she is a member of the Strategic Planning Association, and the Human Development Committee of the Bahrain Chamber of Commerce and Industry.

She assumed the present position in 2008.

iv. Mr. Srikanth Sheshadri, Chief Risk Officer

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

A Chartered Accountant, Mr. Sheshadri holds a Bachelor's degree in Commerce from the University of Bombay, India. He assumed the present position in 2007.

v. Mr. Ramachandran Chellam, Chief Financial Officer

Mr. Ramachandran Chellam has over twenty years of 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 Bombay, India.

He assumed the present position in 2010.

vi. Mr. Mohd. Essam Kamour, Head of Legal & Corporate Secretary

Mr. Mohd Essam Kamour has over twenty years of 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.

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

Mr. Hani Nayem has over ten years of experience in the Banking and Audit 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 (Now Ithmaar Bank), BDO Jawad Habib, Arthur Andersen, CPA firm.

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

He assumed the present position in 2009.

viii. Mr. Eyad Obaid, Deputy Acting Chief Development Officer / Eskan Properties Company

Mr. Eyad Obaid has over twenty nine years of experience in various Construction Industry, Private and Governmental with wide experience in projects management, execution and Property development. Prior to joining Eskan Bank he was with Bahrain Defence Force, Military Works Directorate

Mr. Eyad holds a BSc degree in Civil Engineering.

He assumed the present position in 2005.

8 ADDITIONAL GOVERNANCE MEASURES

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

9 REMUNERATION POLICY

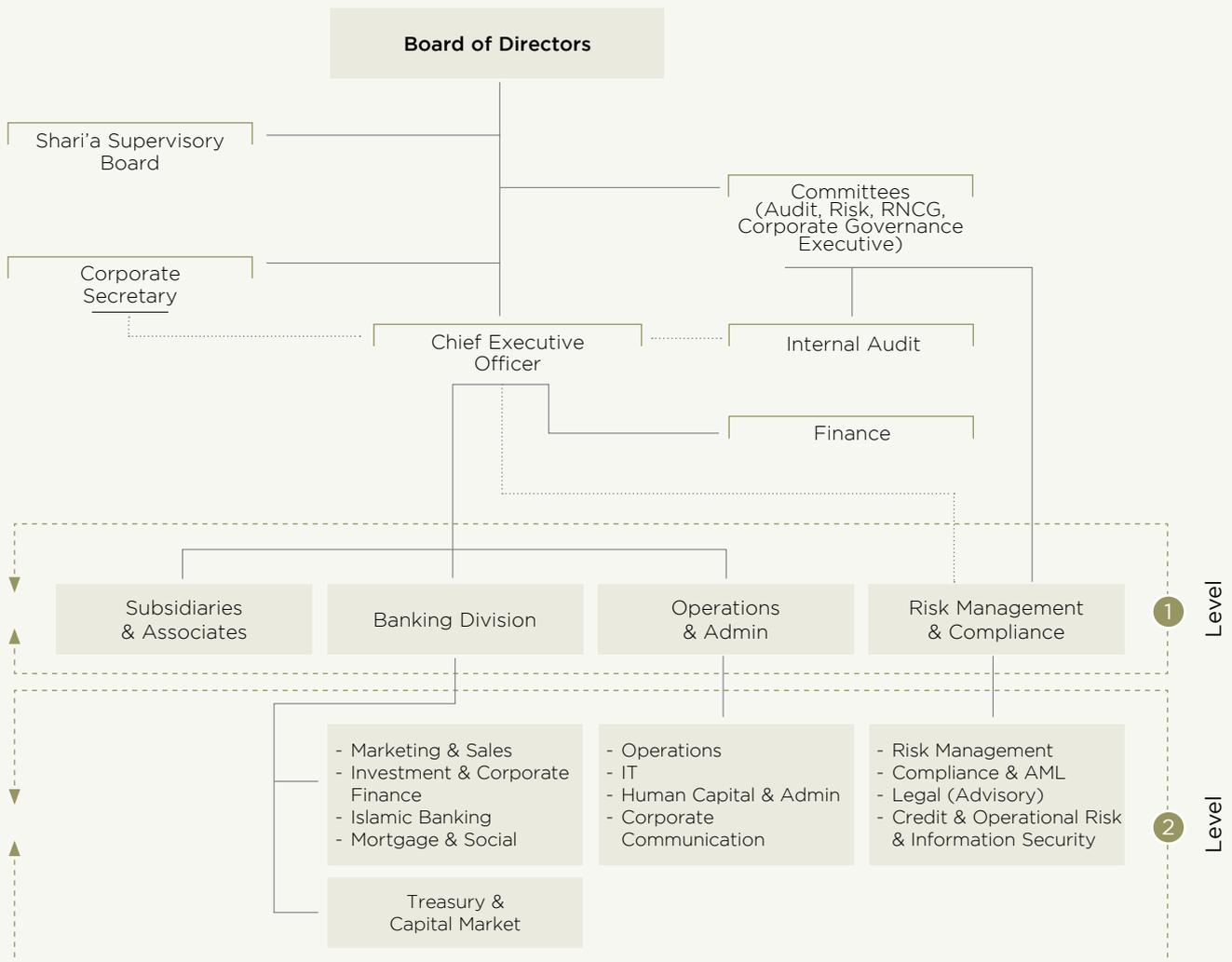
The Remuneration Committee is authorised by the Board to recommend the remuneration policy of the Bank and the remuneration of those senior executives whose appointment requires Board approval.

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 ORGANISATION CHART

The organisation structure of the Bank is as follows:



Pillar - III Disclosures (continued)

31st December 2012

11 COMMUNICATION STRATEGY

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

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

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

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 unrealised gains on equity instruments classified as available -for-sale.

Table 6: Total Capital of Eskan Bank (in BHD thousands)

	Tier I	Tier II
Eligible capital (Tier I and Tier II)		
Tier I		
Share Capital	108,300	
Reserves		
Statutory Reserve	54,462	
Total Reserves	54,462	
Retained Earnings (Brought Forward)	21,159	
Others	20,292	
Total Available Capital	204,213	
Less : Significant minority investments in banking, securities and other financial entities	(147)	(147)
Net Available Capital	204,066	(147)
Total Eligible capital (Tier I and II)		203,919

Table 7: Capital Base / Risk Weighted Exposures (in BHD thousands)

	Amount
Credit Risk Weighted Exposures	168,469
Operational Risk Weighted Exposures	23,781
Market Risk Weighted Exposures	-
Total Risk Weighted Exposures	192,250
Total Eligible capital	203,919
Tier I Capital Adequacy Ratio	106.15%
Total Capital Adequacy Ratio	106.07%

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 adopts a risk based audit approach to prepare its annual audit plan in which higher weight is allocated to risk focused areas. According to the risk based audit approach, the department 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 Standardised Approach for computation of capital charge for Credit Risk

The Credit Risk Management Framework is summarised as under:

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

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

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

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

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

The NPAs under Commercial Mortgage Loans as of 31st December 2012 was BHD 1.1 million.

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

Pillar - III Disclosures (continued)

31st December 2012

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

	91 Days to 1 year	1 to 3 years	Above 3 years	Total
Social loans *	20,742	2,602	79	23,423
Retail mortgage commercial loans	574	549	-	1,123
	21,316	3,151	79	24,546

Table 9: Movement in provisions (in BHD thousands)

Industry	Opening balance	Charge for the year	Write off / write back	Closing balance
General Provision **				
Retail mortgage commercial loans	278	-	(7)	271
Specific Provision				
Retail mortgage commercial loans	203	205	(116)	292
	481	205	(123)	563

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

** The Bank provides 1% of the overall retail mortgage commercial loan as a nominal collective provision.

The entire past due and provision balance as at 31st December 2012 relates to its operations in the Kingdom of Bahrain.

There were no renegotiated commercial loans during the year ended 31 December 2012. Consequently, there is no impact on the provisions as well as present and future earnings and based on the Bank's past history, the magnitude of the restructuring activities is immaterial.

The social loans are restructured based on the instructions of the Ministry of Housing for which the credit risk does not reside with the Bank. The total amount of social loans restructured during the year based on the instruction of Ministry of Housing amounted to BD 121 thousand.

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

	* Gross Exposures	Risk Weighted Value	** Capital Charge
Standard Portfolio			
Sovereign Portfolio	451,790	-	-
Banks Portfolio	31,067	6,813	818
Residential Retail Portfolio	27,812	21,067	2,528
Equity Portfolio	1,588	2,381	286
Real estate Portfolio	68,352	136,704	16,404
Other Exposures	1,654	1,504	180
Total	582,263	168,469	20,216

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

** Calculated at 12% of RWA

14 CREDIT RISK (continued)

14.2 Definition and classification of Impaired loans or Non-performing Assets (“NPAs”) (continued)

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

	Gross Exposures	* Average Exposures
Funded Exposure		
Cash and cash equivalents	106,372	82,575
Investments	3,541	3,541
Loans	355,750	340,397
Investment in associates	8,939	8,389
Investment property	39,008	39,437
Development property	11,695	11,266
Other assets	8,118	9,360
	533,423	494,965
Unfunded Exposure		
Loan related	97,393	96,104
Lease commitments	361	438
Capital commitments	387	409
	98,141	96,950

* Average balances are computed based on quarter end balances.

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

Table 12: Geographic Distribution of exposures (in BHD thousands)

	Kingdom of Bahrain	United States	Total
Cash and cash equivalents	106,331	41	106,372
Investments	3,541	-	3,541
Loans	355,750	-	355,750
Investment in associates	8,939	-	8,939
Investment property	39,008	-	39,008
Development property	11,695	-	11,695
Other assets	8,118	-	8,118
	533,382	41	533,423

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

	Banks and financial institutions	Real estate and construction	Residential mortgage	Tourism	Other	Total
Funded Exposures						
Cash and cash equivalents	106,372	-	-	-	-	106,372
Investments	-	-	-	-	3,541	3,541
Loans	-	-	355,750	-	-	355,750
Investment in associates	295	7,325	-	1,319	-	8,939
Investment property	-	39,008	-	-	-	39,008
Development property	-	11,695	-	-	-	11,695
Other assets	-	6,614	-	-	1,504	8,118
Total	106,667	64,642	355,750	1,319	5,045	533,423
Unfunded Exposures						
Loan related	-	-	97,393	-	-	97,393
Lease commitments	-	-	-	-	361	361
Capital commitments	-	387	-	-	-	387
Total	-	387	97,393	-	361	98,141

Pillar - III Disclosures (continued)

31st December 2012

14.3 Related Parties Transactions

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

The details of the related party disclosures are incorporated in the relevant section of the consolidated financial statements for the year ended 31st December 2012.

Table 14: Intra-group transactions as of 31 December 2012 (In BHD Thousands)

	Eskan Bank	Southern Tourism Co.	RMBS Co.	Eskan Property Co.	Smart Building Material Co.	Total
Assets						
Balances with Banks	-	40	-	593	250	883
Inter Bank Deposits	-	2,087	14,553	-	-	16,640
Investments in subsidiaries	748	-	-	-	-	748
Investments	-	3	-	-	-	3
Other Assets	1,538	5	7,010	-	-	8,553
	2,286	2,135	21,563	593	250	26,827
Liabilities and Equity						
Non-Bank Deposits	16,640	-	-	-	-	16,640
Current Accounts	883	-	-	-	-	883
Other Liabilities	7,015	-	1,310	118	110	8,553
Share Capital & Reserves	-	250	1	250	250	751
	24,538	250	1,311	368	360	26,827

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 did not have any large exposure as at 31st December 2012.

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 LIQUIDITY RISK

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

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

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

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

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

17.1 Management of Liquidity Risk

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

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

	1-7 Days	7 Days - 1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	3-5 Years	5-10 Years	10-20 Years	Above 20 Years	Total
Cash and cash equivalents	35,693	22,006	42,190	5,989	494	-	-	-	-	-	106,372
Investments	-	-	-	-	-	-	-	3,541	-	-	3,541
Loans	-	628	2,457	3,738	7,648	31,662	33,162	87,853	151,649	36,953	355,750
Investment in associates	-	-	-	-	-	-	-	8,939	-	-	8,939
Investment property	-	-	-	-	-	-	-	-	39,008	-	39,008
Development property	-	-	-	-	-	-	-	-	11,695	-	11,695
Other assets	683	210	1,746	27	4,760	261	194	181	56	-	8,118
TOTAL ASSETS	36,376	22,844	46,393	9,754	12,902	31,923	33,356	100,514	202,408	36,953	533,423
	1-7 Days	7 Days - 1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	3-5 Years	5-10 Years	10-20 Years	Above 20 Years	Total
Deposits from financial and other institutions	15,000	28,300	8,033	-	-	-	-	-	-	-	51,333
Government accounts	192,423	-	-	-	-	-	-	-	-	-	192,423
Term loans	-	-	-	-	-	6,500	59,000	-	-	-	65,500
Other liabilities	10,169	458	1,137	626	757	2,662	1,920	2,339	-	-	20,068
TOTAL LIABILITIES	217,592	28,758	9,170	626	757	9,162	60,920	2,339	-	-	329,324
MISMATCH	(181,216)	(5,914)	37,223	9,128	12,145	22,761	(27,564)	98,175	202,408	36,953	204,099
CUMULATIVE MISMATCH	(181,216)	(187,130)	(149,907)	(140,779)	(128,634)	(105,873)	(133,437)	(35,262)	167,146	204,099	

The report reflects a cumulative negative gap in the maturity buckets upto 10 years. This is mainly due to classifying the Government Account Liability of BHD 192 million in the first bucket i.e. 1 to 7 days.

However, based on the behavioral assumption and the fact that Bank is fully owned by the government, for the purposes of assessing liquidity risk, this liability is treated as quasi equity. Accordingly, if the government liability is shifted from the first maturity bucket and placed in the over 20 years maturity bucket, there are no negative cumulative gaps reflected by the asset liability management ("ALM") report i.e. the Bank would be in a comfortable liquidity position and able to repay its existing liabilities on their scheduled due dates from its existing assets.

Pillar - III Disclosures (continued)

31st December 2012

18 MARKET RISK

18.1 Overview of Market Risk Management

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

- Bank currently has no 'Trading Book'.
- 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 Standardised Approach for computation of capital charge for market risk.

19 OPERATIONAL RISK

19.1 Overview of Operational Risk Management

Operational risk is the risk of losses owing to:

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

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

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

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

Table 16: Operational Risk

Operational Risk (in BHD thousands)	Amount
Average Gross income	12,683
Risk Weighted Exposures	23,781
Capital Charge (@12%)	2,854

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

20 EQUITY POSITIONS IN THE BANKING BOOK

The Equity position as at 31st December 2012 comprise investments in subsidiaries and associates which are not subject to consolidation treatment for capital calculation purposes and other investments.

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

	Gross Exposures	Privately Held	Capital Charge
Available for sale investments	3,541	3,541	834
Investments in associates	8,976	8,976	1,995

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

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

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

21 INTEREST RATE RISK IN THE BANKING BOOK

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

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

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

Table 18: Sensitivity Analysis- Interest Rate Risk

(in BHD thousands)	31 st December 2012 BHD	Changes in basis points (+/-)	Effect on net profit (+/-)
Assets			
Balances and placements with Financial Institutions	105,185	200	2,104
Loans and advances - Commercial loans	27,612	200	552
Liabilities			
Deposits from financial and other institutions	51,333	200	(1,027)
Term loans	15,500	200	(310)
Total			1,319

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

22 AUDIT FEES

The fees for the auditing of financial statements of BHD 20,450 (2011: BHD 20,450) mainly comprise those for the audits of the consolidated financial statements of the Group. Fees for the non-audit services of BHD 36,100 thousand (2011: BHD 32,100 thousand) primarily relates to review of interim financial statements, agreed upon procedures services related to CBB quarterly prudential report, anti-money laundering, CBB annual and semi-annual additional public disclosures requirements.