

Annual Report 2013

Driving progress
to affordable housing
solutions

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**

Crown Prince, Deputy
Supreme Commander
and First Deputy Prime
Minister of the Kingdom
of Bahrain

Corporate Profile

Vision

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 loan market in the Kingdom of Bahrain

Mission

To provide effective support to the Ministry of Housing to achieve the Government's housing policy to help social housing groups purchase their own homes, with a strong commitment to:

- *Collaborate with stakeholders to build, promote and support the construction of social housing units, together with community facilities and infrastructure, as required by the Ministry of Housing*
- *Facilitate the entry of social housing groups to the mortgage loan market*
- *Leverage the Bank's financial position to support the social housing agenda of Bahrain's Economic Vision 2030*

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 investment banking, 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, construction and property management; as well as finance for the construction of social and affordable homes, Community Projects and commercial projects.

As the Bank's property development arm, its subsidiary, Eskan Properties Company (EPC), develops social, affordable, community and commercial projects in partnership with the private sector and the Government.

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 BSC(c) acts as a catalyst in addressing the need for social and 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. It has also established partnerships with property developers and soon with landlords, to construct social and affordable housing units.

In 2012, Eskan Bank commenced the implementation of a new five-year strategy which significantly strengthens 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 is being achieved by accelerating the construction of social housing units in partnership with the private sector. In this respect, the Bank initiated a plan to build 2,500 social and affordable housing units on its land bank and through joint venture with landlords 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 2013, total assets of the Bank stood at BD 576 million.

Foreword

With more than half of the population under the age of 25 and in excess of 50,000 applicants awaiting social housing, housing affordability can be expected to remain an important challenge in Bahrain in the years to come.

A number of issues have contributed to the insufficient supply of affordable housing. These include a lack of accessible and affordable land due to factors such as high land values, speculation and zoning requirements. An historical focus on high-end residential projects has also diverted resources away from housing aimed for low to mid-income households and many lower-income households fail to meet standard mortgage eligibility requirements, which limits their ability to mobilize sufficient funds for an outright purchase.

During 2013, ESKAN Bank has concentrated significant focus to addressing Bahrain's social housing needs, working closely with Government Ministries to develop lasting finance solutions and aligning itself with the private sector, in close dialogue with property developers, landowners and retail banks to develop new social housing initiatives. Four outcomes - The development of social/affordable housing units on ESKAN Bank and private sector land, through joint venture arrangements; the Tomooh programme; the Social Housing Finance Scheme launched during the year and progress towards the establishment of the Mortgage Guarantee Scheme - are all set to create positive benefits for ordinary Bahraini citizens.

Operational Highlights

Strategy implementation

- Launched the Social Housing Financing Programme, in co-operation with Government bodies and private sector banks and developers.
- Finalised work towards the launch of the Bank's own initiative, named Tomooh, for the encouragement of social housing beneficiaries to take on vertical developments.
- Strengthened the relationship with Ministry of Housing by offering technical and operational advisory services.
- Progressed with consultancy, design and construction of 1,500 social housing units in Hamad Town, Isa Town, Karbabad, and Istiqlal, as part of Eskan Bank's plan to construct 2,500 social housing on its owned land by 2016.

Financial performance

- Posted record financial results for fiscal year 2013.
- Rented out the residential component of Segaya Plaza fully, broke ground for the Isa Town Mixed Use Project (Danat Al Madina) as part of the Bahrain Property Musharaka Fund, in which Eskan Bank has a major share and secured a BD 7.0 million facility from Bahrain Islamic Bank to build 324 apartments, retail, and office space for the Bahrain Property Musharaka Trust.

Loans

- Disbursed record loans of BD 52.68 million to 4,115 families.
- 50,834 social loans totalling BD 715.6 million disbursed to date.

Islamic Finance

- Disbursed all social loans in 2013 through Shari'a-compliant Ijara Muntahiya Be Tamleek and Istisna'a financing.
- Implemented Commodity Murabaha product for activities.
- Revamped the Istisna'a financing as reverse Istisna'a.

Treasury

- Transacted treasury business through the new Commodity Murabaha product with Islamic Banks.
- Increased participation in CBB Government securities to increase spreads and improve income.
- Extended new and existing counterparty relationships and credit lines with local and regional banks.
- Introduced arbitrage dealing system.
- Established key relationships with global Commodity Murabaha brokers.

Property Development

- Danat Al Madina mixed-use project in Isa Town under construction. Expected completion date is December 2014.
- Completed and launched Segaya Plaza mixed-use project in the 1st quarter of 2013. The residential component is 100% leased, with commercial 80% leased.

Community Projects

- Leased six new recently-completed retail community complexes in Hamad Town and Hamala with an occupancy of 94%.
- Completed construction of four complexes in Hamad Town, Karzakan, Dumistan and Riffa to a total value of BD 430,000 and leased during the last quarter of 2013.
- Commenced construction for a further nine community projects in Q4 of 2013.

Tourism

- Divested Sothern Tourism Company SPC to Mumtalakat.

Information Technology

- Launched Enterprise Management system to enable greater operational efficiencies.
- Finalised in-house real estate booking system to allow for the pre-sales of Danat Al Madina.
- Developed the arbitrage system for treasury dealing in foreign currencies.
- Integrated e-Government services on Eskan website.

Information Security

- Integrated web content protection and vulnerability management solutions to the Bank's central security incident and event management solution.

Business Continuity

- Conducted simulation testing for critical business processes at the Business Continuity Management and Command Centre.

Operations

- Centralised activities to head office from branches to increase efficiency.
- Automated processes to reduce transactional turnaround time.
- Commenced procedures for closure of the ATM network to realign Bank with core strategy.

Corporate Governance

- 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.

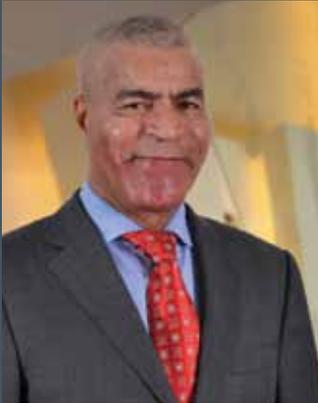
Communications

- Created a staff photography competition on the theme of 'doors' with the winning entries depicted on the Bank's 2014 calendar.

Social Responsibility

- Launched 'Eskan Bank Award for Creative Engineering' with the University of Bahrain to promote excellence and innovation in housing solutions in the Kingdom.
- Conducted an annual staff blood donation campaign

Board of Directors



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1. **H.E. Eng. Basim Yacob Al Hamer**
Minister of Housing
Chairman
(Non-Executive Director)
 - Appointed as Chairman of Eskan Bank in 2011
 - Master's in Project Management – Boulder, Colorado, Bachelors in Civil Engineering - California
 - Chairman: Tender Board
 - Board Member: National Oil and Gas Authority.
2. **Mr. Mohamed A.R. Hussain Bucheeri**
Vice Chairman & Chairman of Executive Committee (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
 - Board Member: Bank of Bahrain & Kuwait (BBK), Solidarity Group Holding Company, Investcorp Saudi Arabia Financial Investment Co., The K Hotel.
3. **Mr. Redha Abdulla Faraj**
Member (Independent Non-Executive Director)
 - Appointed in August 2011
 - A Chartered Accountant, a Fellow of the Chartered Association of Certified Accountants (FCCA), UK, one of the first Bahrainis to receive this qualification
 - Founder & Managing Director: Al Faraj Consulting W.L.L., Al Faraj Horizon Development Company
 - Board Member: Mumtalakat, BMMI, Almoayyed International Group (AIG), Y.K. Almoayyed & Sons Group, Instrata Capital, Gulf Air
 - Member: Bahrain Chamber for Dispute Resolution (BCDR)
 - Chairman: American Mission Hospital, GSS
4. **Mr. Ahmed Jasim Farraj**
Member (Independent Non-Executive Director)
 - Appointed in August 2011
 - Bachelor's degree in Economics and Political Science, Kuwait University, Kuwait, 1977
 - Diploma in Financial Management, University of Hull, UK, 1995
- Assistant Undersecretary: Financial Affairs, Ministry of Finance
- Board Member: Architectural Planning and Development Authority, Traffic Council, Bahrain Institute of Public Administration
- Member: Deposit Protection Board
5. **Mr. Ali Yousif Al-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
 - Board Member: Islamic International Financial Market (IIFM)
 - General Manager: National Bank of Kuwait
6. **Mr. Khalid Al-Amin**
Member (Independent Non-Executive Director)
 - Appointed in August 2011
 - Bachelor in Marketing, Houston, Texas
 - Chairman: Bahrain Youth Business Committee, G.C.C. Commercial Arbitration Centre
 - Vice Chairman: Tamkeen
 - Board Member: Ali Rashid Al-Amin Co., BSC, Bahrain Chamber of Commerce & Industry, Rotana Banader Hotel, Tazweed Qatar Company, Food Storage Company, Saudi Arabia, Ramakaza Trading Co., AF Willis Insurance Co.
7. **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
 - Chairman and Owner of multiple businesses in the ICT, Aviation and Real Estate Sectors
 - Board member: Bahrain Development Bank, Royal University for Women. ATYAF International BSc., TIG Software
 - Managing Director: 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.
8. **Mrs. Sabah K. Almoayyed**
General Manager and Member (Independent Non-Executive Director)
 - Appointed in 2008 and re-appointed in August 2011
 - Appointment Cancelled vide Cabinet Decision no. 65 for the year 2013 dated September 2013 as she had resigned from her position as General Manager of Eskan Bank on March 31, 2013.
9. **Mr. Yousif Abdulla Taqi**
Member (Independent Non-Executive Director)
 - Appointed in August 2011
 - A Certified Public Accountant (CPA), CEO and Board member: Al Salam Bank - Bahrain
 - Chairman: Manara Developments Company B.S.C. (c), Amar Holding Company B.S.C. (c)
 - Vice Chairman: ASB Biodiesel (Hong Kong) Limited, affiliates of ASBB.
 - Board Member: Aluminum Bahrain B.S.B. (ALBA), Tadhamon Capital.
10. **Mr. Yusuf Saleh Khalaf**
Independent Non-Executive Director and member of the Audit Committee.
 - Appointed in August 2011
 - A member of the UK's Association of Chartered Certified Accountants (ACCA) since 1983
 - Higher Diploma in Business Studies Salford College of Technology, Alford, UK
 - National Diploma in Business Studies Fielden Park College Manchester, UK
 - Founder & Managing Director: Vision Line Consulting
 - Board member: Bank of Bahrain & Kuwait, Securities & Investment Company (SICO), Solidarity General Takaful
 - Previous Position: Held the positions of Chief Executive Officer at Ajman Bank and Bahrain Islamic Bank.
11. **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
 - Chief Executive Officer: Social Insurance Organization
 - Board Member: Bank of Bahrain and Kuwait (BBK), Asset Management Company (Company owned by the Social Insurance Organization).

Chairman's Statement



H.E. Eng. Basim Bin Yacob Al Hamer

On behalf of the Board of Directors, it gives me great pleasure to present the annual report and consolidated financial statements of Eskan Bank for the year ended 31 December 2013.

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 line with that vision, 2013 has proved to be a year in which the Bank has made significant progress through a second record year of social loan disbursements; the launch of Danat Al Madina as the largest social/affordable residential mixed use project; the launch of the Social Housing Financing Scheme in October and the Tomooh initiative.

"Attitudes are changing at all levels; at the level of the financial services industry; at the level of developers and at the level of investors who are all willing today to invest in social and affordable housing segments"

Our strategy 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 on either Bank land or in partnership with the private sector. The inducement of the private sector, be it for social housing development or the funding of it, has become the dominant focus of our strategic initiatives during the year.

Through our subsidiaries, associates and strategic investments, we have continued to support the Government's Housing policies; providing financing to beneficiaries and increasing the availability of social and affordable housing units.

I am pleased to report that Eskan Bank has posted sound financial results for 2013 on the back of strong mortgage loan disbursements and liquidity management. Total net income for the year 2013 was BD 8.0 million. Total equity has reached BD 210 million with a growth of 3.1% from 2012 and a return on equity of 3.8%. Operating expenses are being maintained at approximately the same level of the previous year at BD 4.9 million, due to the success of cost-containment activities and resultantly the cost-to-income ratio improving from 37% in 2012 to 33% in 2013. On a prudent basis the Bank maintains a 1% general loan loss provision for top-up commercial loans in addition to the specific provision computed in compliance with regulatory requirements.

The Bank's total balance sheet strengthened to BD 576 million at the end of 2013 compared with BD 533 million at the end of the previous year. Our capital adequacy ratio remained strong at 111.3% while liquidity continued to be healthy, with liquid assets representing 18% of the total assets.

Against our Country's ever-evolving social landscape, the Bank has continued to grow, but 2013 has also been a fluid year of change: We have divested Southern Tourism Company to Mumtalakat, as this subsidiary no longer fits to our core mandate and we have streamlined our internal and external operations to stay true to our cause. We are not a 'high street' retail bank and so have commenced the closure of an ATM network that adds little value for our customers when compared to the very real benefits we can bring in a renewed focus on housing issues.

We have actively courted the private sector and our primary initiatives have been to integrate the aspirations of property developers and retail banks with those of the Ministry of Housing and, indeed with those of our beneficiaries: Providing the opportunity of home ownership to more Bahraini citizens is the fundamental role of the Bank and one that has been reinforced through our actions in 2013.

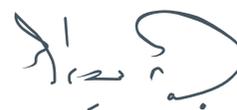
Our strategic, financial and operational achievements of this year have further strengthened the Bank's ability to continue its unique contribution to the social stability and economic development of the Kingdom of Bahrain and we look forward to 2014 with great optimism.

On behalf of the Board of Directors, I take this opportunity to convey our 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.

I would also like to thank the Government of Bahrain, for its confidence and support and to acknowledge the close co-operation, professional advice and guidance received from its various 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.

In closing, I would also like to express my appreciation to our management and staff for their strong commitment and dedication; to our business partners for their support and encouragement and, above all, to our customers for their loyalty and trust in our efforts.



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

General Manager's Report



Dr. Khalid Abdulla

Access to affordable housing is a key issue for Bahraini citizens and is only likely to grow in importance in the coming years. With more than half the Bahraini population under the age of 25 years and the current waiting list for social housing already exceeding 50,000 applicants, it is critical that Eskan Bank continues to focus its efforts on its core business – that of helping ordinary Bahrainis achieve their housing goals.

Bahrain's total population has seen rapid growth in recent years. Between 2001 and 2010, the national Bahraini population grew at an annual rate of 3.7%. With most of the demand for affordable housing historically coming from younger Bahraini adults, the

"2013 has proved a positive year in terms of the concerted effort we are exerting together with the Ministry of Housing in tackling Bahrain's housing issues head on"

pressure for housing will increase in the coming years as this large young population start forming families. The 2010 National Census reported a total number of 93,653 Bahraini households. In a previous study conducted by Bahrain's Economic Development Board, this total was estimated to grow to some 173,000 by 2020, of which 67,000 would be eligible for social housing units.

Historically, high land prices and construction costs made it unappealing for property developers to provide affordable housing and, instead, many focused on high-end and luxury real estate residential projects due to higher financial returns and a lesser need to rely on mortgage-based funding solutions. However, as the demand for such developments has fallen, many developers have transformed their business models with a greater focus on developing homes for low and mid-income use. This evolution in market emphasis now creates significant opportunity for Eskan Bank as a key participant.

It is by no small coincidence that the Bank has played a pivotal role in bringing about much needed change. Underpinned by our strong belief in the importance of engagement of the private sector in addressing the Kingdom's social housing needs, we have collaborated with a number of government institutions on two innovative programmes: The Social Housing Financing Scheme and the Mortgage Guarantee System. These are fundamental initiatives that are core to the Bank's primary focus, with both aimed at providing incentives for property developers and financial institutions to participate in social housing construction and financing.

Following extensive consultative development, the Social Housing Financing Scheme was officially launched in October 2013 at a ceremony under the Patronage of

H.E. The Deputy Prime Minister and went live on 1 November 2013. This programme fast-tracks applications of Bahraini nationals on the housing waiting list through the construction and financing of housing units by private sector property developers and retail banking institutions, with Eskan Bank acting as the programme's subsidy administrator. In addition, we have established strong partnerships with private sector property developers and contractors for the construction of social and affordable housing units for Bahrainis on low-to-medium incomes.

Typically, Government housing services are provided according to income bracket, with lower incomes required to apply for a social housing unit while middle income brackets are given a choice of either a supplied housing unit or a housing loan. Those at a slightly higher income can access loan services.

The Social Housing Financing Scheme will help decrease 'waiting list' pressure by allowing eligible customers the option to move off the current housing waiting list, to obtain housing of their choice from an approved private developer on an immediate basis, through a mortgage from participating private sector financial institutions. The net effect is a reduction in waiting list time, through incentivising new private-sector builds and subsidising customers' monthly installments with the commercial banks – a process that Eskan Bank fully endorses.

"We are creating a fluid, dynamic environment within which the private sector can embrace opportunity and be part of the solution"

The initiative is regulated, with Government approval required of developments to meet Ministry of Housing specifications. Eligible beneficiaries can now obtain housing from any of the approved housing developments or individual newly constructed house units meeting government specifications, with repayment restricted to 25 per cent of their salary. Beneficiaries can also 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.

To add to the Social Housing Finance Scheme, the Mortgage Guarantee System is under review, seeking to create a sustainable and affordable housing finance system by moving from a public-sector base to a market-based financing system, supported by the creation of a secondary mortgage market.

The objective of this 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.

During the course of the year, Eskan Bank continued to work with the Ministry of Housing, the Central Bank of Bahrain and the Ministry of Finance to provide necessary feedback on the review.

Our five-year strategy has continued to underpin our activities during 2013: Through the Social Housing Financing Scheme we have participated in executing a programme that will assist the Ministry of Housing in decreasing the current housing shortage for social housing groups in the Kingdom. We have also continued to develop model frameworks in partnership with the private sector for the construction of low-cost housing units. We continue to research financial opportunities for the funding of social housing projects, by making social housing a priority segment for all stakeholders and we continue to use the balance sheet of Eskan Bank to generate and redeploy funds towards the development of social housing units.

Against a backdrop of fluid social change and continued housing shortage, it is vital that Eskan Bank continues to increase its internal efficiency. Decision-making processes must be streamlined and reaction time to market demand reduced.

General Manager's Report continued

I am therefore delighted that 2013 has seen us plan the introduction of our new Enterprise Project Management system, which will allow us far higher levels of management process efficiency. Simply put, this means providing housing solutions with greater speed.

In line with its operational streamlining, the Bank has further cemented its relationship with the Ministry of Housing, with whom we have enjoyed an enduring partnership for over three decades. A recent secondment from the Ministry has also contributed to greater efficiency in related decision-making processes. The success of this partnership was reflected by an increase in mortgage disbursements during the year, which grew by 12.5% per cent over 2012. With BD 54.7 million of home loans being allocated to 4,115 people in 2013, the Bank has enabled more Bahraini families on low-to-medium incomes to realise their dream of purchasing their own home.

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.

In conclusion, I take this opportunity to acknowledge the guidance and support that we continue to receive from our shareholder, the Government of Bahrain and our Chairman and Directors. I also sincerely thank the private sector for their cooperation and commitment to the housing needs of Bahrain. Finally, I would like to pay tribute to our management and staff for their constant professionalism and integrity.

2013 has been a year of progress and change; a year where the Bank has both performed strongly and witnessed a resurgence of commitment to our core fundamental - to improving the quality of people's lives in the Kingdom of Bahrain.



Dr. Khalid Abdulla
General Manager

Earnings per Share (BD)



Return on Equity (%)



Total Equity (BD Million)



Net Income
(BD Million)



Total Assets
(BD Million)



Operating Income
(BD Million)



The Customer Hall at Eskan Bank integrates all functions including the Notary desk, to provide efficient customer service.

"Tomoooh is an exciting concept as it encourages people to move into apartments rather than just try to get their dream villa from the first day. Traditionally, our culture has been of a view that 'my house is my lifelong house - once I get it I never move out'. The idea is to encourage people that, rather than renting, they can go ahead and purchase a flat, and we at Eskan Bank will offer incentives later on, to move to a house"

Mrs. Amal Al Aradi, Asset Management



Launching Danat Al Madina. Dr. Khalid Abdulla with Mr. Eyad Obaid, Mrs. Amal Al-Aradi, Mr. Tariq Al Jalahma and Mr. Hani Nayem.

Review of Operations

Strengthening Relationships

Eskan Bank continued to strengthen its relationship with the Ministry of Housing throughout 2013 by cooperating closely on information sharing, efficient and frequent reporting, solving individual outstanding issues and working jointly on the introduction of new development / financing schemes. The Bank also continued cooperating with the Ministry throughout 2013 on various special assignments, all related towards the determination of social housing issues and included technical, legal and operational advisory work.

The Bank continues to work closely with the Ministry of Housing, taking on special assignments with a view for an effective strategic alliance. These continue to be given priority. The Ministry has conveyed for a requirement that Eskan Bank acts more as an advisory and implementing arm for future projects that involve private sector developers and financiers and this direction is one that the Bank whole-heartedly embraces.

Financial Advisory for Social Housing Units

As part of Eskan Bank's new strategy, a budget was approved for the appointment of a financial advisor to structure funding options for the construction of 2,500 social housing units. The Bank proceeded with tender procedures followed by an evaluation report submitted to

and approved by the Tender Board recommending the appointment of KPMG consortium, which comprises Barwa Bank and Trowers & Hamblins in addition to KPMG. The agreement between KPMG, as representative of the consortium, and Eskan Bank was provisionally signed on 23 May 2013, dependent on finalisation of land and road alignment approvals which, in turn, will dictate the exact number of housing units that can be accommodated.

Launching the Tomooh Program

During the year, Eskan Bank conducted feasibility studies for Tomooh, a new initiative that aims to encourage younger beneficiaries to accept 'vertical developments' or residential apartments. With scarcity of available land, it is important that the mindset of younger beneficiaries is changed from only considering a villa to a realization that housing is a progressive issue; that a young couple can get on the 'home-ownership ladder' with an apartment and, over time as their family grows, can aspire to a villa later. The Tomooh concept aims to incentivize beneficiaries to take up an apartment developed by the Bank with the option of selling it back to the Bank during a window of three years starting on year eight at no less than 90% of the then prevailing market value. The program helps to provide eligible beneficiaries additional housing solutions and thus avoid long waiting periods or the significant financial strain of purchasing a villa.

Build, Operate and Transfer

The 'Build, Operate and Transfer' concept seeks to facilitate development on land owned by Eskan Bank without using the Bank's cash resources for this development, and to generate cash flows for supporting other social housing projects. The initiative promotes the land to a developer who will build and operate on it for a 20 or 25-year term, at the end of which it is transferred back to the Bank. Over the years the Bank receives an annual return, in much the same manner as a lease arrangement. In April 2013, tenders were obtained and KPMG, together with Trowers & Hamblins as legal advisors, were appointed to prepare all legal documentation and financial modelling for three such projects in Busayteen, Karbabad and Hamad Town.

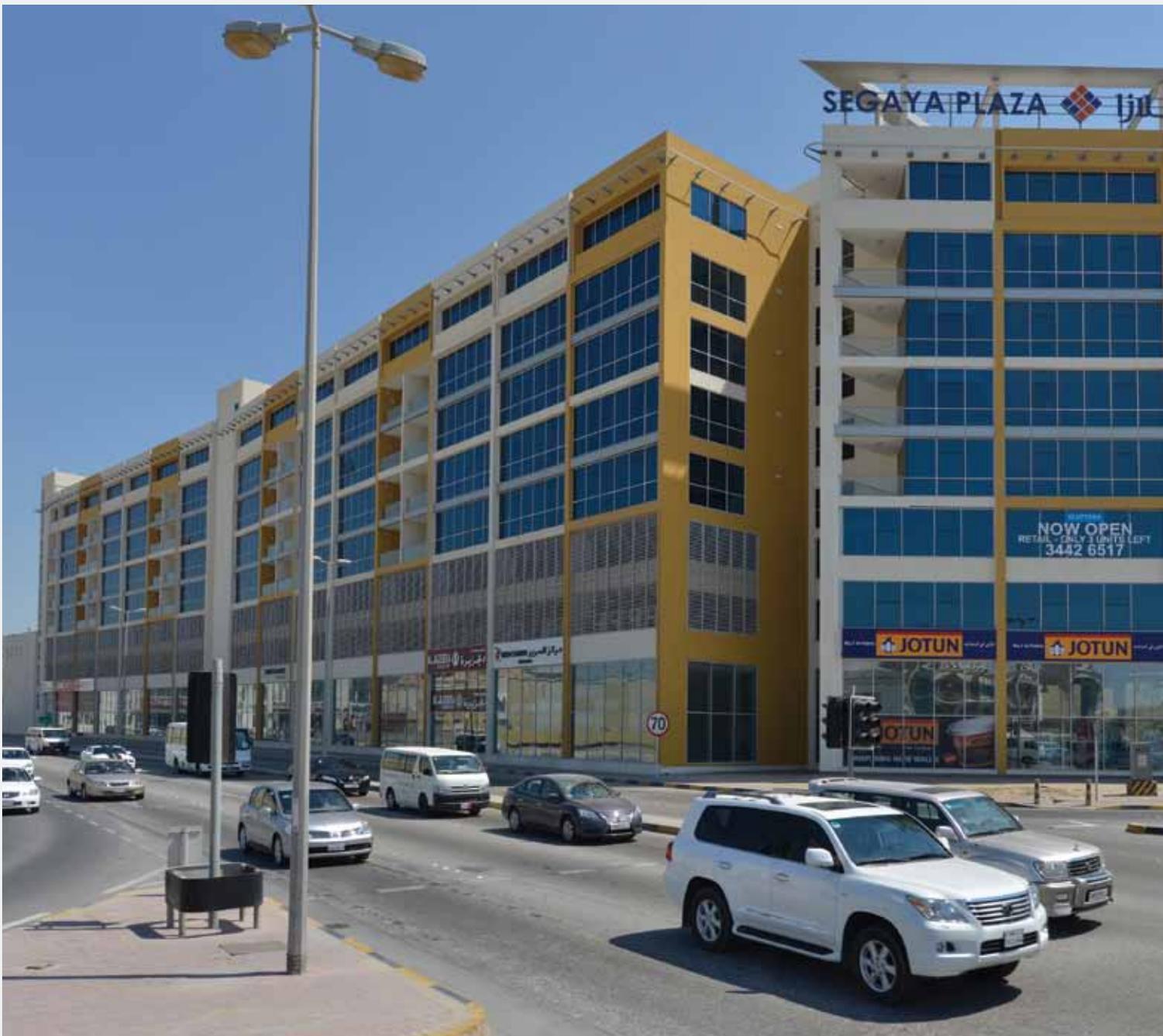
Retail Banking

As the largest mortgage lender in Bahrain, Eskan Bank has now disbursed 35,600 social housing loans totalling more than BD 663 million and enabling 46,719 Bahraini families of low-to-medium incomes to realise their aspirations of becoming home owners. In 2013, we disbursed a record BD 54.7 million of social housing loans serving 4,115 Bahraini families - an increase of 12.5% over 2012.

Al Daar Commercial Mortgages, which are primarily used for housing loan top-up purposes, reached BD 2.0 million in the year. Rental subsidies



Top left: A spacious bedroom with views.
Top right: Mr. Mohamed Bucheeri, Vice Chairman and Board Member, Mr. Khalid Al-Amin with Mrs. Sabah Almoayyed, outgoing GM and Board Member, officiate at the inauguration of Segaya Plaza on 27 March 2013. Below: A view of the completed Plaza.





Segaya Plaza

Following two years of development, the Segaya Plaza opening ceremony was held on 27 March 2013. The Plaza, completed under budget, 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, comprising 10 three-bedroom apartments, each with a floor space of 160 square metres; 75 two-bedroom apartments ranging from 126 to 140 square metres; and 20 one-bedroom apartments of 90 square metres.

Residents enjoy exclusive amenities including a swimming pool, roof terrace, gymnasium, sauna and steam room. Private parking for residents is provided on two floors above the ground floor, while dedicated ground floor parking is available 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 remains a visual landmark in this popular and fast-expanding area.

Through the Bahrain Property Musharaka Trust, the Bank finalized a lease agreement with the Ministry of Education for all 105 apartments. Eleven retail units have been leased to date which is equivalent to 74% of the net leasable area. These have been leased to highly reputable tenants such as; Bed Center, Jazeera Roastery and Al Ansari Lighting. Further tenants have been identified which should increase the property's occupancy to 100%.



"We have started building an internal culture that recognises and encourages idea generation and to allow good ideas to see the light of day. Many great initiatives remain as concepts that never get implemented. We are changing our corporate mindset to treat every good idea as a potential project and to decide how to structure that project so that it can move to fruition, fully implemented".

Mr. Tariq Al Jahma, Head of Retail Banking



Light, open and spacious: An apartment interior at Segaya Plaza demonstrates that vertical developments can provide a viable alternative to villas for social housing - and be of great appeal

Review of Operations continued

increased by 9.2% to 36,600 customers and the total portfolio increased by 7.8% to a total of 80,261 accounts in 2013. The Bank's housing unit portfolio also increased to reach 8,061 – up by 2.9% over 2012.

The debt service coverage ratio has been increased from 60 to 65 in some segments and, instead of offering 25-year terms, mortgage terms of up to 30-years are now offered. Additionally, lower value applications are now considered in effort to provide better assistance to beneficiaries.

Eskan Bank's Notary Desk, set up in 2012, has contributed to greater efficiency. The service enables internal notarisation of mortgage contracts removing the need for beneficiaries to visit the Ministry of Justice. During the year, 5,708 contracts were notarised through this facility.

Islamic Finance

The growing preference by customers for Shari'a-compliant products and services was illustrated last year by all new social housing loans being disbursed on an Islamic basis through Ijara Muntahiya Be Tamleek and Istisna'a.

Under the guidance of the Shari'a Supervisory Board, the Bank has continued to make good progress in developing its Shari'a-compliant products and services. During 2013, the Bank reengineered various Islamic structures to conform to best practice and has introduced reverse Istisna'a as an improved form

of the Istisna'a instrument with all documentation amended accordingly. This has further streamlined our retail mortgages.

Treasury

The Bank's Treasury business witnessed a year of increased activity with several new initiatives. A Commodity Murabaha – involving both placing and taking funds – was introduced to provide the Bank with greater flexibility in dealing with more Islamic banks that prefer Murabaha-based transactions to the Wakala. This has added new Islamic banks as counterparties for inter-bank business and providing funding to support the business units. During the year, Eskan Bank also extended its counterparty relationships and credit lines with regional banks based in Bahrain.

New products, including arbitrage tools, have been tested successfully within the Core Banking System for planned implementation in early 2014. The new Reuters Dealing System will allow treasury access to Forex markets by taking advantage of interest rate differentials between US Dollar and Bahraini Dinar positions.

During 2013, Treasury has focused on diversification of liquidity deployment in several profitable products by increasing participation and bidding for Government Securities issued by the Central Bank of Bahrain. It successfully participated in the 'Ijarah Leasing Sukuk', an Islamic product of the Central Bank of Bahrain, which allowed better returns.

Property Development and Investments

Eskan Properties Company continued to assist the Bank's investment divisions, subsidiaries and associates during 2013, in developing social, community and commercial projects. The Company has continued to work in partnership with the private sector and the Government, across the entire real estate value chain. Eskan Properties' range of services includes project assessment; design management and planning; project development management; quantity surveying; sales and marketing; and property and facilities management.

Two major mixed-use developments by Eskan Properties – at Segaya and Isa Town – reported significant progress during 2013, with the first reaching completion: Segaya Plaza was officially handed over on 27 March and a two-year lease has been signed with the Ministry of Education for all 105 apartments and, in addition, several retail units have been leased to reputable tenants. Plans are now being prepared to analyse exit options for the completed project.

A marketing campaign for the Danat Al Madina project at Isa Town was launched during the year. In addition, in October, the project became officially certified as an approved development under the Social Housing Finance Scheme. Across the Bank's other developments, Eskan Properties has completed feasibility studies and appointed concept design consultants for the



Top left: Mr. Ahmad Tayara, Deputy General Manager & Chief Business Officer of Eskan Bank with Mr. Mubarak Alnuaimi at the Olympic Contracting signing ceremony for Danat Al Madina.

Top right: Mrs. Sana Isa, Main Branch Manager, shows a customer the architects' development model.

Below: A view of the construction site.





Danat Al Madina

The largest project to date to be executed by Eskan Bank this is a strategically-located 'micro-city' containing 324 housing apartments, offices, retail outlets and showrooms. The project has been certified as an Approved Development under the Ministry of Housing's newly launched Social Housing Financing Scheme with the majority of residential space targeted at middle-income Bahraini citizens.

Danat Al Madina 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 16 six-storey buildings. The basement is a dedicated car parking space with two spaces for each apartment, covering a total area of 22,256 square metres. The ground floor contains showrooms and retail spaces, with a total area of 4,313 square metres. The development's 324 apartments are all designed in a 3-bedroom layout, with an average area of 174 square metres. The apartments are largely situated on the upper five levels, while certain units are on the street level.

Significant progress has been made throughout the year: Olympic Contracting commenced excavation work in March 2013 and, by November, the development had reached significant completion against key milestones.

Pre-sales of apartments commenced in October 2013 and a fully-fledged marketing effort has been initiated, including the launch of a sales stand at Seef Mall with an experienced sales team and on-site development model. The Bank mobilized its Call Centre to contact eligible social loan beneficiaries and, to further spread awareness, launched a marketing campaign across various media channels.



Review of Operations continued

Busayteen Shopping Complex and, during the year, initiated four joint venture proposals with private sector landowners, planning for a potential of 1,009 apartments and 378 villas on these sites.

During 2013, Eskan Properties successfully leased six Community Projects in Hamad Town and Hamala with an occupancy of 94% against a target of 85%. It has completed construction and leased four new Community Projects in Karzakan, Dumistan, Riffa and Hamad Town, for a total value of BD 430,000. Nine further community projects commenced development through the last quarter of 2013: These include Samaheej I & II in Budaiya, Salmabad, Zallaq, North Muharraq, Riffa and Malkiya. A further initiative in May saw the Bank's Bahrain Property Musharaka Trust secure a BD 7.0 million facility from Bahrain Islamic Bank to build 324 apartments.

Community Projects

Throughout the year, we continued to fulfil our unique social and community role to contribute to the betterment

of society and improve the quality of life for Bahraini citizens. Eskan Bank supports the development of cohesive and sustainable communities by constructing and managing Community Projects that provide residents with convenient neighbourhood amenities and small enterprises with new business and employment opportunities. In 2013, the Bank completed construction of four Community Projects. These Community Projects provide business and employment opportunities for local entrepreneurs and small enterprises and also complement and support Ministry of Housing projects by providing convenient neighbourhood amenities.

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 and prepare for the role of subsidy manager under the Social Housing Financing Scheme.

Information Technology

The IT department has embarked on a series of improvement initiatives during the year, the first of which was the installation of new AS 400 during March. A Real Estate Booking system, vital to pre-sales of Danat Al Madina, was finalized at the end of February allowing effective marketing and sales capture for the project to proceed. Software development has been required to support the Social Housing Finance Scheme and, by October, this successfully entered the testing stage. The Bank's website has been upgraded with an Arabic version together with other improvements and our integration with e-Government services has progressed through the year.

Information Security

During 2013, the Bank implemented a number of initiatives to further enhance its security management capability. A 'web content protection solution' and a 'vulnerability management solution' were implemented to proactively monitor and eliminate security threats facing the mission-critical data and

"We are dedicating significant resources to the integration of the private sector to the complex processes involved in providing affordable housing units for Bahraini citizens. In addition, we are strengthening our property and facility management to cater to our new developments. Our vision is to provide a full solution from providing the units, through facility management and maintenance".

Mr. Eyad Obaid, Acting Chief Development Officer, Eskan Properties

"The introduction of the Social Housing Finance Scheme is a new positive approach because it has incorporated the feedback of stakeholders. It is optional, allowing eligible families to leave the waiting list, purchase an approved house from the private sector immediately through subsidised mortgages from commercial banks"

Mrs. Samar Agaiby, Head of Financial Institutions and Government Relations

applications of the Bank. These two new systems were effectively integrated with the Bank's 'central security incident and event management solution' to centrally manage security from a single location.

During the year, as part of its Business Continuity Management framework, Eskan Bank carried out simulation testing of its critical business processes at its Command Centre in Jid Ali. 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 to be recovered. The Business Continuity Steering Committee provided management oversight for all aspects of information security and business continuity.

Financial Control

The Financial Control department continued to partner proactively with all departments in 2013 and also support the management team, by monitoring financial performance and providing critical information on a regular basis for review at monthly management meetings. 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, adopting 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.

Quality Management

In 2013, Eskan Bank's accreditation to the ISO 9001:2008 international quality management standard (which was achieved in 2011) was re-certified by external auditors. A team of 10 staff, certified as 'internal quality auditors' prepared the Bank for this annual external surveillance audit, conducted by the external certification body; Bureau VERITAS. The audit focus in 2013 involved a change in criteria – not solely in auditing procedures, but also in 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, as an integral part of the Bank's quality roadmap, which aims to instil a quality-conscious culture across the organisation.

Internal Audit

During 2013, 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 prioritize 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 Department to develop enterprise risk management in order to identify, update and manage inherent risks; and maintain residual risks at acceptable levels. 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.

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 consultancy to the Board of Directors, Senior Management and all departments. It is also responsible for the drafting, reviewing and preparation of all legal documents and contracts; as well as managing the Bank's exposure to any regulatory and legal risk.

Additionally, the department has a responsibility to ensure that the Bank's corporate governance policy is laid down in compliance with CBB requirements and the Bahrain Code

Review of Operations continued

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 2013 are covered in the separate Corporate Governance Report later in this annual report.

Human Resources

A constructive work environment continues to be important to Eskan Bank. With 13 new recruitments during the year, the Bank's Bahraini staff members now stand at 84%, with female staff comprising 45% of total employees and 36% of management positions.

During 2013, Human Resources registered various staff members in 36 training courses at BIBF; 108 internal training courses; 47 external training courses and 7 professional programmes. In addition, 2 staff members were registered in the Career Progression Programme sponsored by Tamkeen.

The Bank continues to serve the community of Bahrain through participation in youth training across different educational stages. One such example saw Eskan Bank accommodate 55 students from different schools all over Bahrain, in co-operation with the Ministry of

Education, as part of the Takween Community Service Training Programme. Seven trainees also joined the bank to further their skills and technical training within a practical workplace..

Social Responsibility

During the year, Eskan Bank signed a memorandum of understanding with the University of Bahrain to launch an annual award for engineering students who develop and present projects that offer innovative solutions in the fields of architecture and engineering. The Award, under the theme of 'Socio-Economic Sustainability in Housing Development', comprises three financial categories, which will be granted for the best three projects and new topic for the Award will be introduced annually by the Bank in coordination with the University. Winning projects will be selected by a committee of engineers from Eskan Bank; professors from the College of Engineering at UOB and a member from Bahrain Society of Engineers.

The initiative contributes to the promotion of the students' practical and technical abilities and aims to unleash potential and polish innovation and creativity. Besides

this, it provides a focus for excellence within a context of housing, which will help stimulate the introduction of innovative solutions to the housing issues of the Kingdom of Bahrain.

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 line with this mandate, the Bank provided financial and practical support for various charitable, cultural and educational initiatives and conducted a staff blood donation campaign in conjunction with Salmaniya Medical Centre.



The Eskan Award for Creative
Engineering

"Reducing the Ministry of Housing backlog with genuine solutions is our utmost goal. Today, if asked about our vision and mission, I would say: We have over 50,000 pending social housing service applications and they increase annually by approximately 5,000: Any idea, project, programme, initiative or task that would minimize this list to zero by 2030, is what we will embrace as Eskan Bank"

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



Above: Dr. Khalid Abdulla, General Manager Eskan Bank is presented a trophy by Dr. Ibrahim Janahi, President of the University of Bahrain following the signing of the agreement for the 'Eskan Award for Creative Engineering'.

Subsidiaries, Associates & Strategic Investments



Top: A community retail centre in Busaiteen - at the heart of Eskan Property Company's initiative to create sustainable business communities. Below left: The community retail centre in Hamad town. Below right: Mr. Eyad Obaid, Acting Chief Development Officer conducts a site visit at Hamad Town.

Eskan Properties Company (Wholly-owned subsidiary of Eskan Bank)

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 projects and commercial projects.

Through its wholly-owned subsidiary, Eskan Properties Company, the Bank implements its strategic commitment to be 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.

Eskan Properties Company aspires to be an innovative leader in real estate development within Bahrain and is committed to social betterment of Bahraini citizens through the impact of its operations. Its vocation is to manage the development of real estate projects, owned by the Bank or by third parties, through professional service agreements. Together with the Bank, Eskan Properties Company aims to attract landowners, investors and government institutions to commission real estate development together with associated financial services.

Jointly with Eskan Bank, the Company provides full development solutions to process all kinds of real estate projects, from urban development; mixed use projects; residential, office and service projects. Emphasis is placed on projects that will create medium to low cost housing or apartment units that will benefit from the low and medium loans provided by Eskan Bank, and also with additional commercial mortgages, providing a holistic affordable solutions.

Eskan Properties Company employs a highly motivated team of industry professionals with a wide network of international consultants and contractors.

Its services include: Project identification; land assessment and business model preparation; the management of feasibility studies; the design process; government approvals; contractors assignment; development management; quantity survey and the sales and marketing process. Once projects are completed, property management and facilities management services can be offered.

In addition, Eskan Properties Company provides financial management solutions including fund raising management and financial structuring, jointly with Eskan Bank.

The formation of Eskan Properties Company has enabled Eskan Bank to move from a financial facilitator to a far more pro-active role in serving the affordable home-ownership needs of Bahrain.

It commenced operations in April 2007 and to date has managed several substantial projects from concept and design stage through to completion and handover including Segaya Plaza and numerous community-based projects across the Kingdom. It is currently the driving force behind the Danat Al Madina development.

Smart Building Materials Company (Wholly-owned subsidiary of Eskan Bank)

Smart Building Materials Company was established in 2009, with a charter to manufacture cost-effective, environmentally-efficient homes for the less advantaged. The Company also imports a range of building materials and raw materials such as gravel, cement, bricks, marble, electrical fillings and sanitary ware; with construction of warehouse facilities to support the business.

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

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.

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.

In a notable development in 2013, Naseej finalized a financing agreement for USD450 million that brings together public and private entities to deliver social and affordable housing solutions to Bahrain's growing housing challenges.

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.

Executive Management Team of Eskan Bank

Dr. Khalid Abdulla General Manager

Dr. Khalid Abdulla has over thirty three years of experience in Islamic and Conventional Banking in addition to real estate market and has held many senior positions with leading investment, commercial and real estate financial institutions in Bahrain in addition to his academic and research expertise in Economic, including University of Bahrain,

Prior to joining the bank, he was the Chief Executive Officer at Invest Bahrain BSC. He holds a Master of Science Degree in Economic Development from the University of East Anglia (UK) and a Doctorate of Philosophy in Economics from Exeter University (UK). He also held the post of Assistant Professor & Chairman of the Department of Economics & Finance at the University of Bahrain, in the recent past.

Dr. Khalid is actively involved in many projects promoting infrastructural development in Bahrain & is a member of many associations such as 'The Public Affairs Committee' at the Bahrain Chamber of Commerce & Industry & is a founding member of the Bahrain Economic Society & Serves on the Board of Trustees of 'MENA Investment Center'.

Dr. Khalid plays an active role in many societies and institutions such as Heading the Bahrain Society for competitive, member of National Committee for the World Trade Organization, Board member and Head of Audit Committee at LMRA and Reef Real Estate Finance Company, in addition to being a founding member of the Economists Association of Bahrain

He assumed the present position in 2013.

Mr. Ahmad Tayara Deputy General Manager & Chief Business Officer

Mr. Ahmad Tayara has over seventeen 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 at Elaf Bank.

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

He assumed the present position in 2012.

Mr. Aref Qamber Chief Operating Officer

Mr. Aref Qamber has over twenty four years of experience in Islamic and Conventional Banking, particularly in the areas of Financial Planning, Corporate Finance, Human Resources and Administration Management. He has worked for leading institutions such as Bank of Bahrain & Kuwait and Shamil Bank (Ithmaar). Prior to joining Eskan Bank, he was Deputy CEO at Manafae Investment Company in Kuwait.

Mr. Aref is a Certified Public Accountant (CPA), USA.

He assumed the present position in 2013.

Mr. Srikanth Sheshadri Chief Risk Officer

Mr. Srikanth Sheshadri has over twenty one 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. Eyad Obaid Acting Chief Development Officer / Eskan Properties Company

Mr. Eyad Obaid has over thirty years of experience in various constructions industry, private and governmental with wide experience in projects management, execution and property development. Prior to joining Eskan Bank he was with Bahrain Defense Force, Military Works Directorate

Mr. Eyad holds a BSc degree in Civil Engineering.

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

He assumed the present position in 2012.

Mr. Tariq Al Jalahma Head of Retail Banking

Mr. Tariq Al Jalahma has over thirty one years of experience in Commercial Banking Industry, particularly in the areas of Remedial and Retail Banking. Prior to joining Eskan Bank, he was the Vice President, Marketing & Small Business Development Unit at Bahrain Development Bank.

Mr. Tariq holds a Banking Diploma from BIBF. He assumed the present position in 2005.

Mr. Hani Abdul Mahdi Jasim Nayem Head of Internal Audit

Mr. Hani Nayem has over eleven 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 of Bahrain, 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. Jayant Krishnaswami Head of Project Management

Mr. Jayant Krishnaswami has over thirty years of experience in different commercial and investments banks within GCC & India such as Standard Chartered, Taib, National Bank of Oman, National Bank of Abu Dhabi, particularly in the areas of Risk Management, Financial Control and Corporate Banking. Prior to joining Eskan Bank, he was Senior Manager of the Credit Risk Department at Ahli Bank of Oman.

Mr. Jayant holds a Master in Management Studies with specialized in Finance from Mumbai University.

He assumed the present position in 2013.

Ms. Parween Ali Head of Sales & Marketing

Ms. Parween Ali has over seventeen years of experience in Banking Industry, particularly in the areas of Sales and Customer Service. Prior to joining Eskan Bank, she was Sales & Customer Service Manager at Standard Chartered Bank.

Ms. Parween has an Advanced Banking Diploma from BIBF.

She assumed the present position in 2010.

Mrs. Samar Agaiby Head of Financial Institutions & Government Relations

Mrs. Samar Agaiby has over twenty two years of experience in Risk Management, particularly in the areas of Quality, Finance and Project Management. She spent her full career in Eskan Bank, in which she joined the

bank directly after she graduated from the American University in Egypt with a Bachelor degree in Economics.

Mrs. Samar is a Certified Management Accountant (CMA) from USA and Certified Diploma in Accounting and Finance (CDipAF) from UK

She has been with Eskan Bank since 1989 in which she has filled different positions such as Head of Mortgage Guaranteed System and Head of Credit & Operational Risk.

She assumed the present position in 2012.

Mr. Adnan Fathalla Janahi

Acting Head of Human Resources

Mr. Adnan Fathalla Janahi has over eighteen years of experience in Human Resource Management, and has worked with one of the leading banks, National Bank of Bahrain and prior to joining Eskan Bank, he was a Director, Head of Human Resources at Investment Dar Bank.

Mr. Adnan holds an MBA from University of Glamorgan.

He has been with Eskan Bank since 2009 under the capacity of Senior Manager HR & Administration.

Adnan assumed the present position in 2013.

Mr. Aqeel Mayoof

Acting Head of Information Technology Management

Mr. Aqeel Mayoof has over eighteen years of experience in different IT Core Banking Systems within banking Industry such as Citi Bank and Ahli United Bank. Prior to joining Eskan Bank, he was IT Projects Leaders at Ahli United Bank.

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

He has been with Eskan Bank since 2005 under different positions such as Manager and Senior Manager within the Information Technology.

He assumed the present position in 2012.

Mr. Deepak Patel

Acting Head of Operations

Mr. Deepak Patel has over thirteen years of experience in Commercial Banking Industry, particularly in the areas of Operations, Finance and Retail Banking. Prior to joining Eskan Bank, he was Operations & Finance Manager at ICICI Bank in Bahrain.

Mr. Deepak holds a Bachelor's Degree in Commerce & Economics from Mumbai University.

He has been with Eskan Bank since 2007 under different positions such as Manager and Senior Manager within Operations.

He assumed the present position in 2012.

Mr. Muhammed Saeed Butt

Acting Head of Financial Control

Mr. Muhammed Saeed Butt has over thirteen years of experience within the financial services sector. During the course of his career he has worked for Reputable Financial Institutions such as Earnest & Young in Pakistan. Prior to joining Eskan Bank, he was a Manager Investment & Finance at Al Zayani Investment.

Mr. Muhammed Saeed is an Associate Chartered Accountant (ACA) since 2004.

He has been with Eskan Bank since 2007 and has filled several positions such as Senior Manager Financial Control and Manager Strategic Planning.

Muhammed Saeed assumed the present position in 2013.

Mrs. Amal Al Aradi

Senior Manager, Property Management / Eskan Properties Company

Mrs. Amal Al Aradi has over twenty six years of experience in Assets Management. She spent her full career in Eskan Bank, in which she joined the bank directly after she got her Bachelor Degree in Computer Science.

She has been with Eskan Bank since 1987 in which she has filled different positions such as Acting General Manager of Southern Tourism Company - STC which was subsidiary of Eskan Bank, Projects Manager, Assets Management Manager and Senior Manager.

She assumed the present position in 2009.

Mrs. Nooreya Al Binali

Senior Manager of Remedial Department

Mrs. Nooreya Al Binali has over thirty three years of experience in Credit and Risk Management, particularly in the areas of Credit Administration, and has worked with many leading banks within Bahrain such as United Gulf Bank (UGB) and Arab Bank Corporation (ABC). Prior to joining Eskan Bank she was Manager, Head of Credit Administration Department within Credit and Risk group at Arab Banking Corporation.

She holds a High School Diploma in addition to attending several professional seminars and courses related to Credit Management.

She assumed the present position since she joined in 2007.

Mr. Fadhel Asbool

Treasury Manager

Mr. Fadhel Asbool has over twenty four years of experience in Banking Treasury in both Islamic and Conventional Banking, particularly in the areas of Money Market and Capital Market. Prior to joining Eskan Bank, he was the Chief Dealer at Tokyo Mitsubishi Bank - Bahrain.

Mr. Fadhel holds a Bachelor of Commerce from Bangalore University, India.

He assumed the present position in 2007.

Mrs. Haifa Al Madani

Manager Legal Department

Mrs. Haifa Al Madani has over fifteen years of experience as a Lawyer and Legal Advisor, she spent her full career in Eskan bank, where she worked under Legal Department directly after she graduated from Kuwait with Bachelor degree of Law. She is a board member of Eskan Properties Company as a subsidiary of Eskan Bank since 2007. She Assumed present position in 2013.

Mrs. Hana Buhejji

Manager of Public Relations & Corporate Communications

Mrs. Hana Buhejji has over twenty five years of experience in the field of Media & Public relations, writing and editing. She has worked for reputable local newspapers such as "Akhbar Al Khaleej", "Al Ayam", "Al Wasat" and "Alwaqt", worked as Business Correspondent to reputable regional "Alsharq Alawsat" newspaper in London for 11 years. Started career by working as Economic Analyst in National Accounts dept. in Ministry of Finance and National Economy for 2 years.

Mrs. Hana holds a Master of Art in Economics from Colorado State University in USA, and Bsc. of Business Administration & Accounting from United Arab Emirates University.

She assumed the present position since she joined in 2007.

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 2013, the Bank continued to review on an ongoing basis, the implementation of various prudential norms; developed new procedures; 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 fulfil 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. 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. 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 collaterals are in place. In 2013, 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 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 CBB regulations and other regulatory requirements; and generally with sound practices pertinent to those activities.

Corporate Governance

1. Corporate Governance Policy

Eskan Bank's "the Bank" Board of Directors "the Board" has adopted the Bank's Corporate Governance Policy and business plan. The Board amended the governance policy in compliance with the Corporate Governance Code issued by the Central Bank of Bahrain and the Ministry of Industry and Commerce in 2010. The Board also ensures that the Bank's business is conducted professionally and in accordance with the applicable laws and regulations of the Kingdom of Bahrain. The Remuneration, Nomination and Corporate Governance Committee of the Board is responsible to ensure the effective application of the corporate governance principles within the Bank. The Audit Committee regularly reviews the Bank's policies approved by the Board of Directors.

The Board ensures that training is provided to Board members periodically. The induction program for Directors includes meetings with senior management, visits to the bank's facilities, presentations regarding strategic plans, significant financial, accounting and risk management issues, compliance programs, its internal and external auditors and legal counsel. Additionally, the Bank also 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 authorised capital has reached BD 400 million and the paid up capital is 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 and Commerce, and the Central Bank of Bahrain.

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

3. Board of Directors Information

Board composition

Eskan Bank's Board has been appointed by Order No. 62 of 2011 dated 23 August 2011 in line with Legislative Decree No. 4 of 1979 with respect to the establishment of the Eskan Bank amended by Law No. 75 of 2006. The Board of Directors comprises of 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.

The current Board of Directors consists of 10 members which have been appointed for a period of three years, whereby the Minister of Housing is the ex officio Chairman of Eskan Bank. Any change in the Board composition also requires an approval from the Council of Ministers. The Board composition was amended in accordance with Cabinet Order No. 65, amending Order 62 of 2011 on re-forming the Board of Directors of Eskan Bank. Under the Order, Mohammed Abdulrahman Bucheeri was appointed as Deputy Chairman of the Board of Directors of the same bank, and items 1 and 8 of Order 62 for 2011 were cancelled, whereby the said items stipulate the appointment of Mr. Abdulrazaq Al Qassim (resigned from the Board of Directors in March 2012) and Mrs. Sabah Khalil Almoayyed (resigned from her position as General Manager of Eskan Bank on March 31, 2013) as members of Eskan Bank's Board of Directors.

Board Member's Remunerations

The disbursement of Directors' remuneration (excluding His Excellency the Chairman being a minister) has been outlined in the letter sent by His Excellency Sheikh Khalid bin Abdulla Al Khalifa, Deputy Prime Minister with regards to the determination of remuneration of the Board of Directors of Eskan Bank which referred to the letter provided by Civil Service Bureau dated 17 March 2014, which stipulates "the implementation of Cabinet Resolution No. 04-1969 which states that the remuneration of BD 8,000 shall be paid annually to the Directors appointed within the Boards and Committees of Government Entities of which the nature of their activities result to financial liabilities, subject that the said entities meetings are held annually or periodically".

Aggregate remuneration paid to Board members for 2013 was 115,800 Bahraini Dinars.

Board Secretary

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

Director's Roles and Responsibilities

The Board of Directors is responsible for the overall corporate governance of Eskan Bank, which is in line with CBB corporate governance principles ensuring that the Bank is run in an efficient and effective manner. The Board meets regularly throughout the year and maintains full and effective control over strategic, finance, operational, internal control and compliance issues. The Board's remit includes charting the direction of the Bank, setting objectives, formulating strategy, establishing policy guidelines. The Board has full authority to take decisions on setting annual operating plan and budget, authority levels, major capital expenditure, divestitures, mergers and acquisitions, certain strategic investments, disposal of assets, capital expenditure, review of the financial statements and appointing 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.

Whistle-Blowing Policy

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

Code of Conduct

The Board has approved a Code of Conduct for Eskan Bank Board of 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.

Corporate Governance continued

Performance Evaluation of Board Members and its Committees

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

4. Board Committees

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

Board Committees composition, roles and responsibilities

Executive Committee

Members:

Mr. Mohammed Hussein Bucheeri
(Chairperson)*¹
Mrs. Sabah Khalil Almoayyed*²
Mr. Ali Yusuf Al-Fardan
Mr. Khalid Ali Rashed Al Amin
Mr. Ahmed Jassim Faraj

Summary terms of reference:

- The committee is formed with a minimum of three members, which consist mostly of independent non-executive members to be appointed by the Board.
- The Committee shall meet at least quarterly or as frequently as required to perform its role effectively (the Committee held six meetings during 2013).
- Majority of the Members are required to attend the meetings to ensure a quorum.
- Concerned Chiefs, Heads and Managers are invited to attend the meetings (If required).

Summary of responsibilities:

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

*¹ Mr. Mohammed Hussain Bucheeri has been appointed as the Chairman of the Executive Committee by virtue of Eskan Bank's Board Resolution No. 4/1 for the year 2013.

*² The Board of Directors has been restructured in accordance with Cabinet Order No. 65 for the year 2013 with respect to amending Cabinet Order No. 62 for the year 2011 mentioned hereinabove.

Audit Committee

Members:

Mr. Redha Abdulla Ali Faraj
(Chairman);
Mr. Yusuf Saleh Sultan Khalaf
(Vice Chairman);
Dr. Zakaria Sultan Mohammed
Al-Abbasi.

Summary terms of reference:

- The committee is formed with a minimum of three members, which consists mostly of independent non-executive members to be appointed by the Board.
- A minimum number of four meetings are required to be held each year, (the Committee held five meetings during 2013).
- At least two Members are required to attend the meetings to ensure a quorum.
- General Manager and concerned Chiefs, Heads and Managers are invited to attend the meetings. (If required)

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

Summary of responsibilities:

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

Remuneration, Nomination & Corporate Governance Committee

Members:

H.E. Eng. Basim bin Yaqob Al
Hamar (Chairman);
Dr. Mohammed Ahmed
Mohammed Jamaan;
Mr. Yusuf Abdullah Mohammed
Taqi.

Summary terms of reference:

- The committee is formed with a minimum of three members, which consists mostly of independent non-executive members to be appointed by the Board.
- A minimum number of two meetings are required to be held each year, (the Committee held three meetings during 2013).
- At least two Members are required to attend the meetings to ensure a quorum.
- General Manager and concerned Chiefs, Heads and Managers are invited to attend the meetings (if required).

Summary of responsibilities:

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

Corporate Governance continued

Social Housing Development Committee

Members:

The Committee shall consist of the following core members with the following designation:

- General Manager
- Chief Business Officer
- Chief Risk Officer
- EPC (Eskan Properties Company) Representative

The General Manager may appoint any other member upon his discretion. In case of any member's absence, his/her direct successors shall attend on his/her behalf.

The Committee will be chaired by the General Manager who will appoint the Vice Chairperson and Secretary of the Committee.

Summary of responsibilities:

The Social Housing Development Committee is responsible for the Social Housing Property Development and Eskan Bank Property Development of Eskan Bank. The Committee shall serve as a legal entity responsible for the proper functioning of the Property Development function of the Bank.

5. Board Meeting and Attendances

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

A Board of Directors meeting shall be deemed valid if attended by the majority of the Directors in person, provided that the Chairman or Vice Chairman shall attend in person. The Board held five meetings during 2013. The below schedule shows dates of meetings and attendance of Board Members:

Board of Directors Meetings During 2013

Members	20 February 2013 (1st Meeting)	17 April 2013 (2nd Meeting)	17 July 2013 (3rd Meeting)	9 October 2013 (4th Meeting)	15 Dec. 2013 (5th Meeting)
H.E. Eng. Basim bin Yaqub Al Hamer (Chairman)	✓	✓	✓	✓	X
Mr. Mohammed Abdulrahman Hussein Bucheeri (Vice Chairman) * ₁	✓	✓	✓	✓	✓
Mrs. Sabah Khalil Al Moayyed * ₂	✓	✓	✓	-	-
Mr. Ali Yusuf Al-Fardan	X	✓	X	✓	✓
Mr. Yusuf Abdullah Mohammed Taqi	✓	X	✓	✓	✓
Dr. Mohammed Ahmed Mohammed Jamaan	✓	✓	✓	✓	✓
Dr. Zakaria Sultan Mohammed Al-Abbasi	✓	✓	✓	✓	✓
Mr. Redha Abdullah Ali Faraj	✓	✓	✓	✓	✓
Mr. Khalid Ali Rashed Al Amin	✓	✓	✓	✓	✓
Mr. Yusuf Saleh Sultan Khalaf	✓	✓	X	✓	✓
Mr. Ahmed Jassim Faraj	✓	✓	✓	✓	✓

*₁ Mr. Mohammed Hussain Bucheeri has been appointed as the Chairman if the Executive Committee by virtue of Eskan Bank's Board Resolution No. 4/1 for the year 2013.

*₂ The Board of Directors has been restructured in accordance with Cabinet Order No. 65 for the year 2013 with respect to amending Cabinet Order No. 62 for the year 2011 mentioned hereinabove.

Executive Committee Meetings

The Executive Committee held six meetings during 2013. The below schedule shows dates of meetings and attendance of Board Members:

Members	10 Feb. 2013 (1st Meeting- first Session)	19 Feb. 2013 (1st Meeting- second Session)	7 April 2013 (2nd Meeting)	8 July 2013 (3rd Meeting)	19 Aug. 2013 (4th Meeting)	25 Sep. 2013 (5th Meeting)	10 Dec. 2013 (6th Meeting)
Mr. Mohammed Abdulrahman Bucheeri (Chairperson) *1	✓	✓	✓	✓	✓	✓	✓
Mrs. Sabah Khalil Al Moayyed	✓	✓	✓	X	✓	✓	-
Mr. Ali Yusuf Al-Fardan	✓	X	X	X	✓	X	X
Mr. Khalid Ali Rashed Al Amin	X	✓	✓	✓	X	✓	✓
Mr. Ahmed Jassim Faraj	✓	✓	✓	✓	✓	✓	✓

*1 Mr. Mohammed Hussain Bucheeri has been appointed as the Chairman of the Executive Committee by virtue of Eskan Bank's Board Resolution No. 4/1 for the year 2013.

*2 The Board of Directors has been restructured in accordance with Cabinet Order No. 65 for the year 2013 with respect to amending Cabinet Order No. 62 for the year 2011 mentioned hereinabove.

Audit Committee Meetings

The Audit Committee held five meetings during 2013. The below schedule shows dates of meetings and attendance of Board Members:

Members	14 Feb. 2013 (1st Meeting)	15 April 2013 (2nd Meeting)	14 July 2013 (3rd Meeting)	20 Oct. 2013 (4th Meeting)	3 Dec. 2013 (5th Meeting)
Mr. Reda Abdullah Ali Faraj (Chairperson)	✓	✓	✓	✓	✓
Mr. Yusuf Saleh Sultan Khalaf (Vice Chairperson)	✓	✓	✓	✓	✓
Dr. Zakareya Sultan Mohammed Al-Abbasi	✓	✓	✓	✓	✓

Remuneration, Nomination and Corporate Governance Committee Meetings

The Remuneration, Nomination and Corporate Governance Committee held three meetings during 2013. The below schedule shows dates of meetings and attendance of Board Members:

Members	18 Feb. 2013 (1st Meeting)	18 March 2013 (2nd Meeting)	2 Oct. 2013 (3rd Meeting)
H.E. Eng. Basim bin Yaacub Al Hamar (Chairperson)	✓	✓	✓
Dr. Mohammed Ahmed Mohammed Jamaan	✓	✓	✓
Mr. Yusuf Abdullah Mohammed Taqi	✓	✓	✓

Corporate Governance continued

6. Shari'a Supervisory Board (SSB)

The Bank's Board of Directors established a Shari'a Supervisory Board (Shariaa Board) which was formed in May 2009, whereas the previous Shariaa Board term ended in April 2012. The Board of Directors issued resolution no. 12/4 for the year 2012 with regards to appointing a new Shari'a Board for a period of 3 years, and the new Shariaa Board assumed its duties and responsibilities in 2013.

Members:

Dr. Sh. Nezam Yacouby (Chairperson);
Dr. Sh. Abdulaziz Khalifa Al-Qassar (Vice Chairperson);
Sh. Abdalnasser Al-Mahmood (Executive Member).

Summary of Responsibilities

The Shari'a Supervisory Board reviews and approves the Islamic business offered by the Bank to ensure that they are compliant with Islamic Shari'a principles.

Shari'a Supervisory Board Meetings

The Shari'a Supervisory Board held four meetings during 2013. The below schedule shows dates of meetings and attendance of the Shari'a Board Members:

Members	19 February 2013 (1st Meeting)	21 March 2013 (2nd Meeting)	10 Sept. 2013 (3rd Meeting - first session)	16 Sept. 2013 (3rd Meeting - second session)	26 Dec. 2013 (4th Meeting)
Dr. Sh. Nezam Yacouby (Chairperson)	✓	X	X	✓	✓
Dr. Sh. Abdulaziz Khalifa Al-Qassar (Vice Chairperson)	✓	✓	✓	X	✓
Sh. Abdalnasser Al-Mahmood (Executive Member)	✓	✓	✓	✓	✓

7. Management

The Board appointed Dr. Khalid Abdulla in the capacity of General Manager of ESKAN Bank, whereby the Board delegated him with the authority to manage the Bank's business. The General Manager is responsible for the day-to-day performance and operations of the Bank, and is supported by a well-qualified and experienced Management Team. The Bank's day-to-day operations are guided by a number of management committees such as Management Committee, Management Risk Committee, Asset & Liability Management Committee, IT Steering Committee, New Product Committee, and Human Resources Committee.

Management Committee

Members:

The members of the Committee shall consist of all direct reportees to the General Manager. The General Manager may appoint any other member upon his discretion. In case of any member's absence, his/her direct successors shall attend on his/her behalf.

The Committee will be chaired by the General Manager who will appoint the Vice Chairperson and Secretary of the Committee.

Summary of responsibilities:

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

Management Risk Committee

Members:

The Committee shall consist of the following core members with the following designation:

General Manager
Chief Business Officer
Chief Risk Officer

The General Manager may appoint any other member upon his discretion. In case of any member's absence, his/her direct successors shall attend on his/her behalf. The Committee will be chaired by the General Manager who will appoint the Vice Chairperson and Secretary of the Committee.

Summary of responsibilities:

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

Asset & Liability Management Committee (ALCO)

Membership:

The Committee shall consist of the following core members with the following designation:

General Manager
Chief Business Officer
Head of Finance
Treasurer

The General Manager may appoint any other member upon his discretion. In case of any member's absence, his/her direct successors shall attend on his/her behalf. The Committee will be chaired by the General Manager who will appoint the Vice Chairperson and Secretary of the Committee.

Summary of responsibilities:

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

Corporate Governance continued

IT Steering Committee

Members:

The Committee shall consist of the following core members with the following designation:

Chief Business Officer
Head of IT

The General Manager may appoint any other member upon his discretion. In case of any member's absence, his/her direct successors shall attend on his/her behalf. The Committee's Chairperson shall be appointed by the General Manager, and the Vice Chairperson and Secretary shall be appointed by the Committee members.

Summary of responsibilities:

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

New Product Committee

Members:

The Committee shall consist of the following core members with the following designation:

Chief Business Officer
Head of Sales & Marketing
Compliance Manager (Non-Voting)

The General Manager may appoint any other member upon his discretion. In case of any member's absence, his/her direct successors shall attend on his/her behalf. The Committee's Chairperson shall be appointed by the General Manager, and the Vice Chairperson and Secretary shall be appointed by the Committee members.

Summary of responsibilities:

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.

Human Resources Committee

Members:

The Committee shall consist of the following core members with the following designation:

General Manager
Head of Human Resources

The General Manager may appoint any other member upon his discretion. In case of any member's absence, his/her direct successors shall attend on his/her behalf. The Committee will be chaired by the General Manager who will appoint the Vice Chairperson and Secretary of the Committee.

Summary of 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.

Senior Management Remuneration

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

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

Aggregate remuneration paid for senior management in 2013 was BD 736,024.

8. Compliance and Anti-money Laundering

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

Compliance with CBB anti-money laundering requirements and measures forms an important area of the Compliance Function. As per CBB requirements, the anti-money laundering function is regularly audited by the external and internal auditors, and copies of the reports are presented to the 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 the purpose of communicating with its employees on general matters, and sharing information of common interest and concern.

10. Internal Audit role

The role of internal auditor is to provide an independent and objective review of the efficiency of the Bank's operations to help the 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.

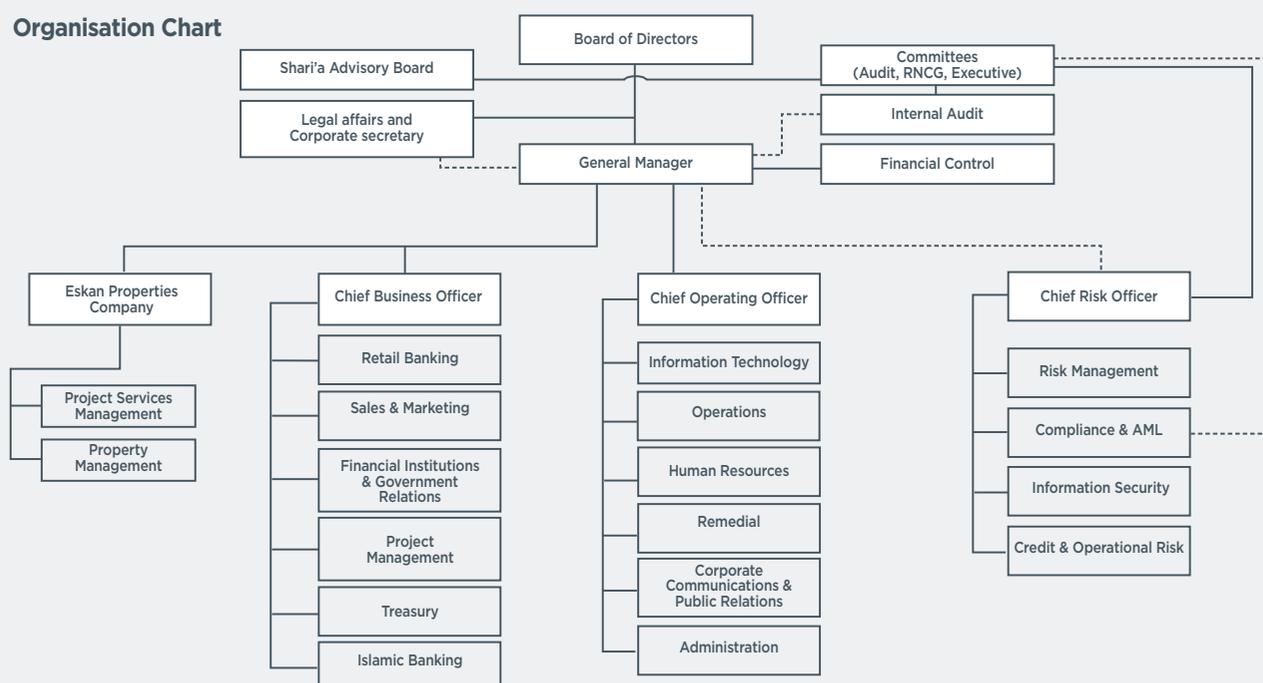
Corporate Governance continued

11. Subsidiaries and Associate Companies

Name/Entity	Headquarters	Legal Status	Percentage	Share value
Eskan Properties Company	Bahraini	B.S.C. (closed)	100%	BD 250K
Eskan RMBS Company	Bahraini	B.S.C. (closed)	100%	BD 1000
Smart Building Material Company	Bahraini	S.P.C.	100%	BD 250K
Bahrain Property Musharaka Trust	Bahraini		42.92%	BD 8,894K
Ebdaa Bank	Bahraini	B.S.C. (closed)	20%	BD 241K
Southern Area Development Company	Bahraini	B.S.C.(closed)	17.25%	BD 12,150K
Southern Tourism Company	(The ownership of the Southern Tourism Company was transferred completely to Mumtalakat Holding Company in April 2013, by virtue of Eskan Bank's Board of Directors Resolution by Circulation No. (1) for the year 2013 dated 29 January 2013.)			

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

Organisation Chart



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 Allah Wa Barakatoh

Pursuant to the power entrusted to Shari'a Supervisory Board as per the appointment letter dated 30 January 2013 resulted from the Board of Directors of ESKAN Bank ("EB" or the "Bank") resolution number 12/4 dated 10 December 2012, 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 2013 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 principles is the responsibility of the Bank's 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 scrutinize 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 31 December 2013 and replied to all enquiries the Bank, in addition to approving a number of financial products presented by the management.

The Shari'a Supervisory Board believes that:

- All contracts and transactions conducted by the Bank throughout the year ended on 31 December 2013 were in accordance with standard contracts pre-approved by the Shari'a Supervisory Board; and
- The Bank was committed to the Shari'a standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).



Dr. Sh. Nezam Mohammed Saleh Yacouby
Chairman



Dr. Sh. Abdul Aziz Khalifa Al Qassar
Vice Chairman



Sh. Abdul Nasser Omar Al Mahmood
Executive Member

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

Report on the consolidated 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 2013, 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' judgement, 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 2013, 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.

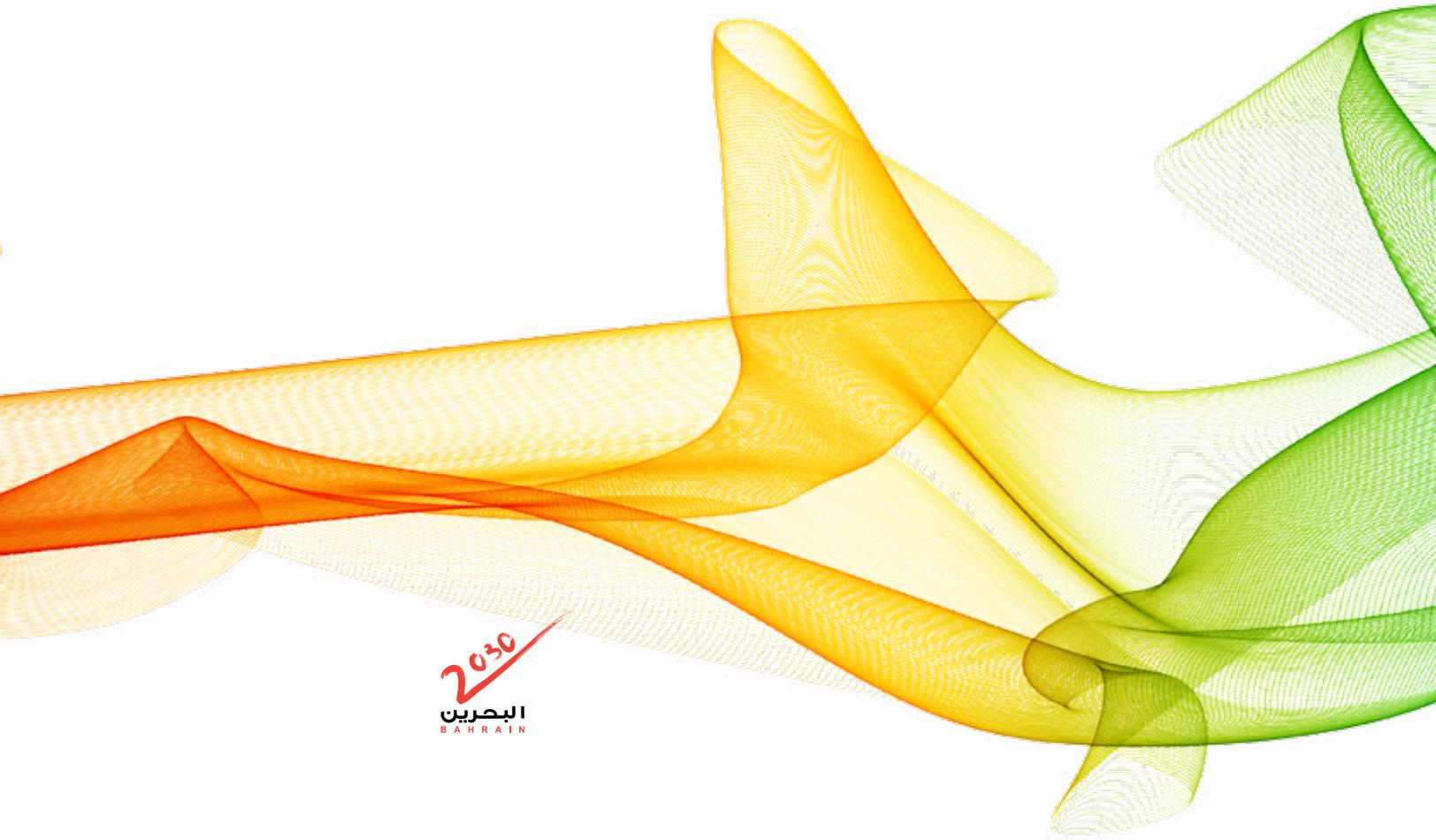
We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2013 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 2014
Manama, Kingdom of Bahrain

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Consolidated Financial Statements 31 December 2013



2030
البحرين
BAHRAIN


بنك الإسكان
ESKAN BANK

Consolidated Statement of Financial Position

As at 31 December 2013

	Notes	2013 BD	2012 BD
ASSETS			
Cash and bank balances	5	105,617,569	106,356,873
Investments	6	4,756,950	3,541,096
Loans	7	400,201,986	355,750,177
Investment in associates	8	9,135,895	8,939,478
Investment properties	9	41,760,348	39,007,771
Development properties	10	8,350,698	11,694,915
Other assets	11	6,368,933	7,697,232
Disposal group	22	-	435,690
TOTAL ASSETS		576,192,379	533,423,232
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from financial and other institutions		49,000,000	51,332,518
Government accounts	12	232,779,235	192,422,632
Term loans	13	65,500,000	65,500,000
Other liabilities	14	18,562,318	19,924,105
Disposal group	22	-	144,570
TOTAL LIABILITIES		365,841,553	329,323,825
EQUITY			
Share capital	15	108,300,000	108,300,000
Contribution by shareholder		18,523,651	20,291,984
Statutory reserve		54,461,896	54,461,896
Retained earnings		29,065,279	21,045,527
TOTAL EQUITY		210,350,826	204,099,407
TOTAL LIABILITIES AND EQUITY		576,192,379	533,423,232



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



Dr. Khalid Abdulla
General Manager

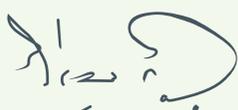
The attached notes 1 to 30 form part of these consolidated financial statements

Eskan Bank B.S.C. (c)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013

	Notes	2013 BD	2012 BD
Management charges		12,138,167	10,738,355
Interest income	16	2,831,748	2,924,496
Income from investment properties	17	375,654	360,554
Net share of loss of associates	8	(287,729)	(614,282)
Other income	18	2,094,149	2,584,012
TOTAL INCOME		17,151,989	15,993,135
Staff costs		(3,813,313)	(3,429,745)
Interest expense		(2,298,114)	(2,467,686)
Other expenses	19	(1,057,438)	(1,542,968)
Impairment provision on loans	7	(325,355)	(82,383)
Write off / impairment provision on properties	20	(1,638,017)	(142,000)
TOTAL EXPENSES		(9,132,237)	(7,664,782)
PROFIT FOR THE YEAR		8,019,752	8,328,353
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		8,019,752	8,328,353



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



Dr. Khalid Abdulla
General Manager

The attached notes 1 to 30 form part of these consolidated financial statements

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	Share capital BD	Contribution by shareholder BD	Statutory reserve BD	Retained earnings BD	Total equity BD
At 1 January 2013	108,300,000	20,291,984	54,461,896	21,045,527	204,099,407
Transfer of land (note 9)	-	680,876	-	-	680,876
Transfer to the Shareholder (note 22)	-	(2,449,209)	-	-	(2,449,209)
Total comprehensive income	-	-	-	8,019,752	8,019,752
At 31 December 2013	108,300,000	18,523,651	54,461,896	29,065,279	210,350,826

	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

The attached notes 1 to 30 form part of these consolidated financial statements

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	Notes	2013 BD	2012 BD
OPERATING ACTIVITIES			
Profit for the year		8,019,752	8,328,353
Adjustments for:			
Net share of loss of associates	8	287,729	614,282
Impairment provision on loans	7	325,355	82,383
Depreciation		353,270	422,969
Development properties written off		1,638,017	-
Investment properties impairment provision	9	-	142,000
Operating profit before working capital changes:		10,624,123	9,589,987
Increase in placements with banks		(7,227,668)	(6,483,767)
Increase in loans		(44,777,164)	(42,560,824)
Increase in development properties		(559,995)	(402,137)
Increase in other assets		(163,758)	(19,174)
(Decrease) / increase in deposits from financial and other institutions		(4,505,742)	12,315,672
(Decrease) / increase in other liabilities		(1,335,055)	6,918,552
Net cash flows used in operating activities		(47,945,259)	(20,641,691)
INVESTING ACTIVITIES			
Purchase of equipment		(393,451)	(144,457)
Sale of equipment		-	430,464
Net cash flows (used in) / from investing activities		(393,451)	286,007
FINANCING ACTIVITIES			
Repayment of term loans		-	(22,666,667)
Proceeds from term loans		-	16,666,667
Net movement in Government accounts		40,356,603	36,831,446
Net cash flows from financing activities		40,356,603	30,831,446
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at 1 January	5	99,888,241	89,412,479
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	5	91,906,134	99,888,241
Cash and cash equivalents comprise:			
Cash and cash equivalents	5	91,906,134	99,873,106
Disposal group - cash and cash equivalents	22	-	15,135
		91,906,134	99,888,241
Non-cash activities			
Investment in associate by transfer of receivables	8	1,700,000	3,300,000
Transfer to the Shareholder	22	2,449,209	-
Investment properties (land contribution by the shareholder)	9	680,876	63,066

The attached notes 1 to 30 form part of these consolidated financial statements

Notes to the Consolidated Financial Statements

As at 31 December 2013

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.

The consolidated financial statements were approved by the Board of Directors on 24 February 2014.

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 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 28.

2 BASIS OF PREPARATION (continued)

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.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in the statement of income; and
- Reclassifies the parent's share of components previously recognised in OCI to the statement of income or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2013

2 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

Subsidiary	Ownership for 2013	Ownership for 2012	Year of incorporation/acquisition	Country of incorporation/acquisition
<i>Eskan RMBS Company B.S.C.(c) ('RMBS')</i> 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
<i>Eskan Properties Company B.S.C.(c) ('EPC')</i> EPC's principal activities are managing certain investment properties.	100%	100%	2007	Kingdom of Bahrain
<i>Smart Building Materials (SPC)</i> 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 significant accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year, except for the adoption of the new standards and interpretations effective as of 1 January 2013.

New standards, interpretations and amendments adopted by the Group

These consolidated financial statements have been prepared using accounting policies, which are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2012, except for the adoption of new standards and interpretations effective as of 1 January 2013.

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

The amendments to IAS 1 introduce 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 (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affected presentation only and had no impact on the Group's financial position or performance.

IAS 1 Clarification of the requirement for comparative information (Amendment)

The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional voluntarily comparative information does not need to be presented in a complete set of financial statements.

3 ACCOUNTING POLICIES (continued)

3.1 Summary of significant accounting policies (continued)

New standards, interpretations and amendments adopted by the Group (continued)

An opening statement of financial position (known as the 'third balance sheet') must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes. The amendment affected presentation only and had no impact on the Group's financial position or performance.

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

The amendment requires an entity to disclose information about rights to set-off financial instruments 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. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Group does not set off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC-12 Consolidation - Special Purpose Entities. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including:

- (a) an investor has power over an investee;
- (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and
- (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

IFRS 10 had no impact on the consolidation of investments held by the Group.

IFRS 11 Joint Arrangements and IAS 31 Interests in Joint Ventures

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities - Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. The adoption of IFRS 11 had no impact on the accounting treatment of investments currently held by the Group.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. Additional disclosures are provided by the Group in the individual notes to the consolidated financial statements.

3 ACCOUNTING POLICIES (continued)

3.1 Summary of significant accounting policies (continued)

New standards, interpretations and amendments adopted by the Group (continued)

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures.

Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined.

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 consolidated 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 consolidated statement of comprehensive income.

3 ACCOUNTING POLICIES (continued)

3.1 Summary of significant accounting policies (continued)

Investments (continued)

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.

Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2013

3 ACCOUNTING POLICIES (continued)

3.1 Summary of significant accounting policies (continued)

Fair values (continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 valuation: Directly observable quotes for the same instrument (market prices).
- Level 2 valuation: Directly observable proxies for the same instrument accessible at valuation date (mark-to-model with market data).
- Level 3 valuation: Derived proxies (interpolation of proxies) for similar instruments that have not been observed (mark-to-model with deduced proxies).

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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.

3 ACCOUNTING POLICIES (continued)

3.1 Summary of significant accounting policies (continued)

Impairment of financial assets

An assessment is made at the date of each consolidated 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.

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.

3 ACCOUNTING POLICIES (continued)

3.1 Summary of significant accounting policies (continued)

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 consolidated 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.

3 ACCOUNTING POLICIES (continued)

3.1 Summary of significant accounting policies (continued)

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.

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are accounted for using the equity method of accounting. 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.

3 ACCOUNTING POLICIES (continued)

3.1 Summary of significant accounting policies (continued)

Investments in associates (continued)

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 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial 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 IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of the Group's financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under IFRS 10.

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" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Group does not expect that IFRIC 21 will have material financial impact in future financial statements.

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2013

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the consolidated 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.

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

	2013 BD	2012 BD
Cash and bank balances		
Cash	138,479	149,708
Balances with banks	1,077,372	1,042,391
Balances with the Central Bank of Bahrain	247,612	982,532
	1,463,463	2,174,631
Short term placements (with an original maturity of 90 days or less)		
Placements with banks and other institutions	18,001,208	26,510,384
Placements with the Central Bank of Bahrain	72,441,463	71,188,091
	90,442,671	97,698,475
Total cash and cash equivalents	91,906,134	99,873,106
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	13,711,435	2,983,767
	13,711,435	6,483,767
Total cash and bank balances	105,617,569	106,356,873

6 INVESTMENTS

	2013 BD	2012 BD
Unquoted		
Available for sale		
At 1 January	3,541,096	3,541,096
Additions (note 8.1)	1,215,854	-
At 31 December	4,756,950	3,541,096

7 LOANS

	2013 BD	2012 BD
(i) Social loans		
Loans (net of reductions and waivers written off)	403,601,670	355,526,111
Less: Provisions for 50% subsidy under Amiri Decree No. 18/1977 (d (v))	(29,737,666)	(27,387,842)
	373,864,004	328,138,269
(ii) Commercial loans		
Gross Loans	27,226,277	28,174,848
Less: Provision for impairment	(888,295)	(562,940)
	26,337,982	27,611,908
Total loans	400,201,986	355,750,177

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2013

7 LOANS (continued)

Loans stated at a carrying amount of BD 42 million (2012: BD 46 million) are secured as guarantee against the RMBS bonds issued (note 13).

a) Age analysis of past due but not impaired loans

	2013				Total BD
	Up to 30 days BD	31 to 60 days BD	61 to 90 days BD	Above 90 days BD	
Social loans	128,336	14,127,128	6,964,541	26,488,364	47,708,369
Commercial loans	3,175,859	439,992	128,756	-	3,744,607
	3,304,195	14,567,120	7,093,297	26,488,364	51,452,976
	2012				
	Up to 30 days BD	31 to 60 days BD	61 to 90 days BD	Above 90 days BD	Total 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

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.

b) Age analysis of impaired loans

	2013			Total BD
	3-6 Months BD	6-12 Months BD	1-3 Years BD	
Commercial loans	309,458	426,369	830,988	1,566,815
	2012			
	3-6 Months BD	6-12 Months BD	1-3 Years BD	Total BD
Commercial loans	327,900	246,400	548,670	1,122,970

7 LOANS (continued)

c) Impairment provision for commercial loans

	2013			
	Opening balance BD	Charge for the year BD	Write-backs BD	Closing balance BD
General Provision				
Commercial loans	270,519	-	(4,479)	266,040
Specific Provision				
Commercial loans	292,421	359,367	(29,533)	622,255
At 31 December	562,940	359,367	(34,012)	888,295

	2012			
	Opening balance BD	Charge for the year BD	Write-backs BD	Closing balance BD
General Provision				
Commercial loans	277,830	-	(7,311)	270,519
Specific Provision				
Commercial loans	202,727	205,656	(115,962)	292,421
At 31 December	480,557	205,656	(123,273)	562,940

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

d) Social loans

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

- (i) Under a Cabinet decision issued in April 1992, a reduction of 25% ("1992 Reduction") was granted on monthly installments with effect from 1 May 1992, and subsequently restricted to social loans granted prior to 31 December 1998.
- (ii) On 16 December 2000, an additional reduction of 25% ("2000 Reduction") was granted on monthly installments for social loans that were outstanding as of 15 December 2000.

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.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2013

7 LOANS (continued)

d) Social loans (continued)

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

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

- (iv) On 16 December 2006, His Majesty, King Hamad Bin Isa Bin Salman Al Khalifa, announced a waiver of 50% ("2006 Reduction") of the social loans 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 loans and a 25% reduction on outstanding balances of mortgages where the Group acts as a collection agent.

8 INVESTMENT IN ASSOCIATES

	2013 BD	2012 BD
At 1 January	8,939,478	6,253,760
Acquisitions	1,700,000	3,300,000
Transfer to available for sale investments (note 8.1)	(1,215,854)	-
Share of losses	(287,729)	(614,282)
At 31 December	9,135,895	8,939,478

The principal associates of the Group are:

Name	Country of Incorporation	Carrying Value	
		2013 BD	2012 BD
Bahrain Property Musharaka Trust Fund	Kingdom of Bahrain	8,894,630	7,325,334
Southern Area Development Company	Kingdom of Bahrain	-	1,319,267
Ebdaa Bank	Kingdom of Bahrain	241,265	294,877
		9,135,895	8,939,478

8 INVESTMENT IN ASSOCIATES (continued)

Name	Nature of activities	Ownership for	
		2013	2012
Bahrain Property Musharaka Trust Fund	Development of two real-estate projects in the Kingdom of Bahrain.	42.92%	42.92%
Southern Area Development Company (note 8.1)	Developing the Hawar island and surrounding area into a major tourist attraction.	17.25%	28.13%
Ebdaa Bank	Providing micro-financing to low-to-middle income Bahrainis.	20.00%	20.00%

Note 8.1

On 29 December 2013 the Group's equity share in Southern Area Development Company (SADC) was reduced from 28.13% to 17.25% due to an increase in capital by another shareholder. As a result, the Group's representation on the Board of Directors' was reduced from 2 out of 8 to 1 out of 6. Accordingly, the investment has been reclassified from "investment in associates" to "available for sale investments".

	2013 (unaudited) BD	2012 (unaudited) BD
Summarised financial information of associates		
Total assets	25,010,357	31,039,073
Total liabilities	2,013,258	2,041,921
Total revenues	355,847	483,928
Total net loss	(575,608)	(888,064)

The Group has no share of any contingent liabilities or capital commitments, as at 31 December 2013 and 2012 related to its associates.

9 INVESTMENT PROPERTIES

	2013 BD	2012 BD
Opening balance at beginning of the year	39,007,771	38,857,706
Transferred from development properties	2,266,195	829,544
Additions during the year (note 9.1)	680,876	63,066
Depreciation charge for the year	(167,762)	(165,831)
Transferred to development properties	-	(434,714)
Others	(26,732)	-
	41,760,348	39,149,771
Provision for impairment	-	(142,000)
At 31 December	41,760,348	39,007,771

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2013

9 INVESTMENT PROPERTIES (continued)

Note 9.1

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:

	2013 BD	2012 BD
Land at Bander Al-Seef	28,584,288	28,584,288
Land at Sanabis	2,528,374	262,179
Land at Jaw	1,938,783	1,938,783
Land at Saar	1,903,251	1,903,251
Land at Hamad town	1,597,727	1,331,803
Land at Busayteen	628,000	628,000
Land at Salmabad	414,952	-
Land at Isa town	67,160	67,160
Land at Muharraq	23,519	23,519
Shops (accumulated depreciation 647,821 (2012 BD 480,059))	4,216,294	4,410,788
	41,902,348	39,149,771
Impairment allowance	(142,000)	(142,000)
	41,760,348	39,007,771

The fair value of investment properties, based on independent market valuations, as at 31 December 2013 was BD 278,884,243 (2012: BD 267,721,855). During the year, land with a fair value of BD 680,876 (2012: BD 63,066) was transferred to the Bank by the Government and accordingly has been treated as additional contribution by a shareholder.

The valuations were performed by accredited independent valuers with recognised and relevant professional qualifications and with recent experience in the location and category of the investment properties being valued.

The fair value of completed investment properties has been determined on a market value basis. In arriving at their estimates of market values, the valuers have used their market knowledge and professional judgement and have not only relied on historic transaction comparables.

10 DEVELOPMENT PROPERTIES

	2013 BD	2012 BD
Opening balance at beginning of the year	11,694,915	11,687,608
Transferred from investment properties	-	434,714
Additions during the year	559,995	402,137
Transferred to investment properties	(2,266,195)	(829,544)
	9,988,715	11,694,915
Write off	(1,638,017)	-
At 31 December	8,350,698	11,694,915

11 OTHER ASSETS

	2013 BD	2012 BD
Compensation for transfer of land (note 11.1)	4,713,666	4,713,666
Management fee and interest receivable	648,193	547,249
Equipment and other assets (net book value)	544,440	336,497
Receivables (note 11.2)	239,790	1,954,715
Prepayments and advances	128,783	53,478
Staff loans	94,061	91,627
	6,368,933	7,697,232

Note 11.1

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 11.2

Includes BD 172,452 (2012: BD 1,899,969) receivable from Bahrain Property Musharaka Trust Fund. The prior year balance mainly represents Eskan Bank's committed capital which was invested during the year (note 8).

12 GOVERNMENT ACCOUNTS

	2013 BD	2012 BD
Due to Ministry of Finance	284,595,117	252,428,222
Due from Ministry of Housing	(51,815,882)	(60,005,590)
	232,779,235	192,422,632

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 payments / transactions undertaken by the Bank on behalf of MOH / MOF in relation to housing projects.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2013

13 TERM LOANS

	2013 BD	2012 BD
Syndicated bank term loan	50,000,000	50,000,000
RMBS bonds	15,500,000	15,500,000
At 31 December	65,500,000	65,500,000

The syndicated bank term loan bears interest repayable monthly at offer rate determined by the syndicate plus a margin of 2.25% (2012: 2.25%). The interest cost is reimbursed by the MOH. The syndicated bank term loan, repayable by June 2018, 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 1.01% (2012: 1.33%). The RMBS bonds, repayable by October 2017, are secured against certain social loans issued by the Bank (note 7).

	2013 BD	2012 BD
Term loans maturing in less than 1 year	6,500,000	-
Term loans maturing in more than 1 year	59,000,000	65,500,000
	65,500,000	65,500,000

14 OTHER LIABILITIES

	2013 BD	2012 BD
Unearned income for 50% subsidy under Amiri Decree (note 7)	11,057,241	7,139,569
Current accounts (note 14.1)	5,024,304	10,099,044
Accrued expenses	897,689	1,315,690
Employee savings scheme	455,845	475,478
Accrued interest payable on term loans	308,783	256,045
Employee benefits	142,705	173,804
Contractor retentions	29,071	-
Other liabilities	646,680	464,475
	18,562,318	19,924,105

Note 14.1

These mainly include BD 1.713 million (2012: BD 7.565 million) from Bahrain Property Musharaka Trust.

15 SHARE CAPITAL

	Number of shares	2013 BD
31 December 2013		
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
31 December 2012		
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

16 INTEREST INCOME

	2013 BD	2012 BD
Interest income on commercial loans	2,202,180	2,346,530
Interest income on placements with financial and other institutions	629,568	577,966
	2,831,748	2,924,496

17 INCOME FROM INVESTMENT PROPERTIES

	2013 BD	2012 BD
Rental income - net	375,654	360,554

18 OTHER INCOME

	2013 BD	2012 BD
Interest on term loans reimbursed by the Government of Bahrain	1,555,502	1,561,042
Other income (note 18.1)	538,647	1,022,970
	2,094,149	2,584,012

Note 18.1

This mainly includes income of BD 33,653 (2012: BD 566,347) from Government grant of BD 600,000 received during 2012 for Southern Tourism Company, a company which provides subsidised tourism services. The subsidiary was transferred to Mumtalakat on 25 April 2013 (note 21).

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2013

19 OTHER EXPENSES

	2013 BD	2012 BD
Depreciation	353,270	422,969
Premises	226,337	221,497
Transportation and communication	77,911	101,294
Legal and professional	149,647	194,374
Computer maintenance	137,504	180,016
Marketing cost	24,567	45,478
Electricity	41,488	48,543
Others	46,714	328,797
	1,057,438	1,542,968

20 WRITE OFF / IMPAIRMENT PROVISION ON PROPERTIES

	2013 BD	2012 BD
Development properties written off (note 20.1)	(1,638,017)	-
Investment properties impairment provision	-	(142,000)
	(1,638,017)	(142,000)

Note 20.1

This amount represents write off of the initial costs of design and technical studies incurred in previous years for a project that has been cancelled during the year.

21 COMMITMENTS AND CONTINGENCIES

	2013 BD	2012 BD
Housing loan commitments approved by MOH (note 21.1)	98,697,958	96,994,264
Commercial Loan commitments	320,552	399,226
Capital commitments	242,431	387,000
Lease commitments not later than one year	88,815	204,949
Lease commitments later than one year but not later than five years	12,800	98,415
Lease commitments later than five years	54,400	57,600
	99,416,956	98,141,454

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 (2012: BD 322,988).

Note 21.1

The Ministry of Housing provides funds annually to the Bank for disbursement of social housing loans along with a list of approved beneficiaries. Social loans that remain undisbursed at the end of the year are disclosed as a commitment.

22 DISPOSAL GROUP - SOUTHERN TOURISM COMPANY

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

Upon satisfaction of the relevant regulatory requirements, the Bank transferred its ownership effective 25 April 2013. As a result of the transfer, net assets amounting to BD 2,449,209 were charged against contribution by the Shareholder in the consolidated statement of changes in equity.

23 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 associates 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 and consolidated statement of comprehensive income and the notes therein.

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

	2013 BD	2012 BD
Short term employee benefits	693,135	776,734
Long term employee benefits	42,889	32,537
	736,024	809,271

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2013

24 CLASSIFICATION OF FINANCIAL INSTRUMENTS

Set out below is an overview of financial instruments, other than cash and cash equivalents, held by the Group:

At 31 December 2013	Available- for-sale BD	Amortised cost/ Loans and receivables BD	Total BD
FINANCIAL ASSETS			
Investments	4,756,950	-	4,756,950
Loans	-	400,201,986	400,201,986
Other assets	-	988,571	988,571
	4,756,950	401,190,557	405,947,507
		Amortised cost BD	Total BD
FINANCIAL LIABILITIES			
Deposits from financial and other institutions		49,000,000	49,000,000
Government accounts		232,779,235	232,779,235
Term loans		65,500,000	65,500,000
Other liabilities		17,963,768	17,963,768
		365,243,003	365,243,003
		Amortised cost/ Loans and receivables BD	Total BD
At 31 December 2012	Available- for-sale BD		
FINANCIAL ASSETS			
Investments	3,541,096	-	3,541,096
Loans	-	355,750,177	355,750,177
Other assets	-	2,594,851	2,594,851
	3,541,096	358,345,028	361,886,124
		Amortised cost BD	Total BD
FINANCIAL 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		12,135,254	12,135,254
		321,390,404	321,390,404

25 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

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

At 31 December 2013	Level 1 BD	Level 2 BD	Level 3 BD	Total BD
Investments designated as available for sale	-	4,756,950	-	4,756,950
	-	4,756,950	-	4,756,950

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

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 2013.

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

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 fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

26 RISK MANAGEMENT

Overview

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

26 RISK MANAGEMENT (continued)

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.

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.

26 RISK MANAGEMENT (continued)

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 and non performing loans are aggressively pursued by the Group and are written-off based on ministerial order. The housing loans under the Ministry's Housing Loan Program as at 31 December 2013 is BD 373,864,004 (31 December 2012: BD 328,138,269).

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 2013	Gross maximum exposure 2012
Balances and placements with financial institutions	105,479,090	106,207,165
Loans - commercial loans	26,337,982	27,611,908
Other receivables	988,571	2,594,851
	132,805,643	136,413,924

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

There were no renegotiated loans during either the year ended 31 December 2013 or 31 December 2012.

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 2013 was BD 86,400,510 (31 December 2012: BD 75,154,390).

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2013

26 RISK MANAGEMENT (continued)

a) Credit risk (continued)

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 2013 or 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 2013
Balances and placements with financial institutions	105,479,090	-	-	105,479,090
Loans - Commercial loans	21,648,815	3,744,607	944,560	26,337,982
Other receivables	988,571	-	-	988,571
	128,116,476	3,744,607	944,560	132,805,643
	Neither past due nor impaired	Past due but not impaired	Individually impaired	31 December 2012
Balances and placements with financial institutions	106,207,165	-	-	106,207,165
Loans - commercial loans	22,538,343	4,243,016	830,549	27,611,908
Other receivables	2,594,851	-	-	2,594,851
	131,340,359	4,243,016	830,549	136,413,924

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.

26 RISK MANAGEMENT (continued)

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.

	31 December 2013 BD	Changes in basis points (+/-)	Effect on net profit (+/-)
Assets			
Balances and placements with financial institutions	105,175,839	100	1,051,758
Loans - commercial loans	26,337,982	100	263,380
Liabilities			
Deposits from financial and other institutions	49,000,000	100	(490,000)
Term loans	15,500,000	100	(155,000)
Total			670,138
	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

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2013

26 RISK MANAGEMENT (continued)

b) Market risk (continued)

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 2013) due to a reasonably possible change (i.e. +/-15%) in the value of individual investments, with all other variables held constant, is BD 713,543 (2012: 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 2013 and 2012. 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.

Analysis of liabilities

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2013 and 31 December 2012 based on contractual undiscounted repayment obligations.

	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
At 31 December 2013				
Deposits from financial and other institutions	45,015,617	4,029,333	-	49,044,950
Term loans	296,528	8,167,413	63,579,949	72,043,890
Total	45,312,145	12,196,746	63,579,949	121,088,840
	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
At 31 December 2012				
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

26 RISK MANAGEMENT (continued)

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.

27 CAPITAL ADEQUACY

Capital management

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, 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:

	2013 BD	2012 BD
Total eligible capital	210,490,095	203,918,317
Total regulatory capital (A)	210,490,095	203,918,317
Total Risk-weighted exposure (B)	189,185,626	192,250,166
Capital adequacy ratio (A/B)	111.26%	106.07%
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.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2013

28 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 2013	Less than 12 months BD	Over 12 Months BD	Total BD
Assets			
Cash and cash equivalents	105,617,569	-	105,617,569
Investments	-	4,756,950	4,756,950
Loans	16,412,844	383,789,142	400,201,986
Investment in associates	-	9,135,895	9,135,895
Investment properties	-	41,760,348	41,760,348
Development properties	-	8,350,698	8,350,698
Other assets	5,743,855	625,078	6,368,933
	127,774,268	448,418,111	576,192,379
Liabilities			
Deposits from financial and other institutions	49,000,000	-	49,000,000
Government accounts	-	232,779,235	232,779,235
Term loans	6,500,000	59,000,000	65,500,000
Other liabilities	7,568,856	10,993,462	18,562,318
	63,068,856	302,772,697	365,841,553
Net liquidity surplus	64,705,412	145,645,414	210,350,826
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 surplus	64,054,764	140,044,643	204,099,407

29 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.

30 ADDITIONAL SUPPLEMENTARY INFORMATION - ISLAMIC BANKING (UNAUDITED)

Islamic products

The Islamic banking activities of the group are conducted in accordance with Islamic Sharia'a principles, as approved by the Sharia'a Supervisory Board. The financial statements extracts relating to these activities are prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), IFRS and Central Bank of Bahrain regulations, as applicable. The principal accounting policies are set out below:

Ijara Muntahia Bittamleek and Ijara income receivables

Assets acquired for leasing (Ijara) are stated at cost, less accumulated depreciation. Depreciation is provided on the straight-line method over the period of the lease or useful life whichever is lower.

Ijara income receivables represent outstanding rentals at the end of the year less any provision for doubtful amount.

Wakala

An agreement whereby one party provides a certain sum of money to an agent who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in the case of default, negligence or violation of any of the terms and conditions of the Wakala.

Investments - sukuks (Debt-type instruments at amortised cost)

Debt-type instruments which are managed on a contractual yield basis and are not held for trading and has not been designated at fair value through statement of income are classified as debt-type instruments at amortised cost. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such investment is recognised in the consolidated statement of income, when the investment is de-recognised or impaired.

Commodity Murabaha

These are sales transaction agreements for commodities stated net of deferred profits and provision for impairment. The Group considers the promise made in the murabaha to the purchase orderer as obligatory.

Revenue recognition

Revenue is recognised on the above Islamic products as follows:

Ijara income is recognised on a time apportioned basis over the Ijara term and is stated net of depreciation.

Estimated income from Wakala is recognised on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

Income from investments is recognised when earned.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2013

30 ADDITIONAL SUPPLEMENTARY INFORMATION - ISLAMIC DISCLOSURES (UNAUDITED) (continued)

The Islamic Banking assets in compliance with Islamic Sharia principals are presented below:

	2013	2012
	BD	BD
	(unaudited)	(unaudited)
Ijara muntahia bittamleek - net	135,502,668	91,657,189
Ijara income receivables	149,346	106,959
Wakala placements	5,500,000	6,000,000
Wakala income receivable	964	1,850
Investments - sukuks	28,416,896	9,643,872
Income receivable on investments	48,329	4,460
	169,618,204	107,414,330

The Islamic Banking liabilities in compliance with Islamic Sharia principals are presented below:

	2013	2012
	BD	BD
	(unaudited)	(unaudited)
Wakala takings	23,500,000	13,032,518
Wakala Profit payable	6,633	4,043
Commodity Murabaha	11,000,000	-
Commodity Murabaha profit payable	5,084	-
	34,511,717	13,036,561

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

	2013	2012
	BD	BD
	(unaudited)	(unaudited)
Income from Ijara Muntahia Bittamleek - net	3,606,837	2,268,605
Income from wakala & investments	209,965	97,512
Less: profit paid on Wakala	(120,266)	(80,918)
	3,696,536	2,285,199

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Pillar-III Disclosures 31 December 2013

2030
البحرين
BAHRAIN

بنك الإسكان
ESKAN BANK

1 INTRODUCTION

This report has been prepared in accordance with Pillar III disclosure requirements prescribed by the Central Bank of Bahrain (CBB).

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.

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 2013, 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% in **Eskan RMBS Company B.S.C. (c) ("RMBS")** incorporated in the Kingdom of Bahrain, whose principal activities are to issue Asset Backed private debt securities for the purpose of securitization of housing loans.
- The Bank owns 100% in **Eskan Properties Company B.S.C. (c) ("EPC")** incorporated in the Kingdom of Bahrain, 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 2013. There are no restrictions on the transfer of funds or regulatory capital within the Group.

c) Associate companies of the Bank:

- 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.
- On 29 December 2013 the bank's equity share in Southern Area Development Company (SADC) was reduced from 28.13% to 17.25% due to an increase in capital by another shareholder. As a result, the Group's representation on the Board of Directors' was reduced from 2 out of 8 to 1 out of 6. Accordingly, the investment has been reclassified from "investment in associates" to "available for sale investments".

1 INTRODUCTION (continued)

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

Eskan RMBS, 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

<u>Subsidiaries / Associates</u>	<u>Country of Incorporation / residence</u>	<u>Percentage of ownership</u>	<u>Risk Weight</u>
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 2013, 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 36.8% in 2012 to 32.8% in 2013. The Bank continued to make a general loan loss provisions in line with its prudent approach to risk.

The Bank has disbursed BHD 52.6 million of social loans and BHD 2 million of commercial loans during 2013 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 210 million at the end of 2013 is up by 3% compared to BHD 204 million as at 31st December 2012. Liquidity continues to be comfortable with liquid assets (Cash and balances with central banks and placement with financial institutions) representing 18% of the total assets

a) Asset Growth & Quality

○ **Quantity:** The total Balance Sheet of the Bank stood at BHD 576 million as at 31st December 2013 compared to BHD 533 million as at the previous year end. The Bank's loans and advances as at 31st December 2013 stood at BHD 400 million, which reflects a growth of 12.5% as compared to 2012.

○ **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 1.566 million as at 31st December 2013.
- **Other Investments:** The other banking assets are mainly in inter-bank placements with banks in the Kingdom of Bahrain.

Pillar-III Disclosures (continued)

31 December 2013

2 FINANCIAL PERFORMANCE AND POSITION (continued)

a) Asset Growth & Quality (continued)

○ **Quality** (continued):

- **Financial Investments:** The Bank has investment in Naseej a real estate related company and other small legacy investments.
- On 29 December 2013 the Group's equity share in Southern Area Development Company (SADC) was reduced from 28.13% to 17.25% due to an increase in capital by another shareholder. Accordingly, the investment has been reclassified from "investment in associates" to "available for sale investments".

○ **Capital Adequacy Ratio (CAR):** The Group continued to have strong capital adequacy ratio, with the CAR of 111.26% as of 31st December, 2013.

○ **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.

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

	2013	2012	2011	2010	2009
Earnings					
Net Interest Income	12,672	11,195	9,192	6,416	5,976
Other Income	2,182	2,330	4,324	4,593	3,600
Operating Expenses	4,871	4,973	5,698	5,564	5,658
Properties Write off	1,638	-	240	-	-
Impairment Allowance	325	224	485	45	413
Net Income	8,020	8,328	7,332	5,400	3,504
Financial Position					
Total Assets	576,192	533,423	474,966	423,465	440,964
Loans	400,202	355,750	313,272	278,524	260,065
Total Liabilities	365,842	329,324	279,258	235,494	261,234
Shareholders' Equity	210,351	204,099	195,708	187,971	179,730
Earnings: Ratios (Per Cent)					
Return on Equity	3.81%	4.08%	3.75%	2.87%	1.95%
Return on Assets	1.39%	1.56%	1.54%	1.28%	0.79%
Cost-to-income ratio	32.8%	36.8%	42.2%	50.5%	59.1%
Net Interest Margin	85%	82%	73%	55%	61%
Capital					
Shareholders Equity as per cent of Total Assets	36.51%	38.26%	41.20%	44.39%	40.76%
Total Liabilities to Shareholders Equity	173.92%	161.35%	142.69%	125.28%	145.35%

2 FINANCIAL PERFORMANCE AND POSITION (continued)

b) Performance of the group companies:

- **EPC:** Acts as the property development arm of Eskan Bank with a registered and paid up share capital of BHD 250,000. EPC is fully owned by the Bank and its operations have been improved through further streamlining, as well as team building and strengthening so it could enhance its ability to execute various property development projects.

The Bank, with EPC, has developed initiatives to build and raise funds to build projects on its own land bank and with private sector landlords. Presently, various projects are underway ranging from initiation, design, construction to property management.

Table 3: Financial highlights (in BHD):

	31st December 2013	31st December 2012
Net profit for the year	101,422	114,298
Total assets	798,795	602,268
Total equity	459,308	357,885

- **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 100% 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 2013	31st December 2012
Net profit for the year	1,146,964	1,145,887
Total assets	23,899,532	22,539,752
Total equity	6,770,304	5,623,340

2 FINANCIAL PERFORMANCE AND POSITION (continued)

b) Performance of the group companies (continued):

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 2013	31st December 2012
Net profit for the year	(3,909)	(3,750)
Total assets	250,000	250,000
Total equity	135,506	139,415

3 FUTURE BUSINESS PROSPECTS

The Bank's assets and liabilities' profile for next year may be similar to that of last year to a large extent. The major portfolio for the Bank will continue to be mortgage loans and investment properties. The Bank intends to develop its land bank and tie-up with private sector landlords through joint venture arrangements towards the development of social and affordable housing projects in order to reduce the present backlog of social housing service applicants of the Ministry of Housing. To meet this objective the Bank will look at fund raising by leveraging its balance sheet, free up top up loan commitments, embarking on project finance basis, and launching funds and investment account products in line with regulatory requirements. The conditions of the local, regional and international capital markets, as well as the real estate sector cycle would dictate the Bank's ability to meet its objective and the impact on 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 Sharia

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

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 bin Yacob Al Hamer - Minister of Housing

Appointed as Chairman of Eskan Bank in 2011

(Non-Executive Director)

Master's in Project Management – Boulder, Colorado, Bachelors in Civil Engineering - California

More than 30 years of work experience

Chairman: Tender Board

Board Member: National Oil and Gas Authority.

ii. Mrs. Sabah K. Almoayyed*

Member (Executive Director)

Appointed in 2008 and re- appointed in August 2011,

Appointment Cancelled vide Cabinet Decision no. 65 for the year 2013 dated September 2013 as she had resigned from her position as General Manager of Eskan Bank on March 31, 2013.

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.

**(The Board of Directors has been restructured in accordance with Cabinet Decision No. 65 for the year 2013 with respect to amending Cabinet Decision No. 62 for the year 2011.)*

iii. 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 30 years work experience

Chief Executive Officer: Social Insurance Organization.

Board Member: Bank of Bahrain and Kuwait (BBK), Asset Management Company (Company owned by the Social Insurance Organization)

iv. 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. ATYAF International BSc., TIG Software

Managing Director: 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 BOARD OF DIRECTORS (continued)

v. Mr. Yusuf Saleh Khalaf

Independent Non-Executive Director and member of the Audit Committee.

Appointed in August 2011

Over 30 years of experience in the banking and financial services sector.

A member of the UK's Association of Chartered Certified Accountants (ACCA) since 1983.

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

National Diploma in Business Studies Fielden Park College Manchester, UK

Founder & Managing Director: Vision Line Consulting.

Board member: Bank of Bahrain & Kuwait, Securities & Investment Company (SICO), Solidarity General Takaful

Previous Position: Held the positions of Chief Executive Officer at Ajman Bank and Bahrain Islamic Bank

vi. Mr. Ahmed Jasim Farraj

Member (Independent Non-Executive Director)

Appointed in August 2011

Bachelor's 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

Board Member: Architectural Planning and Development Authority, Traffic Council, Bahrain Institute of Public Administration

Member: Deposit Protection Board

vii. Mr. Redha Abdulla Faraj

Member (Independent Non-Executive Director)

Appointed in August 2011

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

More than 40 years of work experience

Founder & Managing Director: Al Faraj Consulting W.L.L., Al Faraj Horizon Development Company

Board Member: Mumtalakat, BMMI, Almoayyed International Group (AIG), Y.K. Almoayyed & Sons Group, Capital, Gulf Air

Member: Bahrain Chamber for Dispute Resolution (BCDR),

Chairman: American Mission Hospital, GSS

viii. Mr. Khalid Al-Amin

Member (Independent Non-Executive Director)

Appointed in August 2011

Bachelor in Marketing, Houston, Texas

More than 20 years work experience

Chairman: Bahrain Youth Business Committee, G.C.C. Commercial Arbitration Centre

Vice Chairman: Tamkeen

Board Member: Ali Rashid Al-Amin Co. BSC, Bahrain Chamber of Industry & Commerce, Rotana Banader Hotel, Tazweed Qatar Company, Food Storage Company, Saudi Arabia, Ramakaza Trading Co., AF Willis Insurance Co.

6 BOARD OF DIRECTORS (continued)

ix. 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)

Vice Chairman: ASB Biodiesel (Hong Kong) Limited, affiliates of ASBB.

Board Member: Aluminum Bahrain B.S.B. (ALBA), Tadhamon Capital

x. Mr. Mohamed Abdulrahman Hussain Bucheeri

Vice Chairman of Eskan Bank's Board of Directors & Chairman of Executive Committee (Independent Non-Executive Director)

Appointed in August 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: Bank of Bahrain & Kuwait (BBK), Solidarity Group Holding Company, Investcorp Saudi Arabia Financial Investment Co., The K Hotel.

xi. Mr. Ali Yousif Fardan

Member (Independent Non-Executive Director)

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. Dr. Khalid Abdulla, General Manager

Dr. Khalid Abdulla has over thirty three years of experience in Islamic and Conventional Banking in addition to real estate market and has held many senior positions with leading investment, commercial and real estate financial institutions in Bahrain in addition to his academic and research expertise in Economic, including University of Bahrain,

Prior to joining the bank, he was the Chief Executive Officer at Invest Bahrain BSC. He holds a Master of Science Degree in Economic Development from the University of East Anglia (UK) and a Doctorate of Philosophy in Economics from Exeter University (UK). He also held the post of Assistant Professor & Chairman of the Department of Economics & Finance at the University of Bahrain, in the recent past.

Dr. Khalid is actively involved in many projects promoting infrastructural development in Bahrain & is a member of many associations such as 'The Public Affairs Committee' at the Bahrain Chamber of Commerce & Industry & is a founding member of the Bahrain Economic Society & Serves on the Board of Trustees of 'MENA Investment Center'.

7 EXECUTIVE MANAGEMENT TEAM OF ESKAN BANK (continued)

Dr. Khalid plays an active role in many societies and institutions such as Heading the Bahrain Society for competitive, member of National Committee for the World Trade Organization, Board member and Head of Audit Committee at LMRA and Reef Real Estate Finance Company, in addition to being a founding member of the Economists Association of Bahrain

He assumed the present position in 2013.

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

Mr. Ahmad Tayara has over seventeen 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. **Mr. Aref Qamber, Chief Operating Officer**

Mr. Aref Qamber has over twenty four years of experience in Islamic and Conventional Banking, particularly in the areas of Financial Planning, Corporate Finance, Human Resources and Administration Management. He has worked for leading institutions such as Bank of Bahrain & Kuwait and Shamil Bank (Ithmaar). Prior to joining Eskan Bank, he was Deputy CEO at Manafae Investment Company in Kuwait.

Mr. Aref is a Certified Public Accountant (CPA), USA. He assumed the present position in 2013.

iv. **Mr. Srikanth Sheshadri, Chief Risk Officer**

Mr. Srikanth Sheshadri has over twenty one 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. Eyad Obaid, Acting Chief Development Officer / Eskan Properties Company**

Mr. Eyad Obaid has over thirty years of experience in various constructions industry, private and governmental with wide experience in projects management, execution and property development. Prior to joining Eskan Bank he was with Bahrain Defense Force, Military Works Directorate

Mr. Eyad holds a BSc degree in Civil Engineering.

He has been with Eskan Properties Company since 2005 under the capacity of Deputy Chief Development Officer. He assumed the present position in 2012.

7 EXECUTIVE MANAGEMENT TEAM OF ESKAN BANK (continued)

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

Mr. Hani Nayem has over eleven 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 of Bahrain, 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.

vii. Mr. Tariq Al Jalahma, Head of Retail Banking

Mr. Tariq Al Jalahma has over thirty one years of experience in Commercial Banking Industry, particularly in the areas of Remedial and Retail Banking. Prior to joining Eskan Bank, he was the Vice President, Marketing & Small Business Development Unit at Bahrain Development Bank.

Mr. Tariq holds a Banking Diploma from BIBF. He assumed the present position in 2005.

viii. Ms. Parween Ali, Head of Sales & Marketing

Ms. Parween Ali has over seventeen years of experience in Banking Industry, particularly in the areas of Sales and Customer Service. Prior to joining Eskan Bank, she was Sales & Customer Service Manager at Standard Chartered Bank.

Ms. Parween has an Advanced Banking Diploma from BIBF. She assumed the present position in 2010.

ix. Mrs. Samar Agaiby, Head of Financial Institutions & Government Relations

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

Mrs. Samar is a Certified Management Accountant (CMA) from USA and Certified Diploma in Accounting and Finance (CDipAF) from UK

She has been with Eskan Bank since 1989 in which she has filled different positions such as Head of Mortgage Guaranteed System and Head of Credit & Operational Risk.

She assumed the present position in 2012.

x. Mr. Jayant Krishnaswami, Head of Project Management

Mr. Jayant Krishnaswami has over thirty years of experience in different commercial and investments banks within GCC & India such as Standard Chartered, Taib, National Bank of Oman, National Bank of Abu Dhabi, particularly in the areas of Risk Management, Financial Control and Corporate Banking. Prior to joining Eskan Bank, he was Senior Manager of the Credit Risk Department at Ahli Bank of Oman.

Mr. Jayant holds a Master in Management Studies with specialized in Finance from Mumbai University. He assumed the present position in 2013.

7 EXECUTIVE MANAGEMENT TEAM OF ESKAN BANK (continued)

xi. Mr. Adnan Fathalla Janahi, Acting Head of Human Resources

Mr. Adnan Fathalla Janahi has over eighteen years of experience in Human Resource Management, and has worked with one of the leading banks, National Bank of Bahrain and prior to joining Eskan Bank, he was a Director, Head of Human Resources at Investment Dar Bank.

Mr. Adnan holds an MBA from University of Glamorgan.

He has been with Eskan Bank since 2009 under the capacity of Senior Manager HR & Administration. Adnan assumed the present position in 2013.

xii. Mr. Aqeel Mayoof, Acting Head of Information Technology Management

Mr. Aqeel Mayoof has over eighteen years of experience in different IT Core Banking Systems within banking Industry such as Citi Bank and Ahli United Bank. Prior to joining Eskan Bank, he was IT Projects Leaders at Ahli United Bank.

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

He has been with Eskan Bank since 2005 under different positions such as Manager and Senior Manager within the Information Technology. He assumed the present position in 2012.

xiii. Mr. Deepak Patel, Acting Head of Operations

Mr. Deepak Patel has over thirteen years of experience in Commercial Banking Industry, particularly in the areas of Operations, Finance and Retail Banking. Prior to joining Eskan Bank, he was Operations & Finance Manager at ICICI Bank in Bahrain.

Mr. Deepak holds a Bachelor's Degree in Commerce & Economics from Mumbai University.

He has been with Eskan Bank since 2007 under different positions such as Manager and Senior Manager within Operations. He assumed the present position in 2012.

xiv. Mr. Muhammad Saeed Butt, Acting Head of Financial Control

Mr. Muhammed Saeed Butt has over thirteen years of experience within the financial services sector. During the course of his career he has worked for Reputable Financial Institutions such as Earnest & Young in Pakistan. Prior to joining Eskan Bank, he was a Manager Investment & Finance at Al Zayani Investment.

Mr. Muhammed Saeed is an Associate Chartered Accountant (ACA) since 2004.

He has been with Eskan Bank since 2007 and has filled several positions such as Senior Manager Financial Control and Manager Strategic Planning. Muhammed Saeed assumed the present position in 2013.

xv. Mrs. Amal Al Aradi, Senior Manager, Property Management / Eskan Properties Company

Mrs. Amal Al Aradi has over twenty six years of experience in Assets Management. She spent her full career in Eskan Bank, in which she joined the bank directly after she got her Bachelor Degree in Computer Science.

She has been with Eskan Bank since 1987 in which she has filled different positions such as Acting General Manager of Southern Tourism Company - STC which was subsidiary of Eskan Bank, Projects Manager, Assets Management Manager and Senior Manager. She assumed the present position in 2009.

7 EXECUTIVE MANAGEMENT TEAM OF ESKAN BANK (continued)

xvi. Mr. Fadhel Asbool, Treasury Manager

Mr. Fadhel Asbool has over twenty four years of experience in Banking Treasury in both Islamic and Conventional Banking, particularly in the areas of Money Market and Capital Market. Prior to joining Eskan Bank, he was the Chief Dealer at Tokyo Mitsubishi Bank - Bahrain.

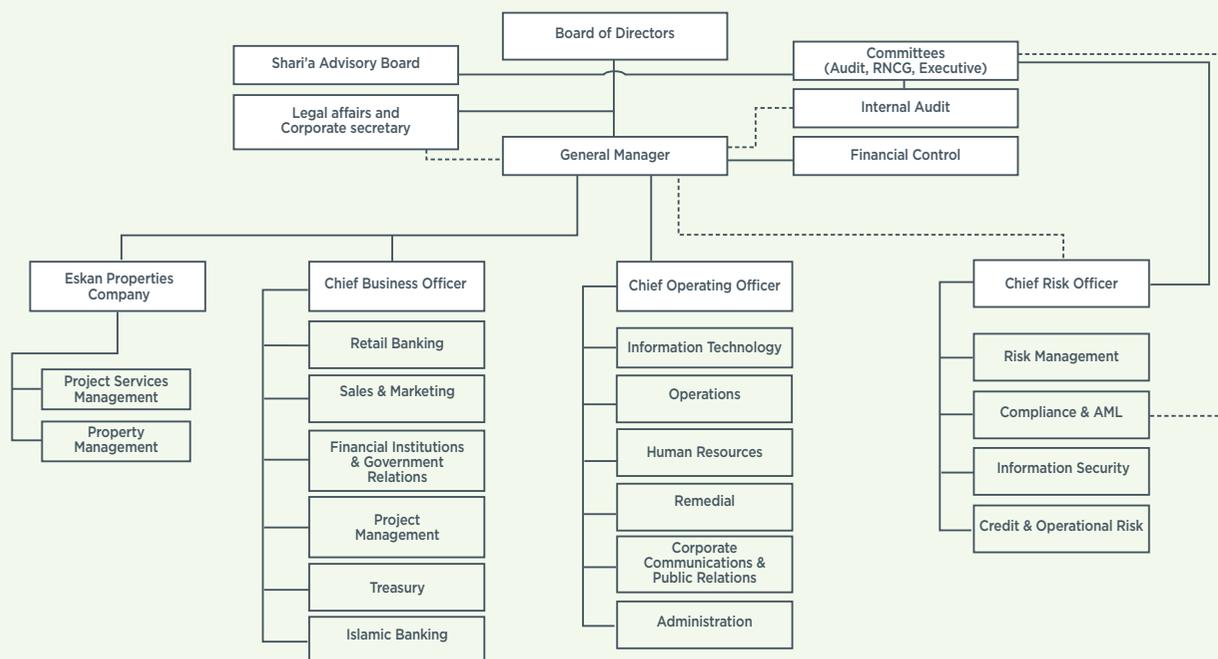
Mr. Fadhel holds a Bachelor of Commerce from Bangalore University, India. He assumed the present position in 2007.

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 ORGANISATION CHART

The organisation structure of the Bank is as follows:



10 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 Industry and Commerce, and H.E. the Governor of the CBB.

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

Pillar-III Disclosures (continued)

31 December 2013

11 CAPITAL

11.1 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: CAPITAL STRUCTURE

The following table summarizes the eligible capital after deductions for Capital Adequacy Ratio (CAR) calculation as of 31 December 2013:

	Tier I	Tier II
Components of capital		
Issued and fully paid ordinary shares	108,300	-
Legal / statutory reserves	54,462	-
Retained profit brought forward	29,180	-
Others	18,524	-
Collective Impairment loss provision	-	266
TOTAL AVAILABLE CAPITAL	210,466	266
Less : Significant minority investments in banking, securities and other financial entities	(121)	(121)
NET AVAILABLE CAPITAL	210,345	145
TOTAL ELIGIBLE CAPITAL BASE (Tier 1 + Tier 2)		210,490

Following are Capital Adequacy Ratios for total capital and Tier 1 capital as of 31 December 2013:

Tier I Capital Adequacy Ratio	111.18%
Total Capital Adequacy Ratio	111.26%

Following are the total risk weighted exposures for each category of risk the Bank is exposed to as of 31 December 2013:

Credit Risk Weighted Exposures	163,002
Operational Risk Weighted Exposures	26,184
Market Risk Weighted Exposures	-
Total Risk Weighted Exposures	189,186

11 CAPITAL (continued)

11.2 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.

12 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 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.

13 CREDIT RISK

13.1 Overview of Credit Risk Management

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

The Credit Risk Management Framework is summarised as under:

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

The Bank uses external ratings from Standard & Poors', Moody's, 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.

13 CREDIT RISK (continued)

13.2 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 top up 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 2013 was BHD 1.6 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.

Table 7 : Past Due Loans- Aging Analysis (in BHD thousands)

	91 Days to 1 year	1 to 3 years	Above 3 years	Total
Social loans *	19,641	6,782	65	26,488
Retail mortgage commercial loans	736	831	-	1,567
	20,377	7,613	65	28,055

Table 8: 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	271	-	(5)	266
Specific Provision				
Retail mortgage commercial loans	292	360	(30)	622
	563	360	(35)	888

* 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 2013 relates to its operations in the Kingdom of Bahrain.

13 CREDIT RISK (continued)

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

There were no renegotiated commercial loans during the year ended 31 December 2013. 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 149 thousand.

Table 9: Capital Requirements – Standard Portfolio (in BHD thousands)

	* Gross Exposures	Risk Weighted Value	** Capital Charge
Standard Portfolio			
Sovereign Portfolio	509,613	-	-
Banks Portfolio	19,079	3,829	459
Residential Retail Portfolio	26,765	20,310	2,437
Equity Portfolio	1,484	2,226	267
Real estate Portfolio	67,577	135,154	16,218
Other Exposures	1,621	1,484	178
Total	626,139	163,003	19,559

*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

Table 10: Assets - Funded, Unfunded and Average Exposures (in BHD thousands)

	Gross Exposures	* Average Exposures
Funded Exposure		
Cash and cash equivalents	105,618	90,736
Investments	4,757	3,845
Loans	400,202	382,837
Investment in associates	9,136	10,157
Investment property	41,760	39,943
Development property	8,351	11,067
Other assets	6,369	6,246
Disposal group	-	433
	576,193	545,265
Unfunded Exposure		
Loan related	99,019	89,567
Lease commitments	156	233
Capital commitments	242	261
	99,417	90,061

* Average balances are computed based on quarter end balances.

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

Pillar-III Disclosures (continued)

31 December 2013

13 CREDIT RISK (continued)

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

Table 11: Geographic Distribution of exposures (in BHD thousands)

The following table summarises the geographic distribution of exposures, broken down into significant areas by major types of credit exposure as of 31 December 2013 :

	Kingdom of Bahrain	United States	Total
Cash and cash equivalents	105,573	45	105,618
Investments	4,757	-	4,757
Loans	400,202	-	400,202
Investment in associates	9,136	-	9,136
Investment property	41,760	-	41,760
Development property	8,351	-	8,351
Other assets	6,369	-	6,369
Total	576,148	45	576,193

The Group considers the above geographical disclosure to be the most appropriate as the Group's major activities are conducted in the Kingdom of Bahrain.

Table 12: 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	105,618	-	-	-	-	105,618
Investments	-	3,273	-	1,216	268	4,757
Loans	-	-	400,202	-	-	400,202
Investment in associates	241	8,895	-	-	-	9,136
Investment property	-	41,760	-	-	-	41,760
Development property	-	8,351	-	-	-	8,351
Other assets	-	4,886	-	-	1,483	6,369
Total	105,859	67,165	400,202	1,216	1,751	576,193
Unfunded Exposures						
Loan related	-	-	99,019	-	-	99,019
Lease commitments	-	-	-	-	156	156
Capital commitments	-	242	-	-	-	242
Total	-	-	99,019	-	156	99,417

13 CREDIT RISK (continued)

13.3 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 2013.

Table 13: Intra-group transactions as of 31 December 2013 (In BHD Thousands)

	Eskan Bank	RMBS Co.	Eskan Property Co.	Smart Building Material Co.	Total
Assets					
Balances with Banks	-	-	777	250	1,027
Inter Bank Deposits	-	14,553	-	-	14,553
Investments in subsidiaries	501	-	-	-	501
Investments	-	-	-	-	-
Other Assets	3,778	8,367	1,958	-	14,103
	4,279	22,920	2,735	250	30,184
Liabilities and Equity					
Non-Bank Deposits	14,553	-	-	-	14,553
Current Accounts	1,027	-	-	-	1,027
Other Liabilities	10,325	1,525	2,139	114	14,103
Share Capital & Reserves	-	1	250	250	501
	25,905	1,526	2,389	364	30,184

13.4 Large Exposures

A Large exposure is any exposure to a counterparty or a group of **closely related counterparties** which is greater than, or equal to, 10% of consolidated **capital base**. The Bank did not have any large exposure as at 31st December 2013.

14 CREDIT RISK MITIGATION

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

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

14 CREDIT RISK MITIGATION (continued)

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

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

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

15 COUNTERPARTY CREDIT RISK FOR DERIVATIVE AND FOREIGN EXCHANGE INSTRUMENTS

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

16 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.

16.1 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.

16 LIQUIDITY RISK (continued)

Table 14: 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	42,264	17,534	32,109	8,753	4,958	-	-	-	-	-	105,618
Investments	-	-	-	-	-	268	4,489	-	-	-	4,757
Loans	42	501	2,804	4,302	8,763	36,320	37,794	100,439	164,951	44,286	400,202
Investment in associates	-	-	-	-	-	9,136	-	-	-	-	9,136
Investment property	-	-	-	-	-	-	-	-	41,760	-	41,760
Development property	-	-	-	-	-	8,351	-	-	-	-	8,351
Other assets	649	202	4,781	22	90	224	401	-	-	-	6,369
TOTAL ASSETS	42,955	18,237	39,694	13,077	13,811	54,299	42,684	100,439	206,711	44,286	576,193
Deposits from financial and other institutions	17,200	23,300	4,500	-	4,000	-	-	-	-	-	49,000
Government accounts	-	-	-	-	-	-	-	-	-	232,779	232,779
Term loans	-	-	-	-	6,500	20,000	39,000	-	-	-	65,500
Other liabilities	5,211	264	564	640	890	2,096	1,440	7,457	-	-	18,562
TOTAL LIABILITIES	22,411	23,564	5,064	640	11,390	22,096	40,440	7,457	-	232,779	365,841
MISMATCH	20,544	(5,327)	34,630	12,437	2,421	32,203	2,244	92,982	206,711	(188,493)	210,352
CUMULATIVE MISMATCH	20,544	15,217	49,847	62,284	64,705	96,908	99,152	192,134	398,845	210,352	

The report reflects that there are no negative cumulative gaps reflected by the asset liability management (“ALM”) report i.e. the Bank would be in a comfortable liquidity position and able to repay its existing liabilities on their scheduled due dates from its existing assets.

17 MARKET RISK

17.1 Overview of Market Risk Management

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

- Bank currently has no ‘Trading Book’.
- Investments are primarily in ‘Available for Sale’ category.
- Market risk for the Bank is limited to balances in Nostro accounts in United States Dollars (“USD”) but as Bahraini Dinars (“BHD”) is pegged to USD, the Bank does not have any foreign exchange risk.
- The Bank has adopted the Standardized Approach for computation of capital charge for market risk.

18 OPERATIONAL RISK

18.1 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 Standardized Approach or Advanced Measurement Approach (“AMA”) will be reviewed in due course.

Table 15: Operational Risk

Operational Risk (in BHD thousands)	Amount
Average Gross income	13,965
Risk Weighted Exposures	26,184
Capital Charge (@12%)	3,142

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

19 EQUITY POSITIONS IN THE BANKING BOOK

The Equity position as at 31st December 2013 comprise investments in subsidiaries and associates which are not subject to consolidation treatment for capital calculation purposes and other investments.

Table 16: Equity Position in the Banking Books (in BHD thousands)

	Gross Exposures	Privately Held	Capital Charge
Available for sale investments	4,757	4,757	1,053
Investments in associates	9,136	9,136	2,135

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.

20 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 17: Sensitivity Analysis- Interest Rate Risk

(in BHD thousands)	31st December 2013 BHD	Changes in basis points (+/-)	Effect on net profit (+/-)
Assets			
Balances and placements with Financial Institutions	105,176	200	2,104
Loans - Commercial loans	26,338	200	527
Liabilities			
Deposits from financial and other institutions	49,000	200	(980)
Term loans	15,500	200	(310)
Total			1,341

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.

Pillar-III Disclosures (continued)

31 December 2013

21 AUDIT FEES

The fees for the auditing of financial statements of BHD 16,950 (2012: 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 34,600 thousand (2012: BHD 36,100 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.

22 CBB PENALTIES

During the year, CBB charged the Bank a penalty of BHD 100 for errors in two accounts reported to the Bahrain Credit Reference Bureau. The accounts have since been rectified and Bank continues to maintain a "NIL" error report.