ANNUAL
REPORT 2011

Fulfilling Our Social Role

2030
البحرين
BAHRAIN

بنك الإسكان
ESKAN BANK

Contents

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His Royal Highness Prince Khalifa bin Salman Al Khalifa

The Prime Minister of The Kingdom of Bahrain

His Majesty King Hamad bin Isa Al Khalifa

The King of the Kingdom of Bahrain

His Royal Highness Prince Salman bin Hamad Al Khalifa

The Crown Prince & Deputy Supreme Commander

Eskan Bank was established in 1979 with a unique social role to provide mortgages for citizens of the Kingdom of Bahrain on low-to-medium incomes, and also to engage in community-related property development activities. Since 2005, the Bank has expanded its activities and now offers retail banking, Islamic financing, property development and investments, property management, and treasury 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 more than BD 641 million, benefiting over 46,832 Bahraini families. Eskan Bank's property development and investment activities embrace real estate investment, property management, and raising funds to finance the construction of social and affordable homes, and community and commercial projects.

The Bank has four subsidiaries with significant activities: Eskan Properties Company (EPC), Southern Tourism Company (STC), Smart Building Material Company (SBMC) and Eskan RMBS Company (RMBS). As the Bank's property development arm, EPC develops social, community and commercial projects in partnership with the private sector as well as with the Government. STC is the sole official provider of transportation of passengers and cargo to the Hawar Islands, which the Bank is currently developing into a major tourist attraction.

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 businesses and become financially independent; while Naseej acts as a catalyst in addressing the need for affordable housing in the Kingdom, and enabling more Bahrainis on middle incomes to afford home ownership.

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

In 2011, the Board of Directors approved a new long-term strategy for Eskan Bank, which significantly widens the scope of the Bank's activities to assist the Ministry of Housing in alleviating the current housing shortage for social housing groups in Bahrain. Providing the opportunity of home ownership to more Bahraini citizens on low-to-medium incomes will contribute to greater social stability and prosperity in the Kingdom.

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 licence issued and regulated by the Central Bank of Bahrain. At the end of 2011, total assets of the Bank stood at BD 424 million.

Our vision

Eskan Bank aspires to be an acknowledged industry leader in the housing segment of the Kingdom of Bahrain, with a focus on social housing solutions through the development of cohesive communities, and the formation of a fair and efficient mortgage loan market.

Our 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:

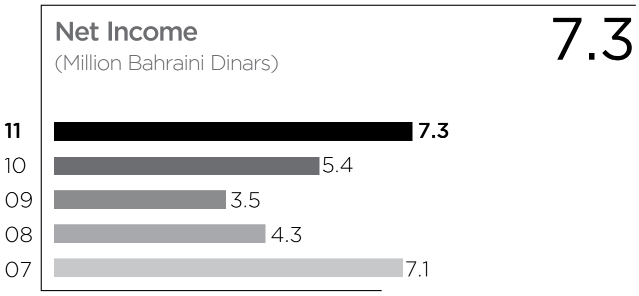
- Collaborate with stakeholders to build, promote and support construction of housing units as well as social facilities and infrastructure, as required by the Ministry of Housing
- Facilitate the access of social housing groups to the mortgage loan market
- Leverage the Bank's financial position to support the Kingdom's social housing agenda

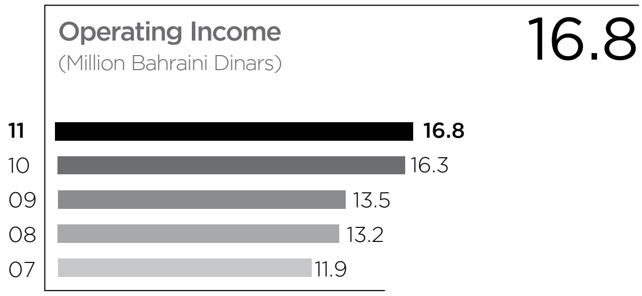
Operational Highlights

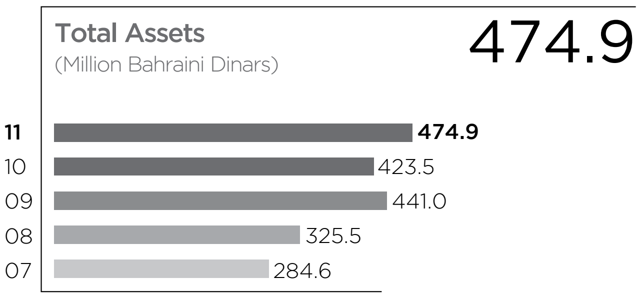
- HE Basim Bin Yacob Al Hamer took over as new Chairman, and new Board of Directors appointed
- Disbursed BD 68 million of social and commercial housing loans to 2,800 families
- Successfully placed Bahrain Musharaka Trust Fund, which will be used to finance Segaya Plaza and Isa Town mixed-use affordable residential and commercial projects
- Signed agreement with BMI Bank to provide Eskan Bank customers with access to personal loans plus the option of a credit card
- Strengthened the balance sheet by increasing the authorised capital to BD 400 million, and the paid up capital to BD 108.3 million
- Relocated Isa Town branch office to Jid A'ali in new Eskan Bank community project building
- Completed 6 community projects in Hamad Town and Hamala
- Started construction on 4 new community projects in Karzakan, Dumistan, Riffa and Samheej
- Eskan Bank now manages 165 community retail outlets
- Participated in development of 460 new affordable housing units
- Development of Segaya Plaza and Isa Town mixed-use projects on track
- Reclamation work completed at Bander Al Seef mixed-use affordable residential and commercial project
- Presented final masterplan for Danaat Hawar tourism project to Government for approval
- Southern Tourism Company signed contract for 2 new state-of-the-art passenger vessels
- Expanded partnerships with private sector financial institutions and property developers
- Associate company Naseej signed landmark BD 212 million social and affordable housing public-private-partnership (PPP) with the Ministry of Housing
- Achieved accreditation to ISO 9001:2008 international quality management standard
- Number of Bahrainis employed by Eskan Bank increased to 90 per cent (Group: 68%)
- Introduced 13-months' salary fixed bonus for Eskan Bank employees
- Strengthened corporate governance, risk management, and internal controls framework
- Completed process for implementing new International Bank Account Numbers (IBAN)
- Eight staff members acted as volunteers for the Injaz schools training programme
- Paper and printer usage reduced by 20 per cent

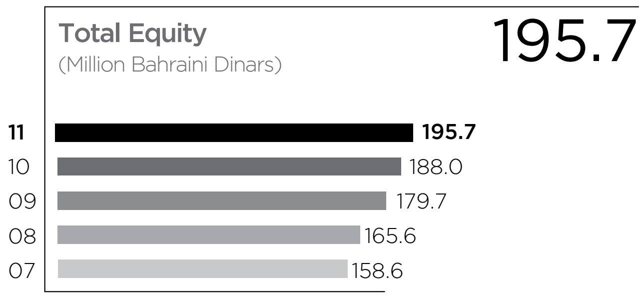
Achieved accreditation to ISO 9001:2008 international quality management standard

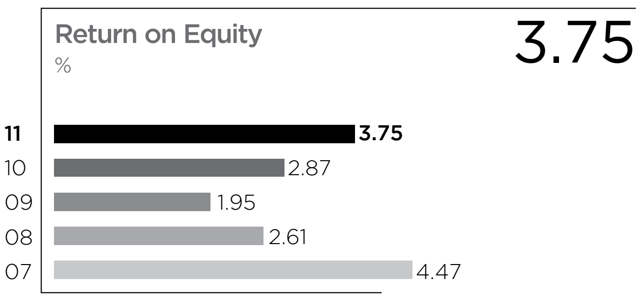
The Bank's strategy is based on four key pillars: our social role in providing mortgages and community projects; a greater reliance on investment banking for funding; utilising commercial opportunities to enhance our capabilities; and encouraging private sector participation.

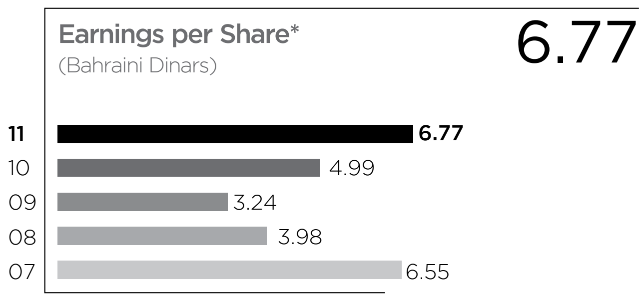






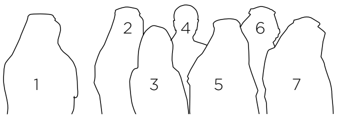






* EPS is based on number of shares resulting after capitalizaton of retaired earning in 2011 and pervious years stated accordingly.

Board of Directors



H.E. Eng. Basim Yacob Al Hamer

Minister of Housing

Appointed as Chairman of Eskan Bank in 2011

(Non-Executive Director)

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

More than 30 years experience

Chairman: Tender Board

Board Member: National Oil and Gas Authority.

Deputy Chairman: Secretariat General for the King Fahad Causeway.

Mr. Abdul Razaq Abdulla Hasan Al Qassim

Vice Chairman (Independent Non-Executive Director)

Appointed in 2008 and re-appointed in August 2011

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

More than 30 years of work experience

Chief Executive Officer: National Bank of Bahrain

Chairman: Benefit Network Company; Corporate Governance Committee in Ministry of Industry and Commerce; Board of Trustee of Ahlia University

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

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

Mrs. Sabah K. Almoayyed

Member (Executive Director)

Appointed in 2008 and re-appointed in August 2011

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

More than 20 years of work experience

General Manager: Eskan Bank

Chairman: Board of Directors of SDC and STC and EPC

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

Previous Position: 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.

Dr. Zakareya Sultan Al Abbasi

Member (Independent Non-Executive Director)

Appointed in August 2011

Master & PhD degrees in Law from University of East Anglia – UK

More than 27 years work experience

Acting Chief Executive Officer: Social Insurance Organization.

Board Member: Gulf Diabetes Specialist Centre.

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, work experience

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

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

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

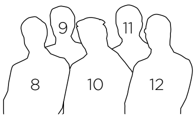
Member: Royal Aeronautical Society, Institute of Electrical and Electronics Engineering (Senior), Institute of Electrical Engineering UK, British Computer Society, Bahrain Society of Engineers.

Mr. Yousif Saleh Khalaf

Member (Independent Non-Executive Director)

Appointed in August 2011

ACCA professional examinations Trent University , Nottingham, UK Higher Diploma in Business Studies Salford College of Technology, Salford, UK



1. H.E. Eng. Basim Yacob Al Hamer
2 Mr. Ahmed Jasim Farraj
3. Mrs. Sabah K. Almoayyed
4 Mr. Redha Abdulla Faraj
5 Dr. Zakareya Sultan Al Abbasi
6 Mr. Yousif Saleh Khalaf
7 Mr. Yousif Abdulla Taqi
8. Mr. Abdul Razaq Abdulla Hasan AlQassim
9 Mr. Mohd Hussain Bucherrai
10 Dr. Mohamed Ahmed Juman
11 Mr. Khalid Al-Amin
12 Mr. Ali Yousif Fardan

National Diploma in Business Studies Fielden Park College Manchester, UK

More than 30 years of work experience

Founder & Managing Director: VisionLine Consulting

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

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

Mr. Ahmed Jasim Farraj

Member (Independent Non-Executive Director)

Appointed in August 2011

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

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

More than 35 years of work experience

Assistant Undersecretary: Financial Affairs, Ministry of Finance

Mr. Redha Abdulla Faraj

Member (Independent Non-Executive Director)

Appointed in August 2011

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

More than 20 years of work experience

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

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

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

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, Arbitration and Trade Disputes Committee

Vice Chairman: Tamkeen

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

Mr. Yousif Abdulla Taqi

Member (Independent Non-Executive Director)

Appointed in August 2011

A Certified Public Accountant (CPA),

More than 28 years of work experience

CEO and Board member: Al Salam Bank - Bahrain

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

Mr. Mohd Hussain Bucherrai

Member (Independent Non-Executive Director)

Appointed in 2011

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

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

Intermediate Credit Course at Citibank - Athens, Greece

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

More than 33 years, work experience

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

Mr. Ali Yousif Fardan

Member (Independent Non-Executive Director)

Appointed in August 2011

Diploma in Executive Management – University of Bahrain

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

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

More than 30 years of work experience

Board Member: Islamic International Financial Market (IIFM)

General Manager: National Bank of Kuwait

On behalf of the Board of Directors, I have the privilege to present the annual report and consolidated financial statements of Eskan Bank for the year ended 31 December 2011. Despite a challenging external environment, the Bank performed strongly during the year in terms of financial performance, operational achievements and strategic progress.

I am pleased to report that Eskan Bank posted a solid financial performance for 2011. Net income increased by 36% to BD 7.3 million, while total equity rose by 4 per cent to BD 196 million, resulting in an enhanced return on equity of 3.75 per cent. Operating expenses marginally increased by BD 134 thousand due the growth in underlying business activities, and the cost-to-income ratio improved from 50.5 per cent to 42 per cent.

Due to increasingly volatile and uncertain market conditions, we took the prudent decision to make a general loan loss provision of BD 278 thousand compared with BD 236 thousand in 2010 in terms of disbursement of mortgages.

The Bank's balance sheet was further strengthened during the year, with Cabinet approval for an increase in authorised capital from BD 40 million to BD 400 million; while paid-up capital increased from BD 15 million to BD 108.3 million through the capitalisation of retained earnings.

Eskan Bank's capital adequacy ratio remained very strong at 100 per cent, and liquidity continued to be healthy with liquid assets representing 19 per cent of total assets.

We are in the process of finalising a medium-term syndicated loan facility with domestic and international banks to meet future funding requirements.

Our performance, however, is not just measured financially, but also in how we meet our primary role of enabling more Bahraini families on low-to-medium-incomes to own their homes. In terms of disbursement of mortgages, Eskan Bank continued to perform well during 2011, although at a slightly slower rate than 2010, due to difficult market conditions during the first half of the year.

BD 68 million of home loans were allocated to more than 2,800 families; at the end of the year, total loans and advances stood at BD 313 million, an increase of 12.5 per cent over 2010.

Since inception, the Bank has provided mortgages totaling more than BD 641 million to over 46,832 Bahraini families, and continues to be the largest mortgage lender in the Kingdom of Bahrain.

Throughout the year, we continued to fulfill our unique social and community role to contribute to the betterment of society and improve the quality of life for Bahraini citizens.

In this respect, the Bank completed additional community projects that provide local business and employment opportunities for entrepreneurs and small enterprises, and which complement and support Ministry of Housing projects.

His Excellency
Basim Bin Yacob Al Hamer
Chairman

BD 313 million

Total loans and advances

"Throughout the year, we continued to fulfill our unique social and community role to contribute to the betterment of society and improve the quality of life for Bahraini citizens."

Through our subsidiaries and associates, we also continued to support the Government's family tourism policy; provide micro-financing for people who do not qualify for commercial banking loans; and increase the availability of social and affordable housing units.

In particular, I would like to highlight the signing of the historic BD 212 million public-private-partnership (PPP) between the Ministry of Housing and Naseej, which will provide more than 4,000 social and affordable housing units.

Another notable development was the successful placement of the BD 23.3 million Bahrain Property Musharaka Trust – a first-of-its-kind Islamic property trust – that will be used to fund two major affordable residential and commercial projects in Segaya and Isa Town.

The success of this initiative will open up new opportunities for partnership with the private sector.

Also during the year, we continued to reinforce the Bank's institutional capability. We further strengthened our corporate governance and risk management framework; and implemented a number of new initiatives to enhance our human capital and information technology, and improve operational effectiveness and efficiency.

The success of such endeavours was underlined by Eskan Bank becoming one of the first banks in Bahrain to achieve certification to the ISO 9001:2008 international quality management standard.

At the same time, we continued to diversify our products and services to meet the changing needs and growing expectations of our customers. Key developments include the signing of an agreement with BMI Bank to provide Eskan Bank customers with access to personal loans and credit cards; and finalisation of plans for the introduction of a suite of new eServices in 2012.

From a strategic point of view, the most significant development in 2011 was the Board's approval of a new long-term strategy for Eskan Bank, which features a number of innovative and far-reaching initiatives.

The strategy significantly widens the scope of the Bank's activities to assist the Ministry of Housing in alleviating the current housing shortage for social housing groups in the Kingdom of Bahrain. It also clearly defines the unique social and economic development role of the Bank to support the social agenda of Bahrain's Economic Vision 2030.

I would like to thank the outgoing Chairman and Board of Directors for their sterling contribution since 2008, and in turn, welcome the new Members of the Board.

Their diverse backgrounds and experience will prove invaluable in guiding the Bank during these uncertain and volatile times. As the newly-appointed Chairman, I look forward to working with my fellow Directors and the Management Team to pursue the Bank's future ambitious goals.

On behalf of the Board of Directors, I convey my gratitude to His Majesty King Hamad Bin Isa Al Khalifa, the King of the Kingdom of Bahrain; to His Royal Highness Prince Khalifa Bin Salman Al Khalifa, the Prime Minister; and to His Royal Highness Prince Salman Bin Hamad Al Khalifa, the Crown Prince and Deputy Supreme Commander; for their wise leadership and visionary reform programme.

I also take this opportunity to thank our shareholder, the Government of Bahrain, for its confidence and financial support; and to acknowledge the cooperation, professional advice and guidance received from the Government's ministries and official bodies.

These include the Ministry of Finance, the Ministry of Housing, the Ministry of Industry and Commerce, the Ministry of Municipalities and Urban Planning, the Ministry of Works, the Electricity & Water Authority, the Economic Development Board, the Ministry of Justice, the Directorate of Land Registration and Nationalisation, and the Tender Board.

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

Basim Bin Yacob Al Hamer

Minister of Housing
Chairman of Eskan Bank

General Manager's Report

I am pleased to report that 2011 proved to be a most productive and eventful year for Eskan Bank, during which we continued to fulfill our unique social and economic development role.

Eskan Bank supports the social and economic development of Bahrain in a number of different ways. These include providing housing loans for Bahraini citizens; developing sustainable and cohesive communities; enhancing the Kingdom's real estate infrastructure; making innovative investments in under-served areas such as micro financing and affordable housing; supporting the Government's family tourism policy; and encouraging the participation of the private sector. These activities are delivered by a team committed to the highest levels of customer service, backed by a state-of-the-art support infrastructure.

Social housing loans

During 2011, we continued to support the Ministry of Housing's commitment to provide housing for Bahraini citizens on low-to-medium incomes, through structuring and endorsing a sustainable social housing finance system. By allocating BD 68 million loans during the year, we enabled over 2,800 people to realise their dream of purchasing their own home. Since inception, Eskan Bank has provided mortgages totalling BD 641 million loans to 46,832 citizens. This has made a tremendous impact in providing the opportunity of home ownership to those who need it the most.

Cohesive communities

Eskan Bank has an enduring commitment to support the development of cohesive and sustainable communities. Through its wholly-owned subsidiary – Eskan Properties Company – the Bank plays a leading role in constructing and managing community projects that complement and support Ministry of Housing social housing projects. In 2011, we completed six new community projects in Hamad Town and Hamala, and launched an additional four new projects in Karzakan, Dumistan, Riffa and Samheej. The Bank currently manages a portfolio of 165 retail outlets in different communities, which provide local residents with new business and employment opportunities. Eskan Bank also participated in the development of 430 new social housing units in 2011 – either directly or through agreements with private sector developers. These are funded either through the Bank's balance sheet or by the provision of leasing arrangements with beneficiaries for periods of up to 30 years.

Real estate infrastructure

During 2011, Eskan Bank continued to play its role in enhancing the Kingdom's real estate infrastructure. Reclamation work was completed at Bander Al Seef, which will be developed as a major mixed-use commercial and affordable housing project. In addition, the Bank's two mixed-use projects in Segaya and Isa Town made excellent progress. Segaya Plaza, which is 60 per cent completed, comprises 105 apartments for leasing, together with a range of shops and retail outlets. The Isa Town project, which is halfway through the design stage, is a strategically-located 'micro-city' containing 308 affordable housing apartments, plus commercial offices, retail outlets and showrooms. These developments will provide a sustainable source of revenue for Eskan Bank's social community projects.

Innovative investments

Eskan Bank also fulfills its social and community role by supporting the establishment and ongoing development of innovative companies that meet under-served social needs. For example, Ebdaa Bank, in which we hold a 20 per cent stake, provides micro-financing for low-to-middle income Bahrainis unable to secure commercial banking loans, to help them start new businesses and become financially independent. Eskan Bank is also a founding shareholder of Naseej, which was established to act as catalyst for addressing Bahrain's affordable housing development needs. The recent signing of a groundbreaking BD 212 million public-private-partnership (PPP) between Naseej and the Ministry of Housing will help to alleviate the

Sabah K. Almoayyed
General Manager and Director

BD 68 million

Allocating loans during the year

> "A core strength of Eskan Bank is its experienced and committed people, who have a unique understanding of the needs of Bahrainis that are not addressed by commercial banks. During 2011, we continued to enhance our standards of customer service."

Kingdom's housing shortage by providing more than 4,000 social and affordable housing units.

Family tourism

Through its subsidiary Southern Tourist Company, and its associate Southern Area Development Company, Eskan Bank is supporting the development of Hawar Islands and the surrounding area into a major family tourism attraction. Following its recent extensive renovation, the Golden Tulip Hawar Resort Hotel was successful in attracting an increased number of tourists to the Island during 2011. In addition, the detailed master plan for the Danaat Hawar tourism project, developed by an international consortium of consultants managed by Eskan Properties Company was completed. This unique development will become a landmark, and a major attraction for Bahraini citizens and tourists.

Private sector partnerships

The Board of Directors of Eskan Bank and the Ministry of Housing strongly believe in the importance of the private sector's active participation in addressing the Kingdom's social housing needs. This can take the form of funding or the construction of social housing units. In this respect, Eskan Bank has enhanced its banking services and financial capability by structuring financial packages to attract private sector participation. We have also established partnerships with property developers to construct social and affordable housing units for Bahrainis on low-to-medium incomes. Eskan Bank acts as a preferred partner of property developers in the provision of competitively priced and high quality mortgages. In addition, through its subsidiary Eskan Properties Company, the Bank adopts a consultative approach with property developers, working in partnership across the entire real estate value chain.

Customer service

A core strength of Eskan Bank is its experienced and committed people, who have a unique understanding of the needs of Bahrainis that are not addressed by commercial banks. During 2011, we continued to enhance our standards of customer service. This includes the speed of documentation and registration, which remains the fastest in the industry; the relocation and modernisation of branches; the expansion of Call Centre services; and a special supplier discount programme. A key initiative was the signing of a partnership agreement with BMI Bank, which will provide our customers with access to a personal loan, along with the option of a credit card. Additionally, we finalised the development of a range of new Sharia-compliant products, including Diminishing Musharaka, which provides financing for the purchase of land and property by individuals and corporates on a partnership basis; and Istisna'a for financing construction.

We also maintained our investment in developing a state-of-the-art information technology platform to support the Bank's current and future plans, which include the introduction of a new suite of eServices in 2012. Equally important, remains our commitment to innovation – thinking out of the box, adopting new methodologies, and developing innovative solutions. One such example was the successful closing of the BD 23.3 million Bahrain Musharaka Trust, despite challenging market conditions. This first-of-its-kind Fund will be used for developing two mixed-use affordable residential and commercial projects at Segaya and Isa Town. The success of this innovative initiative has laid the foundations for the future growth and development of project funding by the Bank, and will open up new opportunities for partnership with the private sector.

Moving forward

A combination of insight, innovation and implementation underlined our strong performance and successful accomplishments in 2011, which strengthened the Bank's ability to contribute to the social and economic development of the Kingdom of Bahrain. In order to enhance this contribution yet further, and provide greater support for achieving the social agenda of Bahrain's Economic Vision 2030, the Board has approved a new strategy for Eskan Bank. This is based on five main pillars

(1) execute programmes that will assist the Ministry of Housing in alleviating the current housing shortage for social housing groups in the Kingdom; (2) develop model frameworks in partnership with the private sector for the construction of low-cost housing units; (3) create financial opportunities for the innovative funding of social housing projects; (4) offer social housing groups the opportunity to finance their homes by making social housing a priority segment for all stakeholders; and (5) use the balance sheet of Eskan bank to generate and redeploy funds towards the development of social housing units.

The strategy involves the introduction of innovative initiatives such as a mortgage guarantee system; housing bonds and real estate investment trusts; housing cooperative societies; and the creation of a secondary mortgage market. Key objectives include the use of Eskan Bank land to deliver 2,500 social housing units by 2016; and the structuring of special programmes with private developers to support the construction of 22,500 new social housing units. Providing the opportunity of home ownership to more Bahraini citizens on low-to-medium incomes will contribute to greater social stability and prosperity in the Kingdom of Bahrain.

Acknowledgements

In conclusion, on behalf of Eskan Bank Staff, I convey my gratitude to His Majesty King Hamad Bin Isa Al Khalifa, the King of the Kingdom of Bahrain; to His Royal Highness Prince Khalifa Bin Salman Al Khalifa, the Prime Minister; and to His Royal Highness Prince Salman Bin Hamad Al Khalifa, the Crown Prince and Deputy Supreme Commander; for their wise leadership and visionary reform programme. I would also like to thank our shareholder, the Government of Bahrain, our Chairman and my fellow Directors, for their guidance and support; our business partners for their encouragement and cooperation; our customers for their loyalty and trust; and our management and staff for their commitment and professionalism. Their valuable collective contributions have resulted in another successful year for Eskan Bank.

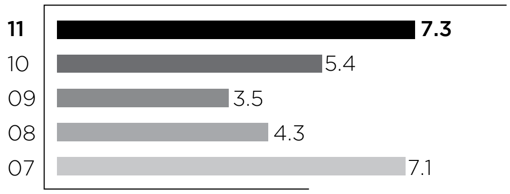
Sabah K. Almoayyed

General Manager and Director

Business Group

Net Income
(Million Bahraini Dinars)

7.3



Retail Banking

During 2011, the retail Banking business maintained its focus on enhancing customer service and convenience. A key initiative was the signing of a partnership agreement with BMI Bank, which will provide flexible financial solutions to Bahrainis. Customers of Eskan Bank's housing loan scheme will now have access to a personal loan, along with the option of a credit card, from BMI Bank. This partnership stems from the commitment of both institutions to enable Bahrainis to create a strong foundation from which to build a solid and secure future for themselves and their families.

Other significant developments include the relocation of the Isa Town branch office to Jid A'ali in a new community project building recently completed by Eskan Bank, with improved car parking facilities; the establishment of a Notary Office desk at the Bank's main branch in Seef, which will provide customers with an easier and quicker title deed and land registration service; and publication of a booklet listing details of special discounts available for users of the Bank's Debit/ATM card at more than 30 local suppliers of building materials, household items and home improvement services. The Bank also continued to roll out its programme of visiting ministries and government institutions to provide public sector employees with easier access to retail banking products and services. The new Call Centre – Hala Eskan – has proved to be very popular with customers, with incoming calls showing a steady upward trend since its launch in May 2010.

Eskan Bank continued to be the largest mortgage lender in Bahrain in 2011, disbursing over 2,800 social housing loans and commercial mortgages with a total value of BD 68 million. The monthly disbursement of social housing loans on behalf of the Ministry of Housing averaged BD 2.1 million, while the Bank's commercial mortgage programme – Al Daar – disbursement 105 loans totalling BD 6.3 million. During the year, Eskan Bank improved its credit criteria for mortgages, with a longer repayment period and a reduced rate of interest.

Islamic Banking

Islamic Banking continued to grow steadily as demand by customers grew. The alignment of objectives with the Ministry of Housing objectives raised new challenges for the management of the bank but did not hamper its vision of being the bank that articulates housing solution through creation of more Islamic products that equipped it to activate the main objective through partnership with the private sector.

To achieve the said goals, the management has taken serious steps to enforce its Islamic banking activities and therefore has used the expertise of its Shari'a Supervisory Board to endorse its current products before going forward to develop more products that can be used as a base for the partnership with the private sector.

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

(in BHD thousands)	**2011**
Ijara muntahia bittamleek -net	**55,446**
Ijara rental receivables	**58**
Wakala placements	**6,500**
Wakala income receivable	**1**
Sukuk	**6,370**
Sukuk Income receivable	**4**
	68,378

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

(in BHD thousands)	**2011**
Wakala takings	**9,517**
Wakala Profit payable	**1**
	9,518

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

(in BHD thousands)	**2011**
Profit on Ijara Muntahia bittamleek	**1,198**
Income from wakala	**69**
Income from Sukuk	**22**
less: profit paid on Wakala	**(39)**
	1,250

Treasury

In what proved to be a very active year, the Bank's Treasury business continued to perform profitably in 2011. The launch of Wakala Islamic interbank product in 2010 has proved to be supportive in managing the Bank's liquidity and provide funding to business units. During the year, Eskan Bank extended its counterparty relationships and credit lines with regional banks, and generated increased corporate deposits, especially from governments and quasi-government institutions.

The success of this innovative initiative has laid the foundations for the future growth and development of project funding by the Bank, and will open up new opportunities for partnership with the private sector.

Eskan Bank currently manages 165 retail outlets through the provision of world class services. During 2011, over 80 new outlets were added to its portfolio.

Treasury Continued

A reduction in interest income resulting from a decline in global interest rates during the year, led the Bank to increase its bidding for conventional and Islamic treasury bills from the Central Bank of Bahrain. New products, including hedging instruments and forex arbitrage tools were developed in 2011 for implementation when market conditions dictate. Eskan Bank is in the process of finalising a new medium-term syndicated loan facility with regional and international banks to meet its future funding requirements, and is also developing plans for a Sukuk issue for 2012.

Property Development and Investments

The Bank's property development and investment activities embrace real estate investment, funding, property management, and raising finance to support the construction of affordable houses, and community and commercial projects. Through its wholly-owned subsidiary, Eskan Properties Company, the Bank aims to become a significant player in the property development market in areas related to its core business, and in line with Bahrain's Economic Vision 2030.

A key development in 2011 was the closing of the BD 23.3 million Bahrain Musharaka Trust in April, despite challenging market conditions.

The Fund will be used for developing mixed-use affordable residential and commercial projects at Isa Town and furnished and retail apartment for lease at Segaya Plaza.

The success of this innovative initiative has laid the foundations for the future growth and development of project funding by the Bank, and will open up new opportunities for partnership with the private sector.

The Bank's community project activities made excellent progress during the year. Two projects in Isa Town and Muharraq, with shops and flats for rent, were fully leased; six projects in Hamad Town and Hamala were completed, ready for leasing; and construction started on four new community projects in Karzakan, Dumistan, Riffa and Hamad Town. Eskan Bank has also identified additional community projects in various Governorates in the Kingdom of Bahrain, located within the Ministry of Housing's social housing units. The Bank is committed to actively supporting the development of cohesive and sustainable communities, working closely with the Ministry of Housing for the development of the community projects based on the social housing development programme established by the Ministry.

During 2011, Eskan Bank expanded its partnerships with private sector developers for the construction of affordable housing.

Support Group

The re-engineering process is designed to free front office staff from unnecessary administrative functions, and to focus more fully on marketing and customer service activities. In addition, certain operational procedures were further automated to reduce transactional turnaround times.

The Bank has agreements with Al Saraya Properties Company, Manara Developments, and Capital Real Estate. Through Eskan Properties Company, the Bank is also planning the construction of 2,500 social and affordable housing units on land that it holds at Karbabad, Isa Town and Bander Seef, in coordination with the Ministry of Housing.

Property Management

Eskan Bank currently manages 165 retail outlets. During 2011, over 80 new outlets were added to its portfolio.

Operations

During 2011, the Bank continued to identify additional areas for internal process re-engineering and improvement, including the migration of some activities from branches to the head office. This is designed to free front office staff from unnecessary administrative functions, and to focus more fully on marketing and customer service activities. In addition, certain operational procedures were further automated to reduce transactional turnaround times. The readiness of Eskan Bank for compliance with new regulatory requirements was also addressed, including the new Bahrain Cheque Truncation System (BCTS), and the introduction of International Bank Account Numbers (IBAN).

Information Technology

Eskan Bank continued its investment in the latest information and communications technology (ICT) to enhance efficiency and support expanding business activities. Particular focus during the year was placed on ‘process virtualisation’ as a smarter way of managing the Bank’s ICT infrastructure.

Specific initiatives include the utilisation of radio frequency identification (RFID), with a special tag on documents to facilitate the use of hand-held scanners; and enhancement of the Call Centre’s dashboard with new features such as enhanced customer information, and the planned introduction of a ‘chat’ facility. Workstations across the organisation were upgraded, and new internal audit software was installed.

From an e-Business perspective, the Bank also continued its involvement with e-Government initiatives to focus on expanding its range of e-Services and extending it to its subsidiaries.

At this stage, the Bank will be introducing a web portal to cover the business-to-customer process, such as statement queries and payments by customers. On other hand, automation will continue to support the Bank’s prime customer, the Ministry of Housing, in processing social loans and overall housing solutions.

Planning is also in progress for development of the necessary ‘extranet’ infrastructure for new web-based services, involving greater security and functionality, and future scalability.

Financial Control

The Financial Control department continued to support the management team and business units in 2011 by providing critical and timely information to enable the business units to take critical decisions. The department is responsible for ensuring that the Bank adheres to the financial regulatory reporting requirements of the Central Bank of Bahrain, as well as the International Financial Reporting Standards (IFRS) .

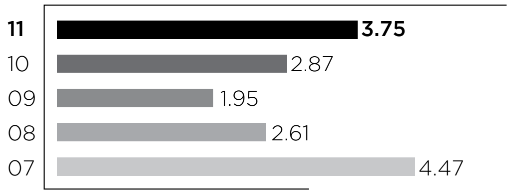
The department also plays an active role in budget planning and performance monitoring, and in supporting the Asset Liability Management Committee in carrying out its mandate.

Internal Audit

During 2011, 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 Board’s Audit Committee.

Return on Equity
%

3.75



Internal Audit Continued

The department has developed a risk-based plan to prioritise assignments and ensure that all high risk areas are covered, properly managed, and that required corrective actions are taken for all opportunities for improvement.

Internal Audit works closely with Risk Management to develop enterprise risk management in order to identify, update and manage inherent risks, and maintain the residual risks at an acceptable level.

In addition, the department actively participated in providing opinions and advice to other departments, and proposed a number of solutions to enhance internal controls and efficiency throughout the Bank.

Quality Management

A key achievement during the year was the successful accreditation of Eskan Bank to the ISO 9001:2008 international quality management standard. A team of ten staff, certified as 'internal quality auditors' were instrumental in preparing the Bank for the final external audit. Members of the team are also tasked with implementing quality initiatives in their respective departments. This is an integral part of the Bank's quality roadmap, which aims to instill a quality-conscious culture across the organisation. In collaboration with the Civil Service Bureau, a series of quality initiation workshops were held for all ten internal quality auditors, with a planned follow-up every two months. Another new initiative addressed the issue of service excellence for customer-facing departments, and other departments whose activities impact the Bank's performance. Each service is analysed against a service quality threshold, and is tracked and reported on a monthly basis for conformance.

Human Capital

Throughout 2011, Eskan Bank maintained its focus on ensuring the professional development and personal welfare of its people. Departmental restructuring continued in order to meet changing business needs and improve efficiency, with employees benefiting from work motivational tools such as job enrichment, enlargement and rotation.

The Bank was successful in recruiting from within the organisation to staff the new branches and departments; and continued to recruit for the purpose of management trainees, who will be groomed to take over future leadership roles in various areas of the Bank.

A series of lunch meetings were organised for groups of staff with the General Manager in order to encourage a positive working climate; while enhancement of staff benefits continued with the introduction of a 13-months' salary fixed bonus.

The number of people attending in-house courses increased by 102 per cent, and participation in BIBF programmes grew by 50 per cent. Particular focus during the year was placed on product awareness, customer service, Islamic banking, risk management and quality.

Through the agreement signed with Tamkeen in 2010, an additional 11 Bahraini staff from across the Bank and its subsidiaries took part in a special career progression training programme; tailored career development plans were developed for staff identified as high-fliers; and the Bank offered training for six graduates who attended Arab Leadership Forum organised by the Young Arab Leaders Bahrain Chapter.

At the end of the year, the total number of Bahrainis employed by the Bank and its subsidiaries stood at 68 per cent (90 per cent for Eskan Bank alone), which illustrates the Bank's commitment to provide employment and career opportunities for Bahraini nationals.

The Bank is also committed to providing equal opportunities for women, who now comprise over 10 per cent of management positions within the Bank and its subsidiaries (14.4 per cent for Eskan Bank alone).

The implementation of a new Human Resource Management System (HRMS), which includes the automation of personnel procedures such as payroll administration, and provides staff with a 'self-service' facility for leave requests and salary confirmation and so on, continued during the year.

At the same time, some of the Bank's Human Capital Policies were updated; job descriptions were reviewed; and the staff appraisal process was directly linked to Personal Key Performance Indicators (KPIs).

Subsidiaries, Associates and Strategic investment

Two major mixed-use developments by EPC – at Segaya and Isa Town – made excellent progress during 2011. The construction of Segaya Plaza is 60 per cent completed. This prime location project comprises 105 apartments for leasing, together with a range of shops and retail outlets.

EPC is planning the construction of 2,500 social and affordable housing units on land held by Eskan Bank at Karabad, Isa Town and Bander Seef, as part of the Ministry of Housing's social housing plan.

SUBSIDIARIES

Eskan Properties Company

Wholly-owned subsidiary of Eskan Bank

As the Bank's property development arm, Eskan Properties Company (EPC) continued to assist the Bank's subsidiaries and associates during 2011 in developing social, community and commercial projects. At the same time, the Company actively pursued its mandate to work in partnership with the private sector as well as the Government, across the entire real estate value chain.

EPC's range of services includes project assessment, design management and planning, project development management, quantity surveying, sales and marketing, and property and facilities management.

Two major mixed-use developments by EPC – at Segaya and Isa Town – made excellent progress during 2011. The construction of Segaya Plaza is 60 per cent completed. This prime location project comprises 105 apartments for leasing, together with a range of shops and retail outlets. These will provide a sustainable source of revenue for Eskan Bank.

The Isa Town project, which is halfway through the design stage, is a strategically-located 'micro-city' containing 308 affordable housing apartments, commercial offices, retail outlets and showrooms.

Also during the year, EPC successfully leased two community projects in Isa Town and Muharraq; leased 72 per cent of the six newly-completed community projects in Hamad Town and Hamala; and awarded the construction of four new community projects in Karzakan, Dumistan, Riffa and Hamad Town.

The Company is also planning the construction of 2,500 social and affordable housing units on land held by Eskan Bank at Karbabad, Isa Town and Bander Seef, as part of the Ministry of Housing's social housing plan.

Southern Tourism Company

Wholly-owned subsidiary of Eskan Bank

The Southern Tourism Company (STC) is the sole official provider of transportation of passengers and cargo to the Hawar Islands. In 2011, STC signed a contract for delivery of two new state-of-the-art 60-passenger vessels in 2012; and carried out maintenance improvements to the rest of its fleet.

Subsidiaries, Associates and Strategic investment

Continued

In 2010, Naseej signed a historic BD 212 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.

The Company also completed phase one of a major refurbishment programme for its 48 chalets on the Island. In addition, STC increased its moorings at Al Dur jetty, which is the embarkation point for Hawar Islands; as well as installing new dry mooring facilities, and drawing up plans to further develop the jetty and surrounding area.

Smart Building Material Company
Wholly-owned subsidiary of Eskan Bank

The Smart Building Material Company S.P.C (SMBC) was established in 2009. The Company's charter is to encompass the entire value chain to manufacture cost-effective, environmentally-efficient homes for the less advantaged. BMC will also import a range of building materials and raw materials such as gravel, cement, bricks, marble, electrical fillings and sanitaryware.

The Company will construct warehouse facilities to support the business. These initiatives will create sustainable jobs and business opportunities for the public and private sectors, and provide homes for Bahraini citizens.

Eskan RMBS Company

The Bank owns 100% in Eskan RMBS Company B.S.C. (c) (RMBS) incorporated in the Kingdom of Bahrain, The company was established in 2007 and its principal activities are to issue Asset Backed private debt securities for the purpose of securitization of housing loans.

ASSOCIATES

Southern Area Development Company

The Southern Area Development Company (SADC) is responsible for developing the Hawar Islands and surrounding area into a major tourist attraction. Following its recent extensive renovation, the Golden Tulip Hawar Resort Hotel was successful in attracting an increased number of tourists to the Island during 2011.

In addition, the detailed master plan for the Danaat Hawar tourism project, developed for SADC by an international consortium of consultants managed by Eskan Properties Company, was presented to the Government of Bahrain for approval. This project covers an area of over 12 million square metres of sea and land, incorporating a land development area of three million square metres, with an overall project cost of BD 720 million.

Ebdaa Bank

Ebdaa Bank was established in 2009 to provide micro-financing for low-to-middle income Bahrainis unable to secure commercial banking loans, to help them start new businesses and become financially independent. The Bank, which commenced full operations in 2010, has made excellent progress, providing over 2,000 loans to date.

STRATEGIC INVESTMENT

Naseej

Eskan Bank is a founder shareholder of Naseej, which was established in 2009 by prominent private and public sector investors as a pioneering catalyst for addressing the affordable housing needs of the Kingdom of Bahrain.

In 2010, Naseej signed a historic BD 212 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.

The Bank has invested and holds 3% in Nassej as strategic investment alinged with the objectives of promoting affordable hosing Solutions.

Eskan Bank gives significant priority to risk management, and seeks to manage appropriately all the risks that arise from its activities. Risk management involves the identification, analysis, evaluation, acceptance and management of all financial and non-financial risks that could have a negative impact on the Group's performance and reputation.

The principal risks inherent in the business are credit risk, market risk, liquidity risk and operational risk.

These risks are highly interdependent, and events that affect one area can have adverse implications for a range of other risk categories.

The Management of the Bank continues to accord the highest priority to maintain and improve the ability of the Bank in identifying, measuring, monitoring and controlling these specific risks, and the overall risk profile of the Bank.

Further, in accordance with the growth in its business lines, the Bank has continued to evolve, widen and intensify the risk management function to cover not only the traditional areas of 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; establishing a Risk Management division staffed by appropriately qualified and experienced personnel to set policies and limits consistent with the risk appetite and to provide an oversight role in relation to risk; and a Committee structure comprising senior management functionaries to support the management of risk within the Bank.

In addition to these management committees, oversight of risk management and controls is provided by the Audit Committee on behalf of the Board of Directors. During 2011, the Bank continued to review on an ongoing basis, the implementation of various prudential norms; developed new policies; and reviewed a suite of existing policies and procedures to better fit the Bank's risk appetite and comply with the regulators' requirements.

Credit Risk

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

• Independent Functions:

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

• 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 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, or does not have off balance sheet transactions. However, to cater to emerging business exigencies, a Market Risk Policy has been formulated and approved by the Board.

With assets presently being predominantly in the local currency (Bahraini Dinars) and a limited amount in US Dollars, the Bank does not run any significant foreign currency risk.

Liquidity Risk

Liquidity risk is the risk of the Bank being unable to meet its liabilities when payments are due, assessed under normal and stress conditions. The Bank has instituted comprehensive asset and liability management practices to achieve its objectives of effective liquidity risk management. Daily management of the liquidity position is carried out by the Treasury division, which manages the portfolio of liquid assets and contingency funding plans. The Bank's liquidity risk policy provides for the identification, assessment, control and monitoring of liquidity risk.

The liquidity risk is closely monitored on an ongoing basis, with Treasury reporting to ALCO meetings to monitor and control the liquidity risk encountered by the Bank.

Operational Risk

Operational Risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes or systems, human error or external events. External events include legal and regulatory risks, disasters and infrastructure failures, business risks and outsourcing and supplier risks. The Bank's approach is to ensure business managers identify, assess, prioritise and effectively manage all substantive risks, and that a coordinated, cost-effective approach is adopted.

This involves a combination of internal control systems, detailed processes, appropriate insurance cover, and contingency arrangements. To this end, the core banking system from MISYS, which was successfully implemented a few years earlier, provides enhanced system control and mitigation of risk in some areas of operations.

The policies and procedures of various departments were reviewed during the year. Further, Operational Risk tools are in place to monitor and manage the operational risks on an ongoing basis throughout the bank.

Credit Control

The Department's key objective is to ensure effective monitoring of credit control on collaterals and documentation. The department reviews related procedures, policies, guidelines and standards to ensure prudent practices in Credit Control, to minimise risk and ensure that all collateral and documentation are accurate and in place. In 2011, 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. Compliance is responsible for promoting sound compliance practices in the Bank, ensuring adherence to all applicable legal and regulatory requirements, and the adoption of high professional standards. The role of the Compliance function is to assist senior management to ensure that the activities of the Bank and its staff are conducted in conformity with applicable laws, CBB and other regulations, and generally with sound practices pertinent to those activities.

Legal Affairs

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

Anti-Money Laundering

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

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

Corporate Governance Report - 2011

1. Corporate governance policy

The Board has laid down the Bank's corporate governance policy and framework. In 2011 the Bank amended the governance policy in compliance with the corporate governance code of the Central Bank of Bahrain. The Board also ensures that the Bank's dealings are exercised professionally and in accordance with the applicable laws and regulations of the Kingdom of Bahrain. The Board of Directors has also established the Remuneration, Nomination and Corporate Governance Committee of the Board to oversee effective application of the corporate governance principles within the Bank. A workshop was also organised to introduce corporate governance principles to new Board Members.

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, issued and paid-up capital of BD 15 million. In 2011, the Bank increased its capital upon the Cabinet's approval as per order no. 2113-05. Accordingly, the Bank's capital has reached BD 400 million and the paid up capital was estimated at BD 108.3 million. The increased capital was covered from retained profits available in the Bank.

• Shareholder notification

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

• Periodic Reports

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

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

3. Board of Directors information

• Board composition

The new Eskan Bank's Board has been appointed by Decree No. 62 of 2011 dated 23 August 2011 in line with Legislative Decree No. 4 of 1979 with respect to the establishment of the Eskan Bank amended by Law No. 75 of 2006. The Board of Directors comprises a majority of directors drawn from leading Bahraini banking and finance professionals, and academics.

The previous Board of Directors, which was formed upon Cabinet Order no. 38 for 2008 undertook the running of the Bank till August 2011. The Board currently consists of 12 directors, who are appointed for 3 years. The Minister of Housing is the ex-officio Chairman of the Bank. The new Board has introduced a new strategy and action plan for the Bank.

• Board Members' Remunerations

The Board of Director's remuneration is paid according to the Cabinet decree number 03 - 1920 of 4 March 2007 (except HE the Chairman as he is a Minister), which states the following: "Annual Remuneration of BD 4,000 shall be allocated for Chairman and Deputy Chairman and members, BD 3,000 shall be allocated for each Board Committee chairperson, and BD 200 for each Board Committee member attending each meeting".

Aggregate remuneration paid to Board members in 2011 is BD 27, 217.

• Board Secretary

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

• Directors' roles and responsibilities

The Board of Directors is responsible for the overall corporate governance of Eskan Bank, which is in line with CBB corporate governance principles ensuring that the Bank is run in an efficient and effective manner. The Board meets regularly throughout the year and maintains full and effective control over strategic, finance, operational, internal control and compliance issues. The Board's remit includes charting the direction of the Bank, setting objectives, formulating strategy, establishing policy guidelines, and 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, and review of the financial statements, financing and borrowing activities , and appointing the 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 with designated officials to whom the employee can approach. The policy provides adequate protection to the employees for any reports in good faith.

• Code of Conduct

The Board has approved a Code of Conduct for Eskan Bank Directors. The Board has also approved a Code of Ethical Behaviour for the Management and employees. These codes outline areas of conflict of interest, confidentiality, and best practices. No conflict of interest between the Bank and the Board of Directors has been recorded.

• Performance evaluation of members of the Board and its committees

Accordance with the policy of corporate governance the Board has adopted the performance evaluation models for Board members performance and Board committees members performance.

4. Board Committees

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

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

Executive Committee

Members:
1- Mr. Abdul Razaq Abdulla Hasan Alqassim (Chairman)
2- Mr. Mohammed Hussein Bucheri (Vice Chairman)
3- Mrs. Sabah Khalil Ebrahim Almoayyed
4- Mr. Ali Yusuf Ferdan
5- Mr. Khalid Ali Rashed Al Amin
6- Mr. Ahmed Jassim Faraj

Summary terms of reference:
- The committee is formed with minimal three members, most of whom shall be independent non-executive, and appointed by the Board.
- The committee shall meet at least quarterly or as frequently as required to perform its role effectively (actual meetings held in 2011 were five).
- Majority of directors are required to attend the meetings to ensure a quorum.
- Concerned chiefs, heads and managers are invited to attend the meetings (if necessary).

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

Audit Committee

Members:
1- Mr. Reda Abdulla Ali Faraj (Chairperson)
2- Mr. Yusuf Saleh Sultan Khalaf (Vice Chairperson)
3- Dr. Zakareia Sultan Mohammed Abbasi

Summary terms of reference:
- The committee is formed with minimal three members, most of whom shall be independent non-executive, and appointed by the Board
- Minimum number of meetings required each year four, (actual meetings held in 2011 were six).
- At least two, directors are required to attend the meetings to ensure a quorum.
- General Manager and concerned chiefs, heads and managers are invited to attend the meetings. (if necessary).
  The committee should meet at least twice with the external auditor in the absence of Bank's executive management

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

Remuneration, Nomination & Corporate Governance Committee

Members:
1- Eng. Basim bin Yacob Al Hamer
2- Mr. Mohammed Ahmed Mohammed Jamaan
3- Mr. Yusuf Abdullah Mohammed Taqi

Summary terms of reference:
- The committee is formed with minimal three members, most of whom shall be independent non-executive, and appointed by the Board
- Minimum number of meetings required each year is two (actual meeting held in 2011 were five).
- At least two directors are required to attend the meetings to ensure a quorum.
- General Manager and concerned chiefs, heads and managers are invited to attend the meetings (if necessary).

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; and to follow up the policies, rules, and the best practices of corporate governance.

5. Board meeting and attendance

The Board of Directors holds at least four meetings during the financial year at the summons of its Chairman.

A meeting of the Board of Directors shall be valid if attended by the majority of the Directors in person, provided that the Chairman or Vice Chairman shall attend in person. During 2011, five Board meetings were held as follows:

- **Board of Directors meetings 2011**
- Previous Board of Directors Meetings
  The previous Board of Directors held one meeting only

Members	7 Feb 2011
Sh. Ebrahim bin Khalifa Al Khalifa	✓
Dr. Anwar Khalifa Al Sadah	✓
Dr. Alaa Hasan Abdulla Alyusuf	✓
Prof. Jasim Yousif Ali Alajmi	✓
Mr. Ausama Abdulrahim Alkhaja	✓
Mr. Abdul Razaq Abdulla Hasan Al Qassim	×
Dr. Taqi Abdulrasool Al Zeera	×
Mrs. Sabah Khalil Ebrahim Al Moayyed	✓
Mr. Nedhal Salah Khaled Alaujan	✓

- Present Board of Directors Meetings
  The present Board of Directors held four meetings

Members	17 Sept. 2011	12 Oct.2011	26 Oct. 2011	30 Nov.2011
HE Eng. Bassim bin Yacob Al Hamer (Chaiman)	✓	✓	✓	✓
Mr. Abdul Razaq Abdulla Hasan Alqassim	✓	×	×	✓
Mrs. Sabah Khalil Ebrahim Al Moayyed	✓	✓	✓	✓
Mr. Ali Yusuf Ferdan	✓	✓	✓	✓
Mr. Yusuf Abdullah Mohammed Taqi	✓	✓	✓	✓
Dr. Mohammed Ahmed Mohammed Jamaan	✓	✓	×	✓
Dr. Zakareia Sultan Mohammed Abbasi	✓	✓	✓	✓
Mr. Abdul Reda Abdullah Ai Faraj	✓	✓	×	✓
Mr. Mohammed Abdulrahman Hussein Bucheri	✓	×	✓	✓
Mr. Khalid Ali Rashed Al Amin	✓	×	✓	✓
Mr. Yusuf Saleh Sultan Khalaf	✓	✓	✓	✓
Mr. Ahmed Jassim Faraj	✓	✓	×	✓

- **Board Committee meetings 2011**
- Previous BOD Executive Committee Meetings
  The Previous Executive Committee held three meetings

Members	23 Jan 2011	13 April 2011	12 Jun 2011
Mr. Abdul Razaq Abdulla Hasan Al Qassim	✓	✓	×
Mr. Ausama Abdulrahim Alkhaja	✓	×	×
Mrs. Sabah Khalil Al Moayyed	✓	✓	✓
Dr. Taqi Abdulrasool Al Zeera	✓	✓	✓
Mr. Nedhal Saleh Al Aujan	✓	✓	✓
Dr. Alaa Hasan Abdulla Alyusuf	×	✓	✓

- **Current Board of Directors Executive Committee Meetings**
  The Executive Committee held two other ordinary meetings as a special committee headed by Chairperson to discuss Bank's strategy.

Members	10 Oct.2011	15 Oct 2011*	18 Oct. 2011*	11 Dec. 2011
Mr. Abdul Razaq Abdulla Hasan Alqassim (Chairperson)	✓	✓	×	×
Mr. Mohammed Abdulrahman Bucheri (Vice Chairperson)	✓	✓	✓	✓
Mrs. Sabah Khalil Ebrahim Al Moayyed	✓	✓	✓	✓
Mr. Ali Yusuf Ferdan	✓	×	×	×
Mr. Khalid Ali Rashed Al Amin	×	✓	✓	✓
Mr. Ahmed Jassim Faraj	✓	✓	✓	✓

* In presence of Bank's Chairman

- **Previous BOD Audit Committee Meetings**

  The Previous Audit Committee held three meetings

Members	6 Feb.2011	25 May 2011	14 July 2011
Dr. Anwar Khalifa Al Sadah (Chairperson)	✓	✓	✓
Prof. Jassim Yusuf Ali Alajmi	✓	✓	✓
Mr. Waleed Abdullah Rashdan (Independence member)	✓	✓	✓

- **Previous BOD Audit Committee Meetings**

  The Previous Audit Committee held three meetings

Members	29 Sept.2011	12 Oct. 2011	12 Dec,2011
Mr. Raeda Ali Faraj (Chairperson)	✓	✓	✓
Mr. Yusuf Saleh Sultan Khalaf (Vice Chairperson)	✓	✓	✓
Dr. Zakaria Sutan Mohammed Al Abbasi	✓	✓	✓

- **Previous BOD Remuneration & Nomination and Corporate Governance Committee Meetings**

Members	6 Feb.2011	9 June 2011*
Prof. Jassim Yusuf Ali Alajmi (Chairperson)	✓	✗
Mr. Nedhal Saleh Al Aujan	✓	✗
Mr. Ausama Abdulrahim Alkhaja	✓	✓
Dr. Anwar Khalifa Al Sadah	✗	✓

* The committee was re-structured to be composed of three members chaired by the new Chairman who was appointed on 23 March 2011

- **Present BOD Remuneration & Nomination and Corporate Governance Committee Meetings**

  The Present Remuneration & Nomination and Corporate Governance Committee held three meetings

Members	9 June 2011	5 Oct. 2011	21 Dec.2011
Eng. Basim bin Yacob Al Hamer (Chaiman)	✓	✓	✓
Dr. Mohammed Ahmed Mohammed Jamaan	✓	✓	✗
Mr. Yusuf Abdullah Mohammed Taqi	✓	✓	✓

- **Risk Committee Meetings***

Members	2 Feb.2011
Dr. Alaa Hasan Abdulla Alyusuf	✓
Mr. Ausama Abdulrahim Alkhaja	✓
Dr. Khalid Abdullah Mohammed Ateeq (Independent member)	✓

* Risk Committee responsibilities were incorporated in the Executive Committee of the previous Board and the Audit Committee of the Present Board.

- **Corporate Governance Workshop**

  Eskan Bank organised a workshop to introduce Corporate Governance principles to members and it was attended by the following members:

Members	13 Oct.2011
Mrs. Sabah Khalil Al Moayyed	✓
Dr. Mohammed Ahmed Mohammed Jamaan	✓
Mr. Abdul Reda Abdullah Ai Faraj	✓
Khalid Ali Rashed Al Amin	✓
Yusuf Saleh Sultan Khalaf	✓

6. Shari'a Supervisory Board (SSB)

The Shari'a Supervisory Board of the Bank was formed in 2009 by the Bank's Board. Members are appointed for three years.

Members:
Dr. Sh. Abdul Sattar Abu Ghuddah (Chairperson)

Sh. Nezam Yacouby (Deputy Chairperson)

Dr. Sh. Abdul Hussain Al Oraibi (Member)

Summary of responsibilities:
The Shari'a Supervisory Board reviews and approves the Islamic business offered by the Bank to ensure that these are compliant with Islamic Shari'a principles.

7. Management

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

Management Committee
Members:
GM (Chairperson)

DGM & Chief Business Officer

Chief Risk Officer

Chief Property Development Officer

Head of Group, Human Capital, Administration & Corporate Communications

Head of Information Technology & Operations

Chief Finance Officer

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

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

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

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

Asset & Liability Management Committee (ALCO)
Members:
GM (Chairperson)
Chief Financial Officer (Secretary)
DGM & Chief Business Officer
Chief Risk Officer
Head of Treasury

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

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

IT Steering Committee
Members:
DGM & Chief Business Officer (Chairperson).
Head of Information Technology & Operations (Secretary)
General Manager
Chief Financial Officer
Systems Development Senior Manager
Head of Retail Banking

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

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

New Product Committee
Members:
DGM & Chief Business Officer (Chairperson)
Head of Sales & Marketing
Head of Information Technology & Operations
Manager of Islamic Banking

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

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 Capital Committee
Members:
Head of Group, Human Capital, Administration & Corporate Communications (Chairperson)

Senior Manager - HC (Secretary)

General Manager

DGM & Chief Business Officer

Head of Information Technology & Operations

Head of Retail Banking

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

Summary of responsibilities:
The function of the committee is to 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 Governance 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 monthly salaries allowances.

Aggregate remuneration paid for senior management in 2011 is BD 249,947.

8. Compliance and Anti-money Laundering

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

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

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

9. Communication strategy

The Bank has adopted a Disclosure policy consistent with CBB requirements.

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

10. Internal Audit role

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

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

11.Subsidiaries , Associate Companies and Strategic Investment

Name/Entity	Nationality	Legal Status	Percentage	Invested Capital
Southern Tourism Company	Bahraini	B.S.C. (closed)	100%	BD 250K
Southern Area Development Company	Bahraini	B.S.C. (closed)	28.125%	BD 2,250K
Eskan Properties Company	Bahraini	B.S.C. (closed)	99%	BD 250K
Eskan RMBS Company	Bahraini	B.S.C. (closed)	99%	BD 1000
Ebdaa Bank	Bahraini	B.S.C. (closed)	20%	USD 1 million
Smart Building Material Company	Bahraini	S.P.C.	100%	BD 250K
Naseej	Bahraini	B.S.C. (closed)	3%	BD 3,27 million
Saar Complex	Bahraini	W.L.L.	45%	BD 9K

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

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

In 2011, through its corporate social responsibility (CSR) programme, the Bank provided financial and practical support for various charitable, cultural and educational initiatives and events. Particular focus was placed on developing the potential of young Bahrainis, protecting the environment, and encouraging staff to participate in community activities. Some examples of Eskan Bank's CSR activities in these areas during the year are listed here.

Developing the potential of young Bahrainis

- Eight staff members from Eskan Bank acted as volunteers for the Injaz Bahrain schools training programme in 2011. Injaz partners with businesses and educators, with the aim of providing students in intermediate and secondary schools with a business-oriented outlook, and the knowledge, skills, tools and hands-on experience to participate in the real world.
- Eskan Bank maintained its support for the Ministry of Education's Internships Programme, providing groups of high school students with one week's working experience; and also provided five students from the University of Bahrain studying banking and finance, and information technology, with summer internships in different areas of the Bank.

Protecting the environment

- Through its Paperless Environment Project, Eskan Bank made good progress in 2011 in reducing paper and printer usage across the organisation by a further 20 per cent. Waste paper is recycled and donated to charitable causes.

Encouraging staff participation in the community

- Eskan Bank participated in a Community Service Programme that was coordinated by the Ministry of Education. Many high school students benefited from this programme during the summer months.
- The Social Committee of the Bank organised a Charity Dish Event, in which all food was donated by Eskan Bank staff. Proceeds from the sale of dishes were donated to Batelco's Care Centre for Orphans.
- Staff also participated in other community and charitable outreach activities.

In the name of Allah, most Gracious, most merciful, Peace and Blessing Be Upon his messenger

To the Shareholder and stakeholders of Eskan Bank (closed)

Assalam Alaykum Wa Rahmatu Alla Wa Barakatoh

Opinion of Shari'a Supervisory Board

Shari'a Supervisory Board believes that the Bank adherence to the provisions and principles of the Shari'a is the responsibility of the Bank's management while the Shari'a Supervisory Board's responsibility is towards expressing their shari'a opinions on the bank transactions and accordingly preparing this report. The Shari'a Supervisory Board monitoring function included the checking of documents and procedures to scrutinize each operation carried out by the Bank, whether directly or through Shari'a Internal Audit. This duty was outsourced to KMPG. Accordingly, internal audit functions were carried out on quarterly basis during the year 2011 and was reported to Shari'a Supervisory Board. The reported results confirmed the Bank's commitment and conformity to the Shari'a Supervisory Board's resolutions.

The Shari'a Supervisory Board obtained data and clarifications it deemed necessary to confirm that the Bank not violate the principles and provisions of Islamic Shari'a. It held several meetings throughout the year ended 31 December, 2011 and replied to inquiries in addition to approving a number of new products presented by the management.

The Shari'a Supervisory Board believes that:

All contracts, operations and transactions that were carried out during the financial year 2011 comply with all typical contracts that has been presented previously and agreed upon by Shari'a Supervisory Board.

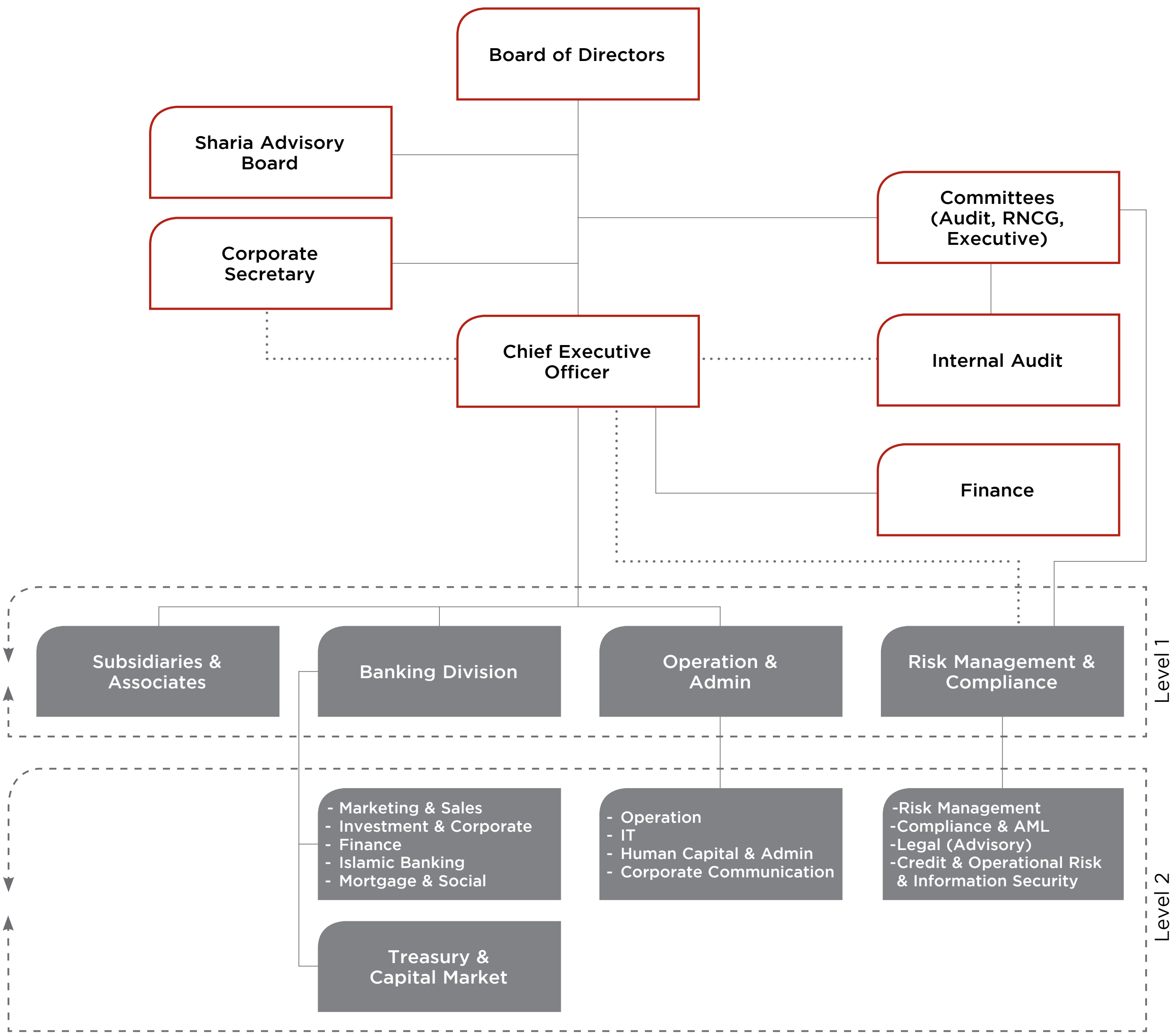
We ask God most gracious, for his further guidance and rectitude in the future and Wa al hamad lel Allah Rub Al meen.

Dr. Shaikh Abdul Sattar Abu Ghuda
Chairman of Shari'a Supervisory Board

Shaikh Nezam Yacouby,
Vice Chairman and member of
Shari'a Supervisory Board

Dr. Shaikh Abdul Hussain Al Oraibi
Member of Shari'a Supervisory Board

Organizational Chart



Executive Management Team of Eskan Bank

Mrs. Sabah Khalil Almoayyed
General Manager

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

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

Board Member: SADC; Bahrain Bayan School; Bahrain Mumtalakat Holding Company; Naseej Company; Chairman of STC and EPC; Independent member of the Executive Committee of Ebdaa Bank

Previous Position:

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

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

She assumed the present position in 2004.

Mr. Ahmad Tayara
Chief Business Officer & Deputy General Manager

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

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

He assumed the present position in 2012.

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

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

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

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

She assumed the present position in 2008.

Mr. Srikanth Sheshadri
Chief Risk Officer

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

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

He assumed the present position in 2007.

Mr. Ramachandran Chellam
Chief Financial Officer

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

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

He assumed the present position in 2010.

Mr. Mohd. Essam Kamour
Head of Legal Affairs, Corporate Secretary

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

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

He assumed the present position in 2010.

Mr. Hani Abdulmahdi Jasim Nayem
Head of Internal Audit

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

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

He assumed the present position in 2009.

Mr. Jamal Qamber
Head of Information Technology & Operations

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

He assumed the present position in 2009.

Mr. Fadi Jamali
Chief Development Officer Eskan Properties Company

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

Mr. Jamali holds an Executive Masters degree in Business Administration, and a BSc degree in Architecture and Urban Planning.

He assumed the present position in 2008.

Consolidated Financial Statements 2011

CONTENTS

Independent Auditors' Report to The Shareholders of

As at 31 December 2011

ESKAN BANK B.S.C. (c)

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Eskan Bank B.S.C. (c) ("the Bank") and its subsidiaries ("together the Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2011, 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 2011 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.

Ernst + Young

15 February 2012

Manama, Kingdom of Bahrain

Consolidated Statement of Financial Position

As at 31 December 2011

	Notes	2011 BD	2010 BD
ASSETS			
Cash and cash equivalents	5	89,412,479	73,317,330
Investments	6	3,541,096	3,578,971
Loans	7	313,271,736	278,523,505
Investment in associates	8	6,253,760	2,031,380
Investment properties	9	38,857,706	57,440,536
Development properties		11,687,608	6,603,557
Other assets	10	11,941,758	1,969,889
TOTAL ASSETS		474,966,143	423,465,168
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from financial and other institutions		39,016,846	21,503,032
Government accounts	11	155,591,186	120,082,784
Term loans	12	71,500,000	88,166,667
Other liabilities	13	13,150,123	5,741,438
TOTAL LIABILITIES		279,258,155	235,493,921
EQUITY			
Issued share capital	14	108,300,000	15,000,000
Contribution by shareholder		20,228,918	19,824,588
Statutory reserve		54,461,896	7,761,896
Retained earnings		12,717,174	145,384,763
TOTAL EQUITY		195,707,988	187,971,247
TOTAL LIABILITIES AND EQUITY		474,966,143	423,465,168

The consolidated financial statements were approved by the Board of Directors on 15th February 2012 and signed on its behalf by:

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

Sabah Khalil Al Moayyed
General Manager and Director

The attached notes 1 to 27 form part of these consolidated financial statements

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	2011 BD	2010 BD
Management charges		9,928,148	9,093,086
Interest income	15	2,641,988	2,569,171
Net fair value loss on investments carried at fair value through profit or loss		-	(69,070)
Income from investment properties	16	826,200	173,406
Net share of loss of associates	8	(323,046)	(369,522)
Other income	17	3,820,412	4,858,604
TOTAL INCOME		**16,893,702**	16,255,675
Staff costs		(4,243,026)	(3,708,589)
Interest expense		(3,378,448)	(5,246,187)
Other expenses	18	(1,455,317)	(1,855,694)
Impairment provision on loans		(244,643)	(44,902)
Properties write off (net)	19	(239,857)	-
TOTAL EXPENSES		**(9,561,291)**	(10,855,372)
PROFIT FOR THE YEAR		**7,332,411**	5,400,303
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**7,332,411**	5,400,303

The attached notes 1 to 27 form part of these consolidated financial statements

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Share capital BD	Contribution by shareholder BD	Statutory reserve BD	Retained earnings BD	Total equity BD
At 1 January 2011	15,000,000	19,824,588	7,761,896	145,384,763	187,971,247
Transfer from retained earnings (note 14)	93,300,000	-	46,700,000	(140,000,000)	-
Transfer of land (note 9)	-	404,330	-	-	404,330
Total comprehensive income	-	-	-	7,332,411	7,332,411
At 31 December 2011	**108,300,000**	**20,228,918**	**54,461,896**	**12,717,174**	**195,707,988**
At 1 January 2010	15,000,000	16,983,509	7,761,896	139,984,460	179,729,865
Transfer of land (note 9)	-	2,841,079	-	-	2,841,079
Total comprehensive income	-	-	-	5,400,303	5,400,303
At 31 December 2010	15,000,000	19,824,588	7,761,896	145,384,763	187,971,247

The attached notes 1 to 27 form part of these consolidated financial statements

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 BD	2010 BD
OPERATING ACTIVITIES		
Profit for the year	7,332,411	5,400,303
Adjustments for:		
Net fair value loss on investment carried at fair value through profit or loss	-	69,070
Net share of loss of associates	323,046	369,522
Gain on transfer of investment properties	(604,584)	-
Impairment provision on loans	244,643	44,902
Depreciation	483,999	480,160
Investments written off (note 6)	2,184	-
Development properties written off	462,214	-
Development properties reversal of impairment provision	(133,060)	-
Investment properties reversal of impairment provision (note 9)	(89,297)	-
Operating profit before working capital changes:	8,021,556	6,363,957
Increase in loans	(34,992,874)	(18,503,753)
Decrease in investment properties	-	108,626
Increase in development properties	(237,622)	(624,754)
Decrease in other assets	165,190	432,788
Increase / (Decrease) in deposits from financial and other institutions	17,513,814	(10,819,086)
Increase / (Decrease) in other liabilities	7,408,685	(2,050,933)
Net cash flows used in operating activities	(2,121,251)	(25,093,155)
INVESTING ACTIVITIES		
Receipts on redemption of investments	35,691	464,076
Purchase of equipment	(661,026)	(129,035)
Net cash flows (used in) / from investing activities	(625,335)	335,041
FINANCING ACTIVITIES		
Repayment of term loans	(16,666,667)	(41,833,333)
Net movement in Government accounts	35,508,402	28,963,045
Net cash flows from / (used in) financing activities	18,841,735	(12,870,288)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	16,095,149	(37,628,402)
Cash and cash equivalents at 1 January	73,317,330	110,945,732
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	89,412,479	73,317,330
Cash and cash equivalents comprise:		
Cash and bank balances	2,087,235	5,692,005
Placements with banks with an original maturity of 90 days or less	87,325,244	67,625,325
	89,412,479	73,317,330

The attached notes 1 to 27 form part of these consolidated financial statements

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, the provisions of which are 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.

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 and the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and the relevant directives.

Accounting convention

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

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

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the consolidated statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in note 25.

Basis of consolidation

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

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

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

Subsidiary	Ownership for 2011	Ownership for 2010	Year of incorporation/ acquisition	Country of incorporation/ acquisition
Southern Tourism Company B.S.C.(c) ('STC') STC's principal activities are providing transportation to and from, and accommodation facilities, at the Hawar Islands.	100%	100%	2000	Kingdom of Bahrain
Eskan RMBS Company B.S.C.(c) ('RMBS') RMBS's principal activities are to issue Asset Backed private debt securities for the purpose of securitisation of housing loans.	100%	100%	2007	Kingdom of Bahrain
Eskan Properties Company B.S.C.(c) ('EPC') EPC's principal activities are managing certain investment properties.	100%	100%	2007	Kingdom of Bahrain
Smart Building Materials (SPC) Smart Building Materials (SPC) principal activities are to create the entire value chain to manufacture cost-effective, environmentally efficient homes for the less advantaged.	100%	100%	2009	Kingdom of Bahrain

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Prospective changes in accounting policies

Standards 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:

IAS 1 Financial Statement Presentation

The amendments becomes effective for annual periods beginning on or after 1 July 2012 and require that an entity present separately, the items of other comprehensive income that would be reclassified (or recycled) to profit or loss in the future if certain conditions are met (for example, upon derecognition or settlement), from those that would never be reclassified to profit or loss. The amendment affects presentation only, therefore, will have no impact on the Group's financial position or performance.

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.

It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

It also includes those paragraphs of IAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of IFRIC 9 Reassessment of Embedded Derivatives.

The standard is currently effective for annual periods beginning on or after 1 January 2013. IASB issued an exposure draft (ED) Mandatory effective date of IFRS 9 - that proposes the mandatory effective date to periods beginning on or after 1 January 2015 with early application continuing to be permitted. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets.

The Group will quantify the effect of adoption of this Standard, in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

IFRS 10 introduces a new approach to determining which investees should be consolidated and provides a single consolidation model that identifies control as the basis for consolidation for all types of entities.

An investor controls an investee when

- it is exposed or has rights to variable returns from its involvement with that investee;
- it has the ability to affect those returns through its power over that investee; and
- there is a link between power and returns.

Control is re-assessed as facts and circumstances change

IFRS 10 replaces IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities. IFRS 10 is effective for annual periods beginning on or after 1 January 2013 and earlier application is permitted. The Group is currently assessing the full impact of this new standard.

IFRS 11 Joint Arrangements

IFRS 11 establishes principles for the financial reporting by parties to a joint arrangement and improves on IAS 31 by establishing principles that are applicable to the accounting for all joint arrangements.

IFRS 11 classifies Joint arrangements into two types – Joint operations and Joint ventures; and defines joint control as the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (i.e. activities that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control.

IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 is effective for annual periods beginning on or after 1 January 2013 and earlier application is permitted. The Group is currently assessing the full impact of this new standard.

IFRS 12 Disclosure of interests in other entities

IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. As a consequence of these new IFRSs, the IASB also issued amended and retitled IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures.

Prospective changes in accounting policies (continued)

IFRS 12 aims to provide information to enable users to evaluate:

- the nature of, and risks associated with, an entity's interests in other entities; and
- the effect of those interests on the entity's financial position, financial performance and cash flows.

IFRS 12 is effective for annual periods beginning on or after 1 January 2013 and earlier application is permitted. The Group is currently assessing the full impact of this new standard.

IFRS 13 Fair Value Measurement

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs. IFRS 13 does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013 and earlier application is permitted. The Group is currently assessing the full impact of this new standard.

IAS 27 Separate Financial Statements (as revised in 2011)

IAS 27 (2011) supersedes IAS 27 (2008). As a consequence of the new IFRS 10 and IFRS 12 aforementioned, IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications.

IAS 27 (2011) is effective for annual periods beginning on or after 1 January 2013 and earlier application is permitted. The Group does not present separate financial statements.

IAS 28 (2011) supersedes IAS 28 (2008). As a consequence of the new IFRS 11 and IFRS 12 (refer above), IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates.

IAS 28 (2011) is effective for annual periods beginning on or after 1 January 2013 and earlier application is permitted. The Group is currently assessing the full impact of this revised standard.

New and amended standards and interpretations effective as of 1 January 2011

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011:

IAS 24 Related Party Disclosures (Amendment)

The IASB has issued an amendment to IAS 24 that clarifies the identification of related party relationships, particularly in relation to significant influence or joint controls. The new definitions emphasise a symmetrical view on related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. Secondly, the amendment introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IFRS 7 Financial instruments: Disclosures (amendment)

These amendments introduced new disclosure requirements for transfers of financial assets, including disclosures for:

- financial assets that are not derecognised in their entirety; and
- financial assets that are derecognised in their entirety but for which the entity retains continuing involvement.

The amendment has had no effect on the disclosures made by the Group as the Group has not issued these types of instruments.

Improvements to IFRSs

In May 2010 the IASB issued its third omnibus amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but did not have any impact on the financial position or performance of the Group.

- IAS 1 Presentation of Financial Statements: The amendment clarifies that an analysis of each component of other comprehensive income may be presented either in the statement of changes in equity or in the notes to the financial statements;

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- IFRS 7 Financial Instruments – Disclosures: The amendment was intended to simplify the disclosures provided, by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context; and
- IFRS 7 Financial Instruments – Disclosures: The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 3 Business Combinations (options available for non-controlling interest (NCI);
- IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IRS 3 (as revised in 2008);
- IFRS 3 Business Combinations (Un-replaced and voluntarily replaced share-based payment award);
- IAS 27 Consolidated and Separate Financial Statements;
- IAS 34 Interim Financial Statements; and
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments.

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

Cash and cash equivalents

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

Placements with financial institutions and others

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

Loans

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

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

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

Investments

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

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

Investments carried at fair value through profit or loss

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

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

Available for sale investments

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

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

Government accounts

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

The transactions are carried at the fair value of 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

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

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

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

De-recognition of financial instruments

Financial assets

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

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

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

Financial liabilities

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires. The difference between the carrying value of the original financial liability and the consideration paid is recognised in consolidated statement of comprehensive income.

Impairment of financial assets

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

Impairment of financial assets held at amortised cost

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Available for sale investments

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

Impairment of non financial assets

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

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

Offsetting of financial instruments

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

Recognition of income and expense

Income recognition

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

Management charges

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

Interest income

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

Rental income

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

Other income

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

Dividend income

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

Expense recognition

Expenses are recognised on the following basis:

Employees' end of service benefits

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

Taxation

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

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

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

Under the equity method, the investment in an associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of the net assets of the associate. Losses in excess of the cost of the investment in an associate are recognised when the Group has incurred obligations on its behalf. Goodwill relating to an associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the associate.

Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of comprehensive income. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

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

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

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

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

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

Development properties

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

Investment properties

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

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

Provisions

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

Contingent liabilities and contingent assets

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

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

Statutory Reserve

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

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, the 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 judgment is required when determining the impairment loss. In estimating the future cash flows, the Group makes judgments 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 CASH EQUIVALENTS

	2011 BD	2010 BD
Cash and bank balances		
Cash	**125,799**	152,505
Balances with banks	**1,122,145**	1,388,147
Balances with the Central Bank of Bahrain	**839,291**	4,151,353
	2,087,235	5,692,005
Short term placements (with an original maturity of 90 days or less)		
Placements with banks and other institutions	**30,507,932**	44,385,325
Placements with the Central Bank of Bahrain	**56,817,312**	23,240,000
	87,325,244	67,625,325
	89,412,479	73,317,330

6 INVESTMENTS

	2011 BD	2010 BD
Unquoted		
Designated at fair value through profit or loss		
At 1 January	**37,699**	570,845
Repayment of capital	**(35,691)**	(464,076)
Fair value changes	**-**	(69,070)
Investments written off	**(2,008)**	-
At 31 December	**-**	37,699
Available for sale		
At 1 January	**3,541,272**	3,541,272
Investments written off	**(176)**	-
At 31 December	**3,541,096**	3,541,272
Total	**3,541,096**	3,578,971

The above available-for-sale investments are carried at cost as their fair value cannot be reliably measured.

7 LOANS

	2011 BD	2010 BD
(i) Social loans		
Loans (net of reductions and waivers written off)	**303,374,598**	269,958,374
Less: Provisions for 50% subsidy under Amiri Decree No. 18/1977 (d (v))	**(18,216,245)**	(14,790,391)
	285,158,353	255,167,983
(ii) Commercial loans		
Gross Loans	**28,593,940**	23,591,436
Less: Provision for impairment	**(480,557)**	(235,914)
	28,113,383	23,355,522
Total loans	**313,271,736**	278,523,505

a) Age analysis of past due but not impaired loans

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

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

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

7 LOANS (continued)

b) Age analysis of impaired loans

	2011		
	3-6 Months BD	6-12 Months BD	Total BD
Commercial loans	**431,954**	**377,235**	**809,189**

The total amount of specific impairment provision against commercial loans as at 31 December 2011 amounted to BD 202,727 (31 December 2010: Nil). The Bank did not have any impaired commercial loans as at 31 December 2010.

c) Collective impairment provision for commercial loans

	2011 BD	2010 BD
At 1 January	**235,914**	191,012
Charge for the year	**41,916**	44,902
At 31 December	**277,830**	235,914

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

d) Social housing loans

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

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

(ii) On 16 December 2000, an additional reduction of 25% ("2000 Reduction") was granted on monthly installments for loans that were outstanding as of 15 December 2000.

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

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

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

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

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

(vi) On 26 February 2011, His Majesty, King Hamad Bin Isa Bin Salman Al Khalifa, the King of the Kingdom of Bahrain announced a waiver of 25% ("2011 Reduction") on installments of social housing loans and a 25% reduction on outstanding balances of mortgages where the Group acts as a collection agent.

8 INVESTMENT IN ASSOCIATES

	2011 BD	2010 BD
At 1 January	2,031,380	2,400,902
Acquisitions	4,545,426	-
Share of losses	(323,046)	(369,522)
At 31 December	6,253,760	2,031,380

The principal associates of the Group are:

Name	Country of Incorporation	Carrying Value 2011 BD	Carrying Value 2010 BD
Bahrain Property Musharaka Trust Fund	Kingdom of Bahrain	4,468,883	-
Southern Area Development Company	Kingdom of Bahrain	1,448,105	1,704,421
Ebdaa Bank	Kingdom of Bahrain	327,772	317,959
Saar Complex Company	Kingdom of Bahrain	9,000	9,000
		6,253,760	2,031,380

Name	Nature of activities	Ownership for 2011	Ownership for 2010
Bahrain Property Musharaka Trust Fund	Development of two real-estate projects in the Kingdom of Bahrain.	42.92%	-
Southern Area Development Company	Developing the Hawar island and surrounding area into a major tourist attraction.	28.13%	28.13%
Ebdaa Bank	Providing micro-financing to low-to-middle income Bahrainis.	20%	20%
Saar Complex Company	Manage and develop Saar commercial complex in Saar district	45%	45%

	2011 (unaudited) BD	2010 (unaudited) BD
Summarised financial information of associates		
Total assets	28,079,818	9,528,223
Total liabilities	8,338,050	1,287,238
Total revenues	918,476	901,013
Total net loss	(677,193)	(701,850)

The Group has no share of any contingent liabilities or capital commitments, as at 31 December 2011 and 2010 related to its associates.

9 INVESTMENT PROPERTIES

	2011 BD	2010 BD
Opening balance at beginning of the year	**57,440,536**	55,710,771
Additions during the year*	**404,330**	2,841,079
Transferred to development properties	**(6,917,377)**	(1,070,331)
Transferred from development properties	**1,741,794**	141,702
Transferred to investment in associates **	**(9,074,395)**	-
Transferred to Ministry of Finance***	**(4,713,666)**	-
Depreciation charge for the year	**(112,813)**	(73,612)
Others	**-**	(109,073)
	38,768,409	57,440,536
Add: Reversal of impairment provision	**89,297**	-
At 31 December	**38,857,706**	57,440,536

* 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.

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

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

Investment properties comprise the following:

	2011 BD	2010 BD
Land at Bander Al-Seef	**28,584,288**	37,509,907
Land at Jaw	**1,938,783**	1,938,783
Land at Saar	**1,903,251**	1,903,251
Land at Hamad town	**1,483,042**	2,127,827
Land at Busayteen	**628,000**	628,000
Land at Sanabis	**262,179**	1,339,973
Land at Samaheej	**97,150**	-
Land at Isa town	**67,160**	5,933,056
Land at Gudaibya	**47,899**	47,899
Land at Riffa	**45,419**	893,084
Land at Dimistan	**41,673**	41,673
Land at Karzakan	**36,167**	36,167
Land at Muharraq	**23,519**	23,519
Land at Seqaya	**-**	3,208,499
Shops (accumulated depreciation BD 314,228 (2010 BD 201,415))	**3,699,176**	1,898,195
	38,857,706	57,529,833
Impairment provision	**-**	(89,297)
	38,857,706	57,440,536

The fair value of investment properties, based on independent market valuations, as at 31 December 2011 was BD 293,865,703 (2010: BD 421,255,000). During the year, land with a fair value of BD 404,330 (2010: BD 2,841,079) was transferred to the Bank by the Government and accordingly has been treated as additional contribution by a shareholder.

10 OTHER ASSETS

	2011 BD	2010 BD
Advances and receivables*	5,371,057	158,232
Compensation for transfer of land **	4,713,666	-
Equipment and other assets (net book value)	1,179,386	889,546
Management fee and interest receivable	418,006	615,539
Prepayments and advances	178,937	187,914
Staff loans	80,706	118,658
	11,941,758	1,969,889

* Includes BD 5,133,533 receivable from Bahrain Property Musharaka Trust Fund mainly representing 50% of Eskan Bank's committed capital.

** 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.

11 GOVERNMENT ACCOUNTS

	2011 BD	2010 BD
Due to Ministry of Finance	217,247,707	186,916,421
Due from Ministry of Housing	(61,656,521)	(66,833,637)
	155,591,186	120,082,784

The Bank's transactions with the Ministry of Housing (MOH) and Ministry of Finance (MOF) have been recorded in a single account "Government Accounts" and is 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:

a) Collections, which are mainly monthly budgetary support received from the Ministry of Finance 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 etc;

b) Reduction decrees issued by the Government from time to time;

c) Write off and waivers, death benefit write offs; and

d) Any other payment / transaction undertaken by the Bank of behalf of MOH / MOF in relation to housing projects.

12 TERM LOANS

	2011 BD	2010 BD
Syndicated bank term loan	50,000,000	66,666,667
RMBS bonds	21,500,000	21,500,000
At 31 December	71,500,000	88,166,667

The syndicated bank term loan bears interest repayable biannually at BIBOR plus a margin of 2.75%. The interest cost is reimbursed by the MOH. The syndicated bank term loan, repayable in December 2012, is guaranteed 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 1.18%. The RMBS bonds, repayable in October 2017 are secured against certain housing loans issued by the Bank.

	2011 BD	2010 BD
Term loans maturing in less than 1 year	56,000,000	33,333,333
Term loans maturing in more than 1 year	15,500,000	54,833,334
	71,500,000	88,166,667

13 OTHER LIABILITIES

	2011 BD	2010 BD
Current accounts *	6,566,366	1,643,817
Unearned income for 50% subsidy under Amiri Decree (note 7)	3,582,245	1,369,356
Accrued expenses	1,801,148	1,776,675
Employee savings scheme	366,214	323,926
Accrued interest payable on term loans	227,790	182,155
Employee benefits	179,202	165,044
Contractor retentions	58,351	64,698
Other liabilities	368,807	215,767
	13,150,123	5,741,438

* These mainly include BD 4.610 million (2010: BD 0.318 million) from Bahrain Property Musharaka Trust.

14 SHARE CAPITAL

	Number of shares	2011 BD	2010 BD
Authorised ordinary share capital of BD 100 each			
Opening	400,000	40,000,000	40,000,000
Increased during the year	3,600,000	360,000,000	-
	4,000,000	400,000,000	40,000,000
Issued and fully paid up ordinary share capital of BD 100 each			
Opening	150,000	15,000,000	15,000,000
Issued during the year	933,000	93,300,000	-
	1,083,000	108,300,000	15,000,000

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

15 INTEREST INCOME

	2011 BD	2010 BD
Interest income on commercial loans	2,126,882	1,932,541
Interest income on placements with financial and other institutions	515,106	636,630
	2,641,988	2,569,171

16 INCOME FROM INVESTMENT PROPERTIES

	2011 BD	2010 BD
Realised gain on investment properties (note 9)	604,584	-
Rental income	221,616	173,406
	826,200	173,406

17 OTHER INCOME

	2011 BD	2010 BD
Interest on term loans reimbursed by the Government of Bahrain	**2,565,889**	4,183,857
Other income (note 17.1)	**1,254,523**	674,747
	3,820,412	4,858,604

Note 17.1

This mainly includes contribution from the Government of BD 600,000 during the year for its subsidiary, Southern Tourism Company, that provides subsidised tourism services.

18 OTHER EXPENSES

	2011 BD	2010 BD
Depreciation	**483,999**	480,160
Premises	**226,904**	231,841
Transportation and communication	**120,882**	156,139
Legal and professional	**118,879**	252,383
Computer maintenance	**117,698**	161,931
Marketing cost	**81,408**	117,486
Electricity	**96,418**	27,981
Others	**209,129**	427,773
	1,455,317	1,855,694

19 PROPERTIES WRITE OFF (NET)

	2011 BD	2010 BD
Development properties written off	**(462,214)**	-
Development properties reversal of impairment provision	**133,060**	-
Investment properties reversal of impairment provision	**89,297**	-
	(239,857)	**-**

20 COMMITMENTS AND CONTINGENCIES

	2011 BD	2010 BD
Housing loan commitments approved by MOH	**90,196,923**	74,772,370
Lease commitments within one year	**201,749**	82,510
Lease commitments above one year	**287,364**	-
	90,686,036	74,854,880

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 (2010: BD 322,988).

21 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 the associate in the ordinary course of business. Balances with Government and investment in an associate are disclosed on the face of the consolidated statement of financial position.

21 RELATED PARTY TRANSACTIONS (continued)

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:

	2011 BD	2010 BD
Short term employee benefits	**869,577**	787,491
Long term employee benefits	**77,671**	39,940

22 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Level 1 quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2 other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3 techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

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

At 31 December 2010	Level 1 BD	Level 2 BD	Level 3 BD	Total
Investments carried at fair value through profit or loss	-	37,699	-	37,699
Investments designated as available for sale	-	-	3,541,272	3,541,272
	-	37,699	3,541,272	3,578,971

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 level3 during the year ended 31 December 2011.

23 RISK MANAGEMENT

Overview

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

Risk management framework

Board of Directors

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

Management Risk Committee

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

Risk Management Department

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

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

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

Audit Committee

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

Internal Audit

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

Treasury

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

Risk Measurement

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

Risk Mitigation

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

a) Credit risk

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

i) Management of credit risk

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

Housing loans under Ministry's Housing Loan Program

The decision to grant the loan is determined by the Ministry of Housing and communicated to the Group to make disbursements to the borrowers. There is no credit risk to the Group arising out of these loans. Losses, if any, arising from the impairment of such loans can be claimed from the Government.

Consequently these loans attract zero risk weight. The Group monitors the sanctioned housing loans regularly, non performing loans are aggressively pursued by the Group and are written-off based on ministerial order. The housing loans under the Ministry's Housing Loan Program as at 31 December 2011 is BD 285,158,353 (2010: BD 255,167,983).

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.

23 RISK MANAGEMENT (continued)

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 2011	Gross maximum exposure 2010
Balances and placements with financial institutions	89,286,680	73,164,825
Loans -commercial loans	28,113,383	23,355,522
Other receivables	5,880,486	1,058,432
	123,280,549	97,578,779

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

There were no renegotiated loans during either the year ended 31 December 2011 or 31 December 2010.

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 2011 was BD 57,656,603 (2010: BD 27,391,353).

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 2011 or 31 December 2010.

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 2011
Balances and placements with financial institutions	89,286,680	-	-	89,286,680
Loans - Commercial loans	22,686,720	5,098,031	809,189	28,593,940
Other receivables	5,880,486	-	-	5,880,486
	117,853,886	5,098,031	809,189	123,761,106

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

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

v) Concentration risk

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

b) Market risk

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

i) Management of market risks

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

ii) Interest rate risk

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

The following table demonstrates the sensitivity to a reasonable 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 2011 BD	**Changes in basis points (+/-)**	**Effect on net profit (+/-)**
Assets			
Balances and placements with financial institutions	**89,286,680**	100	**892,867**
Loans - commercial loans	**28,593,940**	100	**285,939**
Liabilities			
Deposits from financial and other institutions	**39,016,846**	100	**(390,168)**
Term loans	**21,500,000**	100	**(215,000)**
Total			**573,638**

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

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 2011) due to a reasonable possible change (i.e. +/-15%) in the value of individual investments, with all other variables held constant, is 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 2011. (2010: BD 531,190 and BD 5,655 respectively). The effect of decrease in the value of individual investments is expected to be equal and opposite to the effect of an increase.

23 RISK MANAGEMENT (continued)

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 2011 and 31 December 2010 based on contractual undiscounted repayment obligations.

At 31 December 2011	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Deposits from financial and other institutions	39,067,221	-	-	39,067,221
Term loans	16,902,778	40,811,642	16,858,162	74,572,582
Total	**55,969,999**	**40,811,642**	**16,858,162**	**113,639,803**

At 31 December 2010				
Deposits from financial and other institutions	21,520,340	-	-	21,520,340
Term loans	-	36,443,681	58,140,229	94,583,910
Total	21,520,340	36,443,681	58,140,229	116,104,250

d) Operational risk

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

e) Fair values of financial instruments

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

24 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:

	2011 BD	2010 BD
Tier 1 capital	**195,490,251**	187,744,628
Total regulatory capital (A)	**195,490,251**	187,744,628
Total Risk-weighted exposure (B)	**195,372,617**	192,863,171
Capital adequacy ratio (A/B)	**100.06%**	97.35%
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.

25 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 contractual maturity date. The maturity profile of the assets and liabilities was as follows:

At 31 December 2011	Less than 12 months BD	Over 12 Months BD	Total BD
Assets			
Cash and cash equivalents	89,412,479	-	**89,412,479**
Investments	-	3,541,096	**3,541,096**
Loans	13,992,443	299,279,293	**313,271,736**
Investment in associates	-	6,253,760	**6,253,760**
Investment properties	-	38,857,706	**38,857,706**
Development properties	-	11,687,608	**11,687,608**
Other assets	10,796,599	1,145,159	**11,941,758**
	114,201,521	**360,764,622**	**474,966,143**
Liabilities			
Deposits from financial and other institutions	39,016,846	-	**39,016,846**
Government accounts	155,591,186	-	**155,591,186**
Term loans	56,000,000	15,500,000	**71,500,000**
Other liabilities	10,317,029	2,833,094	**13,150,123**
	260,925,061	**18,333,094**	**279,258,155**
Net liquidity (gap) surplus	**(146,723,540)**	**342,431,528**	**195,707,988**

At 31 December 2010	Less than 12 months BD	Over 12 Months BD	Total BD
Assets			
Cash and cash equivalents	73,317,330	-	73,317,330
Investments	-	3,578,971	3,578,971
Loans	12,361,412	266,162,093	278,523,505
Investment in associates	-	2,031,380	2,031,380
Investment properties	-	57,440,536	57,440,536
Development properties	-	6,603,557	6,603,557
Other assets	1,293,246	676,643	1,969,889
	86,971,988	336,493,180	423,465,168
Liabilities			
Deposits from financial and other institutions	21,503,032	-	21,503,032
Government accounts	120,082,784	-	120,082,784
Term loans	33,333,333	54,833,334	88,166,667
Other liabilities	4,708,784	1,032,654	5,741,438
	179,627,933	55,865,988	235,493,921
Net liquidity (gap) surplus	(92,655,945)	280,627,192	187,971,247

26 FUTURE FUNDING REQUIREMENTS

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

27 COMPARATIVES

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

Pillar - III Disclosures

CONTENTS

1 Introduction

The Central Bank of Bahrain's ("the CBB") Basel 2 guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1st January 2008. These disclosures have been prepared in accordance with the CBB requirements. The disclosures in this report are in addition to or in some cases, serve to clarify the disclosures set out in the consolidated financial statements for the year ended 31st December 2011, presented in accordance with the International Financial Reporting Standards ("IFRS").

Scope of Application

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

The Bank has the following four subsidiaries:

- The Bank owns 100% of the shares of the Southern Tourism Company B.S.C. (c) ("STC"), which is incorporated in the Kingdom of Bahrain, whose main objective is promoting tourism and related activities such as, Dhow transport services, management and development of private resort properties and jetty facilities at the Hawar Islands.
- The Bank owns 100% in Eskan RMBS Company B.S.C. (c) ("RMBS") incorporated in the Kingdom of Bahrain, whose principal activities are to issue Asset Backed private debt securities for the purpose of securitization of housing loans.
- The Bank owns 100% in Eskan Properties Company B.S.C. (c) ("EPC") incorporated in the Kingdom of Bahrain, in order to successfully execute the various projects being taken up. The main objectives are to carry out all operations in relation to management, operation and maintenance for all types of real estate owned by the Bank, governmental institutions and ministries or others.
- The Bank owns 100% in Smart Building Material Company S.P.C which is registered in the Kingdom of Bahrain and whose principal activities include to create the entire value chain to manufacture cost-effective, environment friendly homes for the citizens of Kingdom of Bahrain. SBMC will also import a range of building products and raw materials such as gravel, cement, bricks, marbles, electrical and sanitary wares, & intend to construct warehouse facilities to support the business.
- There is no deficiency in the capital of any of the subsidiaries of the Bank as on 31st December 2011. There are no restrictions on the transfer of funds or regulatory capital within the Group.

The Bank has interest in three associate companies and a joint venture:

- The Bank owns 28.13% in Southern Area Development Company B.S.C. (c) ("SADC"), which is registered in the Kingdom of Bahrain, and whose principal activity is the promotion of tourism on the Hawar Islands.
- The Bank entered into a joint venture with Seef Properties inNovember 2009 to form Saar Complex Company W.L.L. ("SCC"). The Bank owns 45% of the Company, which is registered in the Kingdom of Bahrain and whose principal activity is the management and development of Saar Commercial Complex in Saar district on land owned by the shareholders. In addition the company can exercise real estate activities, invest excess liquidity, perform all suitable activities for the accomplishment of the company's objectives. The company has been established to carry out property development activities in joint venture with Seef Properties Company.
- During 2009, Al Ebdaa Bank B.S.C. (c) ("Ebdaa Bank") was established and began disbursing micro-finance to low and middle – income Bahrainis, providing each beneficiary with an opportunity to start a new business, to become financially independent and to hold out the promise of a better quality of life. Eskan Bank is a founding shareholder of Ebdaa Bank, holding 20% stake.
- 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

Treatment of subsidiaries and associates for capital adequacy calculation:

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

1 Introduction (continued)

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

Subsidiaries / Associates	Country of Incorporation / residence	Percentage of ownership	Percentage of Voting Power (If different from Ownership)	Risk Weight
Southern Area Development Company B.S.C. (c)	Kingdom of Bahrain	28.13%	-	150%
Smart Building Material Company S.P.C	Kingdom of Bahrain	100%	-	200%
Saar Complex Company W.L.L.	Kingdom of Bahrain	45%	-	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 2011, 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 50% in 2010 to 42% in 2011. The Bank continued to make a general loan loss provisions in line with its prudent approach to risk.

The Bank has disbursed BHD 25.4 million of social loans and BHD 6.3 million of commercial loans during 2011 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 196 million at the end of 2011 is up by 4.1% compared to BHD 188 million as at 31st December 2010. Capital Adequacy Ratio remains very strong at 100.06%. Liquidity continues to be comfortable with liquid assets (Cash and balances with central banks and placement with financial institutions) representing 19% of the total assets

a) Asset Growth & Quality:

- **Quantity:** The total Balance Sheet of the Bank stood at BHD 475 million as at 31st December 2011 compared to BHD 423 million as at the previous year end. The Bank's loans and advances as at 31st December 2011 stood at BHD 313 million, which reflects a growth of 12.5% as compared to 2010.
- **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 809,189 as at 31st December 2011.
  - Other Investments: The other banking assets are mainly in inter-bank placements with banks in the Kingdom of Bahrain all of which are short term (3 months & less).
  - Financial Investments: The Bank has investment in Naseej a real estate related company and other small legacy investments.
- **Capital Adequacy Ratio (CAR):** The Group continued to have strong capital adequacy ratio, with the CAR of 100.06 % as of 31st December, 2011.
- **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.

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

- Social Loans: The social loan portfolio grew by 12% over last year by an amount of BHD 30 million.
- Commercial basis Residential mortgage loans: The residential commercial mortgage loans increased by BHD 4.7 million, to reach BHD 28 million, registering a growth of over 20% over the previous year.

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

	2011	2010	2009	2008	2007
Earnings					
Net Interest Income	9,192	6,416	5,976	6,208	6,211
Other Income	4,324	4,593	3,600	3,924	5,261
Operating Expenses	5,698	5,564	5,658	5,818	4,379
Impairment Allowance	245	45	413	-	-
Properties Write off	240	-	-	-	-
Net Income	7,332	5,400	3,504	4,314	7,093
Financial Position					
Total Assets	474,966	423,465	440,964	325,507	284,642
Loans	313,272	278,524	260,065	222,833	172,812
Total Liabilities	279,258	235,494	261,234	159,943	126,010
Shareholders Equity	195,708	187,971	179,730	165,565	158,632
Earnings: Ratios (Per Cent)					
Return on Equity	3.75%	2.87%	1.95%	2.61%	4.47%
Return on Assets	1.54%	1.28%	0.79%	1.33%	2.49%
Cost-to-income ratio	42.2%	50.5%	58.9%	57.4%	38.2%
Net Interest Margin	79%	55%	61%	66.59%	77.94%
Capital:					
Shareholders Equity as per cent of Total Assets	41.2%	44.39%	40.76%	50.86%	55.73%
Total Liabilities to Shareholders Equity	142.69%	125.28%	145.35%	96.60%	79.44%

b) Performance of the group companies:

- STC: A net profit of BHD 438,519 was reported for the period ended 31st December 2011 as compared to net loss of BHD 37,103 in 2010.
- SADC: SADC currently owns Hawar Island's only four star hotel – Golden Tulip Hotel and a number of fully furnished chalets on the island. The Bank has an equity participation of 28.13%. SADC registered a loss of BHD 547,912 for the year ended 31st December 2011.
- EPC: The property development arm of the Bank is a full fledged company. The registered and paid up share capital is BHD 250,000 with a shareholding of 100% by Eskan Bank. EPC has the ability for executing various property development projects being taken up. Further, the operations of EPC has been streamlined and strengthened by appointing senior management functionaries.

  The Bank has initiated various steps to have a strategic alliance with consultants/ developers/financial investors to develop the prime properties owned by the Bank. Presently, various projects are underway at different stages ranging from concept design formulation, completion of master plan, evaluation of consultants/contractors to Tender Board approval. In the coming 12 to 18 months, the priority for EPC is to commence construction of those properties whose design stage is completed.

  In this connection, the Bank has launched the Bahrain Property Musharaka Trust Fund in 2011.

2 Financial performance and position (continued)

Table 3: Financial highlights (in BHD):	31st-December-11	31st-December-10
Net profit /(loss) for the period	(10,384)	65,125
Total assets	534,059	357,518
Total equity	243,587	253,971

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

The Bank repaid the first tranche of BHD 8.5 million to the investors in October 2010 and continued to make timely interest payments on semi-annual basis. The next tranche of BHD 6 million is due for repayment in October 2012.

Table 4: Financial highlights (in BHD)	31st-December-11	31st-December-10
Net profit for the period	1,150,589	1,138,391
Total assets	27,206,394	25,847,687
Total equity	4,477,453	3,326,864

SBMC

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

Table 5: Financial highlights (in BHD)	31st-December-11	31st-December-10
Net profit/(loss) for the period	(17,900)	(92,135)
Total assets	250,000	250,000
Total equity	139,965	157,865

SCC

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

Ebdaa Bank

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

Table 6: Shareholding details

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

Bahrain Property Musharaka Trust Fund ("BPMTF")

The BPMTF is a real estate Trust that manages interests on behalf of the Unit Holders in the Trust, for the purpose of developing two Real Estate Projects in the Kingdom of Bahrain through the Project Company. The fund closed on 30th April 2011. The Bank made "In-Kind Capital Contribution" represented by the land plots of BHD 10.133 million.

Table 7: Financial highlights (in BHD)	31st-December-11
Net loss for the period	(178,344)
Total assets	18,470,809
Total equity	11,471,656

3 Future business prospects

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

4 Corporate governance and transparency

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

The Bank has adopted the following 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 Bahrain and thus having the Council of Ministers appointing its Board of Directors, Eskan Bank does not conduct annual shareholders meetings (AGM).

5 Board and Management Committees

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

6 Board of Directors

For details of the Board of Directors refer to the Annual Report.

7 Executive Management Team of Eskan Bank

For details of the Executive Management Team refer to the Annual Report.

8 Additional Governance Measures

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

9 Remuneration Policy

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

The Directors of the Board are paid annual fees and sitting fees for attending meetings of the Board and its Committees.

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

10 Organisation Chart

For details of the Organisation structure refer to the Annual Report.

11 Communication Strategy

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

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

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

12 Capital

12.1 Capital Structure

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

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

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

Table 8: Total Capital of Eskan Bank (in BHD thousands)	Tier I	Tier II
Eligible capital (Tier I and Tier II)		
Tier I		
Share Capital	108,300	
Reserves		
Statutory Reserve	54,462	
Total Reserves	**54,462**	
Retained Earnings (Brought Forward)	12,827	
Others	20,229	
Total Available Capital	**195,818**	
Less: Significant minority investments in banking, securities and other financial entities	(164)	
Net Available Capital	**195,654**	**(164)**
Total Eligible capital (Tier I and II)		**195,490**

Table 9: Capital Base / Risk Weighted Exposures (in BHD thousands)	Amount
Credit Risk Weighted Exposures	174,059
Operational Risk Weighted Exposures	21,313
Market Risk Weighted Exposures	-
Total Risk Weighted Exposures	195,372
Total Eligible capital	195,490
Tier I Capital Adequacy Ratio	**100.06%**
Total Capital Adequacy Ratio	**100.06%**

12.2 Capital Adequacy

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

The Bank uses trigger rate of 12.5% for capital adequacy ratio as stipulated by CBB.

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

13 Internal Audit

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

14 Credit Risk

14.1 Overview of Credit Risk Management

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

The Credit Risk Management Framework is summarised as under:

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

The Bank uses external ratings from Standard & Poor's, 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. The Bank uses an internal rating mechanism for rating its retail clients. The ratings range from EB1 to EB10.

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

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

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

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

14 Credit Risk (continued)

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

The NPAs under Commercial Mortgage Loans as of 31st December 2011 was BHD 809,189.

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

	91 Days to 1 year	1 to 3 years	Above 3 years	Total
Social loans *	5,006	154	88	5,248
Retail mortgage commercial loans **	809	-	-	809
	5,815	**154**	**88**	**6,057**

Table 11 : Movement in provisions (in BHD thousands)

	Opening1 balance	Charge for the year	Write off / write back	Closing balance
General Provision				
Retail mortgage commercial loans **	236	42	-	278
Specific Provision				
Retail mortgage commercial loans **	-	203	-	203
	191	**245**	**-**	**481**

* 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 2011 relates to its operations in the Kingdom of Bahrain.
The following table summarises the total loans that have been restructured during the period ended 31 December 2011:

Table 12 : Restructured Facilities (in BHD thousands)

Social loans *	**1,864**

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

Table 13: Capital Requirements – Standard Portfolio (in BHD thousands)

	* Gross Exposures	Risk Weighted Value	** Capital Charge
Standard Portfolio			
Sovereign Portfolio	387,437	-	-
Banks Portfolio	31,630	9,626	1,155
Residential Retail Portfolio	27,728	20,948	2,514
Equity Portfolio	1,716	2,575	309
Real estate Portfolio	69,452	138,904	16,668
Other Exposures	2,133	2,006	241
Total	**520,096**	**174,059**	**20,887**

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

	Gross Exposures	* Average Exposures
Funded Exposure		
Cash and cash equivalents	89,412	89,700
Investments	3,541	3,542
Loans	313,272	296,056
Investment in associates	6,254	4,110
Investment property	38,858	51,164
Development property	11,688	7,618
Other assets	11,941	5,771
	474,966	**457,959**
Unfunded Exposure		
Loan related	90,197	87,042
Lease commitments	489	407
	90,686	**87,449**

* Average balances are computed based on quarter end balances.

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

14 Credit Risk (continued)

Table 15: Geographic Distribution of exposures (in BHD thousands)

	Kingdom of Bahrain	United States	Total
Cash and cash equivalents	89,370	42	89,412
Investments	3,541	-	3,541
Loans	313,272	-	313,272
Investment in associates	6,254	-	6,254
Investment property	38,858	-	38,858
Development property	11,688	-	11,688
Other assets	11,941	-	11,941
	474,924	**42**	**474,966**

Investment properties are properties held for the purposes of development for rental or capital appreciation or for both. They are assessed on annual basis and are stated at cost less accumulated depreciation and any impairment losses. The Bank obtained the fair market valuation of the properties from external independent valuers and no additional provision was made required to be made.

Table 16: 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	89,412	-	-	-	-	**89,412**
Investments	-	-	-	-	3,541	**3,541**
Loans	-	861	312,411	-	-	**313,272**
Investment in associates	328	4,478	-	1,448	-	**6,254**
Investment property	-	38,858	-	-	-	**38,858**
Development property	-	11,688	-	-	-	**11,688**
Other assets	-	10,085	-	-	1,856	**11,941**
	89,740	65,970	312,411	1,448	5,397	**474,966**
Unfunded Exposures						
Loan related	-	-	90,197	-	-	
Lease commitments	-	-	-	-	489	
	-	-	90,197	-	489	

14.3 Related Parties Transactions

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

The details of the related party disclosures are incorporated in the relevant section of the consolidated financial statements for the year ended 31st December 2011.

Table 17: Intra-group transactions as of 31 December 2011 (In BHD Thousands)

	Eskan Bank	Southern Tourism Co	RMBS Co	Eskan Property Co.	Smart Building Material Co.	Total
Assets						
Balances with Banks	-	54	-	490	250	**794**
Inter Bank Deposits	-	1,352	20,553	-	-	**21,905**
Investments in subsidiaries	748	-	-	-	-	**748**
Investment in Associate	-	3	-	-	-	**3**
Other Assets	2,369	-	5,679	1,013	-	**9,061**
	3,117	**1,409**	**26,232**	**1,503**	**250**	**32,511**
Liabilities and Equity			.			
Non-Bank Deposits	21,905	-	-	-	-	**21,905**
Current Accounts	794	-	-	-	-	**794**
Other Liabilities	6,692	-	1,095	1,164	110	**9,061**
Share Capital & Reserves	-	250	1	250	250	**751**
	29,391	**250**	**1,096**	**1,414**	**360**	**32,511**

14.4 Large Exposures

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

The Bank did not have any large exposure as at 31st December 2011.

14.5 Classification of Loans and Advances

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

a) Social Loans

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

b) Commercial Loans

Most residential mortgage loans offered on commercial terms have been extended to individuals who are existing borrowers under the social loans, with the mortgaged security being common to the social and commercial loans.

The total exposure under these two portfolios as at 31st December 2011 was BHD 313 million.

14.6 Impaired Loans- Social Loans

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

14.7 Impaired Loans- Commercial Mortgage Loans

As at 31st December 2011, the impaired commercial mortgage loans was BHD 809,189. There is no significant impact of the renegotiated mortgage commercial loan on the provisions as well as present and future earnings. In addition, the magnitude of the restructuring activities is immaterial.

14 Credit Risk (continued)

Table 18: 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	36,047	41,105	12,260	-	-	-	-	-		-	89,412
Investments	-	-	-	-	-	-	-	3,541		-	3,541
Loans	-	1,311	2,652	3,381	6,649	27,573	29,077	76,597	135,890	30,142	313,272
Investment in associates	-	-	-	-	-	-	-	6,254		-	6,254
Investment property	-	-	-	-	-	-	-		38,858	-	38,858
Development property	-	-	-	-	-	-	-	-	11,688	-	11,688
Other assets	416	9	176	4	10,193	300	148	226	469	-	11,941
TOTAL ASSETS	**36,463**	**42,425**	**15,088**	**3,385**	**16,842**	**27,873**	**29,225**	**86,618**	**186,905**	**30,142**	**474,966**

	1-7 Days	7 Days - 1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	3-5 Years	5-10 Years	10-20 Years	Above 20 Years	Total
Deposits from financial and other institutions	9,500	21,000	8,517	-	-	-	-	-	-	-	39,017
Government accounts	155,591	-	-	-	-	-	-	-	-	-	155,591
Term loans	-	16,667	-	-	39,333	6,500	-	9,000	-	-	71,500
Other liabilities	6,653	514	1,504	733	913	2,833	-	-	-	-	13,150
TOTAL LIABILITIES	**171,744**	**38,181**	**10,021**	**733**	**40,246**	**9,333**	**-**	**9,000**	**-**	**-**	**279,258**
MISMATCH	**(135,281)**	**4,244**	**5,067**	**2,652**	**(23,404)**	**18,540**	**29,225**	**77,618**	**186,905**	**30,142**	
CUMULATIVE MISMATCH	**(135,281)**	**(131,037)**	**(125,970)**	**(123,318)**	**(146,722)**	**(128,182)**	**(98,957)**	**(21,339)**	**165,566**	**195,708**	

The report reflects a cumulative negative gap in the maturity buckets upto 10 years. This is mainly due to classifying the Government Account Liability of BHD 155 million in the first bucket i.e. 1 to 7 days.

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

Table 19: 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	89,412	-	-	-	-	89,412
Investments	-	-	-	-	3,541	3,541
Loans	-	861	312,411	-	-	313,272
Investment in associates	328	4,478	-	1,448	-	6,254
Investment property	-	38,858	-	-	-	38,858
Development property	-	11,688	-	-	-	11,688
Other assets	-	10,085	-	-	1,856	11,941
Total	**89,740**	**65,970**	**312,411**	**1,448**	**5,397**	**474,966**
Unfunded Exposures						
Loan related	-	-	90,197			90,197
Lease commitments	-	-	-		489	489
Total	**-**	**-**	**90,197**		**489**	**90,686**

15 Credit Risk Mitigation

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

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

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

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

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

16 Counterparty Credit Risk for derivative and foreign exchange instruments

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

17 Securitization

The Bank does not have any investments in securitization portfolio.

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

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

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

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

The Bank repaid the first tranche of BHD 8.5 million to the investors in October 2010 and continued to make timely interest payments on semi-annual basis. The next tranche for repayment is due on October 2012 for BHD 6 million. There is sufficient liquidity available with the SPV to meet the repayment.

18 Liquidity Risk

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

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

18.1 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.

19 Market Risk

19.1 Overview of Market Risk Management

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

- Bank currently has no 'Trading Book'.
- 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.

20 Operational Risk

20.1 Overview of Operational Risk Management

Operational risk is the risk of losses owing to:

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

This implies that operational risk is often associated with specific and one-off events, for instance failure to observe business or working processes, defects or breakdowns of the technical infrastructure, criminal acts, fire and storm damage or litigation. The Bank has developed an operational risk framework which includes identification, measurement, management, and monitoring and risk control/mitigation elements. A variety of underlying processes are being deployed across the Bank including risk and self-control assessments, key-risk indicators, new product review and approval processes. The initiatives include the preparation of emergency plans and contingency plans that aim to ensure continuing operations should extraordinary events occur. The Bank has an IT and information security framework in place, to ensure control over misuse by staff apart from external events. It also has an internal audit framework to monitor adherence to laid-down processes.

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 20: Operational Risk

Operational Risk (in BHD thousands)	Amount
Average Gross income	11,367
Risk Weighted Exposures	21,313
Capital Charge (@12%)	**2,558**

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

21 Equity Positions in the Banking Book

The Equity position as at 31st December 2011 comprise investments in subsidiaries and associates which are not subject to consolidation treatment for capital calculation purposes and other investments.

Table 21: Equity Position in the Banking Books (in BHD thousands)

	Gross Exposures	Publicly Held	Privately Held	Capital Charge
Available for sale investments	3,541	-	3,541	834
Investments in associates	6,253	-	6,253	1,335

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 realted to its real estate development activity. During the year 2011, the bank invested in Bahrain Musharaka Trust Fund for the development of two real estate projects.

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.

22 Interest Rate Risk in the Banking Book

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

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 22: Sensitivity Analysis- Interest Rate Risk

(in BHD thousands)	31st December 2011 BHD	Changes in basis points (+/-)	Effect on net profit (+/-)
Assets			
Balances and placements with Financial Institutions	89,287	200	**1,786**
Loans and advances - Commercial loans	28,594	200	**572**
Liabilities			
Deposits from financial and other institutions	39,017	200	**(780)**
Term loans	21,500	200	**(430)**
Total			**1,148**

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.

23 Audit fees

The fees for the auditing of financial statements of BHD 20,450 (2010: 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 32,100 thousand (2010: BHD 32,100 thousand) primarily relates to review of interim financial statements, agreed upon procedures services related to CBB quarterly prudential report, anti-money laundering, CBB annual and semi-annual additional public disclosures requirements