

realising aspirations

PILLAR-III DISCLOSURE
31 December 2008


بنك الإسكان
ESKAN BANK

1 Introduction

The Central Bank of Bahrain's (CBB) Basel 2 guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1 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 31 December 2008, presented in accordance with the International Financial Reporting Standards (IFRS).

Scope of Application

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

The Bank has following three subsidiaries:

- The Bank owns 100% of the shares of the Southern Tourism Company B.S.C. (c) ("STC"), which is incorporated in the Kingdom of Bahrain, whose main objective is promoting tourism and related activities such as, Dhow transport services, management and development of private resort properties and jetty facilities at the Hawar Islands.
- The Bank owns 99% in the ESKAN RMBS Company BSC (c) ("RMBS") incorporated in the Kingdom of Bahrain, whose principal activities are to issue Asset Backed private debt securities for the purpose of securitization of housing loans.
- The Bank owns 99% in the ESKAN Properties Company BSC (c) incorporated in the Kingdom of Bahrain, in order to successfully execute the various projects being taken up. The main objectives are to carry out all operations in relation to management, operation and maintenance for all types of real estate owned by the bank, by governmental institutions and ministries or others.

The Bank has one associate company:

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

There is no deficiency in capital in any of the subsidiaries of the Bank as on December 31, 2008. There are no restrictions on the transfer of funds or regulatory capital within the Group.

For the purpose of this document, the financials of ESKAN Bank and ESKAN RMBS have been consolidated. The treatment of other subsidiaries and associate companies is as per the below table.

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

Subsidiaries	Country of Incorporation / residence	Percentage of ownership	Percentage of Voting Power (If different from Ownership)	Risk Weight
Southern Area Development Company BSC (c)	Kingdom of Bahrain	28%	-	150%
STC	Kingdom of Bahrain	100%	-	150%
ESKAN Properties Company BSC (c)	Kingdom of Bahrain	99%	-	150%

2 Financial performance and position

In 2008, the Bank has shown substantial growth in the size of its assets, along with healthy profits: the Bank registered a net income of BD 4.368 million for the financial year ended 2008. Other growth parameters have also been positive as detailed below:

a) Asset Growth & Quality:

- **Quantity:** The Balance Sheet grew by 14.35% to BD 326 million in 2008 from BD 285 million in 2007. The bulk of this growth was from the loan portfolio under Social Loans.

- **Quality:**

- **Loan Portfolio:** The bank's portfolio is of high quality despite the bulk of the banking assets being residential mortgage loans. Primarily, these loans are "social loans" where the credit risk does not reside with the bank. On the other hand, in case of the commercial-basis residential mortgage loans extended by the bank, the approach has been conservative. Out of this portfolio, about 96% has Loan to Value (LTV) ratio of less than 80% and about 97% has Debt- Service Ratio of less than 60%, and there are no impaired loan accounts (NPAs).
- **Other Investments:** The other banking assets are mainly in inter-bank placements with banks in the Kingdom all of which are short term (less than 3 months).
- The bank has no investments, other than small legacy investments, nor exposures to the sub-prime crisis.
- **Capital Adequacy Ratio (CAR):** The bank continued to have strong capital adequacy ratio, with the CAR of 185.58% as of 31st December, 2008.
- **Solvency:** The Bank has limited external borrowings and as such its solvency position, as indicated by the Asset Liability maturity profiles is satisfactory, with balances in the government account considered as not payable in the short term.

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

- **Disbursements of Social Loans:** Substantial levels of social loans were disbursed, and the portfolio rose by 24% (BD 40 million).
- **Satisfactory Headway in New Product:** The new commercial mortgage product started late last year. The pace of growth accelerated in 2008. The portfolio has increased by BD 7,826 million, to reach BD 10,586 million, registering a growth of 74% during the year.

b) Performance of the group companies:

- **Southern Tourism Company (STC):** The performance of STC during the year 2008 was satisfactory. The company maintained its profitability by registering a net profit of BD 151,606 for the year ended December 2008. Its' revenues increased by 40 % during the year as compared to the previous year.
- **Southern Area Development Company (SDC):** SDC currently owns Hawar Island's only four star hotel – Hawar Resorts and a number of fully furnished chalets on the island. The Bank has equity participation of 28% in the company. The Company registered loss of BD 77,935 for the year 2008 however it is optimistic of good growth in business during the current year due to refurbishment of the Hotel and new management.
- **Eskan Properties Company (EPC):** The property development arm of the Bank has been strengthened by converting it into a full fledged company with a shareholding of 99% by Eskan Bank and 1% by Southern Tourism Company (wholly owned by Eskan Bank) in order to successfully execute the various projects being taken up. Further, the operations of the Company are being streamlined and strengthened by appointing senior management functionaries.

The Bank has initiated various steps to have a strategic alliance with consultants/ developers/financial investors to develop the prime properties owned by the Bank.

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

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

- **Eskan RMBS Company:** The Bank successfully launched and completed its RMBS transaction of BD30 million during 2007. This was considered a pioneer securitization of mortgage loans and potentially the first of its kind within the region and was oversubscribed by almost 1.74 times by six institutions. The securitization transaction was conducted and completed for the purpose of providing fresh liquidity to the Bank in order to carry out some of its property development and commercial lending activities, in addition to it being a prelude to more RMBS transaction that would be expected within the general structure and operations of the Mortgage Guarantee System, in due course.

Pillar-III Disclosures continued

31 December 2008

Earnings & Financial Position:

Particulars	2008	2007	2006	2005	2004
Earnings					
Net Interest Income	6.17	6.21	6.02	4.56	3.44
Other Income	3.49	4.78	0.17	-0.25	0.27
Operating Expenses	5.49	4.05	2.84	2.18	2.17
Net Income	4.17	6.93	3.36	2.13	1.54
Financial Position					
Total Assets	325.57	283.16	216.2	167.26	143.08
Loans	222.83	172.81	132.11	97.37	72.39
Total Liabilities	161.47	125.85	69.47	23.82	1.28
Shareholder's Equity	164.09	157.31	146.73	143.44	141.8
Earnings: Ratios (Per Cent)					
Return on Equity	2.54%	4.41%	2.29%	1.48%	1.09%
Return on Assets	1.28%	2.45%	1.55%	1.27%	1.08%
Cost-to-income ration	67.45%	45.57%	45.81%	27.38%	58.33%
Net Interest Margin	66.20%	78.02%	100.00%	100.00%	100.00%
Capital					
Shareholder's Equity as per cent of Total Assets	50.40%	55.56%	67.87%	85.76%	99.11%
Total Liabilities to Shareholder's Equity	98.40%	80.00%	47.35%	16.61%	0.90%

3 Future Business prospects:

The Bank's asset and liability profile in Year 2009 will be similar to last year. The major portfolio for the Bank will continue to be mortgage loans and investment properties. The Bank also plans to start corporate real estate financing in 2009.

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 and its ability to effectively supervise management's operation of the Bank.

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

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

5 Board and management Committees:

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

6 Board of Directors

HE Shaikh Ebrahim bin Khalifa Al Khalifa,

Minister of Housing
Appointed as Chairman of Eskan Bank in 2007

Dr. Anwar Al Sada

Vice Chairman
Appointed in 2008
Doctorate in Philosophy with more than 25 years of work experience
Advisor to Al Salam Bank-Bahrain
Previously held the post of Deputy Governor of the Central Bank of Bahrain

Mr. A. Razaq Alqassim

Member
Appointed in 2008
Masters Degree in Science (MSc.) with more than 30 years of work experience
Chief Executive Officer, National Bank of Bahrain
Chairman, Benefit Network Company; Corporate Governance Committee, Ministry of Commerce
Deputy Chairman, Oasis Capital Bank.
Board Member of Esterad Investment Company; Batelco; Bahrain Duty Free Company; Arab Academy for Education & Research Company
Member: Deposit Protection Scheme, Central Bank of Bahrain.

Mr. Nedhal Saleh Al Aujan

Member
Appointed in 2008
MBA with more than 20 years of work experience
Chief Executive Officer: Bahrain Development Bank.
Chairman: Gulf Diabetes Specialist Centre; Arabian Taxi Company.
Board Member: Batelco; Venture Capital Bank; Retail Arabia.
Chairman of Executive Committee: Bahrain Specialist Hospital; Bahrain Business Incubator Center.

Dr. Ala'a H. Alyusuf

Member
Appointed in 2008
Doctorate in Economics with more than 20 years of work experience
Chief Economist: Gulf Finance House.
Founding Member: Bahrain Competitiveness Council

Dr. Jasim Y. Al Ajmi

Member
Appointed in 2008
Doctorate in Accounting with more than 25 years of work experience
Director: Associate Professor of Finance & Continuing Education Program, University of Bahrain.
Founder, President & Executive Director: Bahrain Transparency Society.
Board Member: Specific Council for Training in Construction Sector; College of Business Administration, University of Bahrain.
Member: National Committee for Establishing Corporate Governance Code for Bahraini Companies; Audit Committee of Real Estate Finance Company (Reef); Scholarships Awarding Committee of Gulf Cooperation Council Accounting & Auditing Organization
Founder and Vice Chairman: Bahrain Competitiveness Council.
Advisor: Corporate Governance Issues in Bahrain – Center for International Private Enterprises, Washington DC, USA.

Dr. Taqi A. Al Zeera

Member

Appointed in 2008

Doctorate in Philosophy with more than 30 years of work experience

Co-Founder and Executive Director: Arab Business Consultants.

President: Gulf Academy for Development of Human Resources.

Board Member: Telecommunications Regulatory Authority.

Founding Member: Bahrain Society for Training & Development

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

Mr. Osama A. Al Khaja

Member

Appointed in 2008

CPA with more than 20 years of work experience

Executive Manager - Director Projects Development, Kuwait Finance House.

Chairman: Meena Towers Company; KFH Industrial Oasis Company.

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

Board Member: Al Kindi Pharmaceuticals Industries Company; National Institute for Industrial Training.

Member: Bahrain Society of Accountants; American Institute of Certified Public Accountants; Education & Training Society, Student Fund;

Bahrain Chamber of Commerce & Industry, SME Committee; LMRA, Financial Committee.

Mrs. Sabah K. Almoayyed

Member

Appointed in 2008

MBA with more than 20 years of work experience

General Manager: ESKAN Bank.

Board Member: Southern Development Company; Southern Tourism Company; Supreme Council of Women Bahrain; Bahrain Bayan

School; Bahrain Mumtalakat Holding Company.

Trustee Member: American University of Beirut - Lebanon; Bahrain Association of Banks

7 The members of the Executive Management Team of ESKAN Bank

1. Mrs. Sabah Khalil Almoayyed , General Manager & Director

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

Mrs. Almoayyed holds an MBA from Kelastat Business School, University of De Paul, Chicago, USA; and a BSc in Economics & Business Administration from the American University of Beirut, Lebanon. Her numerous Board, professional association, and non-profit organization memberships are listed in her profile as a Member of the Board of Directors of ESKAN Bank in 2008.

Board Member: Southern Development Company; Southern Tourism Company; Supreme Council of Women Bahrain; Bahrain Bayan School; Bahrain Mumtalakat Holding Company.

Trustee Member: American University of Beirut - Lebanon; Bahrain Association of Banks

She assumed the present position in 2004.

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

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

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

He assumed the present position in 2007.

3. Ebrahim Shebab, Chief Investment Officer & Deputy General Manager

Mr. Ebrahim Shebab has 23 years of experience in the banking sector. He worked for several banks since 1976 such as Chase Manhattan Bank, Arab Asian Bank and National Commercial Bank. He was Assistant Undersecretary of Human Resources & Finance at the Ministry of Health in Bahrain.

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

He assumed the present position in 2008.

4. Christopher Drane, Chief Operating Officer

Mr. Christopher Drane has more than 17 years of experience in different areas of the banking sector. He was previously COO of the National Bonds Corporation in Dubai, UAE.

An Associate of the Institute of Financial Services in the UK, Mr. Drane holds an MBA from the Open University Business School (UK) and Masters and Bachelors degrees in Medieval & Modern History from Oxford University, UK.

He assumed the present position in 2007.

5. Srikanth Sheshadri, Chief Risk Officer

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

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

He assumed the present position in 2007.

6. Dr. Bakri Bashir, Head of Strategic Planning & Business Development

Dr. Bakri Bashir has more than 19 years of experience with investment and financial organisations. Prior to joining ESKAN Bank he worked for the Central Bank of Bahrain as Economic Advisor.

Dr. Bashir holds a PhD in Islamic Banking from the University of Lancaster, UK; an MSc in Accounting and Finance and BSc in Accounting from the University of Khartoum.

He assumed the present position in 2007.

7. Timothy Regan, Head of Legal & Compliance

Prior to joining ESKAN Bank, Mr. Timothy Regan was a legal consultant with the law firm of Al Mahmood & Zu'bi Law in Bahrain. Previous experience includes Legal Counsel at DTM Pacific, Australia, and Head of Legal with the Emirates National Oil Company.

Mr. Regan holds an MBA in Business Administration and a Bachelors degree in Law and Economics. He has been an Admitted Solicitor of the Supreme Court of Queensland, Australia, since 1997.

He assumed the present position in 2006.

8. Dr. Naeema Al Dosseri, Head of Human Capital Group

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

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

She assumed the present position in 2008.

9. Mr. Jassim Al Aradi, Senior Manager, Internal Audit

Mr. Jassim Al Aradi has over 14 years of experience in the banking industry covering various fields such as internal audit, compliance, credit analysis, financial controls and operations. He has worked for reputable regional and international banks such as Citibank, GIB and ABC.

Mr. Al Aradi holds a Master's degree in Business Administration (BMA) and two professional qualifications CPA and CIA.

He assumed the present position in 2008.

10. Fadi Jamali, Chief Development Officer

Mr Fadi Jamali has twenty two years of experience in various architectural and urban development organizations in France, Lebanon and the MENA region. Most recently he spent over 12 years with Solidere - Lebanon and Solidere International as Urban Planning Manager.

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

He assumed the present position in 2008.

8 Additional Governance Measures

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

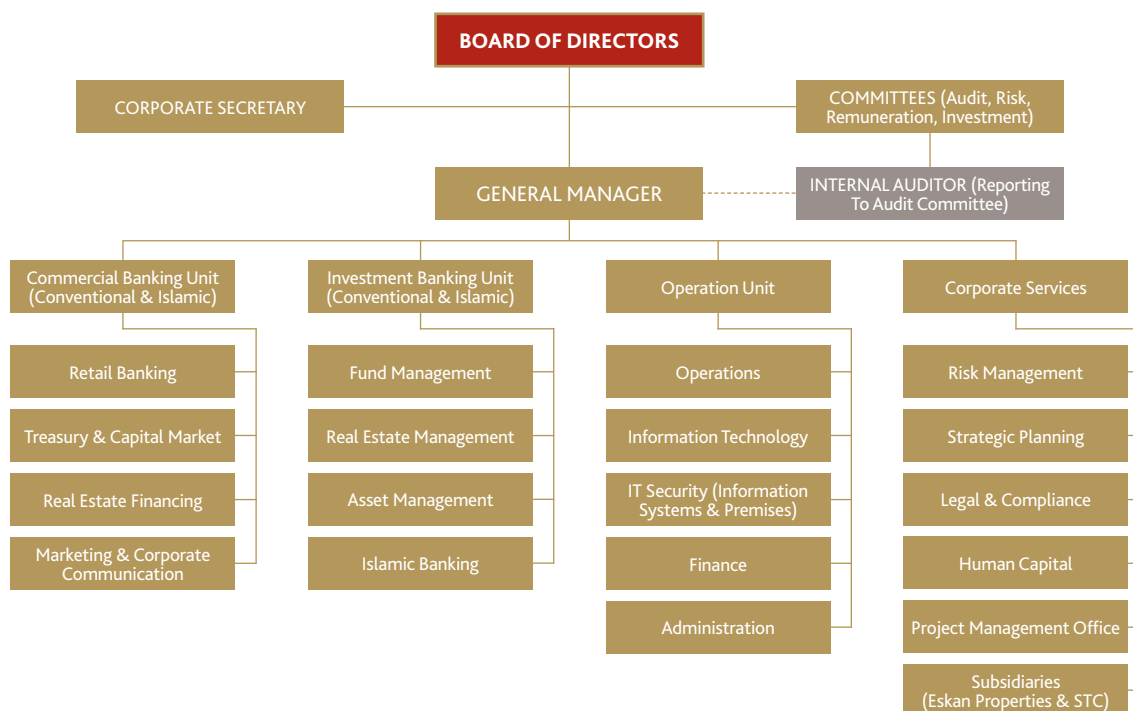
9 Remuneration Policy

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

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

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

10 The organization structure of the bank is as follows:



11 Communication Strategy

At the end of each financial year, the Balance Sheet, the Profit and Loss Account, and a report on the Bank's activities are presented to Board of Directors for the financial year which ended. All these documents are subsequently sent to the Council of Ministers.

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

12 Capital

12.1 Capital Structure

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

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

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

	(in BHD '000)	
	Amount	Amount
Total Capital of Eskan Bank		
Eligible capital (Tier I and Tier II)		
Tier I		
Share Capital	15,000	15,000
Reserves		
Statutory Reserve	7,762	
Other Disclosed Reserve (Fund for VRS)	36	
Total Reserves	7,798	7,798
Retained Earnings (Brought Forward)		
Retained Earning	130,845	
Capital Contribution	6,287	137,132
Profit for the current Year	4,168	4,168
Total Tier I Capital	-	164,098
Tier II	-	-
Total Tier II Capital	-	-
Total Eligible capital (Tier I and II)	-	164,098
Capital Base / Risk Weighted Exposures		Amount
Credit Risk Weighted Exposures		74,111
Operational Risk Weighted Exposures		14,314
Market Risk Weighted Exposures		-
Total Risk Weighted Exposures		88,425
Tier I Capital Adequacy Ratio		185.58%
Tier II Capital Adequacy Ratio		-
Total Capital Adequacy Ratio		185.58%

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

One of the aims of the CAAP is to ensure that management adequately identifies and measures the Bank's risks. The process also checks that management takes steps to ensure that the Bank maintains sufficient internal capital relative to its risk profile and that it applies and develops proper risk management systems. Pursuant to regulatory requirements, CBB will review and assess the application of CAAP and the quality of the in-house management procedures of which CAAP forms part.

The Bank has a CAAPs Policy duly approved by the Board and the processes for CAAP Management are being implemented as per this approved policy.

13 Credit Risk

13.1 Overview of Credit Risk Management

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

The Credit Risk Management Framework is summarised as under:

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

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

13.2 Definition and classification of Impaired loans (NPA)

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

There were no Impaired Loans (NPAs) under Commercial Mortgage Loans as of 31.12.2008

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

Credit Portfolio details

Asset Category	Average Assets	On Balance Sheet Exposures before CRM (in BHD '000)	Unsecured Portion of the credit exposure (in BHD '000)	Risk Weighted Value (in BHD '000)	Capital charge
Cash items	74	95	95	-	-
Total Claims on Sovereigns	235,550	237,247	237,247	-	-
Total Claims on PSEs	2,777	2,800	2,800	4,200	504
Total Claims on Banks	17,738	16,572	16,572	3,314	398
Mortgage	8,524	10,586	10,586	7,940	953
Investments in Securities	1,813	762	762	1,143	137
Holding of Real Estate	44,776	46,580	46,580	46,580	5,590
Other Assets and Holding of Securitization Tranches	13,153	10,935	10,935	10,935	1,312
Total Assets	324,405	325,577	325,577	74,111	8,893

13.3 Geographic Distribution of exposures

Particulars	(in BHD '000)		
	Bahrain	United states	Total
Fund Based	322,890	2,687	325,577
Non-fund Based	-	-	-
Total Exposure	322,890	2,687	325,577

13.4 Related Parties Transactions

The details of the related party disclosures are incorporated in the relevant section of the consolidated financial statements for the year ended 31 December 2008.

13.5 Large Exposures

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

The Bank's large exposure as at 31st December, 2008 was interbank placements with various banks for a short term up to 3 months and as per CBB guidelines interbank exposure up to 6 months falls in Exempt category.

Large Exposures		(in BHD '000)
S. No.	Particulars	Amount
i.	Large exposures	-
ii.	Exempted large exposures	9,791
iii.	Total large exposures (i + ii)	9,791
iv.	Exposures to the directors and their associates	-
v.	Exposures to the bank's associates	-
vi.	Exposures to significant shareholders	-
vii.	Total exposures to related parties (iv + v + vi)	-

Pillar-III Disclosures continued

31 December 2008

13.6 Classification of Loans and Advances

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

a) *Social 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 commercial loans have been extended to individuals who are existing borrowers under the social loans, with the mortgaged security being common to the social and commercial loans. There were no non-performing loans under this portfolio as at 31.12.2008.

The total exposure under these two portfolios as at 31.12.08 was BD 222.8 mn.

(in BHD '000)

Classification of Loans and Advances

S. No.	Category	Principal and interest outstanding	Specific provisions against losses and anticipated losses	Book Value/ Net Loans
i.	Standard	222,833	-	222,833
ii.	Substandard	-	-	-
iii.	Doubtful	-	-	-
iv.	Loss	-	-	-
v.	Problem country debt	-	-	-
vi.	Total (i + v inclusive)	222,833	-	222,833
vii.	Collective impairment provision	-	-	-
viii.	Net Loans & Advances (vi - vii)	222,833	-	222,833
ix.	Restructured Loans	-	-	-

13.7 Impaired Loans- Social Loans

(in BHD '000)

Impaired Loans

S. No.	Particulars	6 months to 1 year	1 to 3 years	Over 3 years	Total
i.	Gross impaired loans	199	262	492	953
ii.	Less: Specific provisions	-	-	-	-
iii.	Less: Interest in suspense	83	96	209	388
iv.	Net outstanding (i - ii - iii)	116	166	283	565
v.	Market value of collateral	The Bank holds collateral against loans and receivables in the form of mortgages on residential property and guarantees. The amount and type of collateral is dependent upon the nature of the loan. Collateral is not usually held against securities or placements and no such collateral was held as at 31st December, 2008			

For the purpose of disclosures under IFRS-7 in the Consolidated Financial statements for the year ended 31 December 2008, as the waiver, subsidy, write off etc on the social loans are charged to the Government Fund account, the Bank has not considered the same as impaired for the purpose and accordingly based on management estimate, no provision is provided against these loans.

13.8 Impaired Loans- Commercial Mortgage Loans

As at 31 December 2008, the Bank did not have any impaired commercial mortgage loans

13.9 Residual Contractual Maturity Breakdown of Assets and Liabilities

								(in BHD)
2008	0-3 Months	3 to 12 Months	1-3 Years	3-5 Years	5-10 Years	10-20 Years	above 20 Years	Total
Assets								
Cash and cash equivalents	39,782,447	-	-	-	-	-	-	39,782,447
Investment	-	-	-	-	1,030,476	-	-	1,030,476
Loans and receivables	136,570	75,983	638,522	1,075,760	11,212,755	65,804,216	143,889,251	222,833,057
Investment in an a subsidiary	-	-	-	-	-	-	497,490	497,490
Investment in an associate	-	-	-	-	-	-	2,034,667	2,034,667
Investment in property	-	-	-	-	46,580,150	-	-	46,580,150
Development Property	-	-	-	-	2,531,039	-	-	2,531,039
Advance towards investments	-	5,377,000	-	-	-	-	-	5,377,000
Other assets	663,925	2,919,805	158,958	868,853	299,360	-	-	4,910,901
	40,582,942	8,372,788	797,480	1,944,613	61,653,780	65,804,216	146,421,408	325,577,227
Liabilities and equity								
Government accounts	70,961,207	-	-	-	-	-	-	70,961,207
Zayed Town Account	517,078	-	-	-	-	-	-	517,078
Term Loans	-	16,666,666	41,833,334	6,000,000	15,500,000	-	-	80,000,000
Other liabilities	4,008,440	5,775,236	217,267	-	-	-	-	10,000,943
Equity	-	-	-	-	-	-	164,097,999	164,097,999
	75,486,725	22,441,902	42,050,601	6,000,000	15,500,000	-	164,097,999	325,577,227

The gap under buckets up to 5 years maturity band is negative on account of the Government account with a balance of BD 70.961 million which has been bucketed under 0 to 3 months maturity band. The Government deposits are considered as core deposits in view of the fact that the deposit balances in these accounts are maintained at the same level. Accordingly, the liquidity situation of the bank is comfortable.

13.10 Sector-wise Distribution of Exposures

						(in BHD '000)
Maturity Band	Banks and financial institutions	Real estate and construction	Residential Mortgage	Tourism	Other	Total
Cash and bank	39,782	-	-	-	-	39,782
Investments	-	-	-	-	1,030	1,030
Loans and receivables	-	-	222,833	-	-	222,833
Investments in subsidiaries	-	247	-	250	-	497
Investment in associates	-	-	-	2,035	-	2,035
Other assets	-	54,488	-	-	4,912	59,400
Total credit exposure	39,782	54,735	222,833	2,285	5,942	325,577

14 Credit Risk Mitigation

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

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

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

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

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

15 Counterparty Credit Risk for derivative and foreign exchange instruments.

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

16 Securitization

The Bank does not have any investments in securitization portfolio.

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

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

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

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

17 Liquidity Risk

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

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

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

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

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

17.1 Management of Liquidity Risk:

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

18 Market Risk

18.1 Overview of Market Risk Management

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

- Bank currently has no 'Trading Book' and thus exposure to market risk is limited to non- trading portfolio.
- Investments are primarily in 'Available for Sale' category
- Market risk for the bank is limited to balances in Nostro accounts in USD but as BHD is pegged to USD, the Bank does not have any foreign exchange risk.
- The Bank has adopted the Standardized Approach for computation of capital charge for market risk and is already fully compliant with such CBB guidelines.

19 Operational Risk

19.1 Overview of Operational Risk Management

Operational risk is the risk of losses owing to

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

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

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

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

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

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

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

Pillar-III Disclosures continued

31 December 2008

	(BHD '000)
Operational Risk	
Average Gross income	7,634
Risk Weighted Exposures	14,314
Capital Charge	1,718

19.2 Contingencies

- The Bank has filed cases against its ex-employees on grounds of misconduct. If the Bank is successful in proving its case, it will result into a receipt of BD 322,988 (2007: BD 322,988).
- The Bank is in the process of constructing properties in relation to which it holds performance guarantees provided by the contractors amounting to BD 797,876 (2007: BD 46,898)

20 Equity Positions in the Banking Book

The Equity position as at 31 December 2008 comprise investments in subsidiaries and associates which are not subject to consolidation treatment for capital calculation purposes and other investments.

					(in BHD '000)
Investments		Un-quoted investments		Quoted investments	
Type	Value disclosed in Balance Sheet	Fair value	Value disclosed in Balance Sheet	Fair value	Publicly quoted share values (if materially different from fair value)
Equities	2,800	2,800	-	-	-

				(in BHD '000)
S. No.	Particulars	Specific Provisions against interest in suspense against Investments	Collective Impairment Provisions	
1.1	At beginning of the year	100		
1.2	Amounts written off	-		
1.3	Write backs/cancellation due to improvement	-		
1.4	Additional provisions made	-		
1.5	Exchange adjustment and other movements	-		
1.6	Notional interest on impaired assets	-		
	Balance at reporting date (1.1 - 1.2 - 1.3 + 1.4 + 1.5 - 1.6)	100		-

21 Interest Rate Risk in the Banking Book

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

Analysis of the Group's sensitivity to an increase or decrease in a 100 bps parallel market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) on the Group's net profit and equity:

At 31st December, 2008	+ 243,056
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