

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 O3 - 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	x
Dr. Taqi Abdulrasool Al Zeera	x
Mrs. Sabah Khalil Ebrahim Al Moayyed	✓
Mr. Nedhal Salah Khaled Alaujan	✓

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- **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 (Chairman)	✓	✓	✓	✓
Mr. Abdul Razaq Abdulla Hasan Alqassim	✓	x	x	✓
Mrs. Sabah Khalil Ebrahim Al Moayyed	✓	✓	✓	✓
Mr. Ali Yusuf Ferdan	✓	✓	✓	✓
Mr. Yusuf Abdullah Mohammed Taqi	✓	✓	✓	✓
Dr. Mohammed Ahmed Mohammed Jamaan	✓	✓	x	✓
Dr. Zakareia Sultan Mohammed Abbasi	✓	✓	✓	✓
Mr. Abdul Reda Abdullah Ai Faraj	✓	✓	x	✓
Mr. Mohammed Abdulrahman Hussein Bucheri	✓	x	✓	✓
Mr. Khalid Ali Rashed Al Amin	✓	x	✓	✓
Mr. Yusuf Saleh Sultan Khalaf	✓	✓	✓	✓
Mr. Ahmed Jassim Faraj	✓	✓	x	✓

- **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	✓	✓	x
Mr. Ausama Abdulrahim Alkhaja	✓	x	x
Mrs. Sabah Khalil Al Moayyed	✓	✓	✓
Dr. Taqi Abdulrasool Al Zeera	✓	✓	✓
Mr. Nedhal Saleh Al Aujan	✓	✓	✓
Dr. Alaa Hasan Abdulla Alyusuf	x	✓	✓

- **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)	✓	✓	x	x
Mr. Mohammed Abdulrahman Bucheri (Vice Chairperson)	✓	✓	✓	✓
Mrs. Sabah Khalil Ebrahim Al Moayyed	✓	✓	✓	✓
Mr. Ali Yusuf Ferdan	✓	x	x	x
Mr. Khalid Ali Rashed Al Amin	x	✓	✓	✓
Mr. Ahmed Jassim Faraj	✓	✓	✓	✓

* In presence of Bank's Chairman

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• 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 (Chairman)	✓	✓	✓
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].