

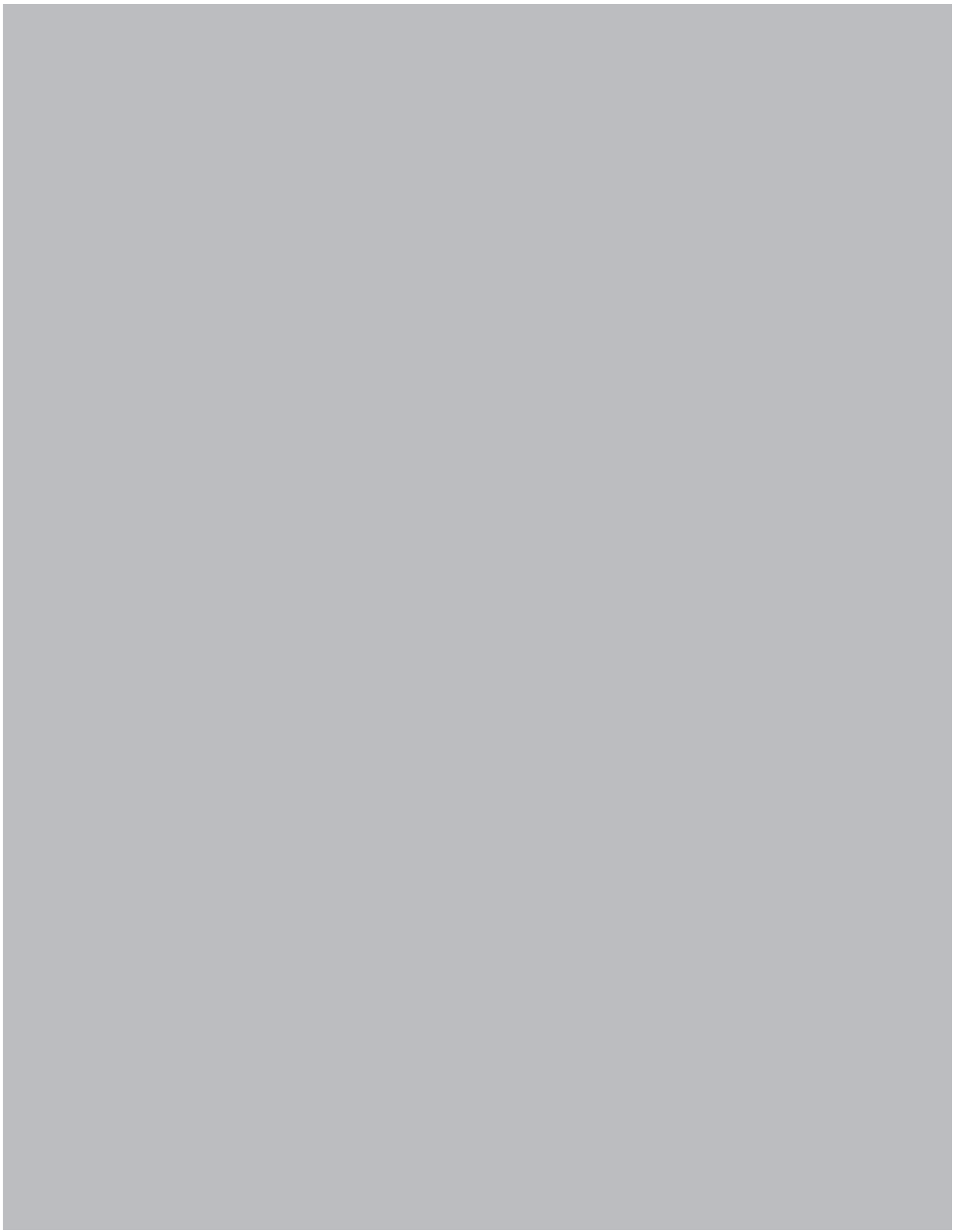


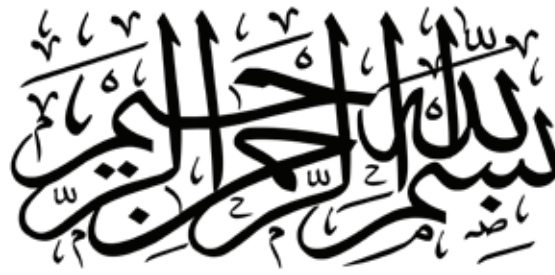
YEARS OF SUCCESS

2010-2011 ANNUAL REPORT



بنك البحرين للتنمية
BAHRAIN DEVELOPMENT BANK B.S.C (c)





**In the name of Allah
Most Gracious, Most Merciful**





His Royal Highness Prince
Khalifa bin Salman Al Khalifa
The Prime Minister



His Majesty the King
Hamad bin Isa Al Khalifa
The King of Bahrain



His Royal Highness Prince
Salman bin Hamad Al Khalifa
The Crown Prince and Deputy Supreme
Commander



Development for the Future

BDB commenced its operations on January 20, 1992 as the country's leading Development Financial Institution. The Government has entrusted the Bank with a crucial task of promoting investments in Bahrain, with the aim of diversifying the economic base, creating new employment opportunities for Bahrainis and contributing significantly to the overall socio-economic development of the Kingdom.

Contents

8	Profile
9	Financial Summary
14	Chairman's Statement
16	Corporate Governance
18	Executive Management
22	CEO's Statement
31	Financial Review
32	Consolidated Financial Statement
73	Basel II Pillar III Disclosures

Profile

Bahrain Development Bank B.S.C. (c) was established as a Bahraini closed share holding company by Legislative Decree number 19 dated 11 December 1991 and commenced operations on 20 January 1992. The Bank is operating as a retail bank with special waivers under a license issue by the Central Bank of Bahrain.

The Group consists of the Bank and the following subsidiaries and associates

Wholly Owned Subsidiaries

Name	Objectives
Bahrain Institute of Entrepreneurship & Technology S .P C.	To provide high quality entrepreneurship & educational services in information technology.
Bahrain Business Incubator Center S.P.C.	To improve efficiency and foster the growth of small and medium enterprises by providing space and support services through team of experts and affiliation with national and international entities.

Associates

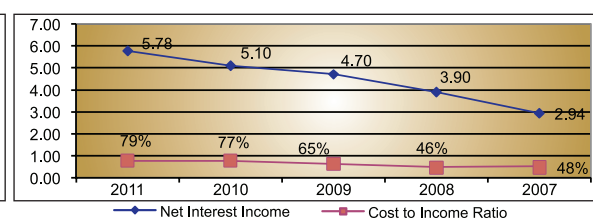
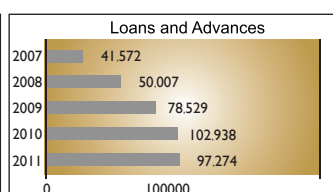
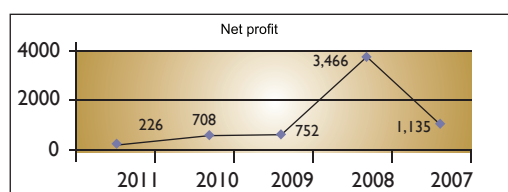
Name	Objectives
Arabian Taxi Company	Provide taxi services.
Venture Capital Fund	Venture Capital Investment activities in line with Shari'a principle.
EBDA Bank	Micro Finance Institution (Provides Loans to Low income families).

Mission Statement

Bahrain Development Bank's mission is to promote entrepreneurship, innovation and develop the small and medium enterprises in the Kingdom of Bahrain, assist in the self employment of Bahrainis in achievement of their career oriented education goals through best quality financial & advisory services in alignment with the Economic Vision of the Kingdom.

Financial Summary

	2011	2010	2009	2008	2007
Earnings (BD Thousands)					
Net interest income	5,776	5,101	4,704	3,904	2,937
Other income	1,459	1,555	1,603	3,819	2,833
Operating expenses	5,720	5,146	4,082	3,546	2,771
Provision for Impairments	1,289	802	1,473	2,010	1,864
Net profit	226	708	752	3,466	1,135
Dividend (percent)	0%	0%	0%	0%	0%
Financial Profile (BD Thousands)					
Total assets	137,673	144,053	124,211	103,370	90,621
Loans and advances	97,274	102,938	78,529	50,007	41,572
Investments	6,726	6,837	6,657	6,521	4,768
Total deposits	60,300	69,229	50,974	28,889	14,189
Customers' deposits	46,349	46,918	33,428	21,803	13,389
Equity	58,667	58,635	58,167	57,663	55,491
Ratios (percent)					
Profitability					
Return on average equity	0.39%	1.21%	1.30%	6.13%	3.28%
Return on average assets	0.16%	0.53%	0.66%	3.57%	1.54%
Earnings per share (fils)	5	14	15	69	23
Cost-to-income	79%	77%	65%	46%	48%
Capital					
Capital adequacy	44%	40%	53%	66%	90%
Equity/total assets	43%	41%	47%	56%	61%
Total deposits/equity (times)	1.03	1.18	0.88	0.50	0.26
Others					
Loans and advances/total assets	71%	71%	63%	48%	46%
Investments/total assets	5%	5%	5%	6%	5%
Loans and advances/customer deposits	2.10	2.19	2.35	2.29	3.10
Number of employees	160	162	147	108	83



Period	Project cost	Loans, Indirect Financing & Equity	New Jobs	Exports	Import Substitution	Foreign Investment	Foreign currency	Value added
Jan- Dec 2010	52,420	51,969	4,342	8,411	3,417	39	9,530	24,294
Jan- Dec 2011	25,895	26,786	2,589	18,775	4,590	200	19,035	11,137

Profile Of Directors



Shaikh Mohammed Bin Essa Bin Mohammed Al Khalifa - Chairman

As Chief Executive of the Bahrain Economic Development Board, Shaikh Mohammed has played a key role in the Board's strategic initiatives. Some of those initiatives include the full liberalization of the Kingdom's telecom sector, the Labour Market Reform Programme, Bahrain's Economic Vision 2030, the Bahrain Mumtalakat Holding Company, the Land Master Plan, Education and Training Reform, Bahrain Polytechnic, and the Bahrain Quality Assurance Authority.

Shaikh Mohammed is also deeply involved in the wider economic development of the region, notably through the World Economic Forum in Davos and other various regional forums. He also chairs the Young Arab Leaders' Bahrain Chapter, Bahrain Development Bank, Bahrain Polytechnic, Tamkeen and the Capital Club Bahrain. Currently he is advisor of Political and Economic Affairs at the Court of the Crown Prince.



Mr. Abdullellah Ebrahim Al Qassimi

Abdullellah Ebrahim Al-Qassimi has a wealth of public and private sector expertise in engineering, management, facility planning, training and labour. He is currently a board member of the Bahrain Development Bank and a member of its Audit Committee. He also in the Board of Tamkeen, and Chairing the Corporate Governance Committee since June 2011. With a Masters degree in Health Facility Planning and a Bachelors degree in Civil Engineering both from the University of London.

Mr. Al-Qassimi retired from his position as the Chief Executive of Tamkeen (2005 - 2010). In addition to being the Director of Engineering & Maintenance at the Ministry of Health for 23 years Mr. Al-Qassimi also occupied the post of Assistant Undersecretary for Training at the Ministry of Labour, between 2001 - 2005.



Mr. Redha Abdulla Faraj

With a degree in FCCA, UK, Mr. Faraj commenced his career as a Finance & Accounts Manager at British Petroleum. During 1976 - 1991 he occupied the post of Deputy General Manager at ASRY. For the next 10 years till 2001, Mr. Faraj was engaged as a partner with Ernest & Young where his client portfolio included a variety of banks, insurance companies, retail and manufacturing and airlines. Currently Mr. Faraj is the member of the Economic Development Board, the Arab Institute of Accounts, and Arab Federation of Accountants to name a few.



Mr. Saqr Shaheen Saqr

Mr. Shaheen is currently the Board Member and Vice Treasurer at the Bahrain Chamber of Commerce & Industry and CEO and Managing Director of Shaheen Group. He also having Board membership with GOSI and Deputy Chairman of LMRA. With a number of companies under its umbrella including Awal products Co.SPC, Gulf Services Co.SPC, Gypsum products and Inspiration Interior Design. Shaheen Group is involved in a number of activities dealing in contracting, trading and manufacturing. Mr. Shaheen is also the Chairman of Bahrain Industrial group, Falcon Management Company and Hilti Bahrain



Dr. Mohammed Ahmed Juman

Dr. Mohamed Jumaan has a degree in Electrical Engineering in the fields of electronics and telecommunications from Concordia University in Canada. He gained his MSC in Project Engineering from the University of Lancaster and later graduated with a PhD in Avionics from Cranfield University. Dr. Jumaan began his career in the Civil Aviation as an Electronics Engineer and then progressed to the post of Director of Air Navigation. He has extensive experience in the design, implementation and management of Engineering and Information Technology projects ranging in value from BD100k to BD50m. In 2005, Dr. Jumaan retired to create and invest in new businesses. During the last six years he has managed to establish, invest, finance and grow several different businesses in the IT, Engineering and Real Estate domains.



Mr. Ebrahim Abduali Al Daaysi

Holder of a Bachelors degree in Management and Computer Science, Mr. Aldaaysi is the CEO of Aldaaysi Holding. He is currently a board member of Labour Fund (Ministry of Social Development) , Food World in Saudia Arabia and Life Telecommunication Bahrain to name a few.



Ms. Dhaweya Sayed Sharaf Alawi

After gaining her degree in Commerce from Cairo Higher Institute of Trade, Mrs. Dhaweya started her Career as Economical Analyst at the Ministry of Finance and the National Economy in 1972 and progressed until she was appointed as the Director of Administration & Finance at the Ministry of Commerce & Industry and most recently as the Assistant Secretary General for Strategy Implementation at the Supreme Council for Women.

Mrs. Dhaweya has a vast experience in preparing Organization Charts, Budgets and Financial Control, she is a member of several committees such as the committee of Her Royal Highness Princess Sabeeka bint Ibrahim Al Khalifa's Award for Empowering Bahraini Women, the committee of Follow-up of the Implementation of Bahrain - USA Free Trade Agreement, the committee of Policy Advisory Committee and Technical Affairs (Arab Women Organization).

Currently, she chairs the working group to follow up the implementation of the visuals of the Supreme Council for Women in Government's action program.

Chairman's Message



Shaikh Mohammed Bin Essa Bin Mohammed Al Khalifa

Chairman

It is my pleasure to present you with the annual report for Bahrain Development Bank, which marked its 20th year with the end of 2011. I have always believed that paying attention to detail and effective management can achieve great things. And through joint efforts towards common goals, the board, management and employees achieved the bank's ambitions, which we are celebrating today. As a result, Bahrain's economy continued to grow until it became key player in regional and global economy.

Bahrain Development Bank continued to back national economy with its vast capacities to help provide more jobs and achieve sustainability for the kingdom's economy in line with the Bahrain economic vision 2030. The bank has transformed possibilities and new backing roles into strategic policies that regulate performance

and help create more investments, achieving a turning point in supporting SMEs and enticing innovators and entrepreneurs to develop their ideas and invest in them.

We all know that global economy faced many challenges in 2011. SMEs were affected greatly by the depression and unexpected events that took place in many countries in the region and the world, especially Bahrain. Knowing this, Bahrain Development Bank provided full support to all its SME clients.

Financing programs for SMEs and other financing programs reached 1136 during 2011 with an amount of BD 28.8 million, which led to creating more than 2,589 jobs.

Gross financing in all services, products and programs from the bank's inception until 2011 reached 258

million BD in the form of 8,421 financing programs. Since the announcement of the expansion plan in November 2005, the bank carried out drastic developments to capital, services, products and advanced programs via a method of integrated support, training, incubation and consultation, which is known as “Bahraini and Arabic Model.” Unique and pioneering, this model generated very positive responses regionally and globally from institutes that were very interested in implementing it on their programs.

In the last few years, the bank contributed greatly to the growth of Bahrain’s economy on all fronts. It provided about 20,000 jobs in different sectors, and achieved added value for the economy, which reached BD 120 million. With more projects financed by the bank achieved BD 70 million return in international currencies, and contributed to the export industry in the kingdom of Bahrain by BD 66 million through exporting products to international markets.

Financing programs provided to SMEs by the bank were valued at BD 215.4 million. And investments in total reached a value of BD 278 million.

As for empowering women in Bahrain, gross financing of projects initiated by women entrepreneurs reached more than BD 16 million in December 2011 in the form of 821 financing programs. And to focus more on empowering women, an independent unit for financing women entrepreneurs was created, along with “Bahrain Center for Women Empowerment – Entrepreneurship” in cooperation with the Supreme Council for Women. Participation of female in training programs organized by the business advisory department at Bahrain Development Bank was more than 50%. In addition, the bank raised female employment by 46% within the organization.

And to say the least, the journey of a pioneering national institution throughout years of service cannot be summed up with few numbers and results. It is by

everyone’s effort that Bahrain Development Bank will remain strong and forever in service of Bahrain and its people.

Today, after 20 years, we celebrate the beginning of a new era for Bahrain Development Bank, which will witness more developments, newer services and new clients. In support of our positioning as development experts and advance to new heights, we have developed strategies and plans for the next stage. Having set our goals, we are certain that the future will be even brighter.

In conclusion, I would like to extend my utmost gratitude to His Majesty King Hamad Bin Isa Al Khalifa - King of the Kingdom of Bahrain, and 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 Leader for their ongoing support and their continued efforts for the good of our Kingdom.

I also would like to thank the board, management and employees for their great efforts, which played a crucial role in realizing the bank’s vision and objectives for the year. Thanks also go to all who offered their cooperation and supported our activities and various operations.



Mohammed Bin Isa Bin Mohammed Al Khalifa
Chairman of the board

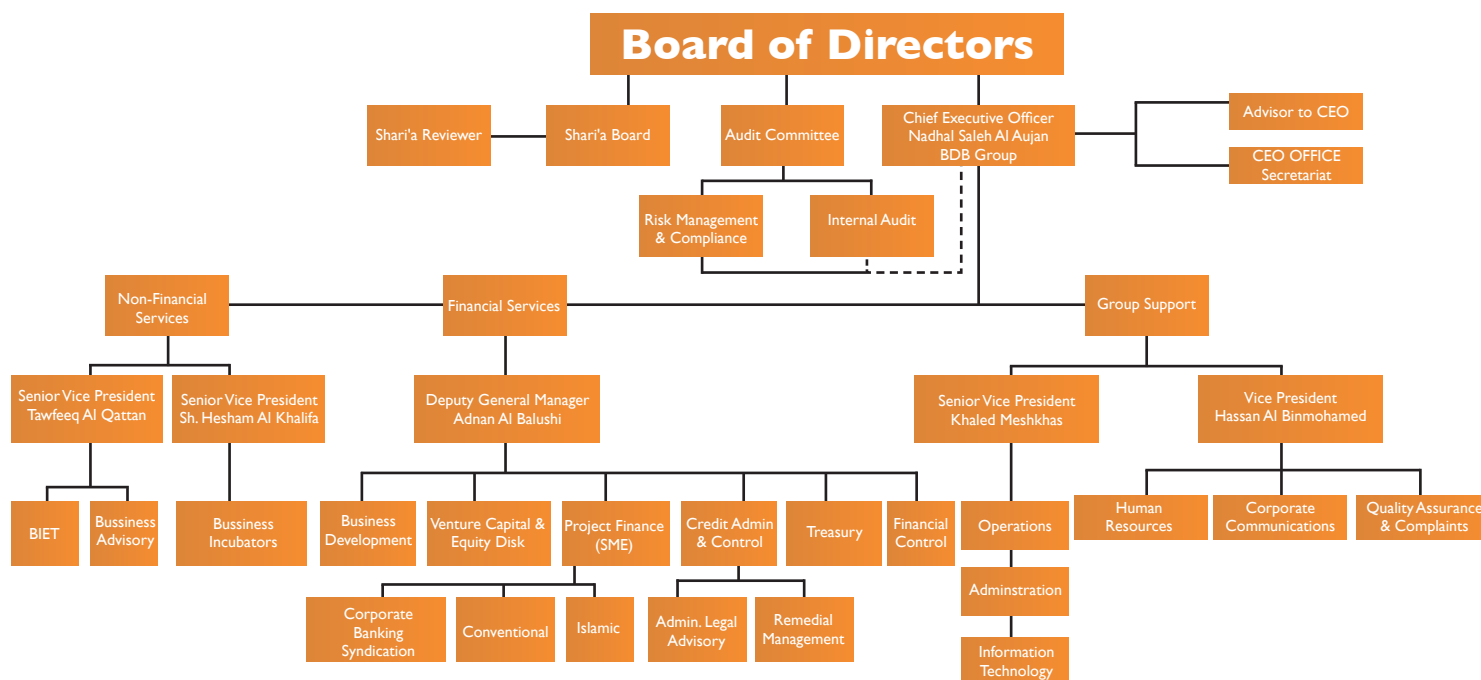
Corporate Governace

The Board of Directors' Corporate Governance philosophy is intended to support BDB's management in the efficient administration of its diverse development financing and activities including, business advisory, entrepreneurial training, business incubation services and meeting all the Central Bank regulatory & other legal requirements.

Towards this end, it continues to adopt the best practices in Corporate Governance by reporting results with accuracy and transparency in accordance with IFRS, adhering to the rules and regulations of the Central Bank of Bahrain that govern the Bank's business.

The Board has put in place various policies and guidelines to ensure that we are an effective ethical organization. The various Committees at the Board level focused on Risk, Audit, Business Review and Human Resources charter the operational efficiency of the Bank.

The Board of Directors is committed to ensure effective Governance over the affairs of the Bank and its subsidiaries in the best interests and for the benefit of all its stakeholders. The Bank is committed to be fully compliant with the requirements of the Corporate Governance Code of the Kingdom of Bahrain by December 31, 2012.



Board of Directors

Board Committees

The Board has established an Audit sub-committee to assist in carrying out its responsibilities.

Members	Summary Terms of Reference
Mr.Redha Abdullah Faraj – Chairman	Assist the Board in carrying out its duties regarding the integrity of the Bank's financial reporting system, adequacy of the Bank's internal control and risk management processes, to oversee the external and internal audit functions, and Bank's compliance with legal and regulatory requirements
Mr.Abdullellah Ebrahim Al-Qassimi	
Mr.Saqer Shaheen Saqer	

Board Meetings and Attendances

During 2011, No formal Board meetings were held.

During 2011, Audit committee meetings were held in Bahrain on, 01 March, 08 August, 31 October, 22 December. The following Directors attended the meetings:

Audit Committee Meetings and Attendances

SI No	Name of the Directors	01 March	08 August	31 October	22 December
1	Mr. Redha Abdulla Faraj	✓	✓	✓	✓
2	Mr.Abdullellah Ebrahim Al Qassimi	✓	✓	✓	✓
3	Mr. Saqer Shaheen Saqer	✓	✗	✓	✓

Management Executive Committee

The Management Executive Committee is responsible for the day to day operations towards achieving the strategic goals within the pre-defined risk appetite and approved strategy as a whole. Management committee is chaired by the Chief Executive Officer of the bank and the heads of the functional areas like Development Banking, Entrepreneurial Development, Operations, HR, Financial Control, Risk Management are the members of the Committee.

Nedhal Saleh Al-Aujan

Chief Executive Officer

- Member of the Board of Directors- Bahrain Telecommunications Company (BATELCO), & Audit Committee Member.
- Venture Capital Bank, Board Member & Chairman of the Audit Committee.
- Gulf Diabetes Center, Chairman of the Board; Arabian Taxi Company, Chairman of the Board.
- Bahrain Specialist Hospital B.S.C (c), Director; Retail Arabia (Geant) , Director.

Over 26 years of banking experience, has held a number of senior managerial positions in local and international banks including Senior Manager at Standard Chartered Bank and Al Ahli United Bank. He joined Bahrain Development Bank in 1999.

Adnan Mahmood Al Balooshi

Deputy General Manager - Banking Development

OCBS, University of Bahrain. RSA Level I & II, University of Bahrain.

Over 31 years of banking experience. He has worked with Bank of Bahrain & Kuwait, Al Ahli Commercial Bank, Gulf Riyadh Bank in various area including Head of credit administration and Corporate Manager. He joined Bahrain Development Bank in 2005.

Khalid Yousif Meshkhas

Senior Vice President - Support Services Division

Mr. Khalid holds an Associate Diploma in Accounting from University of Bahrain and Advanced Banking Diploma from Bahrain Institute of Banking and Finance (BIBF).

Mr. Khalid gained 22 years combined banking experience from conventional & Islamic Banks. During his career he worked with National Bank of Bahrain & Al Salam Bank in various operation departments such as Loans, Time Deposit, Money Transfer, Commercial Services, Customer Services and Treasury Back-office. He is also, in marketing area which comprises of Retail & Commercial Banking. He joined Bahrain Development Bank in 2011.

Anil R. Hattangdi

Executive Vice President and Board Secretary.

B.A. Economics, Bombay University. Certified Associate of Indian Institute of Bankers (C.A.I.I.B).

Over 51 years of banking experience. He has worked with Union Bank of India, Al Ahli Commercial Bank in successively senior management positions. He joined BDB in 1997.

Sh.Hesham Mohamed Al-Khalifa

Senior Vice President - Head of Bahrain Business Incubator Centers

Bachelor of Economics, American University.

Over 21 years of experience, he has worked as a Director with Ministry of Development & Industry and Ministry of Oil & Industry. Also he was a Director of Public Relations & Information and Director of Follow-up in the Court of the Crown Prince. During his career he Contributed to the development of numerous economic and social strategies and programs, Developed & institutionalized in coordination with Bahrain Development Bank & UNIDO the methodology and tools for the development & promotion of domestic investment (Bahrain Model for Entrepreneurial Development) in Bahrain Business Incubators and Involved in the development of Woman Incubator center & University of Bahrain Incubator Center. He joined Bahrain Business Incubator Center in 2011.

Tawfeeq Ali Al Qattan

Senior Vice President- Entrepreneurial Development

St. Edwards University (Computer Information Science/Business Management) (USA).

Over 16 years experience in Information Technology. He has worked for St. Edwards University, Siemens Mobile Networking/Intelligent Networks. He joined Bahrain Development Bank in 2005.

Dalal Ismail Ahmed

Senior Vice President – Banking Development

Middle Management Diploma from Bahrain University, Advance Diploma in Islamic Finance, Treasury / Capital Markets Diploma from BIBF. Over 29 years of banking experience mainly in the fields of Retail, commercial & Project finance in conventional and Islamic banking with specific expertise in credit control, risk management and legal aspects. She has worked with Ahli United Bank and Standard Chartered Bank in various area including branches, treasury and credit. She joined Bahrain Development Bank in 2003.

Hassan Khalil Al-Binmohamed

Vice President- Human Resources and Corporate Communications

B.A. in Government, Eastern Washington University, USA. Associate of Art, Spokane Falls Community College, USA.

Over 10 years of banking experience. He has worked with Kuwait Finance House as HR Supervisor.

He joined Bahrain Development Bank in 2005.

Buthayna Ahmed Al Sadiq

Vice President- Financial Control

BSc. in Accounting, University of Bahrain, MBA (Strathclyde University), CPA (California)

Over 12 years of banking experience. She has worked with Nomura Investment Banking and Al-Baraka Islamic Bank in various area including Operations and Section Head of Accounts.

She joined Bahrain Development Bank in 2006.

Dr. Srinivasan Sampath

Vice President- Head of Risk Management

Ph.D. [Banking], Mangalore University, India, MBA [Finance], IGNOU, M.A. [Sociology], Annamalai University, Certified Associate of Indian Institute of Banking and Finance, Diploma in Bank Management, Diploma in International Banking, Diploma in Financial Service- Indian Institute of Banking and Finance, PG Diploma in Personnel Management, National Institute of Personnel Management, PG Diploma in International Business Operations and PG Diploma in Financial Management. Fellowships: Diamond Jubilee Overseas Banking Research Fellowship by Indian Institute of Banking and Finance and C H Bhabha Research Fellowship by the Indian Banks' Association.

Over 27 years of varied experience in Banking and Consulting sphere. He has worked with Corporation Bank, The Lakshmi Vilas Bank Ltd, Satyam Computers and Infosys Technologies Ltd., in senior management positions both in India and abroad. He joined Bahrain Development Bank in 2011.

Samuel Verghese

Senior Manager- Head of Internal Audit

B.Com, University of Calicut, India. FCA, Institute of Chartered Accounts of India.

Over 21 years of experience he has worked with Steel Authority of India Ltd (SAIL), The South Indian Bank Ltd, Kerala Financial Corporation and Oman Development Bank in successively senior management positions.

He joined Bahrain Development Bank in 2007.

Management Executive Committee



Nedhal Saleh Al Aujan
Chief Executive Officer



Adnan Mahmood Al Balooshi
Deputy General Manager, Banking
Services Division



Khalid Yousif Meshkhas
Senior Vice President,
Support Services Division



Anil Hattangdi
CEO Adviser



Sh.Hesham Mohamed Al-Khalifa
Senior Vice President - Head of Bahrain
Business Incubator Centers



Tawfeeq Ali Al Qattan
Senior Vice President, Entrepreneurial
Development Division



Dalal Ismail Ahmed
Senior Vice President, Banking
Services Division



Hassan Khalil Al-Binmohammed
Head of Human Resources & Corporate
Communication



Buthayna Ahmed Al Sadiq
Head of Financial Control



Dr. Srinivasan Holur Sampath
Head of Risk Management



Samuel Vergheese
Head of Internal Audit



CEO's Statement



Nedhal Saleh Al Aujan

Chief Executive Officer

With the end of 2011, Bahrain Development Bank marks its 20th year as one of the nation's most prominent finance and development houses, who has always been supporting SMEs and grooming entrepreneurs in the kingdom of Bahrain, an endeavor that aimed at contributing to development of the national economy and promoting diversification initiatives. Along its journey, the Bank underwent significant development in terms of operational scope, financing schemes, consultation services, methods and action plans targeting the entrepreneurship sector. These developments became necessary as Bahrain's economy continued to grow over the past few years.

Looking back, the past few years witnessed growth in loan portfolios and an increase in the number of enterprises benefitting from financing schemes, along with delivering a variety of programs, financial and counselling services. In addition to this, a network of branches and service centers were established in different areas, and to promote a culture of entrepreneurship, business incubators were developed.

As yet another addition to the Bank's annual reports, I am pleased to present you with the annual report for the year 2011, highlighting main results and activities of the Bank in relation to finance, counselling, training,

incubation services and other programs that were implemented during 2011. These programs adhere to the Bahrain economic vision 2030, the national economic strategy (2009 - 2014) and aim to meet the expectations of the Economic Development Board.

The Bank has strived to achieve its targets and find new methods to finance and develop SMEs, which would help them face the managerial, financial and marketing challenges of an ever-changing market. On the technology front, the Bank has followed market trends to ensure delivery of high quality financial and non-financial services to SMEs, who have become key players in Bahrain's economy. Therefore, they require full support and commitment to their needs.

During 2011, the Bank provided 1,136 financing schemes, a total of BD 28.8 million. This resulted in creating 2,589 jobs, BD 18.8 million in exports and a growth rate of 120%, which is a leap forward in comparison to last years BD 8.5 million in exports. Projects achieved a BD 19 Million return in comparison to last years BD 9.6 million. Thus achieving a growth rate of 98%. The bank also financed fishery, agriculture, education and aviation training with the amount of BD 1.8 Million.

Following the unfortunate events that the kingdom witnessed this year, and taking into account its effect on SMEs, the bank took initiative to provide support by offering more flexibility regarding financing schemes for interested enterprises. More than 813 opted for restructuring their financing schemes of BD 20 million.

Being highly competitive and unique to the market, certain projects received more attention from the bank as they had more growth potential and good added value. For instance, garment, clothing, aluminum, wood and food industries were at the top of the list. In the service sector, projects in the fields of tourism, business, education, engineering and mechanics were top priority.

To achieve the Bank's women and youth empowerment goals, 55% of all financing schemes were granted to projects initiated by women and youth, and 89% of financing schemes was granted to small projects.

On the other hand, the Bank succeeded in attracting new clients who accumulate 51% of beneficiaries, reflecting the Bank's plans to expand its client base.

During 2011, the Bank cooperated with multiple institutions that were interested in supporting SMEs. In that respect, the bank signed an agreement with Tamkeen to expand Islamic financing portfolios by 2 million for the private sector. Also, the bank signed another agreement with The Islamic Corporation for Insurance of Investments and Export Credits to provide in joint effort for export credit to insurance to business in Bahrain with the aim of encouraging SMEs to enter the business of exporting. In addition, a memorandum of understanding was signed with Bahrain Institute of Banking and Finance to offer training to entrepreneurs.

The Bank continued to develop counselling services and increase beneficiaries to reach 2,418

entrepreneurs, students and employees. Moreover, the Bank organized and participated in many entrepreneurship events such as “Entrepreneurs day 2011,” “Global entrepreneurship week” and “International Entrepreneurs day,” further to that awareness programs and many workshops were held to encourage Bahraini youth to start their own businesses. As an integral part of the bank's policies, we continue to communicate with clients through meetings to ensure better customer, financial and non-financial services for the entrepreneurs and SME sector.

Bahrain Institute of Entrepreneurship and Technology, a subsidiary the Bank, has overseen and organized entrepreneurs grooming and development programs, from which 82 trainees benefited. As for the total number of trainees in the field of technology, entrepreneurship and development, it was 2,158.

Bahrain business incubator center continued to receive applications from small projects. Today, 90 projects have joined the center. And foundations have been laid for the “Bahraini women development center” in A’ali in cooperation with the Supreme Council For Women. As part of the Bank’s resolve to enforce business incubators experience for small projects development and a promoter of an innovative culture, procedures to create a technologic business incubator at University of Bahrain have started.

The Bank has worked on creating methods and motivational programs for entrepreneurs, as it is quite a challenge to promote entrepreneurship to youth, which is key towards building a business base that combines skill and knowledge. This can be achieved by our counselling and training programs, which ultimately will lead to a more prosperous entrepreneurship sector in the Kingdom of Bahrain.

Building on the achievements of 2011, the Bank will endeavor, with the beginning of 2012, to provide new methods and programs for financial and non-financial services. A plan was put to comprehensively

implement new methods, which aim at achieving the bank’s goals. By the will of God, the bank will have an integral role in developing the SME sector and the entrepreneurs as a whole in the Kingdom of Bahrain.

Last but not least, I would like to extend my gratitude to our Government for their ongoing support and to the Ministry of Finance in particular. I also would like to thank the Chairman and Board of Directors for their advice and direction. I fully appreciate the strategic partnership between the bank and Tamkeen, which had a big impact on supporting SMEs. I also extend my sincerest appreciation to all local and international institutes that cooperated with us, especially the Ministry of Industry and Commerce, while hoping to continue our joint efforts with different entities in order to achieve mutual goals and the good of our dear Bahrain.

Nidhal Saleh Al-Aujan
Chief Executive Officer





Management Review

The GCC economies, in comparison, have performed well as a result of government sponsored infrastructure projects, government revenue and sovereign wealth funds. Bahrain's economy was impacted in the first half of 2011 as a result of the events in the early part of the year. However, economic activity picked up in the second half of the year, particularly in sectors like manufacturing, favorable oil prices and the effects of the government spending to provide further impetus to economic growth.

It was anticipated that the global economic recovery would pick up during the year. However, the Euro zone debt crisis, the political gridlock in the United States and the events in the region resulted overall economic climate as the year progressed and the global economy has shown significant sign of weakness as the year came to a close.

Business Banking

The Bank continued to play an active and supportive role in meeting the credit needs of the SME sector. In line with the bank's main Objective the emphasis and focus were more on financing small businesses and start up business ventures and encouraging / motivating more of Bahraini youth and women to venture into the challenging careers of entrepreneurship. With the blended version of specially customized finance products and the unique business advisory and consultation services, the Bank offered to its clients a package of support to facilitate business establishment and operational growth.

During the year 2011, the Bank disbursed 968 loans aggregating to BD 26.786 million under the SME segment, and the portfolio as at the end of December 31, 2011 stood at BD 92.958 million. This is as against BD 98.885 million as at the end of December 31, 2010. On account of the market conditions prevailing during 2011, SME sector in general were cautious in taking up new / expansion projects and this had bearing on growth performance of the Bank. However, as at the

end of December 2011, the Bank had approved limits for various projects aggregating to BD 8.067 million, which are expected to go on stream during the early part of the current year. The Bank has approved a Term facility of BD 5.66 million to part finance an industrial unit, to manufacture Biaxially-oriented polyethylene terephthalate (BOPET) films at a total outlay of BD 75.40 million. This project is of national importance with benefits accruing in terms of capital investment, exports, additional employment etc.

Our specialized financing products under the BDB-Tamkeen Joint Finance Scheme were well received in the market. The Bank continued its thrust on lending to SME sector under the scheme.

During the year, the SME segment experienced difficulties on account of the changed market conditions and as a development financial institution, the Bank adopted a pro-active approach in assisting the clients in overcoming their financial difficulties. During the year, 813 SME clients were assisted in the form of restructuring of their facilities involving outstanding of BD 19.986 million, to enable them to tide over their financial difficulties. The Bank is committed to render all possible assistance to the SME segment, to enable them to conduct smooth business.

The Bank continued its financial assistance to other priority sectors like fisheries and agriculture, thereby enabling the clients to acquire gainful self-employment and earn their livelihood. During the year 2011, the Bank disbursed 76 fisheries loans aggregating to BD 0.525 million and 14 agriculture loans aggregating to BD 0.063 million. During the year the Bank also participated in the equity financing amounting to BD 0.500 million to set up a Poultry project involving total capital outlay of BD 12.5 million. This project is also expected to be commissioned during the current year.

The Bank is also contributing towards enhancing the level of education of the Bahraini youth through its Education Finance Scheme. The Bank has also

extended educational loans to the cadet pilots selected for commercial pilot training programme under a tripartite agreement between BDB, Tamkeen and MUMTALAKAT. Financing under Education Finance Scheme facilitates Bahraini youth to acquire higher knowledge and thus become eligible to take up jobs at higher levels. During the year 2011, the Bank disbursed 78 educational loans aggregating to BD 1.240 million.

It was another fruitful year of performance in the area of economic contribution through our financing activity. The financing made by the Bank under all segments facilitated in creating an estimated 2,589 jobs. Similarly, significant contributions have been made in other economic parameters namely import substitution, value additions, exports and foreign currency earnings.

During the year 2011, the Bank has upgraded Satellite branch in Muharraq to a full-fledged branch. The Bank at present has network of five full-fledged branches and three satellite branches, spread over different parts in the Kingdom of Bahrain and thus is able to cater to wider clientele present in all major business centres.

Based on the goodwill already created among the SME community the Bank's strategy in 2012 shall be to reach out to more number of SMEs, through our well distributed network of branches and achieve higher level of performance both under financial and economic parameters. Our strategy of promoting new start up enterprises by Bahraini youth and women shall continue to receive our enhanced focus and dedicated efforts.

Non-Financial Services

The non-financial activity portfolio of the bank for the year 2011 has witnessed stability with relative growth through new initiatives that took place to further stimulate entrepreneurial culture in the society and facilitate SME development. Keeping in line with the country's economic strategy and Bahrain Economic Vision 2030, emphasis has always been considered on developing the young human capital of Bahrain and facilitating entrepreneurial career choices by the Bahraini youth. The non-financial support services of the bank are implemented under the Entrepreneurial Development Division and cater to capacity building (training and related entrepreneurial events), business

counseling, linkage to financial services, business incubation and related services.

Business Advisory

Major highlights among the initiatives taken are:

1. 3rd Annual Entrepreneurs Day Program for young Bahraini men and women.
2. Several orientation activities and university level presentations as part of Global Entrepreneurship Week.
3. Continuation of Youth Entrepreneurship Orientation Program (EOP) on monthly basis.
4. Continuation of the advanced Entrepreneurship Development Program (EDP) at the Bahrain Institute of Entrepreneurship & Technology (BIET formerly known as BIT).
5. Continuation of pre-seed capital scheme and feasibility study support scheme in partnership with Tamkeen.
6. Implementation of a quarterly Entrepreneur's Journal that provides fruitful information in creating further awareness and development of entrepreneurial skills for the Bahraini society.
7. 2nd group of training conducted in cooperation with the Ministry of Education for final year students in the GSVEC program. Training focused on business planning, entrepreneurship awareness, and capacity building. Students were nominated from both Technical and Commercial schools of the public schooling system. This will begin to be an annual initiative with Ministry of Education.

In addition, several presentations were conducted at universities, schools, training institutions and at societies, business associations etc., creating awareness on entrepreneurship and encouraging business creation. Under the guidance of the business advisory unit, a total of 304 start-up businesses were supported in terms of business planning and other related capacity building requirements. They were also linked to the bank's financial scheme for further support in implementing the business.

Emphasis has also been given to supporting youth through advisory services including the training programs in which 41% of youth have been supported under BDB services in 2011 as opposed to 30% in 2010.

Bahrain Business Incubator Center

Through its non-financial support services, the bank has reached to more than 2000 people during the year including potential entrepreneurs, SME owners, students, young graduates and members of various institutions. The expansion phase of the pioneering business incubator project of BDB has successfully been completed during the year and the process of inducting new tenant enterprises, has also begun. With the expansion, the total capacity of the incubator has reached to 128. It is noted that 16% of women have been supported by BDB services in 2011 as opposed to 12% in 2010. The Women Business Incubator is under construction and should be handed over by the 3rd quarter of 2012. Tenant applications are being received to be accommodated within the Woman Incubator Center. The University Business Incubator implementation phase has started with the allocation of premises at the Sakheer campus - University of Bahrain and completion of renovation of the premise. An awareness campaign has been launched at the university to educate both students and faculty of the benefits of the new business incubator and attract new tenants. Tenants accommodation is scheduled to commence by fall semester of 2012.

On the basis of substantial growth in activities and achievements the aim is to further scale up the provision of these support services by employing and developing capable Bahraini human resources into the entrepreneurial division, extending outreach to the society and by introducing new services for budding entrepreneurs and SMEs.

Bahrain Institute of Entrepreneurship & Technology

The work scope of BDB's training arm continues to be enhanced by including specialized entrepreneurship training at the Bahrain Institute of Entrepreneurship and Technology (BIET). It also implements the Government's Initiative to develop Bahrain as a Regional Training Hub. BIET has trained more than 1,500 students during 2011, of which 95% were Bahraini.

Human Resources

Recognizing that staff is a key asset of the Bank, the Bank continued to significantly invest in staff welfare and the provision of the necessary training and development opportunities. About 77.5% of our staff (124 employees as of Dec 2011) attended several In-House training sessions, courses run by the Bahrain Institute of Banking and Finance (BIBF) and elsewhere in Bahrain and abroad- during the year 2011. Staff were trained in anti-money laundering procedures, Youth Entrepreneurship Orientation Program, Essentials of Risk Management, Export Credit Guarantee, plus for other specialized training sessions which were attended by Key staff from the bank.

Incentive Structure

The Bank conducts a formal written appraisal for all management and staff at least once per year. Depending on general performance and specific goals achievement, Management may at its discretion pay an annual performance bonus and/or award a salary increment. The Chairman approves the aggregate amount of discretionary bonuses, and any other payments made (if any) to the Chief Executive Officer. The CEO approves annual increments within the aggregate amount of approved annual budget.

Communication Strategy

A summary of the Bank's consolidated quarterly and annual financial statements are published in local and regional newspapers. All other external communications are handled by the Public Relations Department, under the direction of the Chief Executive Officer. The Bank maintains a website (www.bdb-bh.com) which contains the entire latest Annual Report, together with summary financial data covering the previous three years results. It also contains a profile of the Bank, the subsidiaries, the details of the loan products and information concerning BDB's other products and services.



Financial Review

Overview

During the year ended 31 December 2011 the bank recorded a net profit of BD 226K, as compared to BD 708K during 2010. Total operating income grew by 9% to BD 7.22 million, due to increases in net interest income, rental income and dividends. Total assets of BD 137.67 million at the year-end 2011 had shown a marginal decrease of 4% as compared to 2010. The deposits from Government and semi Government Institutions of BD 46 million stood at the same level of 2010 and the borrowings from banks has decreased by BD 8.36 million and stood at BD 13.95 million as on December 2011.

Net Interest Income

Net Interest income grew by 13 % to BD 5.78 million as compared to BD 5.10 million of the previous year. The increase in net interest income was on account of growth in the average loan portfolio and better recovery from NPA accounts.

Other Income

Other income was BD1.46 million (2010:BD1.56 million) was marginally down during the year mainly on account of reduction in banking fee due to lower disbursements and lower course fees income from a subsidiary.

Operating Expenses

Total operating expenses showed an increase of BD 574K, up by 11 % over the previous year. Staff expenses rose from BD 3.29 million to BD 3.51 million due to hiring of additional staff to meet the requirements at senior and middle level management. Other operating expenses reflected an increase of 10% over the previous year due to overhead cost of new branches opened during 2010 and increase of depreciation expenses of

BD 196K due to expansion of Incubator center. The cost to income ratio has increased marginally from 77 % to 79 % during the year.

Provisions

Bank's provisioning requirements in respect of its non-performing portfolio is in line with the International Financial Reporting Standards. The loan loss provision for the year net of recoveries was BD 1.24 million as compared to BD 802 K for year 2010. Bank also made BD 45K for Provision for Impairment on Available-for-sale investments during the year.

Assets

Decrease in total assets mainly attributable to the reduction in loans & advances, due to recent economic scenario at the Kingdom. Net loans and advances to customers were decreased from BD 102.94 million at year-end 2010 to BD 97.27 million, a decrease of BD 5.67 million or 6 %. The 5% increase in Property, plant and equipment compared to last year was mainly due to the cost incurred for the construction of Women Incubator Centre, which is expected to be completed by mid of year 2012.

Equity

As against minimum capital adequacy ratio of 12 % prescribed by the Central Bank of Bahrain (CBB), the Bank's ratio at year end 2011 was 44% (2010: 40%). The ratio, based on guidelines issued by CBB, which are compatible with those of the Basel Committee on Banking Supervision, measures total qualifying capital held by an institution in relation to its risk weighted assets.

Consolidated Financial Statements

for the year ended 31 December 2011



Contents

34	Independent Auditor's Report
36	Consolidated Statement of Financial Position
37	Consolidated Statement of Income
38	Consolidated Statement of Comprehensive Income
39	Consolidated Statement of Changes In Shareholder's Equity
40	Consolidated Statement of Cashflows
41	Explanatory Notes to the Consolidated Financial Statements

Auditors' Report

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BAHRAIN DEVELOPMENT BANK B.S.C. (c)

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

Directors' responsibility for the consolidated financial statements

The board of directors is 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 the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 our 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, we consider 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 management, 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 consolidated financial position of the Group as at 31 December 2011, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 1), we report that: the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith; the financial information contained in the directors' report is consistent with the consolidated 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 having occurred during the year that might have had a material adverse effect on the business of the Bank or on its consolidated financial position; and satisfactory explanations and information have been provided to us by the management in response to all our requests.



29 February 2012
Manama, Kingdom of Bahrain

Consolidated statement of Financial Position

31 December 2011

(Expressed in Thousand Bahrain Dinars)

	Notes	2011	2010
ASSETS			
Cash and balances with Central Bank of Bahrain	5	2,409	1,565
Due from banks and other financial institutions	6	20,676	22,631
Accounts receivable and other assets	7	881	825
Loans and advances to customers	8	97,274	102,938
Available-for-sale investments	9	4,621	4,611
Investment in associates	10	2,105	2,226
Property, plant and equipment	11	9,707	9,257
TOTAL ASSETS		137,673	144,053
LIABILITIES AND EQUITY			
Liabilities			
Deposits	12	60,300	69,229
Accounts payable and other liabilities	13	4,916	3,849
Long term loans	14	13,790	12,340
Total Liabilities		79,006	85,418
Equity			
Share capital	15	50,000	50,000
Statutory reserve	16	1,010	987
Cumulative changes in fair value		(256)	(62)
Retained earnings		7,913	7,710
Total Equity		58,667	58,635
TOTAL LIABILITIES AND EQUITY		137,673	144,053

These consolidated financial statements, set out on pages 34 to 73, were approved for issue by the Board of Directors on 29 February 2012 and signed on its behalf by:



Chairman



Director

Consolidated Statement of Income

Year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

	Notes	2011	2010
Interest income	17	6,521	5,695
Interest expense	18	(745)	(594)
Net interest income		5,776	5,101
Fee and commission income		562	683
Rental income		396	320
Course fees and related income		142	154
Dividend income		415	351
Other income		52	185
Share of loss of associates		(122)	(195)
Total operating income		7,221	6,599
Administration expenses	19	(3,989)	(3,570)
Other operating expenses		(1,731)	(1,576)
Profit before provision and foreign currency translation		1,501	1,453
Provision for Impairment on Loans and advances	8	(1,244)	(802)
Provision for Impairment on Available-for-sale investments	9	(45)	-
Gain on foreign currency translation		14	57
Net profit for the year		226	708

Consolidated statement of Comprehensive Income**Year ended 31 December 2011****(Expressed in Thousand Bahrain Dinars)**

	2011	2010
Net profit for the year	226	708
Net movement in cumulative changes in fair value - available for sale investments	(194)	(240)
Total comprehensive income for the year	32	468

Consolidated statement of changes in shareholders' equity

Year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

	Share capital	Statutory reserve	Cumulative changes in fair value	Retained earnings	Total Equity
Balance at 1 January 2010	50,000	916	178	7,073	58,167
Total comprehensive income for the year	-	-	(240)	708	468
Transfer to statutory reserve	-	71	-	(71)	-
Balance at 31 December 2010	50,000	987	(62)	7,710	58,635
Total comprehensive income for the year	-	-	(194)	226	32
Transfer to statutory reserve	-	23	-	(23)	-
Balance at 31 December 2011	50,000	1,010	(256)	7,913	58,667

Consolidated statement of Cashflows

Year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

	2011	2010
Operating activities		
Net profit for the year	226	708
Adjustments for:		
Depreciation	479	283
Provision for Impairment on Loans and advances	1,244	802
Provision for Impairment on Available-for-sale investments	45	-
Dividend income	(415)	(351)
Reversal of excess depreciation	-	(93)
Share of loss of associates	122	195
Gain on foreign currency translation	(14)	(57)
	<u>1,687</u>	<u>1,487</u>
Operating profit before changes in operating assets and liabilities		
Changes in operating assets and liabilities:		
Due from banks and other financial institutions	(3,304)	(5,114)
Accounts receivable and other assets	(56)	(56)
Loans and advances to customers	4,420	(25,211)
Deposits	(8,929)	18,255
Accounts payable and other liabilities	1,067	2,238
	<u>(5,115)</u>	<u>(8,401)</u>
Net cash used in operating activities		
Investing activities		
Purchase of property, plant and equipment	(929)	(1,392)
Purchase of investments	(250)	(615)
Dividend income received	415	351
	<u>(764)</u>	<u>(1,656)</u>
Net cash used in investing activities		
Financing activities		
Proceeds from/(repayment of) long term loan	1,450	(1,119)
	<u>1,450</u>	<u>(1,119)</u>
Net cash provided by/(used in) financing activities		
Decrease in cash and cash equivalents	(4,429)	(11,176)
Cash and cash equivalents at 1 January	<u>5,520</u>	<u>16,696</u>
Cash and cash equivalents at 31 December (Note 20)	<u>1,091</u>	<u>5,520</u>

Notes to the consolidated financial statements

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

I-ACTIVITIES

Bahrain Development Bank B.S.C. (c) (the Bank or "BDB") was established as a Bahraini closed shareholding company by Legislative Decree number 19 dated 11 December 1991 and commenced operations on 20 January 1992. The Bank is registered with the Ministry of Industry and Commerce under commercial registration (CR) number 26226. The Bank's registered office is in Kingdom of Bahrain.

The Bank is operating as a retail bank with special waivers under a license issued by the Central Bank of Bahrain (CBB).

The core development bank activities consist of advancing loans for project finance, working capital and premises and equipment for developing industries and service sectors such as tourism, health and education in the Kingdom of Bahrain. As part of this activity, the Bank also renders management consultancy services and subscribes to ordinary and preference shares in Bahraini companies. Additionally, loans are advanced for agriculture, fisheries and higher education purposes. Other activities of the Bank comprise making direct contributions towards the economic development of the Kingdom of Bahrain.

The Group consists of the Bank and its following subsidiaries:

Name	Country of incorporation	Ownership interest	Year end	Principal activity
Bahrain Institute of Entrepreneurship & Technology S.P.C.	Bahrain	100%	31 December	Providing high quality entrepreneurship & educational services in information technology.
Bahrain Business Incubator Centre S.P.C.	Bahrain	100%	31 December	Development and assistance to emerging Bahraini entrepreneurs.

2-BASIS OF PREPARATION

The consolidated financial statements are presented in Bahraini Dinars (BD) which is the functional currency of the Group and all the values are rounded to the nearest thousand.

Statement of compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as promulgated by the International Accounting Standards Board ("IASB"), interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and the requirements of the Bahrain Commercial Companies Law, Decree Number 21 of 2001 and the Central Bank of Bahrain Rulebook.

Notes to the consolidated Financial Statements

for the year ended 31 December 2011
(Expressed in Thousand Bahrain Dinars)

2-BASIS OF PREPARATION (continued)

Basis of presentation

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements have been prepared under the historical cost convention.

Standards, amendments and interpretations issued and effective in 2011 but not relevant

The following new standards, amendments to existing standards and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2011 or subsequent periods, but are not relevant to the Group's operations:

Standard or interpretation	Title	Effective for annual period beginning on or after
IFRS 1	First Time Adoption of International Financial Reporting Standards	1 July 2010/ 1 January 2011
IFRS 3	Business Combinations	1 July 2010
IFRS 7	Financial Instruments – Disclosures	1 January 2011
IAS 32	Financial Instruments – Presentation	1 February 2010
IFRIC 13	Customer Loyalty Programmes	1 January 2011
IFRIC 14	The Limit on Defined Benefit Assets, Minimum Funding Requirements and their Interaction	1 January 2011
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

Improvements/amendments to IFRS (2010 / 2011)

Improvements/amendments to IFRS issued in 2010 / 2011 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments are effective for the Group's 2011 annual audited consolidated financial statements with earlier adoption permitted. No material changes to accounting policies are expected as a result of these amendments.

Notes to the consolidated Financial Statements

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

2-Basis of preparation (continued)

Standards, amendments and interpretations issued but not yet effective in 2011.

The following IFRS and IFRIC interpretations issued/revised as at 1 January 2011 or subsequent periods have not been early adopted by the Company's management:

Standard or Interpretation	Title	Effective for annual period beginning on or after
IAS 1	Presentation of Financial Statements	1 January 2012
IAS 12	Income Taxes	1 January 2012
IAS 19	Employee benefits	1 January 2013
IAS 27	Separate Financial Statements	1 January 2013
IAS 28	Investments in Associates and Joint Ventures	1 January 2013
IFRS 1	First Time Adoption of International Financial Reporting Standards	1 July 2011
IFRS 7	Financial Instruments – Disclosures	1 July 2011
IFRS 9	Financial Instruments – Classification and Measurement	1 January 2013
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint Agreements	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013

Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries. 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 profits and losses resulting from intra-group transactions are eliminated on consolidation.

Subsidiaries are consolidated from the date on which control is transferred to the Bank and cease to be consolidated from the date on which control is transferred out of the Bank.

Notes to the consolidated Financial Statements

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

3-SIGNIFICANT ACCOUNTING POLICIES

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

Cash and balances with Central Bank of Bahrain (CBB)

Cash and cash equivalents comprise cash, balances with CBB including reserves.

Due from banks and other financial institutions and loans and advances to customers

These are initially recorded at fair value of the consideration given. After initial measurement these are subsequently measured at amortised cost using the effective rate method less allowance for impairment.

Accounts receivable and other assets

Accounts receivable are stated at original invoice amount net of discounts and provisions for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

Available-for-sale investments

Available-for-sale investments are those which are designated as such or do not qualify to be classified as loan and advances. They comprise of quoted and unquoted equity instruments.

These are initially recognised at cost, being the fair value of consideration given including acquisition costs. Subsequent to acquisition, these investments are remeasured at fair value, unless fair value cannot be reliably determined in which case they are measured at cost less impairment. Fair value changes are reported as a separate component of equity until the investment is derecognised or determined to be impaired. On derecognition or impairment, any cumulative gain or loss previously reported as cumulative changes in fair value within equity is included in the consolidated statement of income for the year.

Investment in associates

An associated company (or associate) is one in which the Group exercises significant influence (but not control) over its operations, generally accompanying, directly or indirectly, a holding between 20% and 50% of the voting power of the investee and is accounted for by the equity method.

Notes to the consolidated Financial Statements

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

3- SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates (continued)

Under the equity method, the investment in an associate is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the investee. The Group recognises in the consolidated statement of income its share of the total recognised profit or loss of an associate from the date that influence or ownership effectively commences until the date that it effectively ceases. Distributions received from an associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Group's share in the associate arising from changes in its comprehensive income that have not been recognised in the associate's statement of income. The Group's share of those changes is recognised directly in statement of comprehensive income.

Unrealised gains and losses resulting from transactions with associates are eliminated to the extent of the Group's share in the associates.

An assessment of investment in an associate is performed when there is an indication that the asset has been impaired, or that impairment losses recognised in prior years no longer exist. Whenever the impairment requirements of IAS 36 indicate that investment in an associate may be impaired, the entire carrying amount of investment is tested by comparing its recoverable amount with its carrying value. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. Goodwill is included in the carrying amount of an investment in associate and, therefore, is not separately tested for impairment.

Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of all property, plant and equipment, other than freehold land, which is deemed to have an indefinite life, and capital work-in-progress. The estimated useful lives of the assets of the Group for the calculation of depreciation are as follows:

Freehold premises	15 - 30 years
Leasehold improvements	40 years
Plant, machinery, equipment and electrical installations	5 - 15 years
Furniture, fixtures, vehicles, computers and office equipment	3 - 10 years

Deposits

All deposits are carried at cost, less amount repaid.

Accounts payable and other liabilities

Liabilities are recognised for amounts to be paid in the future for the goods or services received, whether billed by the supplier or not.

Notes to the consolidated Financial Statements

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

3-SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

Provisions are recognised when there is a present obligation (legal or constructive) as a result of a past event and the costs to settle the obligation are both probable and able to be reliably measured.

Employees' end of service benefits

The Group makes contributions to the Social Insurance Organization for its Bahraini employees, calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

The Group also provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Revenue recognition

Interest income and fees which are considered an integral part of the effective yield of a financial asset are recognised using the effective yield method unless collectibility is in doubt. The recognition of interest income is suspended when loans become impaired, such as when installments are overdue by more than 90 days. Notional interest is recognised on impaired loans and other financial assets based on the rate used to discount future cash flows to their net present value.

Dividend income is recognised when the right to receive the dividend is established.

Rental income is recognised on an accrual basis in accordance with the terms of the rental lease agreements.

Fees receivable are recognised as the services are provided.

Training and other fees are recognised when earned.

Foreign currencies

Transactions in foreign currencies are recorded at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into Bahraini Dinars at rates of exchange prevailing at the consolidated statement of financial position date. Any exchange gains or losses are taken to the consolidated statement of income.

Notes to the consolidated Financial Statements

for the year ended 31 December 2011
(Expressed in Thousand Bahrain Dinars)

4-CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCE OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, the management has made the following judgments and estimates:

Classification of investments

On acquisition of an investment, the management decides whether it should be classified as held for trading or available for sale. Since the Group does not acquire investments primarily for the purpose of making a short term profit, all investments are classified as available for sale.

Preparation of the consolidated financial statements in accordance with IFRS requires the Group management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. The determination of estimates requires judgments which are based on historical experience, current and expected economic conditions, and all other available information. Actual results could differ from those estimates.

The most significant areas requiring the use of management estimates and assumptions relate to:

- economic useful lives of property, plant and equipment;
- provisions;
- contingencies; and
- impairment losses on loans and advances and investments.

Economic useful lives of property, plant and equipment

- The property, plant and equipment are depreciated on a straight-line basis over their economic useful lives.
- Useful economic lives of property, plant and equipment are reviewed by management annually. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group.

Notes to the consolidated Financial Statements

for the year ended 31 December 2011
(Expressed in Thousand Bahrain Dinars)

4- CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCE OF ESTIMATION UNCERTAINTY (continued)

Provisions

At 31 December 2011, in the opinion of the management, an amount of BD 9,460 thousand has been provided for impaired receivables (2010: BD8,097 thousands). When evaluating the adequacy of an allowance for doubtful receivables, management bases its estimate on current overall economic conditions, ageing of the receivable balances, historical write-off experience, customer credit worthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful receivables recorded in the consolidated financial statements.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Impairment losses on loans and advances and investments

The Group reviews its problematic loans and advances and investments on a quarterly basis to assess whether any provision for impairment is required to be recorded in the consolidated statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows for determining the level of provision required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and the actual results may differ resulting in future changes to such provisions.

5- CASH AND BALANCES WITH CENTRAL BANK OF BAHRAIN

	2011	2010
Cash in hand	145	102
Balances with Central Bank of Bahrain (CBB)	2,264	1,463
	<u>2,409</u>	<u>1,565</u>

Notes to the consolidated Financial Statements

for the year ended 31 December 2011
(Expressed in Thousand Bahrain Dinars)

6 - DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2011	2010
Nostro balances with other banks	160	717
Placements with banks and financial institutions	20,516	21,914
	<u>20,676</u>	<u>22,631</u>

Nostro balances with banks include an amount of BD 19 thousands (2010: BD 22 thousands) maintained by the Bank in a fiduciary capacity (note 14). The placement with banks and financial institutions includes Murabaha placement of BD 8.65 million (2010: BD 6.95 million).

7 - ACCOUNTS RECEIVABLE AND OTHER ASSETS

	2011	2010
Interest	197	182
Prepayments and other assets	684	643
	<u>881</u>	<u>825</u>

8 - LOANS AND ADVANCES TO CUSTOMERS

	2011	2010
Project finance	101,593	105,986
Fisheries and agriculture	4,110	4,499
Others	1,031	550
	<u>106,734</u>	<u>111,035</u>
Less: Provision for impairment - Specific	(9,135)	(7,147)
- Collective	(325)	(950)
	<u>97,274</u>	<u>102,938</u>

Notes to the consolidated Financial Statements

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

8 - LOANS AND ADVANCES TO CUSTOMERS (continued)

The Bank advances loans for the development of fisheries and agricultural activities in the Kingdom of Bahrain. The Government of the Kingdom of Bahrain reimburses the Bank for any losses and costs in connection with these loans that relates to project finance loans. Loans and Advances include BD 68,890 thousands (2010: BD 75,460 thousands) Murabaha Receivables and a provision of BD 3,030 thousands towards project finance loans (2010: BD 1,390 thousands) has been provided in the accounts.

The movement in loan loss provisions during the year were as follows:

	2011	2010
At 1 January	8,097	6,817
Increase in provision	1,244	802
Written off during the year	(33)	(37)
Interest suspended	152	515
	<u>9,460</u>	<u>8,097</u>
Balance at 31 December		
Gross amount of loans, individually assessed to be impaired before deducting any individually assessed impairment allowance (see note below)	<u>23,625</u>	<u>16,732</u>

Note :This includes BD 1,079 thousands (2010: BD 1,090 thousands) relating to agriculture and fishery loans which are considered as impaired but no provision has been made as these loans are considered secured through the reimbursement arrangement with the Government of the Kingdom of Bahrain.

The bank makes loans in the normal course of business at interest rates below usual commercial rates. The effect of discounting on the loans and on profit is not considered to be material.

The fair value of collateral that the Bank holds relating to loans individually determined to be impaired at 31 December 2011 amounts to BD 1,700 thousands (2010: BD 2,100 thousands). For more detailed description see note 24 (i) (c) collateral and other credit enhancements.

Notes to the consolidated Financial Statements

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

9 - AVAILABLE FOR SALE INVESTMENTS

The Bank has the following investments which have been classified as “available for sale” investments:

	2011	2010
Quoted	713	907
Unquoted	<u>4,579</u>	<u>4,680</u>
	5,292	5,587
Less: Provision for Impairment	<u>(671)</u>	<u>(976)</u>
	<u>4,621</u>	<u>4,611</u>

Investments includes Murabaha investment of BD 1,350 thousands (2010: BD 1,350 thousands) and Investment in CBB Sukuk of BD 1,130 thousands (2010: 1,130 thousands).

Unquoted investments are stated at cost less provision for impairment, due to the unpredictable nature of future cash flows and the lack of suitable other methods for arriving at a reliable fair value. The primary objective with which the Bank makes such investments is to assist in the economic development of the Kingdom and to promote entrepreneurship. The financial position of the entities in which the investments are made are monitored on an ongoing basis. Once the venture attains stability, the Bank intends to exit from the investments either through IPO or by way of selling to any strategic investor.

10 - INVESTMENT IN ASSOCIATES

	2011	2010
Share of associate's statement of financial positions:		
Arabian Taxi Company	47	185
EBDA Bank	334	318
Venture Capital Fund (Murabaha Investment)	<u>1,724</u>	<u>1,723</u>
	<u>2,105</u>	<u>2,226</u>

Notes to the consolidated Financial Statements

for the year ended 31 December 2011
(Expressed in Thousand Bahrain Dinars)

	<i>Freehold land</i>	<i>Freehold premises</i>	<i>Buildings on leasehold improvements*</i>	<i>Furniture, fixtures, vehicles computers and office equipment</i>	<i>Capital work-in-progress</i>	<i>Total</i>
2011						
Cost:						
At 1 January 2011	293	1,809	8,058	1,732	43	11,935
Additions	-	-	70	167	692	929
At 31 December 2011	293	1,809	8,128	1,899	735	12,864
Depreciation:						
At 1 January 2011	-	995	349	1,334	-	2,678
Charge for the year	-	65	233	181	-	479
At 31 December 2011	-	1,060	582	1,515	-	3,157
Net book values						
At 31 December 2011	293	749	7,546	384	735	9,707

	<i>Freehold land</i>	<i>Freehold premises</i>	<i>Buildings on leasehold improvements*</i>	<i>Furniture, fixtures, vehicles computers and office equipment</i>	<i>Capital work-in-progress</i>	<i>Total</i>
2010						
Cost:						
At 1 January 2010	293	1,809	1,477	1,536	5,428	10,543
Additions	-	-	1,152	197	43	1,392
Transfers	-	-	5,428	-	(5,428)	-
At 31 December 2010	293	1,809	8,057	1,733	43	11,935
Depreciation:						
At 1 January 2010	-	924	371	1,193	-	2,488
Charge for the year	-	71	71	141	-	283
Reversal of excess depreciation	-	-	(93)	-	-	(93)
At 31 December 2010	-	995	349	1,334	-	2,678
Net book values						
At 31 December 2010	293	814	7,708	399	43	9,257

*These buildings relate to a subsidiary of the Bank and are situated on land leased from the Ministry of Industry and Commerce (note 23). Even though the current lease expires on 24 October 2024, the directors are confident that the lease will be renewed for a second term of 25 years at the expiry of the current lease. Hence the buildings on leasehold land are depreciated over 40 years. During the year 2010, the Bank has revised the useful life of the asset and accordingly, excess depreciation of BD 93 thousands has been reversed and taken to the consolidated statement of income. The capital work in progress as of 31 December 2011 represents amounts incurred for the proposed Women Incubator Centre.

Notes to the consolidated Financial Statements

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

12 - DEPOSITS

	2011	2010
Bank deposits	13,951	22,311
Customer deposits	46,349	46,918
	<u>60,300</u>	<u>69,229</u>

Bank deposits includes deposits from Islamic Financial Institutions of BD 1.00 million (2010: 2.00 million). Customer deposit includes BD 720 thousands has kept as margin deposit.

13 - ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2011	2010
Amount due to Ministry of Agriculture	425	425
Staff related accruals	619	626
Accounts payable	1,001	1,133
Interest payable	177	84
Others	2,694	1,581
	<u>4,916</u>	<u>3,849</u>

BD 36 thousands (2010: BD 22 thousands) is included in accounts payable and other liabilities representing amount payable to Kuwait Fund for Arab Economic Development (KFAED) and Saudi Fund for Development (SFD).

14 - LONG TERM LOANS

Kuwait Fund for Arab Economic Development

The Bank had obtained a loan from Kuwait Fund for Arab Economic Development (KFAED) in 1998. The entire facility has been drawn down and is repayable in thirty equal half yearly installments, which commenced from 15 May 2005. This bears an interest and management fees of 1.5% and 0.5% (2010: 1.5% and 0.5%) respectively. The outstanding balance as at 31 December 2011 was KD 8.21 million (2010: KD 9.23 million).

The loan proceeds were utilised by the Bank to advance loans to customers. One of the covenants of KFAED's loan agreement requires the Bank to repay KFAED any margin earned in excess of a spread of 2% ("interest differentials") on such loans to customers. The interest differentials are deposited into KFAED's bank account maintained by the Bank in a fiduciary capacity. The balance at year end was BD 2 thousands (2010: BD 22 thousands). This account can be used only for development activities such as training, feasibility studies and technical assistance to borrowers agreed by both the parties. During 2010, BD Nil (2010: BD 5 thousands) was utilised for such purposes.

Saudi Fund for Development

During 2011, the Bank had obtained a loan of SAR 100 million from Saudi Fund for Development. The bank has drew down SAR 26.7 million and is repayable semiannually in 25 years (5 years grace period) at an interest of 2.0%.

Notes to the consolidated Financial Statements

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

15 - SHARE CAPITAL

	Authorised		Issued and fully paid	
	2011	2010	2011	2010
Ordinary shares of BD 1 each	<u>100,000</u>	100,000	<u>50,000</u>	50,000

16 - STATUTORY RESERVE AND RETAINED EARNINGS

In accordance with the provisions of the Bahrain Commercial Companies Law and the Bank's articles of association, an amount equivalent to 10% of the net profit for the year has been transferred to a statutory reserve. Accordingly, BD23 thousands (2010: BD71 thousands) has been transferred to the statutory reserve during the year. The Bank may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital. This reserve is not distributable, but can be utilised for the purposes of a distribution in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

17 - INTEREST INCOME

	2011	2010
Loans and advances to customers	6,010	5,093
Due from banks and other financial institutions	394	415
Interest recoveries relating to impaired loans	117	187
	<u>6,521</u>	<u>5,695</u>

The above income includes BD 3.86 million from Islamic Financing (2010: BD 2.96 million).

18 - INTEREST EXPENSE

	2011	2010
Loan from Kuwait Fund for Arab Economic Development	239	264
Loan from Saudi Fund for Development	7	-
Bank deposits	87	126
Customer deposits	412	204
	<u>745</u>	<u>594</u>

Expenses related to bank deposit includes BD 4 thousands (2010:BD 4 thousands) for charges on deposits from Islamic Financial Institutions.

19 - ADMINISTRATION EXPENSES

	2011	2010
Staff costs	3,510	3,287
Depreciation	479	283
	<u>3,989</u>	<u>3,570</u>

Notes to the consolidated Financial Statements

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

20 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following statement of financial position amounts:

	2011	2010
Cash	145	102
Balances with Central Bank of Bahrain excluding reserves	436	(148)
Due from banks and other financial institutions with original maturity of 90 days or less	510	5,566
	<u>1,091</u>	<u>5,520</u>

21 - RELATED PARTY TRANSACTIONS

The Group enters into transactions with related parties which comprise major shareholders, associates, directors, senior management and entities controlled jointly or significantly influenced by such related parties in the ordinary course of business at commercial interest and commission rates. All the loans and advances to related parties are performing and are free of any specific impairment provision.

Amounts due from related parties are unsecured and have no fixed repayment terms.

The year end balances in respect of related parties included in the consolidated financial statements are as follows:

	Directors and senior management	Other related companies	Total
2011			
Deposits	26	10,622	10,648
Loans and advances to customers	316	3,688	4,004
Accounts payable and other liabilities	-	4	4
	Directors and senior management	Other related companies	Total
2010			
Deposits	10	10,572	10,582
Loans and advances to customers	170	1,350	1,520
Accounts payable and other liabilities	-	20	20

Notes to the consolidated Financial Statements

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

21 - RELATED PARTY TRANSACTIONS (continued)

In June 2011, the bank granted a loan to Arabian Taxi Company W.L.L., an associate company, at preferential terms. The loan is for BD 1.6 million, with bullet payment of capital plus interest due after 5 years. Interest rates vary over the terms of the loan, but the inherent rate over the life of the loan approximates to 5%. The Company has fair valued the loan at the 5% rate, as the business of the Company is granting assistance to worthy Bahrain clients at rates designed to promote financial viability, rather than to generate profit for the Company.

In June 2011, the bank granted another loan to Arabian Taxi Company W.L.L., for BD2 million. The rate of interest rates starts at 2% and increases progressively to 6% over the tenor of the loan. Repayment starts after grace period of 1 year. interest shall be serviced during the grace period.

The income and expenses in respect of related parties included in the consolidated financial statements are as follows:

	Directors and senior management	Other related companies	Total
2011			
Interest income	10	46	56
Interest expense	-	21	21
Rental expenses	-	48	48
Other expenses	-	25	25
	Directors and senior management	Other related companies	Total
2010			
Interest income	7	69	76
Interest expense	-	11	11
Rental expenses	-	16	16
Other expenses	-	30	30

Compensation of key management personnel is as follows:

	2011	2010
Short term employee benefits	481	533
Termination benefits	141	100
	622	633

Notes to the consolidated Financial Statements

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

22 - SEGMENTAL INFORMATION

The financial position of the Bank and the Group as of 31 December 2011 was as follows:

	Bank			Subsidiaries		Total
	Head Office and Equity Investments Division*	Development Activities Division**	Sub-total	Bahrain Institute of Entrepreneur- ship & Technology	Bahrain Business Incubator Centre	
2011						
ASSETS						
Cash and balances with the Central Bank of Bahrain	-	2,409	2,409	-	-	2,409
Due from banks and other financial institutions	-	20,618	20,618	6	52	20,676
Accounts receivable and other assets	-	677	677	74	130	881
Loans and advances to customers	-	97,274	97,274	-	-	97,274
Available for sale investments	4,621	-	4,621	-	-	4,621
Investment in associates	2,105	-	2,105	-	-	2,105
Property, plant and equipment	1,351	-	1,351	14	8,342	9,707
TOTAL ASSETS	8,077	120,978	129,055	94	8,524	137,673
LIABILITIES AND EQUITY						
LIABILITIES						
Deposits	-	60,300	60,300	-	-	60,300
Accounts payable and other liabilities	3,218	1,601	4,819	58	39	4,916
Long term loan	-	13,790	13,790	-	-	13,790
TOTAL LIABILITIES	3,218	75,691	78,909	58	39	79,006
EQUITY						
Share capital	50,000	-	50,000	-	-	50,000
Statutory reserve	1,010	-	1,010	-	-	1,010
Cumulative changes in fair value	(256)	-	(256)	-	-	(256)
Retained earnings	7,913	-	7,913	-	-	7,913
	58,667	-	58,667	-	-	58,667
Intra division/Intra group balances	(53,808)	45,287	(8,521)	36	8,485	-
TOTAL LIABILITIES AND EQUITY	8,077	120,978	129,055	94	8,524	137,673

* The Head office and Equity Investments division invests in equity participations and holds the Bank's property.

** The Development Activities division provides loans for developmental projects including fisheries and agricultural loans.

Notes to the consolidated Financial Statements

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

22 - SEGMENTAL INFORMATION (continued)

The financial position of the Bank and the Group for the year ended 31 December 2011 are as follows:

	Bank			Subsidiaries		Total
	Head Office and Equity Invest- ments Division*	Development Activities Division**	Sub-total	Bahrain Institute of Entrepreneurship & Technology	Bahrain Business Incubator Centre	
2010						
ASSETS						
Cash and balances with the Central Bank of Bahrain	-	1,565	1,565	-	-	1,565
Due from banks and other financial institutions	-	22,615	22,615	22	(6)	22,631
Accounts receivable and other assets	-	655	655	77	93	825
Loans and advances to customers	-	102,938	102,938	-	-	102,938
Available for sale investments	4,611	-	4,611	-	-	4,611
Investment in associates	2,226	-	2,226	-	-	2,226
Property, plant and equipment	1,453	-	1,453	11	7,793	9,257
TOTAL ASSETS	8,290	127,773	136,063	110	7,880	144,053
LIABILITIES AND EQUITY						
LIABILITIES						
Deposits	-	69,229	69,229	-	-	69,229
Accounts payable and other liabilities	2,147	1,151	3,298	68	483	3,849
Long term loan	-	12,340	12,340	-	-	12,340
TOTAL LIABILITIES	2,147	82,720	84,867	68	483	85,418
EQUITY						
Share capital	50,000	-	50,000	-	-	50,000
Statutory reserve	987	-	987	-	-	987
Cumulative changes in fair value	(62)	-	(62)	-	-	(62)
Retained earnings	7,710	-	7,710	-	-	7,710
	58,635	-	58,635	-	-	58,635
Intra division/Intra group/minority interest balances	(52,492)	45,053	(7,439)	42	7,397	-
TOTAL LIABILITIES AND EQUITY	8,290	127,773	136,063	110	7,880	144,053

*The Head office and Equity Investments division invests in equity participations and holds the Bank's property.

**The Development Activities division provides loans for developmental projects including fisheries and agricultural loans.

Notes to the consolidated Financial Statements

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

22 - SEGMENTAL INFORMATION (continued)

The income and expenses of the Bank and the Group for the year ended 31 December 2011 are as follows:

	Bank			Subsidiaries		Total
	Head office and equity investments Division*	Development activities Division**	Sub-total	Bahrain Institute of Entrepreneurship & Technology	Bahrain Business Incubator Centre	
2011						
Interest income	-	6,521	6,521	-	-	6,521
Interest expense	-	(745)	(745)	-	-	(745)
Net interest income	-	5,776	5,776	-	-	5,776
Fee and commission income	-	562	562	-	-	562
Rental income	128	-	128	-	268	396
Course fees and related income	-	-	-	142	-	142
Dividend income	415	-	415	-	-	415
Other operating income	12	-	12	12	28	52
Share of loss of associates	(122)	-	(122)	-	-	(122)
Exchange gain	-	14	14	-	-	14
Total operating income	433	576	1,009	154	296	7,235
Administration expenses	-	-	-	149	423	572
Provision for impairment	-	1,289	1,289	-	-	1,289
Other operating expenses	-	-	-	201	240	441
	-	1,289	1,289	350	663	2,302
DIVISIONAL PROFIT (LOSS)	433	(713)	(280)	(196)	(367)	4,933
Unallocated administration expenses			(3,417)	-	-	
Unallocated operating expenses			(1,290)	-	-	
PROFIT (LOSS) FOR THE YEAR			(4,987)	(196)	(367)	226

* The Head office and Equity Investments division invests in equity participations and holds the Bank's property.

** The Development Activities division provides loans for developmental projects including fisheries and agricultural loans.

Notes to the consolidated Financial Statements

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

22 - SEGMENTAL INFORMATION (continued)

The income and expenses of the Bank and the Group for the year ended 31 December 2010 are as follows:

	Bank			Subsidiaries		Total
	Head office and equity investments Division*	Development activities Division**	Sub-total	Bahrain Institute of Entrepreneurship & Technology	Bahrain Business Incubator Centre	
2010						
Interest income	-	5,695	5,695	-	-	5,695
Interest expense	-	(594)	(594)	-	-	(594)
Net interest income	-	4,704	5,101	-	-	5,101
Fee and commission income	-	683	683	-	-	683
Rental income	187	-	187	-	133	320
Course fees and related income	-	-	-	154	-	154
Dividend income	351	-	351	-	-	351
Other operating income	44	-	44	21	120	185
Share of loss of associates	(195)	-	(195)	-	-	(195)
Exchange gain	-	57	57	-	-	57
Total operating income	387	740	1,127	175	253	6,656
Administration expenses	-	-	-	150	225	375
Provision for impairment	-	802	802	-	-	802
Other operating expenses	-	-	-	228	207	435
	-	802	802	378	432	1,612
DIVISIONAL PROFIT (LOSS)	387	(62)	325	(203)	(179)	5,044
Unallocated administration expenses			(3,195)	-	-	(3,195)
Unallocated operating expenses			(1,141)	-	-	(1,141)
PROFIT (LOSS) FOR THE YEAR			(4,011)	(203)	(179)	708

* The Head office and Equity Investments division invests in equity participations and holds the Bank's property.

** The Development Activities division provides loans for developmental projects including fisheries and agricultural loans.

Notes to the consolidated Financial Statements

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

23 - CONTINGENT LIABILITIES AND COMMITMENTS

The Bank issues letters of credit and guarantees to its existing customers. These instruments commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import of goods.

Irrevocable commitments to extend credit are the loans and advances which had been approved by the Bank but had not been disbursed as of year-end.

Details of contingent liabilities and commitments are given below:

	2011	2010
Contingent liabilities:		
Letters of guarantee	2,396	2,208
Letters of credit	210	1,423
	<u>2,606</u>	<u>3,631</u>
Commitments:		
Capital expenditure and other commitments	2,500	-
Irrevocable commitments to extend credit	11,121	1,007
Lease rental commitments	561	605
	<u>14,182</u>	<u>1,612</u>
	<u>16,788</u>	<u>5,243</u>

Lease rental commitments include lease rental payable on the land leased from Ministry of Industry and Commerce which is as follows:

	2011	2010
Future minimum lease payments:		
Within one year	44	44
Later than 1 year but not later than 5 years	176	176
Later than 5 years	341	385
	<u>561</u>	<u>605</u>

Notes to the consolidated Financial Statements

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

24 - RISK MANAGEMENT STRUCTURE

The Bank is exposed to credit, liquidity, market and operational risks. The Bank's risk governance is manifested in a set of established policies, procedures and controls through which the existing organizational structure meets its strategic targets. This philosophy revolves around the knowledge of various risks and their willingness to accept the same commensurating with their risk appetite and strategic plan approved by the Board of Directors.

Risk management structure

A cohesive organizational structure is established within the Bank in order to identify, assess, monitor, and control risks.

Board of directors

The apex of risk governance is the centralized oversight by the Board of Directors providing direction and necessary approvals for strategies and policies in order to achieve defined corporate goals.

Audit Committee

This committee comprises of certain members of the Board formed with an objective to assist the Board in carrying out its duties regarding the integrity of the Bank's financial reporting system, adequacy of the Bank's internal control and risk management processes, to oversee the external and internal audit functions, and the Bank's compliance with legal and regulatory requirements.

Senior / Executive management

Senior / Executive management is responsible for the day to day operations towards achieving the strategic goals within the pre-defined risk appetite and approved strategy as a whole.

Risk Committee – Credit & Investments

The Risk Committee – Credit & Investments has the general responsibility to grant credit and also makes decisions relating to the execution of investments in line with the Bank's investment strategy and management of credit and concentration risks.

Investment committee

The Investment Committee is responsible for the execution of the Bank's investment strategy and allocation decisions involving investment related risk.

Asset and liability committee

The Asset and Liability committee ("ALCO") is mainly responsible for defining long-term strategic plans and short-term tactical initiatives for directing asset and liability allocation prudently for the achievement of the Bank's strategic goals. ALCO monitors the Bank's liquidity and market risks and the Bank's risk profile in the context of economic developments and market fluctuations, to ensure that the Bank's ongoing activities are compatible with the risk/reward guidelines approved by the Risk Committee – Credit & Investments.

Notes to the consolidated Financial Statements

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

24 - RISK MANAGEMENT STRUCTURE (continued)

Treasury

The Treasury Department is responsible for the day to day operations necessary to fund the asset book and implement ALCO's strategies in managing / optimizing interest rate and liquidity risks.

Risk management

The Risk Management Department is an independent control process responsible for the preparation, implementation and updating the policies and procedures within the framework of the Bank and in line with the guidelines of the Central Bank of Bahrain. They are also responsible for the identification and continuous evaluation of all significant risks, design and implementation of appropriate internal controls to mitigate the risks and the processes involved in the remedial function.

Legal

The Bank has engaged a full-fledged external legal counsel as a retainer to handle all legal cases initiated for recovery of difficult loan cases. The progress and outcomes on such cases are monitored by the Risk Management Department of the Bank.

Internal audit

Risk management processes are audited annually by Internal Audit, which examines the adequacy of the controls in place in addition to compliance with the policies by the respective departments. The Internal Audit results are discussed with the Executive Management Committee and the findings, together with recommendations, to mitigate the findings are presented to the Audit Committee of the Board.

Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on the approved limits and the strong internal control structures established by the Bank. The limits reflect the business strategy and the market environment in which the Bank operates as well as the level of risk that the Bank is willing to accept.

Strict assessment processes are factored during the review and approval processes. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Specifically tailored risk reports are prepared and distributed to ensure that all business divisions have access to extensive, necessary and up-to-date information.

Quarterly updates are provided to the Board of Directors and on a monthly basis to all other members of the management on the utilization of market limits, proprietary investments, liquidity and other developments.

Notes to the consolidated Financial Statements

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

24 - RISK MANAGEMENT STRUCTURE (continued)

Risk mitigation

Significant risk mitigation activities are focused in the credit area. Risk mitigation process comprise of an appropriate and adequate structure for the credit facilities at the initial stage followed by ongoing and regular monitoring, enforceable documentation and collateral.

24 (i) Credit Risk

Credit risk is the likelihood that a counterparty will not meet its obligations in accordance with the agreed terms. The magnitude of the credit risk depends on the likelihood of default by the counterparty and on the potential value of the Bank's contracts with the customer at the time of default.

Limits and concentrations

Limits are assigned for each individual counterparty group and for each industrial segment. The Bank also monitors credit exposures, and continually assesses the creditworthiness of counterparties to the transactions. In addition, the Bank obtains security, where appropriate, enters into master netting agreements and collateral arrangements with counterparties, and limits the duration of exposures.

Concentrations arise when a number of counterparties are engaged in similar business activities, 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. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

External credit assessment

The Bank does not use any external credit assessment institutions and the risk rating for the exposures are based on the internal credit framework and policy guidelines of the Bank and the Central Bank of Bahrain.

Classification

Exposures are classified as "Non-performing" when interest or principal repayments are past due for over 90 days. Non performing exposures are further classified into sub-standard, doubtful and loss.

Notes to the consolidated Financial Statements

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

24 - RISK MANAGEMENT STRUCTURE (continued)

24 (i) Credit Risk (continued)

(a) *Maximum exposure to credit risk without taking account of any collateral*

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	2011	2010
Balances with Central Bank of Bahrain	2,264	1,463
Due from banks and financial institutions	20,676	22,631
Accounts receivable and other assets (excluding prepayments)	778	714
Loans and advances to customers	97,274	102,938
	<u>120,992</u>	<u>127,746</u>
Contingent liabilities	2,606	3,631
Commitments	14,182	1,612
	<u>16,788</u>	<u>5,243</u>
Total credit risk exposure	<u>137,780</u>	<u>132,989</u>

(b) *Concentration of credit risk*

Since the Group's operations are restricted only to the Kingdom of Bahrain, it is primarily effected by the changes in the economic and other conditions prevailing in the Kingdom of Bahrain.

Industry sector	2011	2010
Banks and financial institutions	22,940	24,094
Trading and manufacturing	41,028	46,696
Education and health	13,048	15,094
Hospitality, media and transportation	10,215	10,474
Fisheries and agriculture	4,175	4,589
Food processing	2,552	2,977
Others	43,822	29,065
	<u>137,780</u>	<u>132,989</u>

Notes to the consolidated Financial Statements

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

24 - RISK MANAGEMENT STRUCTURE (continued)

24 (i) Credit risk (continued)

(c) Collateral and other credit enhancements

Market value of collateral is closely monitored by the Bank in addition to requesting additional collateral in accordance with the underlying agreement and evaluation of the adequacy of the allowance for impairment.

It is the Bank's policy to normally dispose of repossessed collateral in an orderly fashion after due notice has been provided to the defaulting customer. The proceeds are used to reduce or settle the outstanding claim. In general, the Bank does not occupy repossessed properties for its own business use.

The Bank also makes use of master netting agreements with counterparties.

(d) Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality for balance sheet lines, based on the Bank's credit rating system.

	2011				
	Neither past due nor impaired		Past due but not impaired		Total
	High grade	Standard grade	impaired	Impaired	
Balances with Central Bank of Bahrain	2,264	-	-	-	2,264
Due from banks and financial institutions	20,676	-	-	-	20,676
Accounts receivable and other assets (excluding prepayments)	-	6,493	89	-	6,582
Loans and advances to customers	-	65,412	17,856	14,006	97,274
Total	22,940	71,905	17,945	14,006	126,796
	2010				
	Neither past due nor impaired		Past due but not impaired		Total
	High grade	Standard grade	impaired	Impaired	
Balances with Central Bank of Bahrain	1,463	-	-	-	1,463
Due from banks and financial institutions	22,631	-	-	-	22,631
Accounts receivable and other assets (excluding prepayments)	-	615	99	-	714
Loans and advances to customers	-	79,533	13,771	9,634	102,938
Total	24,094	80,148	13,870	9,634	127,746

Notes to the consolidated Financial Statements

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

24 - RISK MANAGEMENT STRUCTURE (continued)

24 (i) Credit risk (continued)

(e) Ageing analysis of past due but not impaired loans per class of financial assets

	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
2011					
Accounts receivable and other assets (excluding prepayments)	21	16	19	33	89
Loans and advances to customers	12,132	3,890	1,696	138	17,856
Total	12,153	3,906	1,715	171	17,945
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
2010					
Accounts receivable and other assets (excluding prepayments)	20	8	7	64	99
Loans and advances to customers	10,292	2,075	1,335	69	13,771
Total	10,312	2,083	1,342	133	13,870

Of the total aggregate amount of gross past due but not impaired loans and advances to customers, the fair value of collateral that the Bank held as at 31 December 2011 was BD 1,300 thousands (2010: BD 2,100 thousands). See note 24(i) (c) for the details of types of collateral held.

Notes to the consolidated Financial Statements

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

24 - RISK MANAGEMENT STRUCTURE (continued)

24 (i) Credit risk (continued)

(f) *Carrying amount per class of financial assets whose terms have been renegotiated*

The table below shows the carrying amount for renegotiated financial asset.

	2011	2010
Loans and advances to customers	<u>19,987</u>	<u>3,972</u>

Where possible, the Bank seeks to restructure loans rather than to take ownership of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to impairment assessment, calculated using the loan's original effective interest rate.

24 (ii) Market risk

Market risk is the risk of loss attributable to adverse changes in the values of financial instruments, whether on- or off- balance sheet, as a result of changes in market rates (such as interest rates and foreign exchange rates) or price.

(a) *Interest rate risk*

Interest rate risk arises from the possibility that changes the interest rates will affect future profitability or the fair values of the financial instruments. The Bank is exposed to interest rate risks due to mismatches of interest rate repricing of assets and liabilities. Positions are monitored periodically to ensure that this is maintained within the established limits.

Notes to the consolidated Financial Statements

for the year ended 31 December 2011
(Expressed in Thousand Bahrain Dinars)

24 - RISK MANAGEMENT STRUCTURE (continued)

24 (ii) Market risk (continued)

Net interest income sensitivity

The Bank's interest sensitive financial instruments are denominated predominantly in Bahraini Dinars, Kuwaiti Dinars, Saudi Riyals and United States Dollars. The following table demonstrates the Bank's sensitivity to a reasonable possible change in interest rates, with all other variables held constant.

	Change in basis points	Impact of change on Net interest Income		Change in basis points	Impact of change on Net interest Income	
		2011	2010		2011	2010
Bahraini Dinars	+100	21	121	-100	(21)	(121)
Kuwaiti Dinars	+100	4	8	-100	(4)	(8)
Saudi Riyals	+100	-	-	-100	-	-
United States Dollars	+100	(166)	(166)	-100	166	166

The Bank does not have any fixed rate available for sale financial instruments and hence its equity is not sensitive to changes in interest rates.

(b) Currency risk

Currency risk is the risk that the value of the financial instrument will fluctuate due to changes in foreign exchange rates. Net open positions are monitored on a daily basis to ensure compliance within the established limits.

The Bank primarily deals with only 5 currencies, namely Bahraini Dinars, Kuwaiti Dinars, Saudi Riyals, Euro and United States Dollars.

The Bank views the Bahraini Dinar as its functional currency. In the opinion of the Bank's management, the currency risk for any position held in US dollar is insignificant since the Bahraini Dinar is pegged to the US dollar. The Bank had the following significant net exposures denominated in foreign currencies as of 31 December:

	Equivalent long (short)	
	2011	2010
Kuwaiti Dinars	414	935
US Dollars	(13,036)	(12,931)
Euro	(5)	(4)
Saudi Riyals	(2)	-

The effect of a reasonably possible 5% change in the currency exchange rate for Kuwaiti Dinar, with all other variables constant, will result in an increase of BD 47 thousands (2010: an increase of BD 47 thousands) in the profit for the year.

Notes to the consolidated Financial Statements

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

24 - RISK MANAGEMENT STRUCTURE (continued)

24 (ii) Market risk (continued)

(c) *Maturity analysis of assets and liabilities*

The table below summarises the maturity profile of the Group's assets and liabilities as at 31 December 2011 and 31 December 2010 based on expected maturities.

	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
2011							
Assets							
Cash and balances with Central Bank of Bahrain	2,409	-	-	-	-	-	2,409
Due from banks and other financial institutions	510	14,247	5,919	-	-	-	20,676
Accounts receivable and other assets	813	16	19	33	-	-	881
Loans and advances to customers	1,711	737	1,891	1,705	25,312	65,918	97,274
Available for sale investments	-	-	-	-	-	4,621	4,621
Investment in associates	-	-	-	-	-	2,105	2,105
Property, plant and equipment	-	-	-	-	-	9,707	9,707
Total assets	5,443	15,000	7,829	1,738	25,312	82,351	137,673
Liabilities							
Deposits	43,605	15,357	544	794	-	-	60,300
Accounts payable and other liabilities	-	4,916	-	-	-	-	4,916
Long term loans	-	-	696	696	2,784	9,614	13,790
Total liabilities	43,605	20,273	1,240	1,490	2,784	9,614	79,006
Net liquidity gap	(38,162)	(5,274)	6,589	248	22,528	72,737	

Notes to the consolidated Financial Statements

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

24 - RISK MANAGEMENT STRUCTURE (continued)

24 (ii) Market risk (continued)

(c) Maturity analysis of assets and liabilities (continued)

	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
2010							
Assets							
Cash and balances with Central Bank of Bahrain	1,565	-	-	-	-	-	1,565
Due from banks and other financial institutions	5,566	12,301	4,764	-	-	-	22,631
Accounts receivable and other assets	746	8	7	64	-	-	825
Loans and advances to customers	2,554	932	1,895	3,018	14,801	79,738	102,938
Available for sale investments	-	-	-	-	-	4,611	4,611
Investment in associates	-	-	-	-	-	2,226	2,226
Property, plant and equipment	-	-	-	-	-	9,257	9,257
Total assets	10,431	13,241	6,666	3,082	14,801	95,832	144,053
Liabilities							
Deposits	53,541	15,271	5	412	-	-	69,229
Accounts payable and other li- abilities	-	3,849	-	-	-	-	3,849
Long term loans	-	-	673	673	2,693	8,301	12,340
Total liabilities	53,541	19,120	678	1,085	2,693	8,301	85,418
Net liquidity gap	(43,110)	(5,879)	5,988	1,997	12,108	87,531	

(d) Price risk

Price risk arises from the changes in the market price of the quoted equity instruments held by the Bank. A 5% change in the market price will increase or decrease the Bank's equity by BD 45 thousands (2010: BD 45 thousands).

In addition, the Group also has unquoted investments carried at cost where the impact of changes in equity prices will only be reflected when the investment is sold or deemed to be impaired, when the consolidated statement of income will be impacted, or when a third party transaction in the investment gives a reliable indication of fair value which will be reflected in equity.

Notes to the consolidated Financial Statements

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

24 - RISK MANAGEMENT STRUCTURE (continued)

24 (iii) Liquidity risk

Liquidity risk is the risk that funds will not be available to the Bank to honor its cash obligations (both on- and off-balance sheet) as they arise.

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2011 and 31 December 2010 based on contractual undiscounted repayment obligations. See note (c) 'Maturity analysis of assets and liabilities' for the expected maturities of these liabilities.

	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
2011								
Deposits	18,482	25,123	15,357	544	794	-	-	60,300
Accounts payable and other liabilities	-	-	4,916	-	-	-	-	4,916
Long term loans	-	-	10	808	828	3,241	10,617	15,504
Total liabilities	18,482	25,123	20,283	1,352	1,622	3,241	10,617	80,720
2010								
Deposits	10,633	42,937	15,322	5	420	-	-	69,317
Accounts payable and other liabilities	-	-	3,849	-	-	-	-	3,849
Long term loans	-	-	-	796	789	3,091	8,841	13,517
Total liabilities	10,633	42,937	19,171	801	1,209	3,091	8,841	86,683

Notes to the consolidated Financial Statements

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

Liquidity risk and funding management

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
2011					
Contingent liabilities	579	180	658	1,189	2,606
Commitments	11,121	-	2,544	517	14,182
Total	11,700	180	3,202	1,706	16,788
2010					
Contingent liabilities	763	1,053	1,271	544	3,631
Commitments	1,007	-	44	561	1,612
Total	1,770	1,053	1,315	1,105	5,243

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

24 (iv) Legal risk and claims

Legal risk is the risk arising from the potential that unenforceable contracts, lawsuits or adverse judgments can disrupt or otherwise negatively affect the operations of the Group. The Group has developed controls and procedures to identify legal risks and believes that losses will not be material.

25 - FAIR VALUES OF FINANCIAL INSTRUMENTS

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to deposits without a specific maturity and variable rate financial instruments.

Notes to the consolidated Financial Statements

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

25 - FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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.

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

	<u>Level 1</u>	<u>Total</u>
Quoted equity investments	<u>713</u>	<u>713</u>

There are no financial instruments that qualify for classification under Level 2 or Level 3 as at 31 December 2011.

At 31 December 2011 and 2010, the estimated fair values of the financial instruments are not materially different from their carrying amounts in the consolidated financial statements except for unquoted available for sale investments and long term loans.

26 - CAPITAL ADEQUACY

The risk asset ratio, calculated in accordance with the capital adequacy guidelines approved by the Central Bank of Bahrain, for the Bank is as follows:

	2011	2010
Capital base		
Tier 1 capital	58,667	58,638
Tier 2 capital	<u>-</u>	<u>-</u>
Total capital base (a)	<u>58,667</u>	<u>58,638</u>
Risk-weighted assets (b)	<u>133,263</u>	<u>145,956</u>
Capital adequacy ratio (a/b*100)	<u>44%</u>	<u>40%</u>
Minimum requirement	<u>12%</u>	<u>12%</u>

Notes to the consolidated Financial Statements

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

26 - CAPITAL ADEQUACY (continued)

Capital management

The primary objectives of the Bank's capital management are i) to ensure that the Bank complies with externally imposed capital requirements ii) maintain healthy capital ratios in order to support its business and iii) to maximise shareholders' value.

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

27 - ASSETS UNDER MANAGEMENT

Assets under management, which are held or managed on behalf of clients, whether under the name of the Company or clients, and whether managed on a discretionary or non-discretionary basis, amounted to BD Nil at 31 December 2011 (2010: BD Nil).

28 - SUBSEQUENT EVENTS

No events have occurred subsequent to 31 December 2011 and before the date of this report that would have a significant effect on these consolidated financial statements.

Basel II Pillar III Disclosures

For the year ended 31 DECEMBER 2011

Contents

76	Table 1	Capital structure
77	Table 2	Capital requirement for credit, market and operational risks
77	Table 3	Gross credit exposures before subject to credit risk mitigants (CRM)
79	Table 4	Sectoral classification of gross credit exposures
80	Table 5	Credit concentration greater than 15% individual obligor limit
80	Table 6	Counterparty wise breakdown of impaired loans and impairment provision
81	Table 7	Residual contract maturity
83	Table 8	Geographical distribution of impairment provisions for loans and advances
83	Table 9	Movement in impairment provision for loans and advances and interest in suspense
84	Table 10	Past due loans - age analysis
85	Table 11	Credit risk exposure post credit risk mitigation and credit conversion
85	Table 12	Eligible financial collateral and guarantees
86	Table 13	Sensitivity analysis - interest rate risk
87	Table 14	Equity position in the banking book
87	Table 15	Gain on Equity Investments
87	Table 16	Operational Risk
87	Table 17	Islamic Disclosure

Basel II Pillar III Disclosures

for the year ended 31 December 2011
(Expressed in Thousand Bahrain Dinars)

TABLE I - CAPITAL STRUCTURE

The Bank's regulatory capital base comprises of (a) Tier 1 capital which includes share capital, reserves and retained earnings. (b) Tier 2 capital which consist of current year profit and a portion of unrealized gains arising from fair value of equity.

The Bank's regulatory capital base of BD 58,667 (BD 58,635 thousands previous year) is as detailed below:

	2011		2010	
	<i>Tier 1</i>	<i>Tier 2</i>	<i>Tier 1</i>	<i>Tier 2</i>
A. NET AVAILABLE CAPITAL				
Paid-up share capital	50,000		50,000	-
Reserve:				
Statutory reserve	1,010		987	-
Retained earnings brought forward	7,687		7,002	-
Current year profit	226	-	708	-
Unrealized gains arising from fair valuing equities (45% only)	-	(256)	-	(62)
TOTAL CAPITAL BEFORE REGULATORY DEDUCTIONS	58,923	(256)	58,697	(62)
Less : Regulatory deductions	-	-	-	-
NET AVAILABLE CAPITAL	58,923	(256)	58,697	(62)
TOTAL ELIGIBLE CAPITAL BASE (Tier 1 + Tier 2)		58,667		58,635
B. CAPITAL ADEQUACY RATIO			2011	2010
Total eligible capital base			58,667	58,635
Credit risk weighted exposures			123,786	133,495
Market risk weighted exposures			414	935
Operational risk weighted exposures			11,582	11,582
Total risk weighted exposures			135,782	146,012
Tier 1 ratio			43.40%	40.20%
Total capital adequacy ratio			43.21%	40.16%

Basel II Pillar III Disclosures

for the year ended 31 December 2011
(Expressed in Thousand Bahrain Dinars)

TABLE 2 - CAPITAL REQUIREMENT FOR CREDIT, MARKET AND OPERATIONAL RISKS

	2011 Capital requirement	<i>2010 Capital requirement</i>
Claims on sovereign	-	-
Claims on public sector entities	-	-
Claims on banks	1,007	1,018
Claims on corporate	11,718	11,894
Regulatory retail exposures	-	-
Residential retail exposures	-	-
Equity	654	662
Other exposures	1,475	2,446
TOTAL CREDIT RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)	14,854	16,019
TOTAL MARKET RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)	50	112
TOTAL OPERATIONAL RISK CAPITAL REQUIREMENT (BASIC INDICATOR APPROACH)	1,390	1,390
TOTAL	16,294	17,521

TABLE 3 - GROSS CREDIT EXPOSURES BEFORE SUBJECT TO CREDIT RISK MITIGANTS (CRM)

	2011	<i>2010</i>
Balances with Central Bank of Bahrain	2,264	1,463
Due from banks and other financial institutions	20,676	22,631
Loans and advances to customers	97,274	102,938
Other assets	778	714
TOTAL FUNDED EXPOSURES	120,992	127,746
Contingent liabilities	2,606	3,631
Other commitments	14,182	1,612
TOTAL UNFUNDED EXPOSURES	16,788	5,243
TOTAL CREDIT RISK EXPOSURE	137,780	132,989

Basel II Pillar III Disclosures

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

RISK WEIGHTED ASSETS PROFILE AND CAPITAL REQUIREMENT FOR CREDIT, MARKET AND OPERATIONAL RISK

The Bank has adopted the standardized approach for credit risk and basic indicator approach for operation risk for regulatory reporting purpose.

Credit Risk

The Bank has a diversified funded and unfunded credit exposure. These exposures are classified as standard portfolio per CBB's Basel II requirements.

Brief description of applicable standard portfolio are as follows:

a. Claims on banks:

Claims on banks are risk weighted based on external rating agency. Short-term claims on locally incorporated banks are assigned a risk weighting of 20% where such claims on the banks are of an original maturity of three months or less and the claims are denominated and funded in either Bahraini Dinars or US Dollar.

Preferential risk weight that is one category more favorable than the standard risk weighting are assigned to claims on foreign banks licensed in Bahrain of an original maturity of three months or less denominated and funded in the relevant domestic currency. Such preferential risk weight for short-term claims on banks licensed in other jurisdictions are allowed only if the relevant supervisor also allows this preferential risk weighting to short-term claims on its banks.

No claim on an unrated bank would receive a risk weight lower than that applied to claims on its sovereign of incorporation.

Investment in securities and financial entities are risk weighted at a minimum risk weight of 100% for listed entities or 150% for unlisted entities, unless such investments exceed 20% of the eligible capital of investee entity, in which case they are deducted from the Bank's capital.

b. Claims on corporates:

Claims on corporates are risk weighted based on credit ratings. Risk weighting for unrated (corporate) claims are assigned at 100%.

c. Equity Portfolio:

Investments in listed equities are risk weighted at 100% while unlisted equities are risk weighted at 150%.

d. Other exposures:

These are risk weighted at 100%.

Basel II Pillar III Disclosures

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

TABLE 4 - SECTORAL CLASSIFICATION OF GROSS CREDIT EXPOSURES

	2011		
	<i>Funded</i>	<i>Unfunded</i>	<i>Total</i>
Banks and financial institutions	22,940		22,940
Trading and Manufacturing	41,028	2,606	43,634
Education and Health	13,048		13,048
Hospitality, media and transportation	10,215		10,215
Fisheries and Agriculture	4,175		4,175
Food Processing	2,552		2,552
Others	27,034	14,182	41,216
TOTAL	120,992	16,788	137,780

	2010		
	<i>Funded</i>	<i>Unfunded</i>	<i>Total</i>
Banks and financial institutions	24,094		24,094
Trading and Manufacturing	43,065	3,631	46,696
Education and Health	15,094		15,094
Hospitality, media and transportation	10,474		10,474
Fisheries and Agriculture	4,589		4,589
Food Processing	2,977		2,977
Others	27,453	1,612	29,065
TOTAL	127,746	5,243	132,989

Basel II Pillar III Disclosures

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

TABLE 5 - CREDIT CONCENTRATION GREATER THAN 15% INDIVIDUAL OBLIGOR LIMIT

	2011	2010
Total credit exposures in excess of 15% individual obligor limit	-	-

Impairment of assets

The Bank assesses at each balance sheet date whether there is any objective evidence that a specific financial asset is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'impairment event') and that impairment event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include indications that the borrower is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that it will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Pastdue exposures

This includes claims, for which the repayment is overdue for more than 90 days. The risk weighting for such loans is either 100 percent or 150 percent is applied depending on the level of provisions maintained against the assets.

TABLE 6 - COUNTERPARTY WISE BRAECKDOWN OF IMPAIRED LOANS AND IMPAIRMENT PROVISION

	2011				
	<i>Impaired and past due loans</i>	<i>Specific provision</i>	<i>Charge (recoveries)</i>	<i>Write off</i>	<i>Collective impairment</i>
Project finance	13,403	9,135	1,399	33	325
Fisheries and Agriculture	1,079	-	-	-	-
TOTAL	14,482	9,135	1,399	33	325
	2010				
	<i>Impaired and past due loans</i>	<i>Specific provision</i>	<i>Charge (recoveries)</i>	<i>Write off</i>	<i>Collective impairment</i>
Project finance	15,639	7,144	1,317	37	950
Fisheries and Agriculture	1,093	3	-	-	-
TOTAL	16,732	7,147	1,317	37	950

Basel II Pillar III Disclosures

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

TABLE 7 - RESIDUAL CONTRACTUAL MATURITY

Maturity analysis of assets and liabilities

The table below summarises the maturity profile of the Group's assets and liabilities as at 31 December 2011.

	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Total
2011									
Assets									
Cash and balances with CBB	2,409	-	-	-	-	-	-	-	2,409
Due from banks and other financial institutions Accounts receivable and other assets	510	14,646	5,520	-	-	-	-	-	20,676
Loans and advances to customers Available for sale	813	16	19	33	-	-	-	-	881
investments Investment in associates Property, plant and equipment	1,711	737	1,891	1,705	25,312	56,140	9,679	99	97,274
	-	-	-	-	-	-	4,621	-	4,621
	-	-	-	-	-	-	-	2,105	2,105
	-	-	-	-	-	-	-	9,707	9,707
Total assets	5,443	15,399	7,430	1,738	25,312	56,140	14,300	11,911	137,673
Liabilities									
Deposits Accounts payable and other liabilities	43,605	15,357	544	794	-	-	-	-	60,300
Long term loans	-	4,916	-	-	-	-	-	-	4,916
	-	-	696	696	2,784	2,784	6,830	-	13,790
Total liabilities	43,605	20,273	1,240	1,490	2,784	2,784	6,830	-	79,006
Net liquidity gap	(38,162)	(4,875)	6,190	248	22,528	53,356	7,470	11,911	

Basel II Pillar III Disclosures

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

TABLE 7 - RESIDUAL CONTRACTUAL MATURITY (continued)

The table below summarises the maturity profile of the Group's assets and liabilities as at 31 December 2010.

	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Total
2010									
Assets									
Cash and balances with CBB	1,565	-	-	-	-	-	-	-	1,565
Due from banks and other financial institutions	5,566	12,301	4,764	-	-	-	-	-	22,631
Accounts receivable and other assets	746	8	7	64	-	-	-	-	825
Loans and advances to customers	2,554	932	1,895	3,018	14,801	64,984	14,646	108	102,938
Available for sale investments	-	-	-	-	-	-	4,611	-	4,611
Investment in associates	-	-	-	-	-	-	-	2,226	2,226
Property, plant and equipment	-	-	-	-	-	-	-	9,257	9,257
Total assets	10,431	13,241	6,666	3,082	14,801	64,984	19,257	11,591	144,053
Liabilities									
Deposits	53,541	15,271	5	412	-	-	-	-	69,229
Accounts payable and other liabilities	-	3,849	-	-	-	-	-	-	3,849
Long term loans	-	-	673	673	2,693	2,693	5,608	-	12,340
Total liabilities	53,541	19,120	678	1,085	2,693	2,693	5,608	-	85,418
Net liquidity gap	(43,110)	(5,879)	5,988	1,997	12,108	62,291	13,649	11,591	

Basel II Pillar III Disclosures

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

TABLE 8 - GEOGRAPHICAL DISTRIBUTION OF IMPAIRMENT PROVISIONS FOR LOANS AND ADVANCES

	2011	2010
Bahrain		
Specific impairment provision	9,135	7,147
TOTAL	9,135	7,147

TABLE 9 - MOVEMENT IN IMPAIRMENT PROVISION FOR LOANS AND ADVANCES AND INTEREST IN SUSPENSE

	2011						
	Project finance			Fisheries and agriculture			
	<i>Specific</i>	<i>Collective</i>	<i>Total</i>	<i>Specific</i>	<i>Collective</i>	<i>Total</i>	<i>Total</i>
Balance at 1 January 2011	7,144	950	8,094	3	-	3	8,097
Amounts written off during the year	(33)	-	(33)	-	-	-	(33)
Charge for the year	2,936	-	2,936	-	-	-	2,936
Recoveries during the year	(1,064)	(625)	(1,689)	(3)	-	(3)	(1,692)
Interest suspended during the year (net)	152	-	152	-	-	-	152
At 31 December 2011	9,135	325	9,460	-	-	-	9,460
	2010						
	Project finance			Fisheries and agriculture			
	<i>Specific</i>	<i>Collective</i>	<i>Total</i>	<i>Specific</i>	<i>Collective</i>	<i>Total</i>	<i>Total</i>
Balance at 1 January 2010	6,414	400	6,814	3	-	3	6,817
Amounts written off during the year	(37)	-	(37)	-	-	-	(37)
Charge for the year	1,466	550	2,016	-	-	-	2,016
Recoveries during the year	(1,214)	-	(1,214)	-	-	-	(1,214)
Interest suspended during the year (net)	515	515	-	-	-	-	515
At 31 December 2010	7,144	950	8,094	3	-	3	8,097

Basel II Pillar III Disclosures

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

TABLE 10 - PAST DUE LOANS - AGE ANALYSIS

i) By Geographical area

	2011			<i>Total</i>
	<i>Three months to one year</i>	<i>One to three years</i>	<i>Over three years</i>	
Bahrain	8,680	3,644	2,158	14,482
TOTAL	8,680	3,644	2,158	14,482

ii) By Counterparty wise

	2011			<i>Total</i>
	<i>Three months to one year</i>	<i>One to three years</i>	<i>Over three years</i>	
Project finance	8,176	3,306	1,921	13,403
Fisheries and Agriculture	504	338	237	1,079
TOTAL	8,680	3,644	2,158	14,482

i) By Geographical area

	2010			<i>Total</i>
	<i>Three months to one year</i>	<i>One to three years</i>	<i>Over three years</i>	
Bahrain	8,983	4,207	3,542	16,732
TOTAL	8,983	4,207	3,542	16,732

ii) By Counterparty wise

	2010			<i>Total</i>
	<i>Three months to one year</i>	<i>One to three years</i>	<i>Over three years</i>	
Project finance	8,836	3,933	2,870	15,639
Fisheries and Agriculture	147	274	672	1,093
TOTAL	8,983	4,207	3,542	16,732

Basel II Pillar III Disclosures

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

TABLE 11 - CREDIT RISK EXPOSURE POST CREDIT RISK MITIGATION AND CREDIT CONVERSION

	2011	2010
Claims on sovereign	-	-
Claims on public sector entities	-	-
Claims on banks	8,392	8,479
Claims on corporate	97,651	88,260
Equity	5,452	5,520
Other exposures	12,292	31,236
TOTAL	123,786	133,495

TABLE 12 - ELIGIBLE FINANCIAL COLLATERAL AND GUARANTEES

Bank take collateral from borrowers consists of cash deposits, letters of guarantee and properties. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and evaluates the adequacy of the allowance for impairment.

	2011		2010	
	Gross exposure	Eligible CRM	Gross exposure	Eligible CRM
Claims on sovereign	3,395	-	2,594	-
Claims on public sector entities	-	-	-	-
Claims on MDBs	-	-	-	-
Claims on banks	8,392	-	8,479	-
Claims on corporate	97,651	10,700	88,260	10,958
Equity	5,452	-	5,520	-
Other exposures	12,292	-	31,236	-
TOTAL	127,181	10,700	136,089	10,958

Basel II Pillar III Disclosures

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

TABLE 13 - SENSITIVITY ANALYSIS - INTEREST RATE RISK

Impact on net interest income for the year ended 31 December 2011 and 31 December 2010

	2011	2010
Bahraini Dinar		
(+) 200 basis points	42	242
(-) 200 basis points	(42)	(242)
US Dollar		
(+) 200 basis points	(332)	(332)
(-) 200 basis points	332	332
Kuwaiti Dinar		
(+) 200 basis points	8	16
(-) 200 basis points	(8)	(16)

TABLE 14 - EQUITY POSITION IN THE BANKING BOOK

	2011		2010	
	Gross exposure	Capital requirement	Gross exposure	Capital requirement
Publicly traded	713	86	907	109
Privately held	4,739	569	4,613	554
TOTAL	5,452	654	5,520	662

TABLE - 15 GAINS ON EQUITY INVESTMENTS

	2011	2010
Realised gains recognised in the income statement	-	-
Unrealised gain recognised in the balance sheet:		
- Tier One	-	-
- Tier Two	(256)	(62)

Basel II Pillar III Disclosures

for the year ended 31 December 2011

(Expressed in Thousand Bahrain Dinars)

TABLE 16 - OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed processes, people, and systems or from external events. Bank uses basic indicator approach to allocate capital for operational risk.

TABLE 17 - ISLAMIC DISCLOSURE

Bank offers Islamic products to its small and medium customers, the brief details of Islamic financing and investments are as under

	2011	2010
Assets		
Deposits and Current Accounts	8,673	6,945
Murabhaha Receivables (net of provision)	73,807	75,455
Deferred Profits	(10,832)	(13,461)
Islamic Investments	3,029	3,074
Investments in Sukuk	1,131	1,131
Liabilities		
Banks Deposit	900	2,000
Income		
Income from Islamic Financing	3,839	2,960
Other Income	165	295
Expenses		
Charges on Wakala Deposits	4	4



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