



Your Key to **Success**

2010 Annual Report

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

In the name of Allah
Most Gracious, Most Merciful

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



Development
for the Future





Over the years, BDB has extended its innovative mix of financial services to reach a large number of entrepreneurs, spread across a broad range of economic sub-sectors, including manufacturing, tourism, health, education, fisheries, agriculture, professionals, and other value-adding service activities. By acting as an effective catalyst in the complex national economic programme of capital creation, employment generation, export promotion, import substitution, technological upgradation, privatization and manpower development, BDB has come to be widely recognized as a vigorous and successful promoter of well-planned, market-driven business enterprises in Bahrain.



www.bdb-bh.com

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His Royal Highness Prince
Khalifa Bin Salman Al Khalifa

The Prime Minister



His Majesty King
Hamad Bin Isa Al Khalifa

The King of Bahrain



His Royal Highness Prince
Salman Bin Hamad Al Khalifa

**The Crown Prince &
Deputy Supreme Commander**

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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 wavers under a license issued 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

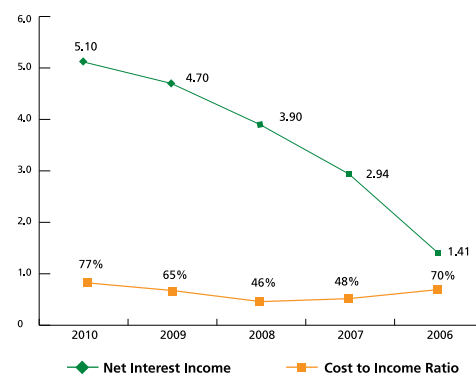
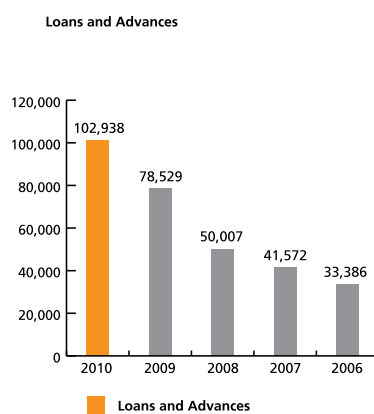
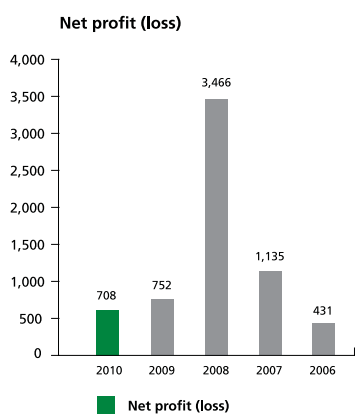
Bahrain Development Bank's mission is to promote entrepreneurship, innovation and develop the small and medium enterprises in the Kingdom of Bahrain, assist in the self employment of Bahrainis in achievement of their career oriented education goals through best quality financial & advisory services in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

Financial Summary

Amount in BD 000s

	2010	2009	2008	2007	2006
Earnings					
Net interest income	5,101	4,704	3,904	2,937	1,410
Other income	1,555	1,603	3,819	2,833	1,378
Operating expenses	5,146	4,082	3,546	2,771	1,953
Loan Loss Provision	802	1,473	2,010	1,864	404
Net profit	708	752	3,466	1,135	431
Dividend (percentage)	0%	0%	0%	0%	0%
Financial Profile					
Total assets	144,053	124,211	103,370	90,621	56,464
Loans and Advances (Net)	102,938	78,529	50,007	41,572	33,386
Investments (Net)	6,837	6,657	6,521	4,768	2,949
Total deposits	69,229	50,974	28,889	14,189	11,045
Customers' deposits	46,918	33,428	21,803	13,389	505
Equity	58,635	58,167	57,663	55,491	13,790
Ratios (percentage)					
Profitability					
Return on average equity	1.21%	1.30%	6.13%	3.28%	3.18%
Return on average assets	0.53%	0.66%	3.57%	1.54%	0.80%
Earnings per share (Fils)	14	15	69	23	43
Cost-to-income	77%	65%	46%	48%	70%
Capital					
Capital adequacy	40%	53%	66%	90%	28%
Equity/Total assets	41%	47%	56%	61%	24%
Total deposits/Equity (times)	1.18	0.88	0.50	0.26	0.80
Others					
Net Loans and advances/Total assets	71%	63%	48%	46%	59%
Net Investments/Total assets	5%	5%	6%	5%	5%
Loans and advances/Customer deposits (times)	2.19	2.35	2.29	3.10	66.11
Number of employees	162	147	108	83	68

*Previous year figures have been regrouped wherever necessary.



BDB's Growing Contribution - Macro-Economic Factors Based on Disbursement

Period	Project cost	Loans, Indirect Financing & Equity	New Jobs	Exports	Import Substitution	Foreign Investment	Foreign currency	Value added
Jan- Dec 09	76,588	51,823	4,623	21,995	4,292	3,288	22,425	36,422
Jan- Dec 10	52,420	51,969	4,342	8,411	3,417	39	9,530	24,294

Board of Directors



**Sh. Mohammed Bin Isa
Bin Mohammed Al Khalifa**
Chairman



Abdul Ellah Ebrahim Al Qasemi
Board Member



Saqer Shaheen Saqer
Board Member



Kamal Ahmed Mohammed
Board Member



Dr. Mohammed Ahmed Jumaan
Board Member



Dhaweya Sharaf Al Alawi
Board Member



Redha Abdulla Faraj
Board Member



Ebrahim Abduali Al Daaysi
Board Member



“

We will continue to move ahead with fostering innovation and entrepreneurship in the Kingdom, supporting small and medium enterprises, and creating human capital that is capable of bringing the vision into reality.

”

Profile of

Board of Directors



**Sh. Mohammed Bin Isa
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.



Abdul Ellah Ebrahim Al Qasemi

Board Member

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. 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.



Saqer Shaheen Saqer

Board Member

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. 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.



Kamal Ahmed Mohammed

Board Member

Chief Operating Officer, Economic Development Board.

Bachelor of Science and Civil Engineering Degree from the University of Bahrain and Master Degree in International Project Management from Leeds University.

Kamal Ahmed was appointed to this role in January 2007 after two years as Director of Projects at the EDB where he led the Projects Department in facilitating the implementation of the Kingdom's reform initiatives. He first joined the EDB in 2004 as Industrial Program Manager, working with key ministries in formulating the national industrial policy, strategies and business development plans.



Dr. Mohammed Ahmed Jumaan
Board Member

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. Some of these companies are EACOM (an IT Consultancy Firm), Mena Aerospace Enterprises (An Aviation Company), Pan Gulf Gourmet (Food and Beverage Company) and ATYAF (A telecommunications Company). Dr. Jumaan is also the member of a number of prestigious societies globally such as Fellow Member of the Royal Aeronautical Society (FRAs), Fellow Member of the British Computer Society, Senior Member of the Institute of Electrical and Electronics Engineering and several others.



Dhaweya Sharaf Al Alawi
Board Member

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.

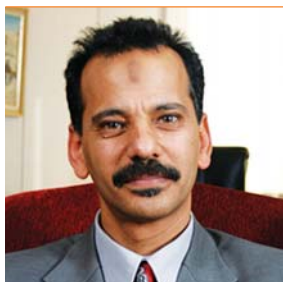
Mrs. Dhaweya has a vast experience in preparing Organization Charts, Budgets and Financial Control, she is a member of several committees such as the committee of Her Royal Highness Princess Sabeeka bint Ibrahim Al Khalifa's Award for Empowering Bahraini Women, the committee of Follow-up of the Implementation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



Redha Abdulla Faraj
Board Member

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.



Ebrahim Abduali Al Daaysi
Board Member

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 BCCI, Labour Fund and Food World in Saudia Arabia and Life Telecommunication Bahrain to name a few.

Chairman's Message



Mohammed bin Isa bin Mohammed Al Khalifa
Chairman of the Board

On behalf of BDB Board of Directors, it is my pleasure to present the Bank's Annual Report for the year 2010.

It is my privilege to state that this year too the Bank continued to focus its efforts at developing the applied integrated module in financing and enhancing Small and Medium Enterprises (SMEs), as well as developing the human resources in the Kingdom of Bahrain. Similar efforts were dedicated towards encouraging the entrepreneurship sector and improving the performance of the private sector as per Bahrain's economic vision for 2030 and BDB's National Economic Strategy (2009-2014). Implementation of this strategy is applied through developing new and effective initiatives and programs backed with financial, consultative and specialized training service and support; as well as bringing small and emerging projects within the business incubators concept.

In terms of financing operations, the Bank has disbursed BD52 million in 2010 to finance SMEs with 1,844 financial transactions, while several BDB finance programs have provided 4,342 job opportunities including those provided by the Bahrain Centre for Developing Emerging Industries, affiliated to BDB.

During the year, BDB concentrated on building and developing an entrepreneurship base in the Kingdom and spreading the spirit of leadership within both male and female Bahraini youth. The Bank is keen on developing national human resources by intensifying and improving consultation programs to widen the spectrum of training and consultation tools such as awareness and educational lectures and hosting training courses and workshops in addition to direct consultation services that provide services to entrepreneurs through the different branches of the Bank. I am pleased to inform you that our efforts have attracted a large number of entrepreneurs to begin their businesses and projects across various sectors. In fact our new clients alone formed 66% of the total number of entrepreneurs financed by BDB this year.

BDB, in association with the Ministry of Education has contributed immensely to train and enable our citizens. BDB launched a vocational training program where high school students were allowed to spend their vocational training period at different departments of the Bank.

In addition to that and as an implementation of the Bank's plan to enhance SMEs across the Kingdom, BDB recently inaugurated two new branches in Budaiya and Muharraq; aiming to re-enforce BDB's adopted strategy to facilitate establishing SMEs, encouraging entrepreneurship culture, improving the role of BDB subsidiary firms to take on a more effective human resources training activities and encourage innovative and distinguished business initiatives and ideas.

In the same context, the Bank has succeeded in accomplishing the expansion project of BDB's Bahrain Business Incubator Centre for developing emerging industries which included the construction of around 79 new incubators in addition to the construction of "Industrial Complex" that aims to attract high-tech knowledge based companies, Foreign Direct Investment firms, fast growing companies and leading and distinguished companies in the business sector in both local and international markets.

Aiming at spreading the concept and experience of the incubators on how to develop emerging projects, the Bank, in association with the Supreme Council for Women and under the patronage of Her Royal Majesty Princess Sabika bint Ibrahim Al Khalifa President of the Supreme Council for Women have laid the foundation stone to establish a Business Incubator Centre for developing Bahraini women entrepreneurship abilities.

Furthermore, the former "Bahrain Institute of Technology" witnessed a qualitative transformation during the year 2010, as it was renamed to become the "Bahrain Institute for Entrepreneurship and Technology". The institute initiated a number of specialized and advanced programs to orient and develop business entrepreneurs as well as enable human resources in general.

BDB also worked hard to provide comprehensive support for SMEs through enhancing its relationships and strategic partnerships with many firms that support this type of business at all local, regional and international levels to enable them to face challenges and co-ordinate efforts to come up with mutual programs and initiatives to help improve performance and facilitate the exchange of expertise and information.

Emanating from BDB's belief in its Development and Social mission, as well as the Bank's cumulative experience and pioneer initiatives, BDB continues its solid march in implementing its National Economic Strategy (2009-2014) in accordance with the initiatives and mechanisms contained in this strategy.

BDB will also focus on launching more development programs, aiming to enhance the living standards of Bahraini citizens and provide entrepreneurs and their families with a source of fixed income through supporting their own business establishments and giving them the appropriate opportunities to do so.

The Board of Directors is committed to ensure effective Governance over the affairs of the bank and its subsidiaries in the best interest and for the benefit of all its stakeholders. Towards this end, the Bank 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 governs the Bank's business. The Bank is committed to be fully compliant with the requirements of the Corporate Governance Code of the Kingdom of Bahrain by December 31, 2011.

Finally, I would like to express my deepest thanks and gratitude to His Majesty King Hamad bin Isa Al Khalifa, and to their Royal Highnesses Prince Khalifa bin Salman Al Khalifa, the Prime Minister and Prince Salman bin Hamad Al Khalifa, the Crown Prince and Deputy Supreme Commander for their continued support and generous guidance which reflects their delightful efforts for a more prosperous Kingdom of Bahrain.

Also, it is my pleasure to extend my thanks to the Board Members and the Executive Management and to all members of the BDB team for their devotion and dedicated effort that contributed immensely in translating and achieving the Bank's visions and targets. I also would like to thank all our partners and supporting firms and companies.



Mohammed bin Isa bin Mohammed Al Khalifa
Chairman of the Board

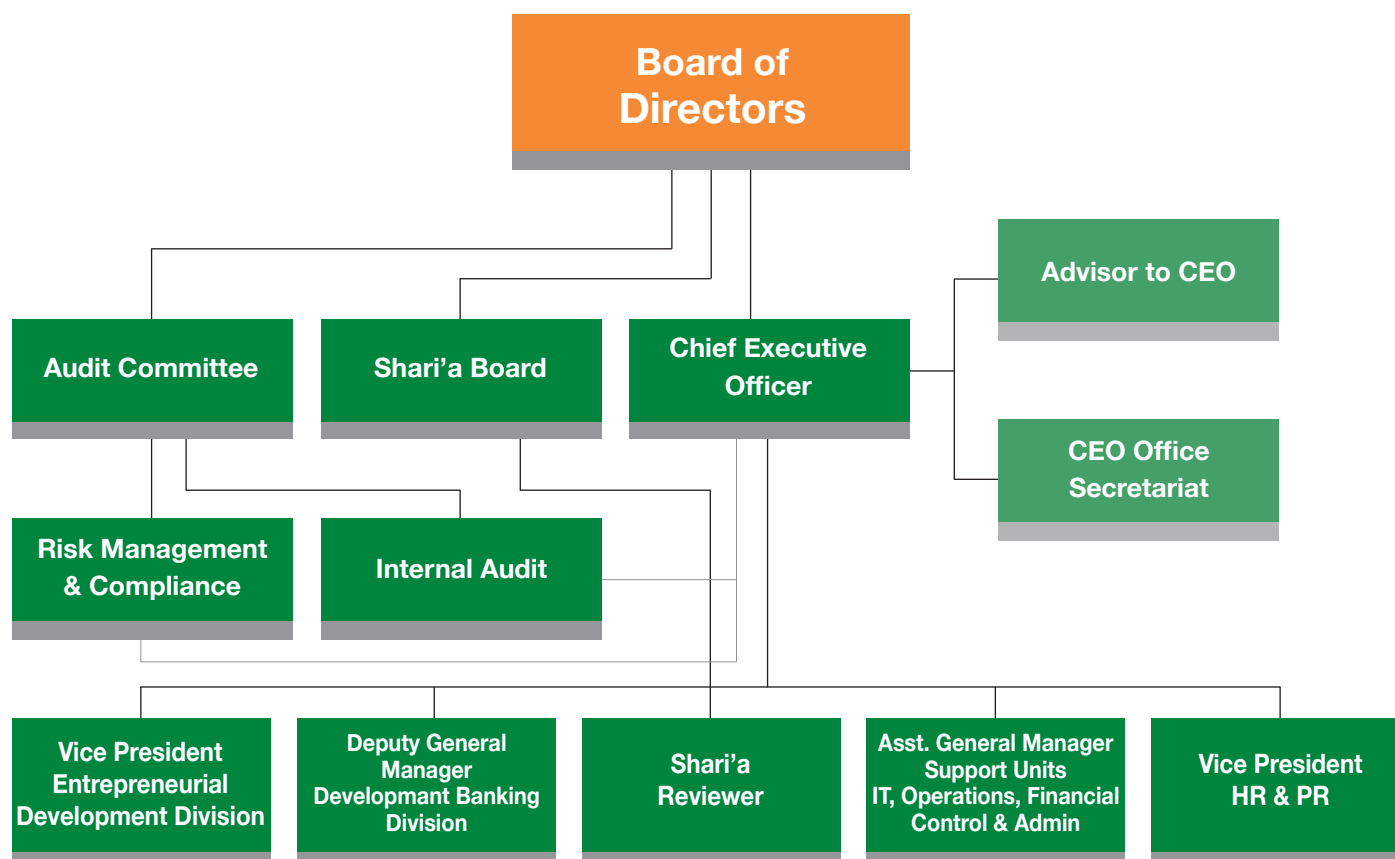
Corporate Governance

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 that 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, 2011.



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 2010, Board meetings were held in Bahrain on, 08 March, 26 May, 16 August and 8 December. The following Directors attended the meetings:

SI No	Name of the Directors	8 March	26 May	16 August	8 December
1	H.E. Sh. Mohammed Bin Essa Al Khalifa	✓	✓	✓	✓
2	Mr. Redha Abdulla Faraj	✓	✓	✓	✓
3	Mr. Abdullellah Ebrahim Al Qassimi	✓	✓	✓	✓
4	Mr. Saqer Shaheen Saqer	✓	✓	✓	✓
5	Mr. Kamal Ahmed Mohammed	✓	✓	✓	✓
6	Dr. Mohammed Ahmed Juman	✓	✓	✓	X
7	Ms. Dhawiya Sayed Sharaf Alawi	✓	✓	✓	✓
8	Mr. Ebrahim Abduali Al Daaysi	✓	X	✓	✓

During 2010, Audit committee meetings were held in Bahrain on, 07 February, 13 May, 12 August, 8 November and 26 December. The following Directors attended the meetings:

Audit Committee Meetings and Attendances

SI No	Name of the Directors	7 February	13 May	12 August	8 November	26 December
1	Mr. Redha Abdulla Faraj	✓	✓	✓	✓	✓
2	Mr. Abdullellah Ebrahim Al Qassimi	✓	✓	✓	✓	✓
3	Mr. Saqer Shaheen Saqer	✓	X	✓	✓	X

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.
- Eskan Bank, Director.

Over 26 years of banking experience, he 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 BDB in 2000.

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 Riyad Bank in various area including Head of credit administration and Corporate Manager. He joined BDB in 2005.

Yacoob Yousif Abdulla

Assistant General Manager- Support Units

Post Graduate (Business), University of Bahrain

Over 29 years of banking experience. He has worked with National Bank of Bahrain in various areas including Retail Banking, Commercial Services, Head of Compliance (Loan Units, Operations, Fixed & Call Deposits). He joined BDB in 2007.

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.

Tawfeeq Al Qattan

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 BDB in 2005.

Hassan Al-Binmohammed

Vice President- 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 BDB in 2005.

Dalal Ismail

Vice President – Business Banking

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 BDB in 2003.

Buthayna Ahmed Al Sadiq

Vice President- Financial Control

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

Over 11 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 BDB in 2006.

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 BDB in 2007.

Management Team



Nedhal Saleh Al Aujan
Chief Executive Officer



Adnan Mahmood Al Balooshi
Deputy General Manager,
Banking Division



Yacoob Yousif Ahmed
Assistant General Manager,
Support Units



Anil Hattangdi
Adviser



Tawfeeq Ali Al Qattan
Head of Entrepreneurial
Development



Hassan Khalil Al Bin Mohamed
Head of Human Resources &
Corporate Communication



Buthayna Ahmed Al Sadiq
Head of Financial Control



Dalal Ismail Ahmed
Head of Credit Control



Samuel Verghese
Head of Internal Audit



During the year, BDB concentrated on building and developing an entrepreneurship base in the Kingdom and spreading the spirit of leadership within both male and female Bahraini youth.



CEO's Statement



Nedhal Al Aujan
Chief Executive Officer

We at Bahrain Development Bank (BDB) realize the importance of small and medium businesses, as well as how they become a core pillar in the overall social and economical framework in the progressed nations.

On this base and as a commitment to the development mission, BDB has succeeded in maintaining a sustainable leadership manner locally and regionally through empowering the concepts of entrepreneurship and free businesses.

As we are about to reveal the 2010 Annual Report, I would like to point out that our Annual Report is more than a statistical demonstration; it is in fact proof of our commitment in delivering high standard aspects, realizing dream and providing our entrepreneurs with the best possible services that suits the vision of Bahrain 2030.

We have earlier dealt with challenges of the forthcoming future by introducing more improvements and developing capabilities that are not limited to just customer satisfaction, but also with providing all aspects of integrated and supportive methods of finance, training, preparing, incubation and consultation.

As for the continuous efforts in building awareness through various training programs and events that are conducted by the Business Advisory Unit, the number of beneficiaries that have attended the range of programs in 2010 are 1,628 that comprise of school and university students to potential entrepreneurs and employees who wish to start their business and would like to further enhance their knowledge in the field of entrepreneurship.

In addition, the Business Advisory Unit provides on-going counseling services to entrepreneurs and SMEs that include discussion about business ideas, business plan preparation, supporting through institution linkages, and finance recommendations as per the request. In 2010, the Business Advisory Unit provided their counseling services to a total of 1,195 clients where 905 entrepreneurs are categorized under the start-up stage which forms 76% of total businesses and 290 SMEs are categorized under the expansion/growth stage which forms 24% of the total businesses.

In total, the Business Advisory Unit was able to reach out to 2,823 through its various programs and counseling services.

We are committed to keeping ourselves closer to our customers with active network of branches and specialized Small & Medium Enterprises service centers that already reached eight different points by the end of 2010 spreading across the Kingdom as follows:

- 1- The Bank branch, located next to the BDB Emerging Industries Development Centre at Salman Industrial City in Hidd.
- 2- The Bank Service Centre in Hamad town, assigned to serve small and medium entrepreneurs at that area and its surroundings.
- 3- The Specialized Industrial ranch in Sitra, assigned for industrial projects in priority.
- 4- The Service Centre located in Isa town.

- 5- The Service Centre located at BDB head office in the Diplomatic area.
- 6- The Special Office for University students facilitated finance at the Bahrain Institute for entrepreneurs and Technology at the GOSI complex.
- 7- The Service Centre located in the town of Muharraq- Inaugurated in 2010.
- 8- The Service Centre located in the town of Budaiyya- inaugurated in 2010.

With a mission to achieve the maximum effectiveness in support and development services, BDB has signed a number of essential agreements and participated in many important national and international forums as follows:

- In recognition of the success of women entrepreneurs in the Kingdom, BDB laid the foundation stone to establish the Bahraini Women Business Incubation Centre, in co-operation with the Supreme Council for Women. Headed by HRH Shaikha Sabika bint Ibrahim Al Khalifa, wife of His Majesty, the King, the Bank has in principle, agreed to setup, finance its construction and train customers to achieve their desired goals and aspirations.
- Three agreements have been signed between the government of the Kingdom of Bahrain and the Saudi Development Fund to finance BDB operations with SR 100 million (BD 10,2 million) to be used for sub-lending disbursements indicated for small and medium projects in the Kingdom of Bahrain.
- Signing of special agreement for shareholding and establishing of medical solution plant in Bahrain in cooperation with Bahrain Biomedical Solutions Company.
- Signing of partnership agreement with Al Sharif International Cargo Services Company states the Bank's shareholding

in the company by 20% on the base of developing and expansion of the company's activities.

- Participating and organizing "Second Entrepreneurs Day – 2010" in partnership with Tamkeen.
- Participating in sponsoring the Arabian Russian exhibition "Arabia Expo 2010" held in Moscow.
- Participating in the "Financial Institution's Union Forum in the member countries of the Islamic Development Bank – 2010", in Istanbul.
- Participating in Bahrain's 7th International Garden Exhibition under the theme "Agriculture and Food Procurement" and under the patronage of His Majesty King Hamad bin Isa Al Khalifa.
- Participating in "Training and Employment Opportunities for Female Job Seekers" under the patronage of Her Royal Highness Princess Sabika bint Ibrahim Al khalifa the wife of His Majesty the King of Bahrain.
- Participating in the "4th Vocation Day" held at Bahrain College University.
- Participating in the vocation day held at AMA International University.
- Participating in the "Vocation Expo 2010" held at Manama to support education and training for the youth.
- Holding of workshops and training programs for the ISIC organization – Bahrain and for the Arab Youth Leadership organization – Bahrain.
- Sponsoring the "Diabetes Conference 2010" organized by the Bahrain Diabetes Society. To commemorate the Society's 20th anniversary, the setup of 'Gulf Special Diabetes Centre' was announced with a commitment to control the spread of diabetes in the Kingdom. One of the first of its kind,

the centre is an important investment for BDB. The Bank contributes 15.66% towards development and improvements in health sector and has signed agreements to that effect.

The Society's anniversary celebrations were held under the patronage of HRH Prince Khalifa bin Salman Al Khalifa

The Bank has maintained the continuation to communicate with the indicated firms in terms of supporting small and medium projects through enhancement of various channels such as "entrepreneurs development and training programs" that are held periodically in cooperation with the Ministry of Industry and Commerce and UNIDO. Their strategic partnership with Tamkeen has succeeded in offering many facilities aimed to improve the performance of small, medium and emerging businesses in various sectors.

BDB in cooperation with Tamkeen has disbursed up to 2,331 loans during the period from 2008 to December 2010, totaling an amount of around BD64 million. Along with this a number of establishments benefited from feasibility study and primary capital supporting programs that aimed to encourage the innovation of entrepreneurship and help the business owners during the early steps of establishing. Furthermore, both BDB and Tamkeen launched and sponsored many initiatives and strategic partnerships as both sides strive to execute in term of supporting entrepreneurship in the Kingdom of Bahrain.

It is particularly worth mentioning that BDB has disbursed over BD14.1 million with over 706 applications for loans and advances to empower women and realize their aspirations. The projects involve activities in industry, commerce and servicing sectors.

The Bank is keen on taking part in various events organized to look after the needs of Bahraini women, to fulfill their ambitions and aspirations. BDB participated in many important women conferences and exhibitions such as the "National Conference for Bahraini women" under the theme "Role of national efforts ... equal opportunities ... fairness and progress to all". BDB also participated in the "Training & employment opportunities exhibition for female job seekers" and the annual 1st, December

Bahraini Women Day that was held last year under the slogan "Bahraini women and volunteer work... 55 years of participation and giving".

The Business Centre, also called 'The Incubator' within BDB continued to expand, receiving during 2010, many business membership applications. In addition, a new BDB branch was setup in the same area. Significantly, the distinguished 'incubator' project targets the innovative industrial and service projects in promising sectors, and to provide advanced technology packed with international competences and expertise that would help member businesses to improve work structures and to impose technology within their overall operations.

The Bahrain Institute for Entrepreneurship and Technology, which was renamed in 2010, offers training in a number of industrial sectors. The institute has merged partnerships with many establishments with a view to launch wider and better services to those who aspire to make it successful in a niche market. The institute's programs have successfully trained more than 694 men and women, who received IT and entrepreneurship courses last year, with females accounting for 30%.

Financial Review

BDB's overall financial status indicates incessant growth and distinguished performance year after another. The Bank disbursed a total of BD52 million during 2010 as small and medium businesses financing disbursements formed a number of 1,844 financing transactions, in comparison to 1,288 financing transactions in 2009, which reveals a 43% growth. As this stage, BDB since its inception until December 2010 disbursed a total amount of BD 229.5 Millions for 7,285 financing transactions in total.

At the term of economical indicators, BDB financed projects provided 4342 job opportunities with benefit of BD24.3 Millions.

In the year 2010, BDB succeeded to attract new clients who formed 66% out of the total of BDB clients. The small businesses imposed 90% as the majority of financed projects. Alloy,

foodstuff, garments, textiles and wooden industries headed the list of BDB industrial financed projects, where trading, cargo, transportation, tourism, dining, education, mechanical engineering, printing and media projects headed the service sector financed projects.

BDB fisheries and agriculture, education, pilot training and taxis financing programs for individuals reached BD7.2 million for the year 2010. With this estimation, BDB four different sectors financing operations delivered until December 2010 about BD27 Million.

In order to achieve an integrated and solid human resources system, we at BDB worked hard and still aspiring to implicate effective and constant improvement systems with fruitful staff encouragement manner through training courses, seminars, workshops, and bonus and allowance system as an appreciation to their success and hard work.

Finally, I would like to assure that BDB is striving to spread the culture of free employment as well as raising awareness about entrepreneurship among the Bahraini youth. The leadership support and enforcement in this field is unprecedented because such projects will not deliver its targeted peaks unless proper foundation is in place at a base of integrated rules and regulations, so all what Bahraini youth have to do is to acquire more insistence, optimism, confidence and opened future vision.



Nedhal Al Aujan

Chief Executive Officer

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Bahrain's economy continues to depend heavily on oil. Petroleum production and refining account for more than 60% of Bahrain's export receipts.

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Management Review

Bahrain's economy continues to depend heavily on oil. Petroleum production and refining account for more than 60% of Bahrain's export receipts. The global financial crisis caused funding for many non-oil projects to dry up and resulted in slower economic growth for Bahrain. Bahrain competes with Malaysia as a worldwide center for Islamic banking and continues to seek new natural gas supplies as feedstock to support its expanding petrochemical and aluminum industries. The financial market seems to be unbalanced by the world financial crisis where liquidity remains to be the main concern of all financial institutions. The liquidity issues in the local market are about a) delays in collecting receivables b) most of the suppliers shifted toward dealing on cash basis and c) other banks & financial institutions are more conservative than before in lending. The bank has embarked on a medium term strategy that aligns its current and future activities to the Kingdom's strategy of 2030.

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 2010 the Bank disbursed 1,844 loans aggregating to BD51.969million under the SME segment, thereby increasing the portfolio under the segment from BD77.288 million in 2009 to BD98.885 million in 2010.

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.

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 2010, the Bank disbursed 107 fisheries loans aggregating to BD0.821 million and the portfolio under fisheries

loans as at the end of 2010 stood at BD3.854 million. Similarly, in the Agriculture sector, the Bank disbursed 32 loans aggregating to BD0.285 million, and the portfolio as at the end of 2010 stood at BD0.645 million.

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 2010, the Bank disbursed 178 educational loans aggregating to BD5.848 million, thereby increasing the portfolio from BD7.031 million in 2009 to BD11.048 million in 2010.

The Bank is also providing Taxi Loans to Bahrainis to provide them with gainful employment and in turn improve the transportation system. During the year 2010, 32 Taxi Loans were extended aggregating to BD0.287 million and the portfolio stood at BD1.133 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 4,342 jobs. Similarly, significant contributions have been made in other economic parameters namely import substitution, value additions, exports and foreign currency earnings.

During the year 2010, the Bank opened a Satellite branch in Muharraq. The Bank at present has network of four full-fledged branches and four 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 2011 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.

Business Advisory, Training and Business Incubation

The non-financial activity portfolio of the bank has taken bigger strides during 2010. Several new initiatives were undertaken 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, greater focus has been laid 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), business counseling, linkage to financial services, business incubation and related services. Major highlights among the initiatives taken are;

1. An advance Entrepreneurship Development Program (EDP) for new enterprise creation launched at the BDB's training institution, the Bahrain Institute of Entrepreneurship & Technology (BIET formerly known as BIT).
2. 2nd Annual Entrepreneurs Day Program for young Bahraini men and women.
3. Several orientation activities and university level presentations as part of Global Entrepreneurship Week.
4. Continuation of Youth Entrepreneurship Orientation Program (EOP) on monthly basis.
5. Implementation of pre-seed capital scheme and feasibility study support scheme in partnership with Tamkeen.

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. A quantum leap has been recorded in encouraging start-up business entrepreneurs

whereby a total of 343 start-up businesses were successfully guided for implementation and linked to bank's financial scheme as compared to 194 start ups supported in the previous year.

Through its non-financial support services, the bank has reached to more than 3000 persons 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 expansion, the total capacity of the incubator has reached to 125. Besides, the tendering process for Women Business Incubator construction has been initiated and the University Business Incubator implementation phase has started with the allocation of premises at the Sakheer campus.

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.

The work scope of BDB's training arm has been enhanced by including specialized entrepreneurship training and changing the institute's name to Bahrain Institute of Entrepreneurship and Technology (BIET). The institute supports Bahrainisation plans by providing highly qualified Bahraini IT Professionals. It also implements Government's Initiative to develop Bahrain as a Regional Training Hub. BIET has Trained more than 600 students during the year, of which a majority, 61% were Bahrainis.



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 95% of our staff (162 employees as of Dec 2010) 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 2010. Staff were trained in anti-money laundering procedures, Youth Entrepreneurship Orientation Program, and were briefed on BDB's Customer Survey, 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.

Communications 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.



Increase in total assets
mainly attributable to the
planned growth in loans &
advances, investment in
associates and property
plant and equipment



Financial Review

Overview

During the year ended 31 December 2010 the bank recorded a net profit of BD 708K, as compared to BD 752K during 2009. Total operating income grew by 4 % to BD6.60 million, due to increases in net interest income, fees & commissions and rental income. Total assets at year-end 2010 aggregated to BD144.05 million, an increase of BD19.84 million as compared to year-end 2009. The asset growth came from 1) new loans and advances, 2) investment in associates and 3) property plant and equipments. Deposits registered an increase of 36 % mainly due to increase in deposit kept by Tamkeen & other government bodies. The key indicators of profitability stood almost at par with 2009 level.

Net Interest Income

Net Interest income grew by 8 % to BD5.10 million as compared to BD4.70 million of the previous year. The increase in net interest income was on account of growth in the Loan portfolio and better spread management.

Other Income

Other income was BD1.56 million (2009: 1.60 million) was marginally down on account of reduction in rate of fee charges to majority of the customers and booking of loss related to Bank's associates.

Operating Expenses

Total Operating expenses showed an increase of BD1.06 million, up by 26% over the previous year. Staff expenses rose from BD2.57 million to BD3.29 million due to hiring of additional staff to meet the requirements of the new branches opened during 2010. Other operating expenses reflected an increase of 29% over the previous year due to commissioning of new branches during 2010. The cost to income ratio has increased from 65% in December 2009 to 77% December 2010 in view of the expansion.

Provisions

Bank's provisioning requirements in respect to 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 802K as compared to BD1.47 million for year 2009.

Bank has provided BD 550K as general provision in accordance with Central Bank of Bahrain directives.

Assets

Increase in total assets mainly attributable to the planned growth in loans & advances, investment in associates and property plant and equipment. Net loans and advances to customers were increased from BD78.53 million at year-end 2009 to BD102.94 million, an increase of BD24.41million or 31 %. Investment in associates has increased by 20% to reach BD2.22 million due to additional investment in Venture Capital Fund. The 15% increase in Property, plant and equipment compared to last year mainly due to the completion of the expansion of Bahrain Business Incubator Center.

Equity

As against minimum capital adequacy ratio of 12 % prescribed by the Central Bank of Bahrain (CBB), the Bank's ratio at year end 2010 was 40% (2009: 53%). 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 2010

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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 B.S.C. (c) ("the Bank") and its subsidiaries ("the Group") which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated statements of income, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in shareholders' equity for the year then ended, and notes to the financial statements comprising a summary of significant accounting policies and other explanatory information. The consolidated financial statements of the Group for the year ended 31 December 2009 were audited by another auditor whose report dated 8 March 2010, expressed an unqualified opinion on those statements.

Directors' responsibility for the consolidated financial statements

The Directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 whether the consolidated financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal

controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

Further, as required by the Bahrain Commercial Companies Law, Decree Number 21 of 2001, in the case of the Bank, we report that:

(1) we have obtained all the information we considered necessary for the purpose of our audit; and

- (2) the Bank has maintained proper books of account and the financial statements are in agreement therewith.
- (3) the financial information included in the Chairman's report is consistent with the books of account of the Bank.

In addition, we report that nothing has come to our attention which causes us to believe that the Bank has breached any of the applicable provisions of the Bahrain Commercial Companies Law, Decree Number 21 of 2001, Central Bank of Bahrain and Financial Institutions Law or of its Memorandum and Articles of Association, which would materially affect its activities, or its financial position as at 31 December 2010 and the Bank has complied with the terms of its banking license.



1 March 2011
Manama, Kingdom of Bahrain

Consolidated statement of Financial Position

31 December 2010

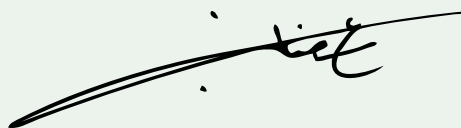
(Expressed in Thousand Bahrain Dinars)

	Notes	2010	2009
ASSETS			
Cash and balances with Central Bank of Bahrain	5	1,565	1,431
Due from banks and other financial institutions	6	22,631	28,770
Accounts receivable and other assets	7	825	769
Loans and advances to customers	8	102,938	78,529
Available-for-sale investments	9	4,611	4,801
Investment in associates	10	2,226	1,856
Property, plant and equipment	11	9,257	8,055
TOTAL ASSETS		144,053	124,211
LIABILITIES AND EQUITY			
Liabilities			
Deposits	12	69,229	50,974
Accounts payable and other liabilities	13	3,849	1,611
Long term loan	14	12,340	13,459
Total Liabilities		85,418	66,044
Equity			
Share capital	15	50,000	50,000
Statutory reserve	16	987	916
Cumulative changes in fair value		(62)	178
Retained earnings		7,710	7,073
Total Equity		58,635	58,167
TOTAL LIABILITIES AND EQUITY		144,053	124,211

These financial statements, set out on pages 36 to 73, were approved for issue by the Board of Directors on 1 March 2011 and signed on its behalf by:



Chairman



Director

Consolidated Statement of Income

Year ended 31 December 2010

(Expressed in Thousand Bahrain Dinars)

	Notes	2010	2009
Interest income	17	5,695	5,211
Interest expense	18	(594)	(507)
Net interest income		5,101	4,704
Fee and commission income		683	671
Rental income		320	294
Course fees and related income		154	246
Dividend income		351	362
Other income		185	133
Share of loss of associates		(195)	(78)
Total operating income		6,599	6,332
Administration expenses	19	(3,570)	(2,861)
Other operating expenses		(1,576)	(1,221)
Profit before provision and foreign currency translation		1,453	2,250
Provision for impairment	8	(802)	(1,473)
Gain/ (Loss) on foreign currency retranslation		57	(25)
Net profit for the year		708	752

Consolidated statement of **Comprehensive income**

Year ended 31 December 2010

(Expressed in Thousand Bahrain Dinars)

	2010	2009
Net profit for the year	708	752
Net movement in cumulative changes in fair value - available for sale investments	(240)	(248)
Total comprehensive income for the year	468	504

Consolidated statement of changes in Shareholders' Equity

Year ended 31 December 2010

(Expressed in Thousand Bahrain Dinars)

	<i>Share capital</i>	<i>Statutory reserve</i>	<i>Cumulative changes in fair value</i>	<i>Retained earnings</i>	<i>Total Equity</i>
Balance at 1 January 2009	50,000	841	426	6,396	57,663
Total comprehensive income for the year	-	-	(248)	752	504
Transfer to statutory reserve	-	75	-	(75)	-
Balance at 31 December 2009	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

Consolidated statement of Cashflows

Year ended 31 December 2010
(Expressed in Thousand Bahrain Dinars)

	2010	2009
Operating activities		
Net profit for the year	708	752
Adjustments for:		
Depreciation	283	293
Provision for impairment	802	1,473
Dividend income	(351)	(362)
Reversal of excess depreciation	(93)	-
Share of loss of an associate	195	78
(Gain) / loss on foreign currency retranslation	(57)	25
Operating profit before changes in operating assets and liabilities	1,487	2,259
Changes in operating assets and liabilities:		
Due from banks and other financial institutions	(5,114)	9,321
Accounts receivable and other assets	(56)	(45)
Loans and advances to customers	(25,211)	(29,995)
Deposits	18,255	22,085
Accounts payable and other liabilities	2,238	165
Net cash (used in)/provided by operating activities	(8,401)	3,790
Investing activities		
Purchase of property, plant and equipment	(1,392)	(3,681)
Purchase of investments	(615)	(462)
Dividend income received	351	362
Net cash used in investing activities	(1,656)	(3,781)
Financing activities		
Repayment of long term loan	(1,119)	(1,913)
Net cash used in financing activity	(1,119)	(1,913)
Decrease in cash and cash equivalents	(11,176)	(1,904)
Cash and cash equivalents at 1 January	16,696	18,600
Cash and cash equivalents at 31 December (Note 20)	5,520	16,696

Notes to the Financial Statements

Year ended 31 December 2010

(Expressed in Thousand Bahrain Dinars)

1 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.

Notes to the Financial Statements

Year ended 31 December 2010

(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 effective in 2010 but not relevant

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 July 2009/1 January 2010, but are not relevant to the Group's operations:

	Standard or interpretation	Effective for annual period beginning on or after
IFRS 1	First Time Adoption of International Financial Reporting Standards	1 July 2009/ 1 January 2010
IFRS 2	Share Based Payments	1 July 2009/ 1 January 2010
IFRS 3	Business Combinations	1 July 2009
IFRS 5	Non-Current Assets Held for Sale and Discontinued Operations	1 July 2009/ 1 January 2010
IFRS 8	Operating Segments	1 January 2010
IAS 1	Presentation of Financial Statements	1 January 2010
IAS 7	Statement of Cash Flows	1 January 2010
IAS 17	Leases	1 January 2010
IAS 28	Investments in Associates	1 January 2010
IAS 31	Interests in Joint Ventures	1 July 2009
IAS 36	Impairment of Assets	1 January 2010
IAS 38	Intangible Assets	1 July 2009
IAS 39	Financial Instruments - Recognition and Measurement	30 June 2009/ 1 July 2009/ 1 January 2010
IFRIC 9	Reassessment of Embedded Derivatives	1 July 2009
IFRIC 16	Hedges of Net Investment in a Foreign Operation	1 July 2009
IFRIC 17	Distributions of Non-cash Assets to Owners	1 July 2009

Notes to the Financial Statements

Year ended 31 December 2010

(Expressed in Thousand Bahrain Dinars)

2 BASIS OF PREPARATION (continued)

Standards, amendments and interpretations issued but not yet effective in 2010

	Standard or interpretation	Effective for annual period beginning on or after
IFRS 1	First Time Adoption of International Financial Reporting Standards	1 July 2010/ 1 January 2011/ 1 July 2011
IFRS 3	Business Combinations	1 July 2010
IFRS 7	Financial Instruments - Disclosures	1 January 2011/ 1 July 2011
IFRS 9	Financial instruments - Classification and Measurement	1 January 2013
IAS 1	Presentation of Financial Statements	1 January 2011
IAS 12	Income Taxes	1 January 2012
IAS 24	Related Party Disclosures	1 January 2011
IAS 27	Consolidated and Separate Financial Statements	1 July 2010
IAS 32	Financial Instruments - Presentation	1 February 2010
IAS 34	Interim Financial Reporting	1 January 2011
IFRIC 13	Customer Loyalty Programmes	1 January 2011
IFRIC 14	The limit on define benefit assets, minimum funding requirements and their interaction	1 January 2011
IFRIC 19	Extinguishing financial liabilities with equity instruments	1 July 2010

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.

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

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. These include Murabaha Receivables which are stated net of deferred profits and provision of doubtful debts.

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.

Notes to the Financial Statements

Year ended 31 December 2010

(Expressed in Thousand Bahrain Dinars)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Investments comprise available-for-sale investments and investments in associates.

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 quoted and unquoted equity instruments (including Sukuk and Islamic Investments).

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.

Under the equity method, the investment (including Islamic) 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:

Notes to the Financial Statements

Year ended 31 December 2010

(Expressed in Thousand Bahrain Dinars)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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

Deposit

All deposits; Bank deposits, Wakala deposits from Islamic Financial Institutions and Customer 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.

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, income from islamic financing 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 and income from islamic financing is suspended when loans and islamic facilities become impaired, such as when installments are overdue by more than 90 days. Notional interest and income from islamic financing 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.

Interest expense and payments on Wakala deposits is accrued using effective interest rate method.

Notes to the Financial Statements

Year ended 31 December 2010

(Expressed in Thousand Bahrain Dinars)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Cost of sales

Cost of sales includes materials cost, other variable costs, and such factory overheads as related to the normal utilization of facilities. This also includes freight, insurance, transport and other shipping expenses.

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 statement of financial position date. Any exchange gains or losses are taken to the consolidated statement of income.

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.

Provisions

At 31 December 2010, in the opinion of the management, an amount of BD8,048 has been provided for impaired receivables (2009: BD6,817). 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 creditworthiness 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.

Notes to the Financial Statements

Year ended 31 December 2010

(Expressed in Thousand Bahrain Dinars)

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

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

	2010	2009
Cash in hand	102	54
Balances with Central Bank of Bahrain (CBB)	1,463	1,377
	<u>1,565</u>	<u>1,431</u>

6 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2010	2009
Nostro balances with other banks	717	1,152
Placements with banks and financial institutions	21,914	27,618
	<u>22,631</u>	<u>28,770</u>

Nostro balances with banks include an amount of BD22 thousand (2009: BD3 thousand) maintained by the Bank in a fiduciary capacity (note 14). An equivalent amount is included in accounts payable and other liabilities representing amount payable to Kuwait Fund for Arab Economic Development (KFAED). The due from banks and financial institutions includes Murabaha placement of BD6.95 million (2009: BD13.25 million).

7 ACCOUNTS RECEIVABLE AND OTHER ASSETS

	2010	2009
Interest	182	180
Prepayments and other assets	643	589
	<u>825</u>	<u>769</u>

Notes to the Financial Statements

Year ended 31 December 2010

(Expressed in Thousand Bahrain Dinars)

8 LOANS AND ADVANCES TO CUSTOMERS

	2010	2009
Project finance	105,986	80,362
Fisheries and agriculture	4,499	4,469
Others	550	515
	111,035	85,346
Less: Provision for impairment - Specific	(7,147)	(6,417)
- Collective	(950)	(400)
	102,938	78,529

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. Loans and Advances include BD75.46 million (2009: BD44.00 million) Murabaha Receivables and a provision of BD1.39 million towards those Murabaha Receivables (2009: BD642 thousand) were provided in the accounts.

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

	2010	2009
At 1 January	6,817	6,338
Charge for the year	802	1,473
Written off during the year	(37)	(1,115)
Interest suspended	515	121
Balance at 31 December	8,097	6,817
Gross amount of loans, individually assessed to be impaired before deducting any individually assessed impairment allowance (see note below)	16,732	13,159

Note : This include BD1,090 thousand (2009: BD1,413 thousand) relating to agriculture and fisheries loans which are considered as impaired but no provision has been made as the loans are considered secured through the reimbursement arrangement with the Government of the Kingdom of Bahrain.

The fair value of collateral that the Bank holds relating to loans individually determined to be impaired at 31 December 2010 amounts to BD2.1 million (2009: BD1.7 million). For more detailed description see note 24 (i) (c) collateral and other credit enhancements.

Notes to the Financial Statements

Year ended 31 December 2010

(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:

	2010	2009
Quoted	907	1,147
Unquoted	4,680	4,630
	5,587	5,777
Less: Provision for impairment	(976)	(976)
	4,611	4,801

Investments includes Islamic investment of BD1.35 million (2009: BD1.35 million) and Investment in CBB Sukuk of BD1.13 million (2009: 1.13 million).

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

	2010	2009
Share of associates' statement of financial positions:		
Arabian Taxi Company	185	314
EBDA Bank	318	377
Venture Capital Fund (Islamic Investment)	1,723	1,165
	2,226	1,856

Notes to the Financial Statements

Year ended 31 December 2010

(Expressed in Thousand Bahrain Dinars)

11 PROPERTY, PLANT AND EQUIPMENT

	<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	-	902	442	1,334	-	2,678
Net book values						
At 31 December 2010	293	907	7,615	399	43	9,257
2009						
Cost:						
At 1 January 2009	293	1,807	1,477	1,298	1,987	6,862
Additions	-	2	-	238	3,441	3,681
At 31 December 2009	293	1,809	1,477	1,536	5,428	10,543
Depreciation:						
At 1 January 2009	-	853	320	1,022	-	2,195
Charge for the year	-	71	51	171	-	293
At 31 December 2009	-	924	371	1,193	-	2,488
Net book values						
At 31 December 2009	293	885	1,106	343	5,428	8,055

*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 the Bank has revised the useful life of the asset and accordingly, excess depreciation of BD93K has been reversed and taken to the consolidated statement of income.

The capital work in progress as of 31 December 2010 represents amounts incurred for the proposed Women Incubator Centre.

Notes to the Financial Statements

Year ended 31 December 2010

(Expressed in Thousand Bahrain Dinars)

12 DEPOSITS

	2010	2009
Bank deposits	22,311	17,546
Customer deposits	46,918	33,428
	<u>69,229</u>	<u>50,974</u>

Bank Deposits include Wakala deposits from Islamic Financial Institutions of BD2.00 million (2009:500 thousand).

13 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2010	2009
Unearned income	-	17
Amount due to Ministry of Agriculture	425	425
Staff related accruals	626	451
Accounts payable	1,133	285
Interest payable	84	56
Others	1,581	377
	<u>3,849</u>	<u>1,611</u>

14 LONG TERM LOANS

	2010	2009
Kuwait Fund for Arab Economic Development	12,340	13,459

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% (2009: 1.5% and 0.5%) respectively. The outstanding balance as at 31 December 2010 was KD9.23 million (2009: KD10.2 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 BD22 thousand (2009: BD3 thousand). 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, BD5 thousand (2009: BD15 thousand) was utilised for such purposes.

Notes to the Financial Statements

Year ended 31 December 2010

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15 SHARE CAPITAL

	Authorised		Issued and fully paid	
	2010	2009	2010	2009
Ordinary shares of BD1 each	100,000	100,000	50,000	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, BD71K (2009:BD75K) 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

	2010	2009
Loans and advances	5,093	3,831
Due from banks and other financial institutions	415	1,091
Interest recoveries relating to impaired loans	187	289
	5,695	5,211

The above income includes BD2.96 million from Islamic Financing (2009: BD1.59 million).

18 INTEREST EXPENSE

	2010	2009
Loan from Kuwait Fund for Arab Economic Development	264	286
Bank deposits	126	45
Customer deposits	204	176
	594	507

Expenses related to bank deposit includes BD4 thousand (2009:BDNil) for charges on Wakala deposits from Islamic Financial Institutions.

19 ADMINISTRATION EXPENSES

	2010	2009
Staff costs	3,287	2,568
Depreciation	283	293
	3,570	2,861

Notes to the Financial Statements

Year ended 31 December 2010

(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:

	2010	2009
Cash	102	54
Balances with central Bank of Bahrain excluding reserves	(148)	190
Due from banks and other financial institutions with original maturity of 90 days or less	5,566	16,452
	5,520	16,696

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:

	<i>Directors and senior management</i>	<i>Other related companies</i>	<i>Total</i>
2010			
Deposits	10	10,572	10,582
Loans and advances to customers	170	1,350	1,520
Accounts payable and other	-	20	20
	<i>Directors and senior management</i>	<i>Other related companies</i>	<i>Total</i>
2009			
Deposits	12	10,526	10,538
Loans and advances to customers	229	533	762
Accounts payable and other	-	15	15

Notes to the Financial Statements

Year ended 31 December 2010

(Expressed in Thousand Bahrain Dinars)

21 RELATED PARTY TRANSACTIONS (continued)

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

	<i>Directors and senior management</i>	<i>Other related companies</i>	<i>Total</i>
2010			
Interest income	7	69	76
Interest expense	-	11	11
Rental expenses	-	16	16
Other expenses	-	30	30
	<i>Directors and senior management</i>	<i>Other related companies</i>	<i>Total</i>
2009			
Interest income	12	1	13
Interest expense	-	23	23
Rental expenses	-	7	7
Other expenses	-	19	19

Compensation of key management personnel is as follows:

	2010	2009
Short term employee benefits	533	399
Termination benefits	100	38
	633	437

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Year ended 31 December 2010

(Expressed in Thousand Bahrain Dinars)

22 SEGMENTAL INFORMATION

The financial position of the Bank and the Group as of 31 December 2010 was as follows:

	Bank			Subsidiaries		Total
	Head Office and Equity Investments Division*	Development Activities Division**	Sub-total	Bahrain Institute of Entrepre- neurship & 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 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 Financial Statements

Year ended 31 December 2010

(Expressed in Thousand Bahrain Dinars)

22 SEGMENTAL INFORMATION (continued)

The financial position of the Bank and the Group as of 31 December 2009 was as follows:

	Bank			Subsidiaries		Total
	Head Office and Equity Investments Division*	Development Activities Division**	Sub-total	Bahrain Institute of Entrepre- neurship & Technology	Bahrain Business Incubator Centre	
2009						
ASSETS						
Cash and balances with the Central Bank of Bahrain	-	1,430	1,430	1	-	1,431
Due from banks and other financial institutions	-	28,766	28,766	4	-	28,770
Accounts receivable and other assets	-	576	576	128	65	769
Loans and advances to customers	-	78,529	78,529	-	-	78,529
Available for sale investments	4,801	-	4,801	-	-	4,801
Investment in associates	1,856	-	1,856	-	-	1,856
Property, plant and equipment	1,494	-	1,494	9	6,552	8,055
TOTAL ASSETS	8,151	109,301	117,452	142	6,617	124,211
LIABILITIES AND EQUITY						
LIABILITIES						
Deposits	-	50,974	50,974	-	-	50,974
Accounts payable and other liabilities	807	735	1,542	48	21	1,611
Long term loan	-	13,459	13,459	-	-	13,459
TOTAL LIABILITIES	807	65,168	65,975	48	21	66,044
EQUITY						
Share capital	50,000	-	50,000	-	-	50,000
Statutory reserve	916	-	916	-	-	916
Cumulative changes in fair value	178	-	178	-	-	178
Retained earnings	7,073	-	7,073	-	-	7,073
	58,167	-	58,167	-	-	58,167
Intra division/Intra group balances	(50,823)	44,133	(6,690)	94	6,596	-
TOTAL LIABILITIES AND EQUITY	8,151	109,301	117,452	142	6,617	124,211

* 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.

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Year ended 31 December 2010

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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	-	5,101	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.

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22 SEGMENTAL INFORMATION (continued)

The income and expenses of the Bank and the Group for the year ended 31 December 2009 are as follows:

	Bank			Subsidiaries		Total
	Head Office and Equity Investments Division*	Development Activities Division**	Sub-total	Bahrain Institute of Entrepre- neurship & Technology	Bahrain Business Incubator Centre	
2009						
Interest income	-	5,211	5,211	-	-	5,211
Interest expense	-	(507)	(507)	-	-	(507)
Net interest income	-	4,704	4,704	-	-	4,704
Fee and commission income	-	671	671	-	-	671
Rental income	187	-	187	-	107	294
Course fees and related income	-	-	-	246	-	246
Dividend income	362	-	362	-	-	362
Other operating income	100	-	100	(3)	36	133
Share of loss of associates	(78)	-	(78)	-	-	(78)
Total operating income	571	5,375	5,946	243	143	6,332
Administration expenses	-	-	-	122	185	307
Provision for impairment	-	1,473	1,473	-	-	1,473
Other operating expenses	-	-	-	179	126	305
Exchange loss	-	25	25	-	-	25
	-	1,498	1,498	301	311	2,110
DIVISIONAL PROFIT (LOSS)	571	3,877	4,448	(58)	(168)	4,222
Unallocated administration expenses			(2,554)	-	-	(2,554)
Unallocated operating expenses			(916)	-	-	(916)
PROFIT (LOSS) FOR THE YEAR			978	(58)	(168)	752

* 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.

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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:

	2010	2009
Contingent liabilities:		
Letters of guarantee	2,208	1,320
Letters of credit	1,423	725
	<u>3,631</u>	<u>2,045</u>
Commitments:		
Capital expenditure and other commitments	-	1,146
Irrevocable commitments to extend credit	1,007	463
Lease rental commitments	605	649
	<u>1,612</u>	<u>2,258</u>
	<u>5,243</u>	<u>4,303</u>

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

	2010	2009
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	385	429
	<u>605</u>	<u>649</u>

Notes to the Financial Statements

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(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 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 Financial Statements

Year ended 31 December 2010

(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 Financial Statements

Year ended 31 December 2010

(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 Financial Statements

Year ended 31 December 2010

(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.

	2010	2009
Balances with Central Bank of Bahrain	1,463	1,377
Due from banks and financial institutions	22,631	28,770
Accounts receivable and other assets (excluding prepayments)	714	656
Loans and advances to customers	102,938	78,529
	127,746	109,332
Contingent liabilities	3,631	2,045
Commitments	1,612	2,258
	5,243	4,303
Total credit risk exposure	132,989	113,635

(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.

	2010	2009
Industry sector		
Banks and financial institutions	24,094	30,147
Trading and manufacturing	46,696	32,713
Education and health	15,094	10,919
Hospitality, media and transportation	10,474	9,763
Fisheries and agriculture	4,589	4,651
Food processing	2,977	2,722
Others	29,065	22,720
	132,989	113,635

Notes to the Financial Statements

Year ended 31 December 2010

(Expressed in Thousand Bahrain Dinars)

24 RISK MANAGEMENT STRUCTURE (continued)

24 (i) Credit Risk (continued)

(c) Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the facility structure and the associated credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are cash margin, bank guarantees, vehicles ownership and real estate title deeds. Assignment of inventory, trade receivables, and mortgage over business assets also provide additional support.

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.

	2010				Total
	Neither past due nor impaired		Past due but not impaired	Impaired	
	High grade	Standard grade			
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 Financial Statements

Year ended 31 December 2010

(Expressed in Thousand Bahrain Dinars)

24 RISK MANAGEMENT STRUCTURE (continued)

(d) Credit quality per class of financial assets (continued)

	2009				
	Neither past due nor impaired		Past due but not impaired	Impaired	Total
	High grade	Standard grade			
Balances with Central Bank of Bahrain	1,377	-	-	-	1,377
Due from banks and financial institutions	28,770	-	-	-	28,770
Accounts receivable and other assets (excluding prepayments)	-	615	41	-	656
Loans and advances to customers	-	59,550	12,237	6,742	78,529
Total	30,147	60,165	12,278	6,742	109,332

(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
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
2009					
Accounts receivable and other assets (excluding prepayments)	11	7	7	16	41
Loans and advances to customers	8,422	2,051	1,373	391	12,237
Total	8,433	2,058	1,380	407	12,278

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 2010 was BD2.1 million (2009: BD1.7 million). See note 24(i) (c) for the details of types of collateral held.

Notes to the Financial Statements

Year ended 31 December 2010

(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 assets.

	2010	2009
Loans and advances to customers	3,972	3,467

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 in 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 Financial Statements

Year ended 31 December 2010

(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 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.

	<i>Change in basis points</i>	<i>Impact of change on Net interest Income</i>		<i>Change in basis points</i>	<i>Impact of change on Net interest Income</i>	
		2010	2009		2010	2009
Bahraini Dinars	+100	121	641	-100	(121)	(641)
Kuwaiti Dinars	+100	8	9	-100	(8)	(9)
United States Dollars	+100	(166)	160	-100	166	(160)

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 4 currencies, namely Bahraini Dinars, Kuwaiti Dinars, 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:

	<i>Equivalent long (short)</i>	
	2010	2009
Kuwaiti Dinars	935	918
US Dollars	(12,931)	(12,708)
Euro	(4)	(23)

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 BD47 thousand (2009: an increase of BD46 thousand) in the profit for the year.

Notes to the Financial Statements

Year ended 31 December 2010

(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 2010 and 31 December 2009 based on expected maturities.

	<i>Up to 1 month</i>	<i>1 to 3 months</i>	<i>3 to 6 months</i>	<i>6 months to 1 year</i>	<i>1 to 3 years</i>	<i>Over 3 years</i>	<i>Total</i>
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 liabilities	-	3,849	-	-	-	-	3,849
Long term loan	-	-	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	

Notes to the Financial Statements

Year ended 31 December 2010

(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
2009							
Assets							
Cash and balances with Central Bank of Bahrain	1,431	-	-	-	-	-	1,431
Due from banks and other financial institutions	19,958	8,812	-	-	-	-	28,770
Accounts receivable and other assets	739	7	7	16	-	-	769
Loans and advances to customers	1,121	582	1,035	1,371	15,797	58,623	78,529
Available for sale investments	-	-	-	-	-	4,801	4,801
Investment in associates	-	-	-	-	-	1,856	1,856
Property, plant and equipment	-	-	-	-	-	8,055	8,055
Total assets	23,249	9,401	1,042	1,387	15,797	73,335	124,211
Liabilities							
Deposits	30,989	9,135	10,538	312	-	-	50,974
Accounts payable and other liabilities	-	1,611	-	-	-	-	1,611
Long term loan	-	-	670	670	2,679	9,440	13,459
Total liabilities	30,989	10,746	11,208	982	2,679	9,440	66,044
Net liquidity gap	(7,740)	(1,345)	(10,166)	405	13,118	63,895	

(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 BD45 thousand (2009: 57 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 Financial Statements

Year ended 31 December 2010

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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 2010 and 31 December 2009 based on contractual undiscounted repayment obligations. See note (c) "Maturity analysis of assets and liabilities" for the expected maturities of these liabilities.

	<i>On demand</i>	<i>Up to 1 month</i>	<i>1 to 3 months</i>	<i>3 to 6 months</i>	<i>6 months to 1 year</i>	<i>1 to 3 years</i>	<i>Over 3 years</i>	<i>Total</i>
2010								
Deposits	10,633	42,937	15,322	5	420	-	-	69,317
Accounts payable and other liabilities	-	-	3,849	-	-	-	-	3,849
Long term loan	-	-	-	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
2009								
Deposits	8,367	22,628	9,135	10,538	330	-	-	50,998
Accounts payable and other liabilities	-	-	1,611	-	-	-	-	1,611
Long term loan	-	-	-	805	798	3,124	10,152	14,879
Total liabilities	8,367	22,628	10,746	11,343	1,128	3,124	10,152	67,488

Notes to the Financial Statements

Year ended 31 December 2010
(Expressed in Thousand Bahrain Dinars)

24 RISK MANAGEMENT STRUCTURE (continued)

24 (iii) Liquidity risk (continued)

Liquidity risk and funding management

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

	<i>On demand</i>	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Total</i>
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
2009					
Contingent liabilities	420	577	737	311	2,045
Commitments	463	-	1,190	605	2,258
Total	883	577	1,927	916	4,303

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.

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	907	907

There are no financial instruments that qualify for classification under Level 2 or Level 3 as at 31 December 2010.

At 31 December 2010 and 2009, the estimated fair values of the financial instruments are not materially different from their carrying amounts in the financial statements except for unquoted available for sale investments and long term loans.

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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:

	2010	2009
Capital base		
Tier 1 capital	58,638	57,989
Tier 2 capital	-	80
Total capital base (a)	58,638	58,069
Risk-weighted assets (b)	145,956	110,599
Capital adequacy ratio (a/b*100)	40%	53%
Minimum requirement	12%	12%

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 Bank or clients, and whether managed on a discretionary or non-discretionary basis, amounted to BD Nil at 31 December 2010 (2009: BD Nil).

28 SUBSEQUENT EVENTS

No events have occurred subsequent to 31 December 2010 and before the date of this report that would have a significant effect on these consolidated financial statements.

Basel II Pillar III Disclosures

Year ended 31 December 2010

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Basel II Pillar III Disclosures

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TABLE 1 - 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 BD58,639 (BD58,069 thousands previous year) is as detailed below:

	2010		2009	
	<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	987	-	916	-
Retained earnings brought forward	7,002	-	6,321	-
Current year profit	708	-	752	-
Unrealized gains arising from fair valuing equities (45% only)	-	(62)	-	80
TOTAL CAPITAL BEFORE REGULATORY DEDUCTIONS	58,697	(62)	57,989	80
Less : Regulatory deductions	-	-	-	-
NET AVAILABLE CAPITAL	58,697	(62)	57,989	80
TOTAL ELIGIBLE CAPITAL BASE (Tier 1 + Tier 2)		58,635		58,069
B. CAPITAL ADEQUACY RATIO			2010	2009
Total eligible capital base			58,635	58,069
Credit risk weighted exposures			133,495	99,655
Market risk weighted exposures			935	918
Operational risk weighted exposures			11,582	10,026
Total risk weighted exposures			146,012	110,599
Tier 1 ratio			40.20%	52.43%
Total capital adequacy ratio			40.16%	52.50%

Basel II Pillar III Disclosures

Year ended 31 December 2010
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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

Year ended 31 December 2010
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TABLE 2 - CAPITAL REQUIREMENT FOR CREDIT, MARKET AND OPERATIONAL RISKS

	2010	2009
	<i>Capital</i>	<i>Capital</i>
	<i>requirement</i>	<i>requirement</i>
Claims on sovereign	-	-
Claims on public sector entities	-	-
Claims on banks	1,018	691
Claims on corporate	11,894	7,771
Regulatory retail exposures	-	-
Residential retail exposures	-	-
Equity	662	716
Other exposures	2,446	2,781
TOTAL CREDIT RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)	16,019	11,959
TOTAL MARKET RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)	112	110
TOTAL OPERATIONAL RISK CAPITAL REQUIREMENT (BASIC INDICATOR APPROACH)	1,390	1,203
TOTAL	17,521	13,272

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

	2010	2009
Balances with Central Bank of Bahrain	1,463	1,377
Due from banks and other financial institutions	22,631	28,770
Loans and advances to customers	102,938	78,529
Other assets	714	656
TOTAL FUNDED EXPOSURES	127,746	109,332
Contingent liabilities	3,631	2,045
Other commitments	1,612	2,258
TOTAL UNFUNDED EXPOSURES	5,243	4,303
TOTAL CREDIT RISK EXPOSURE	132,989	113,635

Basel II Pillar III Disclosures

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TABLE 4 - SECTORAL CLASSIFICATION OF GROSS CREDIT EXPOSURES

	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

	2009		
	<i>Funded</i>	<i>Unfunded</i>	<i>Total</i>
Banks and Financial Institutions	30,147	-	30,147
Trading and Manufacturing	30,668	2,045	32,713
Education and Health	10,919	-	10,919
Hospitality, Media and Transportation	9,763	-	9,763
Fisheries and Agriculture	4,651	-	4,651
Food Processing	2,722	-	2,722
Others	20,462	2,258	22,720
TOTAL	109,332	4,303	113,635

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

	2010	2009
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 BREAKDOWN OF IMPAIRED LOANS AND IMPAIRMENT PROVISION

	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

	2009				
	<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	11,746	6,414	1,594	1,115	400
Fisheries and Agriculture	1,413	3	-	-	-
TOTAL	13,159	6,417	1,594	1,115	400

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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 2010.

	<i>Up to 1 month</i>	<i>1 to 3 months</i>	<i>3 to 6 months</i>	<i>6 months to 1 year</i>	<i>1 to 3 years</i>	<i>3 to 5 years</i>	<i>5 to 10 years</i>	<i>10 to 20 years</i>	<i>Total</i>
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 loan	-	-	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	

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TABLE 7 - RESIDUAL CONTRACTUAL MATURITY (continued)

Maturity analysis of assets and liabilities (continued)

The table below summarises the maturity profile of the Group's assets and liabilities as at 31 December 2009.

	<i>Up to 1 month</i>	<i>1 to 3 months</i>	<i>3 to 6 months</i>	<i>6 months to 1 year</i>	<i>1 to 3 years</i>	<i>3 to 5 years</i>	<i>5 to 10 years</i>	<i>10 to 20 years</i>	<i>Total</i>
Assets									
Cash and balances with CBB	1,431	-	-	-	-	-	-	-	1,431
Due from banks and other financial institutions	19,958	8,812	-	-	-	-	-	-	28,770
Accounts receivable and other assets	739	7	7	16	-	-	-	-	769
Loans and advances to customers	1,121	582	1,035	1,371	15,797	43,166	15,334	123	78,529
Available for sale investments	-	-	-	-	-	-	4,801	-	4,801
Investment in associates	-	-	-	-	-	-	-	1,856	1,856
Property, plant and equipment	-	-	-	-	-	-	-	8,055	8,055
Total assets	23,249	9,401	1,042	1,387	15,797	43,166	20,135	10,034	124,211
Liabilities									
Deposits	30,989	9,135	10,538	312	-	-	-	-	50,974
Accounts payable and other liabilities	-	1,611	-	-	-	-	-	-	1,611
Long term loan	-	-	670	670	2,679	2,679	6,761	-	13,459
Total liabilities	30,989	10,746	11,208	982	2,679	2,679	6,761	-	66,044
Net liquidity gap	(7,740)	(1,345)	(10,166)	405	13,118	40,487	13,374	10,034	

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

	2010	2009
Bahrain		
Specific impairment provision	<u>7,147</u>	6,417
TOTAL	<u><u>7,147</u></u>	<u>6,417</u>

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

	2010						
	<i>Project finance</i>			<i>Fisheries and agriculture</i>			<i>Total</i>
	<i>Specific</i>	<i>Collective</i>	<i>Total</i>	<i>Specific</i>	<i>Collective</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
Exchange rate adjustments / Other movements	-	-	-	-	-	-	-
At 31 December 2010	7,144	950	8,094	3	-	3	8,097

	2009						
	<i>Project finance</i>			<i>Fisheries and agriculture</i>			<i>Total</i>
	<i>Specific</i>	<i>Collective</i>	<i>Total</i>	<i>Specific</i>	<i>Collective</i>	<i>Total</i>	
Balance at 1 January 2009	6,205	130	6,335	3	-	3	6,338
Amounts written off during the year	(1,115)	-	(1,115)	-	-	-	(1,115)
Charge for the year	1,605	270	1,875	-	-	-	1,875
Recoveries during the year	(402)	-	(402)	-	-	-	(402)
Interest suspended during the year (net)	121	-	121	-	-	-	121
Exchange rate adjustments / Other movements	-	-	-	-	-	-	-
At 31 December 2009	6,414	400	6,814	3	-	3	6,817

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Year ended 31 December 2010
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TABLE 10 - PAST DUE LOANS - AGE ANALYSIS

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

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

i) By Geographical area

	2009			<i>Total</i>
	<i>Three months to one year</i>	<i>One to three years</i>	<i>Over three years</i>	
Bahrain	7,973	2,159	3,027	13,159
TOTAL	7,973	2,159	3,027	13,159

ii) By Counterparty wise

	<i>Three months to one year</i>	<i>One to three years</i>	<i>Over three years</i>	<i>Total</i>
Project finance	6,979	1,999	2,768	11,746
Fisheries and Agriculture	994	160	259	1,413
TOTAL	7,973	2,159	3,027	13,159

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

	2010	2009
Claims on sovereign	-	-
Claims on public sector entities	-	-
Claims on banks	8,479	5,754
Claims on corporate	88,260	64,762
Equity	5,520	5,968
Other exposures	31,236	23,171
TOTAL	133,495	99,655

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.

	2010		2009	
	<i>Gross exposure</i>	<i>Eligible CRM</i>	<i>Gross exposure</i>	<i>Eligible CRM</i>
Claims on sovereign	2,594	-	2,509	-
Claims on public sector entities	-	-	-	-
Claims on banks	8,479	-	5,754	-
Claims on corporate	88,260	10,958	64,762	10,843
Equity	5,520	-	5,968	-
Other exposures	31,236	-	23,171	-
TOTAL	136,089	10,958	102,164	10,843

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TABLE 13 - SENSITIVITY ANALYSIS - INTEREST RATE RISK

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

	2010	2009
Bahraini Dinar		
(+) 200 basis points	242	1,282
(-) 200 basis points	(242)	(1,282)
US Dollar		
(+) 200 basis points	(332)	320
(-) 200 basis points	332	(320)
Kuwaiti Dinar		
(+) 200 basis points	16	18
(-) 200 basis points	(16)	(18)

TABLE 14 - EQUITY POSITION IN THE BANKING BOOK

	2010		2009	
	<i>Gross exposure</i>	<i>Capital requirement</i>	<i>Gross exposure</i>	<i>Capital requirement</i>
Publicly traded	907	109	1,147	138
Privately held	4,613	554	4,821	579
TOTAL	5,520	662	5,968	716

TABLE 15 - GAINS ON EQUITY INVESTMENTS

	2010	2009
Realised gains recognised in the income statement	-	-
Unrealised gain recognised in the balance sheet:		
- Tier One	-	-
- Tier Two	(62)	178

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

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TABLE 17 - ISLAMIC DISCLOSURE

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

	2010	2009
Assets		
Deposits & Current Accounts	6,945	13,251
Murabaha Receivables (Net of Provision)	75,455	44,009
Islamic Investments	3,074	2,515
Investments in Sukuk	1,131	1,131
Liabilities		
Banks Deposits	2,000	500
Deferred Profits	13,461	8,156
Income		
Income from Islamic Financing	2,956	1,566
Other Income	295	306
Expenses		
Charges on Wakala Deposits	4	-



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