

ANNUAL REPORT 2014

WINNING SPIRIT

P. 10 :
CHAIRMAN'S STATEMENT

**Introducing
new initiatives
in 2015**

P. 06 :
SERVICES

**Committed to
promoting & serving
the SME sector**

P. 24 :
MANAGEMENT REVIEW

**Milestones in
Technology &
the ICT Sector**



Building your tomorrow today

2030
البحرين
BAHRAIN

BDB

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

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**His Royal Highness,
Prince Khalifa bin Salman
Al Khalifa**

The Prime Minister of
The Kingdom of Bahrain



**His Majesty King
Hamad bin Isa
Al Khalifa**

The King of the Kingdom
of Bahrain



**His Royal Highness,
Prince Salman bin Hamad
Al Khalifa**

The Crown Prince,
Deputy Supreme Commander
and First Deputy Prime Minister

PROFILE

Bahrain Development Bank as the name explains is a development focused Bank. Unlike other conventional commercial Banks, BDB assumes exposures in high risk segments normally avoided by other Banks.

The focused segments where BDB extends assistance are the small and medium Enterprises, Self Employed Professionals, Agriculture, Fisheries, Education, Specific Employment Oriented enterprises promoted by Bahraini Youth & Women and other segments as considered necessary with the main objective of Value Addition to the Economy of the Kingdom of Bahrain.

OVERVIEW

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

Bahrain Development Bank offers a wide range of distinctive financial and advisory services specifically designed to meet SME's special needs.

Over the years, BDB has expanded in delivering an innovative mix of financial products tailored to meet the needs of entrepreneurs and extended to reach out a broader spectrum of economic sectors including manufacturing, tourism, health, education, fisheries, agriculture, Business professional sectors, and other value-added services and activities.

MISSION

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 HIGHLIGHTS

Amount in 000s

	2014	2013	2012	2011	2010
Income statement highlights (BD thousands)					
Net interest income	5,992	5,826	5,279	5,776	5,101
Other income	5,197	1,999	1,768	1,459	1,555
Operating expenses	7,204	6,312	5,881	5,720	5,146
Provision for Impairments	3,280	1,861	4,176	1,289	802
Net profit (loss)	705	(348)	(3,053)	226	708
Dividend (percent)	0%	0%	0%	0%	0%
Financial statement highlights (BD thousands)					
Total assets	174,306	157,814	157,646	137,673	144,053
Loans and Advances	110,048	101,367	95,059	97,274	102,938
Investments	19,290	10,266	8,985	6,726	6,837
Total deposits	57,137	53,677	63,440	60,300	69,229
Customers' deposits	38,321	40,283	45,949	46,349	46,918
Total Equity	75,822	71,196	70,893	58,667	58,635
Ratios (percent) Profitability					
Return on average equity	0.96%	-0.49%	-4.71%	0.39%	1.21%
Return on average assets	0.42%	-0.22%	-2.07%	0.16%	0.53%
Earnings per share (fils)	11	-5	-47	5	14
Cost-to-income	64%	81%	83%	79%	77%
Capital					
Capital adequacy	44%	48%	48%	44%	40%
Equity/total assets	43%	45%	45%	43%	41%
Total deposits/equity (times)	0.75	0.75	0.89	1.03	1.18
Business indicators					
Loans and advances/total assets	63%	64%	60%	71%	71%
Investments/total assets	11%	7%	6%	5%	5%
Loans and advances/customer deposits	2.87	2.52	2.12	2.10	2.19
Number of employees	200	186	165	160	162

Net Interest Income

5,992

2014	2013	2012	2011	2010
5,992	5,826	5,279	5,776	5,101

Total Assets

174,306

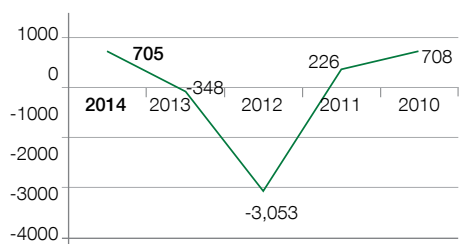
2014	2013	2012	2011	2010
174,306	157,814	157,646	137,673	144,053

Total Equity

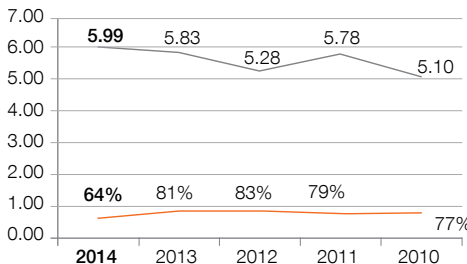
75,822

2014	2013	2012	2011	2010
75,822	71,196	70,893	58,667	58,635

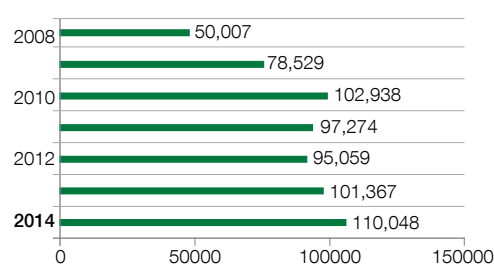
Net Profit (loss)
(000's)



Net Interest Income — Cost to Income ratios
(in Million)



Loans and Advances



Period	Project cost	Loans, Indirect Financing & Equity	New Jobs	Exports	Import Subs.	Foreign Investment	Foreign Currency	Value added
Jan - Dec 2014	60,603	54,071	3,811	16,218	8,539	735	16,885	31,678
Jan - Dec 2013	43,300	42,758	3,396	6,089	5,070	495	7,542	25,128

SERVICES

BDB as the country's leading developmental financial institution, remains committed to promoting and serving the SME sector, which helps in diversifying the economic base, creating new employment opportunities for Bahrainis and contributing to the overall socio-economic development of the Kingdom. The focused segments where BDB extends assistance are the small and medium Enterprises, Self Employed Professionals, Agriculture, Fisheries, Education, Specific Employment Oriented enterprises promoted by Bahraini Youth & Women and other segments as considered necessary with the main objective of Value Addition to the Economy of the Kingdom of Bahrain.

BDB Finance

Islamic Financing: Sharia Compliant with a profit rate of 3.75%. Conventional: with 9% reducing interest rate. Minimum Financing Amount BD 3,000, usually used to finance a specific asset, such as plant or machinery, or working capital loans with a comfortable repayment and grace period.



BDB & Tamkeen Finance

Minimum Amount BD 5,000 with a minimum profit rate of 4.27%. 50% of the profit is subsidized by Tamkeen. Usually used to finance a specific asset, such as plant or machinery, or working capital loans with a comfortable repayment and grace period.





Letters of Credit

A letter of credit is an instrument issued by a Bank on behalf of a customer (importer) agreeing to pay the beneficiary (exporter), under Sight L/Cs, payment will be made by the customer on receipt of documents or upon arrival of the goods. In the case of Usance (Time) L/Cs, the documents will be delivered against acceptance of the draft and the payments will be deferred by the customer until the maturity (i.e. on the due date of the draft), determinable in accordance with the stipulations of the L/C.



Letters of Guarantee

The Bank may issue various types of Guarantees on behalf of its customers, subject to the maximum limit available for such customers; letters of Guarantee could be for various purposes. In the case of projects, there is likely to be a Bid Bond, Performance Bond and an Advance Payment Guarantee.



Overdraft Facility

The overdraft facility represents the limit up to which a customer is authorized to overdraw his account by prior arrangement with the Bank. Such facilities are normally granted to meet working capital requirements arising from the customer's operating cycle. Hence regular credits into the account or periodical clean ups are expected.



Education Finance

Education finance comes in 2 ways conventional or Islamic (Finance). They are offered by Bahrain development Bank with 3.25% profit rate to be used to cover the tuition fees. The minimum facility amount is BD 3,000 and the maximum facility amount is BD 20,000 with maximum repayment period of 7 years with a comfortable grace period.



Agricultural Loans

Agricultural loans are offered by Bahrain Development Bank with 0% interest rate to be used for development of agriculture production in Bahrain. The maximum facility amount is BD 15,000.



Fisheries Loans

We offer loans for fisheries with 0% interest rate to assist them in purchasing new/used boats, engine, spare parts, fishing items or for maintenance. The maximum facility amount is BD 15,000.

BOARD OF DIRECTORS



1. Shaikh Mohammed Bin Essa Bin Mohammed Al Khalifa

Chairman

The political and economic adviser to His Royal Highness Crown Prince Salman bin Hamad Al-Khalifa. Shaikh Mohammed has worked closely with HRH the Crown Prince for over 15 years on the Kingdom of Bahrain's economic and social reform programme and has been instrumental in its delivery at every juncture. He is also a board member of the Economic Development Board (EDB), Bahrain Mumtalakat Holding Company and Chairman of Tamkeen, Bahrain's Labour Fund.

2. Mr. Saleh Hassan Ali Hussain

Board Member

Master Degree in Business Administration from Brunel University in United Kingdom has over 35 years banking experience. He is the chairman of the Board of Directors of Solidarity General Takaful and President of Saleh Hussain Consultancy. He holds the following memberships:

- Board member and Head of Audit Committee of ABC Islamic Bank, Bahrain
- Board Member of Solidarity Holding Company, Bahrain
- Head of Audit Committee of Alkhabeer Capital, KSA
- Head of Audit Committee of AIMajdouie Group, KSA
- Member of Audit committee of Saudi Hollandi Bank.

3. Ms. Vivian Abdulla Jamal

Board Member

Vivian Jamal currently heads the Business Development Division of the Bahrain Economic Development Board.

Prior to that, Ms. Jamal held the position of Global Communications and Marketing Director for TAIB Bank E.C. and its thirteen subsidiaries worldwide. Before that, she worked as a business developer for Stark Integrated Marketing; a New York based communications company. Her role included establishing a regional office, new business development and project management in the Gulf region. She has around 17 to 18 years experience.

Academically, Vivian was awarded a B.Sc. in Architectural Engineering from the University of Bahrain with distinction and an Honors Masters of Business Administration, Economics and Finance from the Charles H. Kellstadt Graduate School of Business – DePaul University, USA.

She currently holds by special appointment are; Board Director of Bahrain Development Bank; Member of the National Committee for the Implementation of the US-Bahrain Free Trade Agreement; Member of the National Oil & Gas Committee; Member of the Board of the American Chamber of Commerce in Bahrain.

4. Mr. Abdullellah Ebrahim Al Qassimi

Board Member

Mr. Al-Qassimi has more than 31 years of diversified management experience.

His previous positions include Chief Executive of the Labour Fund (Tamkeen), from which he resigned in May 2010, Deputy Chief Executive Officer of Labour Fund Project at the Bahrain Economic Development Board, Assistant Undersecretary for Training at the Bahrain Ministry of Labour and Social Affairs, Director of Engineering and Maintenance at the Bahrain Ministry of Health. He has also served as the Chairman of the Bahrain Qualifications Framework Steering Committee and the Steering Committee of Career Expo and was a Board member of the Bahrain Society of Engineers and the Bahrain Consumer Protection Society.

He is currently a Member of the Board of Ithmaar Bank, Tamkeen, Solidarity Group Holding, Durah Resort Management Company, Naseej BSC, Faysal Bank Limited (Pakistan) and the Bahrain Development Bank, , as well as a Member of the Committee for HRH Princess Sabeeka bint Ibrahim Al Khalifa's Award for Women Empowerment (Supreme Council for Women, SCW).

Mr. Al-Qassimi holds a BSc in Civil Engineering from Queen Mary College, University of London, UK, and MSc in Health Facility Planning from the University of North London, UK, and a Diploma in Health Care Management from the Royal College of Surgeons in Ireland, Bahrain.

5. Mr. Saqer Shaheen Saqer

Board Member

Mr. Shaheen has been working as CEO & Managing Director of Shaheen Group SPC for the last 17 years (from 1998) with a number of Companies under its umbrella including Awal Products Co.Ltd. SPC, Gulf Services Co.SPC, Gypsum Products, Shaheen Electro-Mechanical Co.SPC, etc. He is also holding various positions in the following associated Companies – as the Chairman of Hilti Bahrain, as the Executive Director of Abrasive Technology Industries, KSA and as the Chairman of Asmak B.S.C.(Closed). He is currently the Vice Chairman of LMRA, the Board Member of Naseej B.S.C., the Board Member of Marina Club, the Chairman of Fraser Suites Bahrain, the Vice Chairman & Executive Committee Member of Seef Properties and the Board Member of Amlak. He is also a registered International Consultant in the United Nations Industrial Development Organization(UNIDO). He was former Board Member in the organizations like Telecommunication Regulatory Authority, Social Insurance Organization, OSOOL Asset Management, Bahrain Chamber of Commerce & Industry, Gulf Organisation for Industrial Consulting, Gulf Petrochemical Industries Co.BSC. and Vice Chairman of BALEXCO, Chairman of Bahrain Industrial Group, Vice Chairman of Bahrain-Philippines Business Council, Vice Chairman of Bahrain- Thailand Business Council, and Chairman of Bahrain-Morocco Business Council etc.

He was also working in the Ministry of Industries & Development for a period of 10 years - as Head of Strategic Planning from 1986 to 1990 and as Director, Industrial Development from 1990 to 1996.

6. Dr. Mohamed Ahmed Juman

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 BD 50m. In 2005, Dr. Jumaan retired to create and invest in new businesses. During the last ten 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 TIG Software (Import and export and Sale of computer hardware and software systems), Red Stallion Interactive (Computer software Design, Development and Maintenance) 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 (FRAes), Fellow Member of the British Computer Society, Senior Member of the Institute of Electrical and Electronics Engineering and several others.

7. Sh. Wesal Bint Mohammed Al Khalifa

Board Member

BSc. in Business, Richmond American University in London. Member of the supreme council for woman 2007-2014, Kingdom of Bahrain. She managed office of Sh. Hala Bint Duajj Al Khalifa from May 2001 to September 2001. She accompanied her husband, HE Sh. Khalid Bin Ahmed Al Khalifa, the Minister of Foreign Affairs from 2001-2005 in his work as ambassador of Bahrain in UK. Founder "the Bridges" program for the care and support of the wives of diplomats and foreign Ministry diplomats ladies and wives in the kingdom of Bahrain. She has honorary membership with numbers of charity organizations inside and outside the Kingdom.

8. Mr. Ebrahim Abduali Al Daaysi

Board Member

Holder of a Bachelor's degree in Management and Computer Science, Mr. Aldaaysi is the CEO of Aldaaysi Holding for the last 28 years. He is a board member of Labour Fund (Ministry of Social Development), Food World in Saudia Arabia and Life Telecommunication Bahrain and Saudia. Also a Board Member of Range Hospitality UAE, ALKAWTHER ORPHAN SOCIETY BAHRAIN and Range Development Cayman Island, to name a few. He was a board member of Bahrain Chamber of Commerce and Industry heading the Food and Agriculture Committee.

CHAIRMAN'S STATEMENT



Shaikh Mohamed bin Isa bin Mohamed Al-Khalifa
Chairman of the Board

With the year closure and beginning of a new year, it gives me great pleasure to present to you the Annual Report of the Bahrain Development Bank Group (the Bank & its subsidiary) for 2014, and underline the Group's financial achievements and other key activities and programs of the Group during last year.

The Bahrain Development Bank achieved good results on the front of financing & investment operations related to small & medium projects, as economic indicators showed a significant growth, against 2013 figures. Additionally, BDB managed to exceed the anticipated figures during the year in most of the economic growth indicators.

With regards to investment volume, the indicator showed that the volume of investment reached BD 60.6 million in 2014, against BD 43.3 million in 2013, an increase of 40%. The size of financing offered by the Bank for all financing programs was BD 55.6 million in 2014, against BD 44.6 million in 2013, an increase of 25%.

The volume of exports of projects financed by BDB recorded a significant growth in 2014, with a growth rate of 166% and at a total value of BD 16 million against BD 6 million in 2013. These projects provided 3811 job opportunities in 2014, against 3396 job opportunities in 2013.

Within the Group's long term strategy, we will continue our efforts in further developing the Group's performance and introducing new initiatives in 2015 which will focus on easing the acquisition of current financing facilities and invest in new sectors. **In addition, we will further develop and enhance our current specialised financing programmes and introduce other new programs.**

On the other hand, this year witnessed the largest exit transaction in the history of the bank; out of a number of projects that the Bank was involved in through direct and capital investment. The exit operation was very successful.

These results genuinely reflect the nature of plans & policies adopted by the Group in 2014 in harmony with the Bahrain Economic Vision 2030, as these plans & policies focused on achieving the aspired goals on the front of fostering / developing the role assumed by the private sector in bolstering the economic growth of the Kingdom through improvement of performance and encouragement of investments in value added projects.

In order to create a stable & specialized entrepreneurship environment, the Group endeavoured to enhance integration between financial services and non-financial services (growth services), in a manner that copes with the reality of entrepreneurship domestically & globally, thus contributing to the enhancement of the competitiveness of Bahraini small

& medium projects and qualification of local entrepreneurship leaders capable of running their businesses successfully.

Within the Group's long term strategy, we will continue our efforts in further developing the Group's performance and introducing new initiatives in 2015 which will focus on easing the acquisition of current financing facilities and invest in new sectors. In addition, we will further develop and enhance our current specialised financing programmes and introduce other new programs.

In conclusion, I would like to seize this good opportunity to extend my sincere thanks & gratitude to the wise Leadership in Kingdom of Bahrain, represented in His Majesty King Hamad bin Isa Al-Khalifa, the King of the Kingdom of Bahrain, and His Royal Highness the Prime Minister Prince Khalifa bin Salman Al-Khalifa, His Royal Highness Prince Salman bin Hamad Al-Khalifa, the Crown Prince Deputy Supreme Commander and First Deputy of Prime Minister for their valued & continued support to the Group.

I would also like to express my sincere thanks and appreciation to the Board of Directors and all team members of the Group, as well as all the parties and establishments which gave key support to the Group during 2014, while looking forward to stronger partnerships, concerted efforts and joint initiatives with them towards further developing the entrepreneurship sector in Bahrain.

Shaikh Mohamed bin Isa bin Mohamed Al-Khalifa

Chairman of the Board

Investment Volume 2014

40%

The volume of investment reached BD 60.6 million in 2014, against BD 43.3 million in 2013

Project Financing 2014

25%

Financing offered for all financing programs was BD 55.6 million in 2014, against BD 44.6 million in 2013

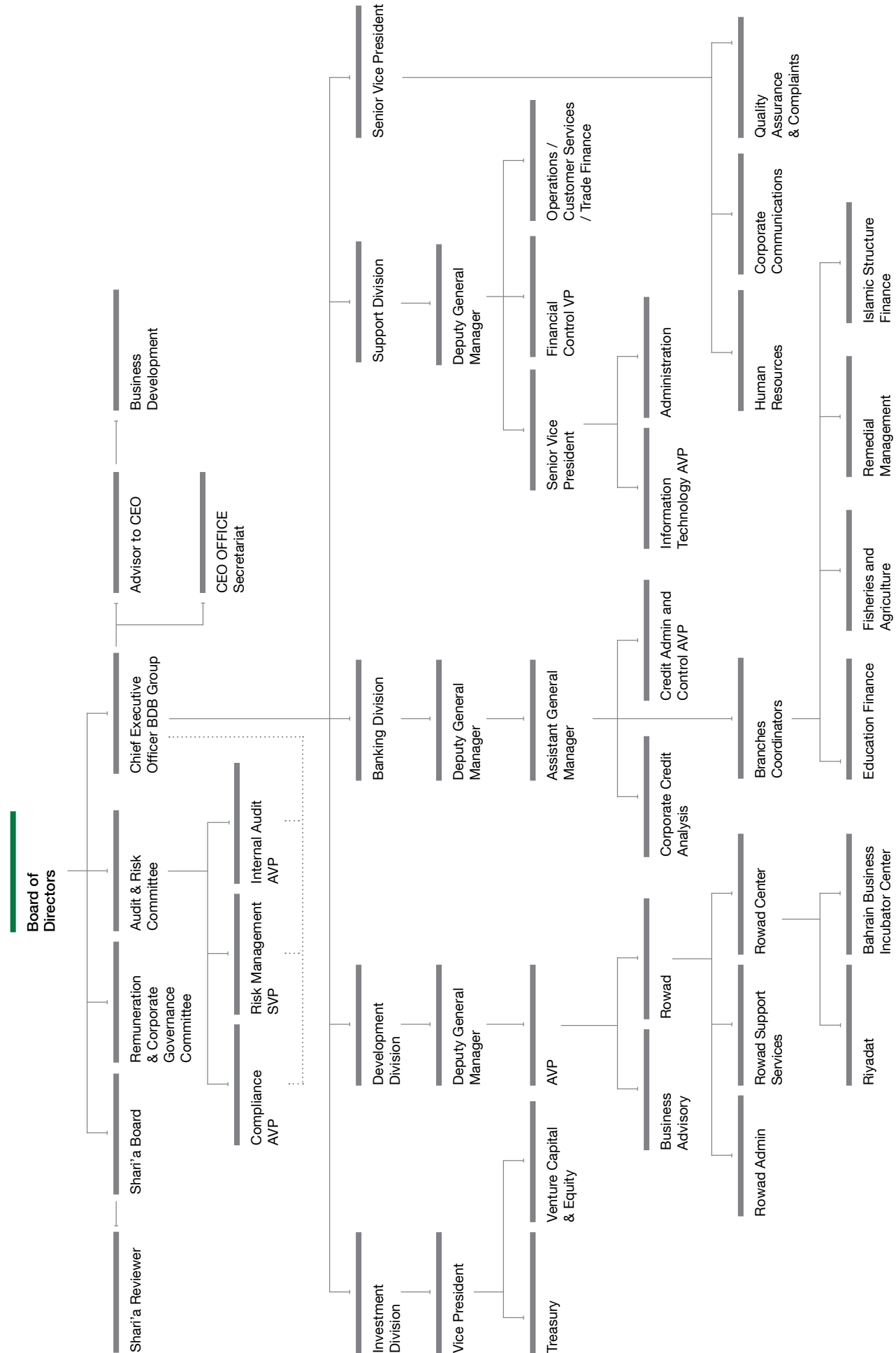
CORPORATE GOVERNANCE

The Board of Bahrain Development Bank BSC[C] currently consists of eight independent Non-Executive Directors, including H.E. the Chairman nominated by His Royal Highness Prince Salman Bin Hamad Al Khalifa, Crown Prince, Deputy Commander and First Deputy Premier of the Kingdom of Bahrain through a Decree. **The Board is guided by its Charter framed in accordance with applicable regulations.**

The Board establishes the objectives of the bank, provides guidance/ approves the strategy/Budgets for achievement of the Bank's objectives, adopts/reviews the systems and controls framework, monitors the implementation of strategy by the management, overall bank/management performance, ensures accurate preparation/ disclosure of the financial statements, monitors conflicts of interest /prevent abusive related party transactions. The Board also provides assistance in securing funding from government and semi government institutions and continues to focus on long term strategic issues; growth and diversification of BDB group's activities/ achievement of its vision and mission.

The Board has established Remuneration and Governance Committee (R & G Committee), the Audit & Risk Committee and a Sharia Supervisory Board for assistance in accomplishing its responsibilities for oversight which are governed by their respective Charters, terms of reference (reviewed /updated periodically) and functions under its supervision.

While the R & G Committee is assisting the Board in strengthening the corporate governance standards and implementation of sound remuneration/HR practices, the Audit & Risk Committee assists the Board in carrying out its duties regarding the integrity of the Bank's financial reporting system; the adequacy of the Bank's internal control and risk management processes; the performance of independent auditors and internal audit function; the independent Auditor's qualifications and independence and the Bank's compliance with legal and the Sharia Supervisory Board comprising three Islamic scholars provides guidance/reviews and supervises the Bank's Islamic financing activities to ensure that they are in compliance with Islamic Sharia's rules and principles. In addition the R & G Committee also assists the Board in conducting self-evaluation of the Board & Committees thereof. Outcomes of which indicate high level of involvement and understanding among Board members of its roles and responsibilities, with suggestions for further improvements.



CORPORATE GOVERNANCE CONTINUED

Board Meetings & Attendance

Details of meetings held during 2014 and attendance of directors are as follows:

SI No	Name of the Directors	Feb 16 th	May 19 th	July 17 th	Nov 30 th
1	H.E. Sh. Mohammed Bin Essa Al Khalifa	✓	✓	✓	✓
2	Mr. Saqer Shaheen Saqer	✓	✓	✓	✓
3	Ms. Vivian Abdulla Jamal	✓	✓	✓	✓
4	Mr. Abdulallah Ebrahim Al Qassimi	✓	✓	✓	✓
5	Mr. Saleh Hassan Ali Hussain	✓	✓	✓	✓
6	Dr. Mohamed Ahmed Juman	✓	x	✓	✓
7	Sh. Wesal Bint Mohammed Al Khalifa	x	x	x	x
8	Mr. Ebrahim Abduali Al Daaysi	x	✓	✓	✓

Audit & Risk Committee Meetings and Attendance

Details of meetings held during 2014 and attendance of members are as follows:

SI No	Name of the Directors	Jan 30 th	Feb 16 th	May 4 th	July 13 th	Oct 22 nd	Nov 5 th	Dec 11 th	Dec 24 th
1	Mr. Saqer Shaheen Saqer	✓	✓	✓	✓	✓	✓	✓	✓
2	Mr. Abdulallah Ebrahim Al Qassimi	✓	✓	✓	✓	✓	✓	✓	✓
3	Mr. Saleh Hassan Ali Hussain	✓	✓	✓	✓	✓	✓	✓	✓

Remuneration & Governance Committee

Details of meetings held during 2014 and attendance of members are as follows:

SI No	Name of the Directors	May 19 th	Nov 30 th
1	H.E. Sh. Mohammed Bin Essa Al Khalifa	✓	✓
2	Ms. Vivian Abdulla Jamal	✓	✓
3	Dr. Mohamed Ahmed Juman	x	✓

Sharia Supervisory Board

Details of meetings held during 2014 and attendance of members are as follow:

SI No	Name of the Directors	Feb 5 th	April 20 th	Oct 19 th
1	Sh. A. Nasser Omar Al Mahmood	✓	✓	✓
2	Sh. Muhammed Burhan Arbouna	✓	✓	✓
3	Sh. Omar Alani	✓	✓	✓

Communication strategy

The Bank has an open policy on communication with its stakeholders and has adopted a public disclosure policy consistent with Central Bank of Bahrain requirements. The Bank is at all times mindful and conscious of its regulatory and statutory obligations regarding dissemination of information to its stakeholders.

The Bank provides information on all events that merit announcement, either on its website – www.bdb-bh.com – or through other forms of publication. The Bank's annual report and three years' financial statements are also published on the website

Remuneration Report

The Bank follows a total compensation approach to remuneration for rewarding performance as well as providing competitive fixed remuneration for attracting and retaining talents.

It is the Bank's basic compensation philosophy to provide a competitive level of total compensation to attract and retain qualified and competent employees. These elements support the achievement of the objectives through balancing rewards for both short-term results and long-term sustainable performance. The strategy is designed to share the success, of the Bank and to align employees' incentives with the risk framework and risk outcomes.

The quality and long-term commitment of all of the employees is fundamental to the success of the Bank. The Bank, therefore aims to attract, retain and motivate the very best people who are committed to maintaining a career with the Bank, and who perform their role in the long-term interests of its shareholders.

During the year, the Bank adopted regulations concerning sound remuneration practices issued by the Central Bank of Bahrain. The revised policy framework and incentive components were approved by the shareholders in the Annual General Meeting.

Unlike commercial banks, BDB is a "not-for-profit" development banking institution, with core objective of supporting economic development of Bahrain in line with Bahrain 2030 Vision. Bank's remuneration policy has no variable components. There is no separate policy for business and controlling staff of the Bank. As such, the need to "defer" variable remuneration does not apply in case of BDB. Consequently, there are no "claw-back" or "malus" stipulations as well. The exceptions were approved by the Central Bank of Bahrain.

Details of Remuneration Paid for the Financial Year Ended 2014 (Amount in BD '000)

Categories	No.	Fixed Remuneration			Variable Remuneration	Total
		Salaries & Wages	Other Benefits/ Allowance	Total	*Performance Bonuses (in cash)	
1. Members of the Board	8	-	60.00	60.00	-	60.00
2. Approved Persons	4	247.90	85.24	333.14	118.84	451.98
3. Approved Persons in Risk Management, Internal Audit, Operations, Financial Control, AML, Compliance Functions	5	180.05	59.26	239.31	64.45	303.76
4. Employees Engaged in Risk taking activities (Business Areas)	88	1,059.60	221.47	1,281.06	223.76	1,504.83
5. Employees other than approved persons engaged in functions under 3	40	352.91	65.03	417.94	65.89	483.83
6. Other Employees	63	711.28	180.50	891.78	160.62	1,052.40
Total	208	2,551.73	671.50	3,223.23	633.56	3,856.80

The details of remuneration paid to auditors for audit and other assignments are available at the BDB corporate office.

MANAGEMENT EXECUTIVE COMMITTEE



1. Nedhal Saleh Al-Aujan

Chief Executive Officer, BDB Group

Joined in 1999, Promoted by the Board as General Manager in 2001 and CEO in 2007. Held senior managerial positions at Standard Chartered Bank and Al Ahli United Bank. Over 31 years of Experience in Banks. He is the Chairman of Gulf Diabetes Specialist Centre B.S.C (C), Arabian Taxi Company BSC (C), Middle East Corner Consultancy Company WLL, Director and Chairman of the Audit Committee of Venture Capital Bank, Director in Retail Arabia BSC and the Chairman of Executive Committee of Bahrain Business Incubator Centre SPC. He attended several external training programs including Citi Bank Credit Program in Athens (1986), the Gulf Executive Management of Strategic Leadership Program (1997)-The Graduate School of Business of Columbia University, Harvard University Kennedy School of Government: (a) Financial Institutions program for Private Enterprise Development in (2008), and (b) the Program for Strategic Management for Leaders of Non-Governmental Organizations (2010).

2. Sh. Hesham Bin Mohamed Al-Khalifa

Deputy General Manager – Development Services Division

Sh. Hesham Mohamed Al-Khalifa holds over 21 years of experience where he began his career at the Ministry of Development & Industry and Ministry of Oil and Industry as Director. Throughout his career he has contributed to the development of numerous economic and social strategies and programs, namely the development and institutionalization of Bahrain-Arab Model for Enterprise Development & Investment Promotion in coordination with Bahrain Development Bank (BDB) and The United Nations Industrial Development Organization (Unido), the development of Bahrain Business Incubator, Riyadat (Women Incubator Center), Rukn.me (the first ICT Incubator in Bahrain), and various strategies that contribute to the economic development specifically in areas promoting entrepreneurship and development.

Sh. Hesham M. Al-Khalifa continues to develop and support economic and social initiatives especially in his current role as the Head of Development Services at Bahrain Development Bank since 2011 where he is actively involved in the development of an entrepreneurial, innovative, and enterprising society in Bahrain through the variety of programs, services, and support offered at BDB. Sh. Hesham M. Al-Khalifa's experience extends further where he sits on the steering committee of MENAInc (regional business incubator network), is a board member of AIESEC Bahrain, and a board member of KPMG Entrepreneurship Club Bahrain.

Sh. Hesham M. Al-Khalifa, holds a Bachelor of Science in Economics, from the American University.

3. Adnan Mahmood Al Balooshi

Deputy General Manager, Banking Services Division

Board member of Asmak, Board Member of Gulf Diabetes Specialist Centre B.S.C (C), Attended the Harvard Kennedy School Financial Institutions Program for Private Enterprise Development. Over 33 years of banking experience. He has worked with Bank of Bahrain & Kuwait, Al Ahli Commercial Bank, Gulf Riyadh Bank in various area including Head of credit administration and Corporate Manager. He joined Bahrain Development Bank in 2005.

4. Khalid Yousif Meshkhas

Deputy General Manager, Support Services Division

Board Member of Bahrain Specialist Hospital B.S.C (C) and Estate Company for Health Services WLL. Mr. Khalid holds an Associate Diploma in Accounting from University of Bahrain and Advanced Banking Diploma from Bahrain Institute of Banking and Finance (BIBF). Mr. Khalid gained 24 years combined banking experience from conventional & Islamic Banks. During his career he worked with National Bank of Bahrain & Al Salam Bank in various operation departments such as Loans, Time Deposit, Money Transfer, Commercial Services, Customer Services and Treasury Back-office. He is also, worked in the marketing field which includes Retail & Commercial Banking. He joined Bahrain Development Bank in 2011.

5. Anil R. Hattangdi

Executive Vice President, CEO Advisor and Board Secretary

B.A. Economics, Bombay University, Certified Associate of Indian Institute of Bankers (C.A.I.I.B). Over 36 years of executive management experience in Commercial & Development banking, Industrial Projects, Entrepreneurship and SMEs promotion and financing. He has worked with Union Bank of India in India, and Al-Ahli Commercial Bank & Bahrain Development Bank in Bahrain; he joined BDB in 1997.

6. Dalal Ismail Ahmed

Assistant General Manager, Banking Services Division

Middle Management Diploma, Bahrain University, Advance Diploma in Islamic Finance, Treasury/Capital Markets Diploma from BIBF. Over 31 years of banking experience mainly in the fields of Retail, commercial & Project finance in conventional and Islamic banking with specific expertise in credit control, risk management and legal aspects. She has worked with Ahli United Bank and Standard Chartered Bank in various area including branches, treasury and credit. She joined Bahrain Development Bank in 2003.

7. Hassan Khalil Al-Binmohamed

Senior Vice President, Human Resources & Corporate Communications

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

Community College, USA. Diploma in Human Resources CIPD. Over 12 years of banking experience. He has worked with Kuwait Finance House as HR Supervisor. He joined Bahrain Development Bank in 2005.

8. Tawfeeq Ali Al Qattan

Senior Vice President, Support Services

Managing Director of Arabian Taxi Co. St. Edwards University (Computer Information Science/Business Management) (USA). Over 18 year experience in Information Technology. He has worked for St. Edwards University, Siemens Mobile Networking/Intelligent Networks. He joined Bahrain Development Bank in 2005. Director of Bahrain Entrepreneurship & Technology.

9. Ashok Gulvady

Senior Vice President, Head of Risk Management

B.Com, Certified Associate of the Indian Institute of Banking (CAIIB)

Over 38 years of all-round banking experience out of which more than 29 years in the Arabian Gulf (Bahrain / UAE). He has extensive experience in Operations, Trade Finance, Relationship Management, Credit and Risk Management including Basel II & III implementation. He has held senior positions in various banks including Oriental Bank of Commerce – Bombay (Manager – Trade Finance), Bank of Bahrain & Kuwait – Manama (Branches Coordinator), Commercial Bank of Dubai – Dubai (Manager – Operations), Emirates Bank International – Dubai (Manager – Credit & Marketing), Union National Bank – Abu Dhabi / Dubai (Senior Manager – Corporate Credit / Team Leader – Marketing), Barclays Bank – Dubai (Head of Corporate Credit – UAE & GCC) and National Bank of Fujairah (Senior Executive – Risk Management). During his career he has been nominated for several high profile training courses and seminars in London, Cyprus, Hong Kong and Singapore. He joined Bahrain Development Bank in 2013.

10. Buthayna Ahmed Al- Sadeq

Vice President- Financial Control

BSc. in Accounting, University of Bahrain, MBA (Strathclyde University), CPA (California). Over 14 years of banking experience. She has worked with Nomura Investment Banking and Al-Baraka Islamic Bank in various areas including Operations and Section Head of Accounts. She joined Bahrain Development Bank in 2006.

11. Samuel Verghese

Assistant Vice President, Head of Internal Audit

B.Com, University of Calicut, India. FCA, Institute of Chartered Accounts of India. Over 22 years of experience he has worked with Steel Authority of India Ltd (SAIL), The South Indian Bank Ltd, Kerala Financial Corporation and Oman Development Bank in successively senior management positions. He joined Bahrain Development Bank in 2007.

CEO STATEMENT



Nedhal Saleh Al-Aujan
Chief Executive Officer

2014 has been a continuation of the wise economic policy of the Government which aimed at achieving the aspired sustainable healthy economic development in the Kingdom. The Bank's results have shown its ability to draw and implement action plans capable of achieving the desired goals and objectives in conformity with Bahrain's Economic Vision 2030.

Undoubtedly, the methods of development and modernization of services, in addition to the launch of new products and introduction of branches in new areas have greatly contributed to attaining the aspired growth in the Bank's activities, as well as expanding its network of customers towards fostering its corporate image as a distinguished bank in terms of its comprehensive and integral services.

The report has reflected the growth of the Bank's economic indicators during 2014 compared to figures of 2013. The investment in small & medium enterprises sector totalled BD 60.6 million against BD 43.3 million in 2013, an increase of 40%.

The volume of finance portfolio of all financing programs totalled BD 55.6 million in 2014 against BD 44.6 million in 2013, an increase of 25%.

The value of exports resulting from financed projects totalled BD 16 million in 2014 against BD 6 million in 2013, an increase of 166%. The volume of attracted foreign exchange totalled BD 16.9 million in 2014 against BD 7.5 million, an increase of 125%.

The number of new employment opportunities provided by financed projects totalled 3811 in 2014 compared to 3396 in 2013.

The Bank's methods of development and modernization of services, in addition to the launch of new products and introduction of branches in new areas

have greatly contributed to attaining the aspired growth in the Bank's activities, as well as expanding its network of customers towards fostering its corporate image as a distinguished bank in terms of its comprehensive and integral services.

Financing 2014

BD 55.6 million

The total volume of finance portfolio of all financing programs totalled BD 55.6 million

Small projects occupied 60% of total granted finances. The percentage of the new clients benefiting from those finances amounted to 56%. They benefited from finances in diversified economic projects and activities.

On the level of consultancy services, the number of beneficiaries totalled 2391. These services covered a wide spectrum of fields in training, orientation, introductory lectures and specialized workshops in entrepreneurship.

2014 Initiatives

- Launch of two branches in Riffa and Bab Al Bahrain.
- Introduction of branches of Polytechnic Bahrain, Viva and Zain in the headquarters of the Bahrain Women Incubator Centre (Riyadat) located in A'ali, the first of its kind in the Middle East region, established upon a joint initiative between the Bahrain Development Bank Group and the Supreme Council for Women, currently incubating over 50 projects.
- Opening of an office for Taxi "Arabiya" services at the Bahrain International Airport.
- The volume of finance portfolio between the Bahrain Development bank and Tamkeen totalled BD 150 million. This financing programme for small, medium & rising enterprises, which is implemented jointly with Tamkeen, has contributed to enabling these enterprises to obtain required finances and develop their projects in general, in addition to other initiatives which reflect the close relations between the two sides.

Foreign exchange 2014

125%

The volume of attracted foreign exchange totalled BD 16.9 million in 2014 against BD 7.5 million, an increase of 125%.

- Investment expansion through the Risk Capital Finance Program, as the Bank has introduced new investment mechanisms & capital sharing programs through establishment of an integrated department entrusted with preparing and implementing appropriate programs for carrying out this type of investment and assigning a specialized expert to head this department, along with endeavouring to expand the range of investment activities and projects in which the Bank can invest and increase allocated budgets for them.
- Adoption of more efficient strategies and programs for developing the entrepreneurship sector in the Kingdom of Bahrain and providing all possible facilities to the Bahraini youth wishing to commence their own free business.
- Expansion & development of incubators experiment through establishment of Incubators "Rukn" specialized in fostering projects of information technology & telecommunications, and Farmers' Market in Houra A'ali, in addition to concluding an agreement with the Gulf Construction Company to acquire incubator units at the company's Business Marsa centre, as well as the lease of a building located at the Andalus Garden in Manama to be assigned for incubating specialized handicraft projects, and the launch of joint initiatives such as Entrepreneur Support Program in the information technology sector in collaboration with the E-Government Authority, and Batelco Entrepreneur Program in cooperation with Batelco.

International rating

Baa2

BDB has been rated Baa2 by Moody's which is in-line with the sovereign rating of the Kingdom of Bahrain

- Another major development that took place during 2014 is that for the first time in the history of BDB, the Bank has been rated by leading international rating agency viz., Moody's, which has rated the Bank Baa2. The rating is in-line with the sovereign rating of the Kingdom of Bahrain and reflects on BDB's strong ownership and its franchise as Bahrain's leading development bank as well as its robust capital buffers. The rating will enable BDB to expand its range of activities and will act as a catalyst in rolling out various strategies that the Bank's management and Board are envisaging for 2015 and beyond.

In conclusion, it gives me great pleasure to express my sincere thanks and appreciation to the Wise government for its continued support. I also express my thanks and gratitude to the Chairman and Members of the Board of Directors for their kind follow up and wise directives. Meanwhile, we recognize the dedicated efforts of all local, regional and global establishments and organizations which fully cooperate with the Bank, including the Ministry of Finance, the Ministry of Industry & Commerce, our strategic partner Tamkeen, and the Supreme Council for Women.

Special thanks go to the Bank's Executive Management and Employees at all levels of the Bahrain Development Bank Group for their dedicated efforts towards achieving the aspired growth of the Kingdom of Bahrain.

Nedhal Saleh Al-Aujan
Chief Executive Officer

MANAGEMENT REVIEW

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

Business Banking

BDB as a development financial institution has been playing a vital role in the development of SME sector in Bahrain. The Bank during the year 2014 continued with its strategy of meeting the credit needs of the SME sector and thereby providing an impetus to the growth and diversification of the economy.

The strategy during the year 2014 was more towards the development of the medium segment especially the manufacturing and the export sector as it was our considered view that these segments would contribute more towards overall development and growth of the economy in terms of providing more employment, import substitution and export earnings. Further, development of the medium segment will also help in development of ancillary and small business. The Bank continued to support 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 its clients a package of support to facilitate business establishment and operational growth. The Bank could record disbursement of 966 loans under SME segment aggregating to BD 54.071 million. During the previous year 2013, the Bank had disbursed 1,121 loans aggregating to BD 42.758 million under the SME segment.

Our specialized financing products under the BDB-Tamkeen Joint Finance Scheme continued to be the much sought after product by the SME segment. The Bank continued its thrust on lending to SME sector under the scheme.

On account of the after effects of global financial crisis coupled with market conditions prevailing in the local market, many of the small units in the SME sector were experiencing difficulties. As a development financial institution, the Bank assisted such clients in overcoming their financial difficulties. During the year 2014, a total of 504 SME clients were assisted in the form of restructuring of their facilities involving outstanding of BD 9.569 million, to enable them to tide over their financial difficulties.

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

The performance in the area of economic contribution through our financing activity has been encouraging. The financing made by the Bank facilitated in creating an estimated 3,811 jobs. Similarly, significant contributions have been made in other economic parameters namely facilitating exports of BD 16.218 million and foreign currency earnings of BD 16.885 million and import substitution of BD 8.539 million.

The Bank at present has network of seven full-fledged branches and one satellite branch, spread over different parts in the Kingdom of Bahrain and thus is able to cater to wider clientele present in all major business centers.

With market showing signs of improvement, the Bank looks forward to participate more actively in financing to the SME segment. The Bank also remains committed to render all possible assistance to the SMEs who are in difficulties on account of the market conditions, to enable them to overcome their problems and conduct smooth business. The bank strategy of supporting Bahraini youth and women to start their own entrepreneurship ventures shall continue to receive our enhanced focus and dedicated efforts.

Development Services

Development Services (formerly known as Non-Financial Services) continues to be an entrepreneurial division and has enhanced their product and service offer over the past year, delivering an innovative platform of development services and products which are tailored to meet the needs of entrepreneurs and sector specific industries in line with the National Economic Strategy.

Development Services continues to reach out to the public in an effort to foster an entrepreneurial, innovative, and enterprising society highlighting the importance in developing a National Economy driven by the private sector through the organization's core objective and mandate of supporting entrepreneurs and SMEs in Bahrain.

160

newly established enterprises are set to benefit from the 'Startup Support Scheme',

Development Services division provides a holistic eco-system for entrepreneurs through its sub units and departments which include; Business Advisory and Rowad.

The Business Advisory Unit develops entrepreneurs capacity through specialized training programs, supports their business venture development through guidance and counselling, and assists them with access to finance by linking them with the bank's financial services and other network organizations and angel funds.

Rowad is a subsidiary owned by the bank which hosts all the various incubator centers owned and operated by the bank itself through the Development Services division. Our incubators provides space and a range of business resources designed to support the successful development of entrepreneurial companies in an environment allowing them to comfortably start-up and grow their business.

Development Services witnessed yet another year of growth through innovative projects and new initiatives in line with Bahrain's Economic Vision 2030 with the emphasis on developing the human capital of Bahrain and facilitating an entrepreneurial based economy. The year 2014 was dedicated toward not only introducing new services and products, but also enhancing our current platform in support of entrepreneurs of which the highlights are shown below:

Business Advisory

New Products & Services

Coaching is a newly launched service to our entrepreneurs which came after the certification of the entire Business Advisory team in February 2014. This new service focuses on enabling and empowering entrepreneurs aiming at the development of individuals to drive successful businesses. This program tracks the entrepreneur's personal development along with the business progress in a structured approach, guiding them to learn all the required skills to successfully run and grow their business, and support them in developing their businesses, overcoming challenges, and helping them achieve any goals they have as entrepreneurs.

The Business Advisory Unit introduced a new product Equity Advisory in 2014 which aims at assisting the growth and development of innovative projects through equity financing clubbed with advisory support services. Equity Advisory supports projects that yield substantial economic, social & environmental benefits; giving priority to projects with strong value-added components, high productivity and potential for creating job opportunities for Bahraini citizens.

Milestones in Training & Events

The Business Advisory training team launched a new program with Batelco's Youth Development department called the Batelco's Entrepreneurs Program. This exclusive program was tailored to build awareness and knowledge in the field of entrepreneurship to Batelco's youth development clientele. The program ran for two batches catering to 63 participants.

Business Advisory launched a new training workshop titled 'Hire Yourself' to discuss entrepreneurship as a career option and to promote youth to build their own career opportunities rather than seek employment. The workshop highlights topics that include the requirements to become an entrepreneur, the business development process, and approaches for business opportunity identification. The workshop was conducted several times throughout 2014 and has become part of the training program offer of the Development Services division.

The unit continued to conduct the Entrepreneurship Orientation Program (EOP) in 2014 continuing with interactive group activity and creativity and innovation being at the heart of the program and introducing new topics such as legal structures, intellectual property, and business model canvas.

The Entrepreneurship Orientation Program for Bahrain Polytechnic a joint program in partnership with the Bahrain Polytechnic was launched in 2014 to further promote entrepreneurship in both the engineering and business schools on campus with the aim to graduate entrepreneurs from both schools that is an enhancement of last year's joint program E-Lab.

INCUBATION SERVICES

Bahrain Development Bank's (BDB) objective as the main SME's funding institute in Kingdom of Bahrain is the economic development of the country, especially the diversification of the economy and creation of jobs. Establishment of Bahrain Business Incubator Centre (BBIC) is intended to further these objectives. BBIC is an organization with a main mission to help, through its programs, to accelerate the successful development of entrepreneurial companies via an array of business support resources and services, developed or orchestrated by incubator management and offered both in the incubator and through its network of contacts.





Facilities

- Flexible rental space ranging in size.
- Flexible short-term leases that include business advisory services.
- Central area reception.
- Central mailbox area.
- Photocopying and faxing.
- Telephone answering services.
- An entrepreneurial environment.
- 24/7 secured access to the building and sites.
- On-site parking for tenants and their clients.
- Fully equipped boardroom/ meeting room facilities.
- Fully equipped seminar and conference rooms with access for up to 60 people.
- A showcase to display samples of projects in the center.
- Access to computer/resource centers.
- Lunchroom with snack/ beverage machines.

MANAGEMENT REVIEW CONTINUED

This year our support extended to the program in the form of coaching and judging. The programs hosted over 152 participants in 2014 which is over 100% growth from the previous year.

Our annual initiative since 2010, GSVEC program in cooperation with the Ministry of Education for final year students ran its 5th Batch of Takween Program which trained 590 students this year. The training focuses on business planning, entrepreneurship awareness, and capacity building with a new focus on interactive group activity ending with a business plan presentation competition.

For second consecutive year, the Business Advisory team worked with the Ministry of Education on the Ambitious Entrepreneurs program which is a national business plan competition between the Advance track commercial school students. This year our support extended to the program in the form of coaching and judging. The programs hosted over 152 participants in 2014 which is over 100% growth from the previous year.

The Business Advisory team supported The Mission television program four finalists with coaching, mentorship, and fund management. The mission is a reality TV show which aims to develop the skills of Bahraini youth as well as prepare them to join the labour market. The main goal of this program is to promote entrepreneurship culture.

Several new events were supported throughout the year with the support of the team by conducting workshops, hosting informative sessions and providing coaching services to entrepreneurs during the event. One of the main events hosted and conducted in partnership with AIESEC was the Youth 2 Business Forum where the bank was the strategic partner and main sponsor of the event. The Business Advisory team hosted various workshops, sessions, and were moderators on a panel and attracted over 300 youth who participated in different workshops and panels throughout the day. Some other events supported in 2014 were the Gulf Industry Fair, Ramadhaniyat, GITEX, IGN convention, and Market 338.

Milestones in Technology & The ICT Sector

Bahrain Development Bank and the eGovernment Authority proudly announce the launch of Technopreneur Bahrain, a holistic development program dedicated towards the growth of the ICT sector in Bahrain that is jointly initiated between both entities.

The program offers a unique and comprehensive platform to tech entrepreneurs (Technopreneurs) that includes capacity building,

coaching, mentorship, and funding, as well as other support services aimed at developing their ICT concepts and transforming them into commercial business ventures.

Microsoft Imagine Cup is a global student technology competition creating a platform for youngsters – students and fresh graduates. It also help students discover their potentials, think out of the box, seeding the entrepreneurship spirit in their minds and earn knowledge and expertise. This year the Business Advisory department supported this competition by extending coaching support to semi-finalists of the local competition with continuing support to the regional Bahraini finalists that went on to win third place globally. The Development Services team also were members of the local judging panel and aim to continue providing such support in the coming years.

Game Jam Is a competition that requires a set of diverse skills, such as knowledge of a game development tool, ability to work in teams, as well as motivation and determination to succeed, where each team is asked to develop a game in less than 3 days. The Business Advisory team supported Bahrain Polytechnic during this event by providing coaching and members of the judging panel. The event attracted over 200 young innovators.

Our Initiatives & Related Schemes

In 2014 the Development Services continued to publish Rowad Magazine and the end of the year marked the licensing of the publication as an official magazine with the ability for distribution locally, regionally, and internationally. The magazine continued to be a quarterly publication being a magazine for entrepreneurs by entrepreneurs, showcasing success stories, serving as a reference tool for entrepreneurs, and featuring advice from other entrepreneurs across various industries.

Social Entrepreneurship continues to be a focus area for the division and the bank. In 2014 the team hosted several workshops and coaching sessions themed “Start Social” stemming from last year’s success at The Bahrain Social Business Week. The workshop was hosted to a Japanese delegation of 26 students and 4 tutors hosted by General Organization for Youth and Sport (GOYS) and along with several universities on the island throughout the year.

590

Ministry of Education for final year students ran its 5th Batch of Takween Program which trained 590 students this year.

The Pre-Seed Capital & Feasibility Study Support schemes in partnership with Tamkeen continued in 2014 where The Pre-Seed Capital scheme provided grants to 4 new entrepreneurs to support their innovative project ideas. The feasibility study support supported four beneficiaries for new ventures.

In line with the bank and overall division strategy 2014 aimed at continuing the creation of the aim has been to focus on creating specialized incubator facilities to focus on certain sectors and industries. This year marked the soft launch of the first ICT Incubator in Bahrain, Rukn.me which will be officially launched in 2014. Alongside that the division has identified the need for clusters and has begun work on establishing an Arts and Crafts cluster which aims to be launched in 2015. Furthermore, in line with the National Initiative for Agricultural Development and in partnership with the Ministry of Municipalities & Agricultural Affairs we have established a new project ; Farmers Market which aims at creating Agricultural entrepreneurs and to allow for a year round farmers market is expected to launch in 2015.

Incubators

Bahrain Business Incubator Center (BBIC)

For over 10 years, the BBIC has succeeded in providing start-ups a stress free and relaxed environment for a minimum period of 3 years. The services offered today, are business incubation, access to finance, advisory, equity, special grant schemes, affordable rent, training, marketing support and monitoring services. These services are tools which were carefully tailored to meet the requirements of start-up businesses in our economy. The aim of the BBIC is to be able to not only incubate but also successfully graduate business into the market.

Milestones in Incubation

In 2014 BBIC has successfully reached out to many Bahraini SMEs. Total occupation of Incubators as at end of 2014 was at 94%. The total graduates in 2014 were 40 businesses.

New Initiatives

BBIC continues to provide coaching services for its clientele with a team of certified coaches and mentors. Furthermore, the center has hosted many events focusing on entrepreneurship and related activities along with many training sessions and workshops.

BBIC has signed an MOU with Taameer Business Park for comanagement of spaces at their building in the Hidd Industrial park offering our current tenants an opportunity to graduate from our facilities to a more modern office space facility as an exit plan. Over the past year we have rented 5 units and will continue to do so in 2015.

Riyadat

The Business Women Incubator Center (Riyadat) has been in operation for one year now since its launch at the end of 2013. The unique center designed as a shopping mall continues to house business start-ups owned by Bahraini women entrepreneurs and other enterprises which is open to all.

Riyadat is not only an incubator center, it offers training and workshops, virtual incubation, and is a preferred venue to hold workshops, seminars, conferences and events.

Milestones in incubation

Riyadat incubates and hosts 62 various sizes and types of units 25% dedicated to enterprises and the remainder 75% as incubators. Currently the units comprise of 33 workshops and 29 offices to accommodate all types and sectors of businesses. At the end of 2014 89% of Riyadat units were occupied.

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 (200 employees as of Dec 2014) 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 2014.

Staff were trained on Anti-Money Laundering Procedures, Youth Entrepreneurship Orientation Program, Operational Risk Awareness & Whistle Blowing Policy, Leadership & Business Strategy, Islamic Financing, Financial Advice Program. In addition to other specialized training sessions, conferences and workshops which were attended by Key staff as well from the bank.

FINANCIAL SERVICES

The focused segments where BDB extends assistance are the small and medium Enterprises, Self Employed Professionals, Agriculture, Fisheries, Education, Specific Employment Oriented enterprises promoted by Bahraini Youth & Women and other segments as considered necessary with the main objective of Value Addition to the Economy of the Kingdom of Bahrain.





SERVICES

- BDB Finance
- BDB & Tamkeen Finance
- Letters of Credit
- Letters of Guarantee
- Overdraft Facility
- Education Finance
- Agricultural Loans
- Fisheries Loans
- ICT Finance Scheme



Advisory Department focuses on providing advice on start-up businesses, business expansion, SME financial and technical assistance, internal structure advice, organizational management, and entrepreneurial training.

FINANCIAL REVIEW

Overview

During the year ended 31 December 2014 the bank achieved net profit of BD 705K, as compared to a net loss of BD 348K during 2013.

At year-end 2014, the Bank's total balance sheet stood at BD 174.3 million, compared to BD 157.8 million at year-end 2013. While loans and advances showed significant growth, the availability of funds were efficiently deployed in investment securities and treasury bills to maintain the overall interest margin.

Net Interest Income

Net interest income of BD 5.99 million reported a marginal growth of 3 percent (2013: BD 5.83 million).

Other Income

Total other income generated during the year reached BD 5.2 million (2013: 2.0 million). Other income includes investment income of BD 3.62 million mainly profit on sale of investments as compared to BD198K for the same period the previous year.

Operating Expenses

Operating expenses increased at 14% to cater the growth of the branches and incubators during 2014 and reported BD 7.2 million. The increase was primarily in staff expenses, development of new branches, renovations / relocations and expansion of incubator network. The cost to income ratio improved to 64.4 percent due to better growth in other income.

Net Provisions

The Bank follows the International Accounting Standard with regard to accounting for impairment of financial assets.

The net provision for loans loss and impaired assets was BD 3.28 million in 2014 as compared to BD 1.86 million for year 2013.

Assets

The net loans and advances to customers stood at BD 110 million, registering a growth of 9.0 percent as compared to 2013.

The Bank's Investment portfolio of BD 19.3 million (2013: BD 10.3 million) showing an increase of 87% was mainly due to transfer of Sitra Mall (BD 3.6 million) by the Ministry of Finance as capital contribution and increase in investment in Sukuk and Treasury Bills.

Equity

Bank's Equity registered a growth of BD 4.6 million. BD 3.6 million other capital contribution, increase in fair value of investment of BD 296 K and profit of BD 705K contributed the growth in Equity as compared to 2013.

As against minimum capital adequacy ratio of 12 % prescribed by the Central Bank of Bahrain (CBB), the Bank's ratio at year end 2014 was 44% (2013: 48%). 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.

FINANCIAL STATEMENTS 2014

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Report on the consolidated financial statements

We have audited the accompanying the consolidated financial statements of Bahrain Development Bank B.S.C (the "Bank") and its subsidiary (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Responsibility of the board of directors for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2014, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

As required by the Bahrain Commercial Companies Law and Volume 1 of the Central Bank of Bahrain (CBB) Rule Book, we report that:

- a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- b) the financial information contained in the directors' report is consistent with the consolidated financial statements;
- c) we are not aware of any violations during the year of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1, applicable provisions of Volume 6 and CBB directives) or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and
- d) satisfactory explanations and information have been provided to us by management in response to all our requests.



KPMG Fakhro
Partner Registration No. 83
25 February 2015

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

(Expressed in Thousand Bahrain Dinars)

	Note	2014	2013
ASSETS			
Cash and balances with Central Bank of Bahrain	5	2,236	2,588
Placement with banks and other financial institutions	6	30,719	26,187
Loans and islamic financing to customers	7	110,048	101,367
Available-for-sale Investments	8	15,395	10,047
Investment in associates	9	272	219
Investment property	10	3,623	-
Property and equipment	11	10,760	10,842
Other assets	12	1,253	6,564
TOTAL ASSETS		174,306	157,814
LIABILITIES AND EQUITY			
Liabilities			
Term loans	13	37,398	29,582
Deposits	14	57,137	53,677
Other liabilities	15	3,949	3,359
Total liabilities		98,484	86,618
EQUITY			
Share capital	16	65,000	65,000
Statutory reserve	17	1,081	1,010
Investments fair value reserve		547	249
Other capital contribution	18	4,048	425
Retained earnings		5,146	4,512
Total equity		75,822	71,196
TOTAL LIABILITIES AND EQUITY		174,306	157,814

These consolidated financial statements, set out on pages 31 to 62, were approved for issue by the Board of Directors on 25 February 2015 and signed on its behalf by:

Chairman

Director

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

Year ended 31 December 2014

(Expressed in Thousand Bahrain Dinars)

	Note	2014	2013
INCOME			
Interest and islamic financing income	19	7,283	6,911
Interest and wakala expense	20	(1,291)	(1,085)
Net interest and islamic finance income		5,992	5,826
Fee and commission income		419	660
Investment income	21	3,617	198
Share of loss in associates		(37)	(141)
Other income	22	1,198	1,282
Total income		11,189	7,825
EXPENSES			
Staff cost		(4,372)	(3,974)
Other operating expenses		(2,832)	(2,338)
Profit before impairment provision		3,985	1,513
Impairment provision on loans and islamic financing	7	(2,931)	(1,688)
Impairment provision on investments		(349)	(173)
Profit/ (loss) for the year		705	(348)

These consolidated financial statements, set out on pages 31 to 62, were approved for issue by the Board of Directors on 25 February 2015 and signed on its behalf by:

Chairman

Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2014

(Expressed in Thousand Bahrain Dinars)

	2014	2013
Profit/ (loss) for the year	705	(348)
Other comprehensive income		
Items that are or may be reclassified subsequently to profit or loss:		
Fair value reserve on AFS investments Net changes in fair value	210	226
Transferred to profit or loss on impairment	130	-
Transferred to profit or loss on sale	(42)	-
Total other comprehensive income for the year	298	226
Total comprehensive income for the year	1,003	(122)

The accompanying notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

(Expressed in Thousand Bahrain Dinars)

	Share capital	Statutory reserve	Investment fair value reserve	Other capital contribution	Retained earnings	Total Equity
As at 1 January 2014	65,000	1,010	249	425	4,512	71,196
Contribution from shareholder (note 18)	-	-	-	3,623	-	3,623
Comprehensive income for the year:						
Profit for the year	-	-	-	-	705	705
Other comprehensive Income:						
Items that may be reclassified subsequently to profit or loss:						
Fair value reserve on AFS investments						
Net changes in fair value	-	-	210	-	-	210
Transfer to profit or loss on impairment	-	-	130	-	-	130
Transfer to profit on sale	-	-	(42)	-	-	(42)
Transfer to statutory reserve	-	71	-	-	(71)	-
Balance at 31 December 2014	65,000	1,081	547	4,048	5,146	75,822
Balance at 1 January 2013	65,000	1,010	23	-	4,860	70,893
Contribution from shareholder (note 18)	-	-	-	425	-	425
Comprehensive income for the year:						
Loss for the year	-	-	-	-	(348)	(348)
Other comprehensive Income:						
Items that may be reclassified subsequently to profit or loss:						
Fair value reserve on AFS investments						
Net changes in fair value	-	-	226	-	-	226
Transfer to profit or loss on impairment	-	-	-	-	-	-
Transfer to profit on sale	-	-	-	-	-	-
Balance at 31 December 2013	65,000	1,010	249	425	4,512	71,196

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

(Expressed in Thousand Bahrain Dinars)

	Note	2014	2013
Operating activities			
Profit (Loss) for the year		705	(348)
Adjustments for:			
Depreciation	11	569	503
Provision for impairment Loans and islamic financing to customers		2,931	1,688
Provision for impairment on equity investments		349	173
Dividend income		(117)	(212)
Share of loss of associates		37	141
Gain on sale from investments		(3,500)	-
Gain loss on sale of fixed assets		-	(15)
Loss on foreign currency translation		9	7
Operating profit before changes in operating assets and liabilities		983	1,937
Changes in operating assets and liabilities:			
Placement with banks and other financial institutions		1,326	1,844
Accounts receivable and other assets		3,061	(239)
Loans and islamic financing to customers		(11,612)	(7,996)
Deposits		3,460	(9,763)
Accounts payable and other liabilities		590	132
Net cash used in operating activities		(2,192)	(14,085)
Investing activities			
Change in property and equipment (net of disposal)		(487)	(304)
Purchase of investments		(11,049)	(1,369)
Proceeds from sale of investments		9,060	-
Dividend income received		117	212
Net cash used in investing activities		(2,359)	(1,461)
Financing activities			
Proceeds from term loan - net		7,807	9,921
Additional capital received		2,250	6,000
Net cash generated from financing activities		10,057	15,921
Increase in cash and cash equivalents during the year		5,506	375
Cash and cash equivalents at 1 January		5,553	5,178
Cash and cash equivalents at 31 December	23	11,059	5,553

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

1. REPORTING ENTITY

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 activities of the Bank consist of granting loans and islamic financing for project finance, working capital, 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 in ordinary and preference shares in Bahraini companies. Additionally, loans and islamic financing are provided for agriculture, fisheries and higher education purposes. Other activities of the Bank comprise making direct contributions toward the economic development of the Kingdom of Bahrain.

The Group consists of the Bank and its following subsidiary:

Name	Country of "incorp - oration"	Ownership interest	Year end	Principal activity
Bahrain Business Incubator Centre S.P.C.	Bahrain	100%	31 December	Development and assistance to emerging Bahraini entrepreneurs.

During the year, the Group disposed off its 100% shareholding in Bahrain Institute of Entrepreneurship & Technology S.P.C. at a gain of BD 372 thousands which is included in investment income in the consolidated financial information.

2. BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the Bahrain Commercial Companies Law (BCCL) 2001.

b) Functional and presentation currency

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.

c) Basis of measurement

The consolidated financial statements are prepared under the historical cost convention except for the measurement of available for sale investments which is at fair value.

d) New standards, amendments and interpretations effective from 1 January 2014

The following standards, amendments and interpretations, which became effective as of 1 January 2014, and are relevant to the Group:

i) Amendments to IFRS 10, IFRS 12 and IAS 27 "Investment Entities"

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

The Group concluded that it does not meet the definition of an "investment entity" and hence the above amendments are not applicable to the Group.

ii) Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'. The amendments have been applied retrospectively.

The adoption of this amendment had no significant impact on the consolidated financial statements

iii) Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

2. BASIS OF PREPARATION (continued)

recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements.

The application of these amendments at the Group level had no material impact on the disclosures in the Group's consolidated financial statements.

e) New standards, amendments and interpretations issued but not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2015, and have not been applied in preparing these consolidated financial statements. Those which are relevant to the Group are set out below.

i) IFRS 9 - Financial Instruments

IFRS 9 published in July 2014, replaces the existing IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

ii) IFRS 15- Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

iii) Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

The amendments to IAS 19 clarify how an entity should account for contributions made by employees or third parties to define benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognize the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees periods of service using the project unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees periods of service.

The above amendments do not have any material impact on the consolidated financial statements of the Group.

iv) Annual improvements

The annual improvements to IFRSs to 2010-2012 and 2011 -2013 cycles include a number of amendments to various IFRSs. Most amendments will apply prospectively for annual periods beginning on or after 1 July 2014; earlier application is permitted (along with the special transitional requirement in each case), in which case the related consequential amendments to other IFRSs would also apply.

The amendments are not expected to have any material impact on the consolidated financial statements of the Group.

f) Early adoption of standards

The Group did not early adopt new or amended standards in the year ended 31 December 2014.

3. USE OF JUDGMENTS AND ESTIMATES

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized separately.

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

- economic useful lives of property, plant and equipment; and
- impairment losses on loans and islamic financing to customers and investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

3. USE OF JUDGMENTS AND ESTIMATES (continued)

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.

Impairment losses on loans and islamic financing to customers and investments

At each reporting date, the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets and that the loss event has an impact on the future cash flows of the assets that can be estimated reliably (refer note 4(d) (iv)).

4. SIGNIFICANT ACCOUNTING POLICIES

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

a) Basis of consolidation

i) Subsidiaries

Subsidiaries' are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of control. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

ii) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

iv) Investment in associate

An associate company is an enterprise in which the Group holds, directly or indirectly, more than 20% of the voting power or exercises significant influence, but not control, over the financial and operating policies. The investment is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

b) Foreign currencies

Transactions in foreign currencies are translated into the functional currency at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currencies arising from translation of available-for-sale equity investments are recognised in OCI.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Cash and cash equivalents

Cash and cash equivalents includes notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short term commitment.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

d) Financial assets and financial liabilities

i) Classification

Financial assets

The Group classifies its financial assets into one of the following categories

- loans and receivables; and
- available-for-sale.

Financial liabilities

The Group classifies its financial liabilities, other than guarantees and loan commitments, as measured at amortised cost.

ii) Recognition

The Group initially recognises loans and advances, deposits and investments on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

iii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

iv) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets at a bid price and liabilities at an ask price.

The Group recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

v) Amortised cost measurement

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

vi) Identification and measurement of impairment

At each reporting date, the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets and that the loss event has an impact on the future cash flows of the assets that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. In general, the Group considers a decline of 20% to be 'significant' and a period of nine months to be 'prolonged'.

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

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and islamic financing to customers. If an event occurring after the impairment causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

vi) Identification and measurement of impairment (continued)

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss; otherwise, any increase in fair value is recognised through OCI. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is always recognised in OCI.

d) Loans and islamic financing to customers

Loans and islamic financing to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

Loans and islamic financing to banks are classified as loans and receivables. Loans and islamic financing to customers include:

- those classified as loans and receivables; and
- ijara receivables.

Loans and islamic financing to customers are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost less impairment allowances, if any. Islamic financing to customers is disclosed at cost less deferred income.

e) Available for sale investments

'Available-for-sale investments' are non-derivative investments that are designated as available for sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost, less impairment. All other available-for-sale investments are measured at fair value after initial recognition.

Fair value changes, other than impairment losses are recognised in OCI and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

f) Property and equipment

i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised within other income in profit or loss.

ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

iii) Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated. The estimated useful lives of significant items of property and equipment are as follows:

Buildings on freehold premises	15 - 30 years
Leasehold improvements	40 years
Machinery, equipment and electrical installations	5 - 15 years
Furniture, fixtures, vehicles, computers and office equipment	3 - 10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Investment property

Investment properties are those which are held by the Group to earn rental income or for capital appreciation or both. Investment properties are stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated on cost by the straight-line method at annual rates which are intended to write off the cost of the investment property over their estimated useful lives of 30 years. Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from the disposal and the carrying amount of the item) is recognized in profit or loss.

h) Accounts receivable

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.

i) Term loans

Term loans are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

j) Deposits

Deposits are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

k) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

l) Employees' end of service benefits

Pension rights (and other social benefits) for Bahraini employees are covered by the General organisation for Social Insurance scheme to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Group's share of contributions to this scheme, which is a defined contribution scheme under IAS 19- Employees Benefits, is recognised as an expense in the profit or loss.

Expatriate employees are entitled to leaving indemnities payable under the Bahraini Labour Law for the Private Sector 2012, based on length of service and final remuneration. Provision for this, which is unfunded, and which represents a defined benefit plan under IAS 19- Employees Benefits, has been made by calculating the notional liability had all employees left at the reporting date. The charge is recognised as an expense in the profit or loss.

m) Income recognition

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest income and expense presented in the profit and loss include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest on available-for-sale investment securities calculated on an effective interest basis;

n) Dividend income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

(Expressed in Thousand Bahrain Dinars)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Fee and commission income

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate.

Other fees and commission income - including account servicing fees, investment management fees, sales commission, placement fees and syndication fees - are recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

5. CASH AND BALANCES WITH CENTRAL BANK OF BAHRAIN

	2014	2013
Cash in hand	237	223
Balances with Central Bank of Bahrain (CBB)	1,999	2,365
	2,236	2,588

6. PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2014	2013
Nostro balances	551	247
Placements with banks and other financial institutions	30,168	25,940
	30,719	26,187

7. LOANS AND ISLAMIC FINANCING TO CUSTOMERS

	2014	2013
Project finance - conventional	20,916	22,719
Project finance - islamic	95,866	84,539
Fisheries and agriculture	4,170	4,254
Ijara receivable	951	1,118
Other loans	2,335	2,005
	124,238	114,635
Less: Provision for impairment - Specific	(13,490)	(12,618)
- Collective	(700)	(650)
	110,048	101,367

Provision for impairment includes specific provision of BD 6,690 thousands (2013: 6,336 thousands) and collective provision of BD 519 thousands (2013: BD 496 thousands) against islamic financing to customers. Non performing loans as per regulatory requirements are BD 24,487 thousands (2013: BD 28,513 thousands.)

The Government of the Kingdom of Bahrain reimburses the Bank for any loan losses and costs in connection with fisheries and agricultural loans in the Kingdom of Bahrain.

Tamkeen guarantees 50% of the outstanding balance of loss loans and 50% of the interest on islamic financing to customers in accordance with the agreement between the Bank and Tamkeen.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

(Expressed in Thousand Bahrain Dinars)

7. LOANS AND ISLAMIC FINANCING TO CUSTOMERS (continued)

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

	2014		2013	
	Specific provision	Collective provision	Specific provision	Collective provision
At 1 January	12,618	650	10,882	750
Charge/(reversal) for the year	2,881	50	1,788	(100)
Written off during the year	(2,009)	-	(52)	
Balance at 31 December	13,490	700	12,618	650

Gross amount of loans, individually assessed to be impaired before deducting any individually assessed impairment allowance (see note below) **24,487** 28,513

Note : This includes BD 1,251 thousands (2013: BD 819 thousands) relating to agriculture and fishery loans which are considered as impaired but no provision has been made as these loans are considered secured through the reimbursement arrangement with the Government of Bahrain.

The fair value of collateral that the Bank holds relating to loans individually determined to be impaired at 31 December 2014 amounts to BD 2,433 thousands (2013: BD 2,009 thousands). For more detailed description see note 24 (c) collateral and other credit enhancements.

8. AVAILABLE FOR SALE INVESTMENTS

	2014	2013
Conventional - Quoted	1,409	1,240
Conventional - Unquoted	11,021	7,695
Islamic - Quoted	2,552	261
Islamic - Unquoted	1,651	1,740
	16,633	10,936
Less: Impairment provision	(1,238)	(889)
	15,395	10,047

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. The Group does not intend to dispose of these investments in the foreseeable future.

9. INVESTMENT IN ASSOCIATES

	2014	2013
EBDA Bank	272	219
Arabian Taxi Company	-	-
	272	219

Details of the Group's associates at the end of the reporting period are as follows:

Name of the entity	Place of business/country of incorporation	Proportion of ownership	Principal activities
Arabian Taxi Company	Bahrain	20%	Operating and managing taxi services
EBDA Bank	Bahrain	20%	Providing microfinance and related advisory services

All of the above associates are accounted for using the equity method in these consolidated financial statements.

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9. INVESTMENT IN ASSOCIATES (continued)

The following table summarizes the financial information of the associates as included in its own financial statements, not adjusted for percentage ownership held by the Group. The table also reconciles the summarized financial information to the carrying amount of the Group's interest in the associates

	2014	2013
Arabian Taxi Company		
Percentage share of ownership	20%	20%
Current assets	62	54
Non-current assets	3,445	5,083
Current liabilities	(753)	(1,007)
Other current liabilities	(1,615)	(3,312)
Net assets	1,139	818
Group's share of net assets (20%)	228	164
Impairment	(228)	(164)
Carrying amount of interest in Associate	-	-
Revenue	2,752	662
Profit or loss from continuing operations	556	(374)
Other comprehensive income	-	-
Total Comprehensive Income	556	(374)
Group's share (20%)	111	(75)
Impairment	(111)	-
Group's share of total comprehensive income	-	(75)
	2014	2013
Ebdaa Bank		
Percentage share of ownership	20%	20%
Current assets	1,123	1,021
Non-current assets	906	1,129
Current liabilities	(117)	(105)
Other current liabilities	(1,000)	(1,000)
Net assets	912	1,045
Group's share of net assets (20%)	182	209
Adjustments (advance paid for capital increase)	90	-
Carrying amount of interest in Associate	272	209
Revenue	337	361
Profit or loss from continuing operations	(133)	(241)
Other comprehensive income	-	-
Total Comprehensive Income	(133)	(241)
Group's share (20%)	(27)	(48)
Adjustments	(10)	(78)
Group's share of total comprehensive income	(37)	(126)

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10. INVESTMENT PROPERTY

	2014	2013
Additions during the year	3,623	-
	3,623	-

During the year, effective 15 November 2014, a majority shareholder transferred a commercial property to the Bank for fifty years at a nominal lease payment. This property is leased to third parties. The property has been recognised at BD 3,623 thousands which is the fair value at the transfer date as determined by an external, independent property valuer, having appropriate recognized professional qualifications and recent experience in the location and category of the property being valued.

The fair value measurement of the investment property has been categorized as a level 3 fair value based on the inputs to the valuation technique used. The discounted cash flows model considers the present value of net cash flows to be generated from the property, taking into account the expected rental growth rate, void periods, occupancy rate, lease incentive costs such as rent-free periods and other costs not paid by tenants. The expected net cash flows are discounted using risk-adjusted discounted rates. Among other factors, the discount rate estimation considers quality of a building and its location, tenant credit quality and lease terms.

11. PROPERTY AND EQUIPMENT

	Freehold land	Freehold premises	Buildings on leasehold premises	Furniture, fixtures, vehicles computers and office equipment	Capital work-in-progress	Total
2014						
Cost:						
At 1 January 2014	293	1,809	10,626	2,216	-	14,944
Additions	-	-	209	282	-	491
Disposals	-	-	-	(370)	-	(370)
At 31 December 2014	293	1,809	10,835	2,128	-	15,065
Depreciation:						
At 1 January 2014	-	1,171	868	2,063	-	4,102
Charge for the year	-	55	298	216	-	569
Disposals	-	-	-	(366)	-	(366)
At 31 December 2014	-	1,226	1,166	1,913	-	4,305
Net book values						
At 31 December 2014	293	583	9,669	215	-	10,760

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11. PROPERTY AND EQUIPMENT (continued)

	Freehold land	Freehold premises	Buildings on leasehold premises	Furniture, fixtures, vehicles computers and office equipment	Capital work-in-progress	Total
2013						
Cost:						
At 31 January 2013	293	1,809	8,128	2,028	2,398	14,656
Additions	-	-	-	219	100	319
Disposals	-	-	-	(31)	-	(31)
Transfers	-	-	2,498	-	(2,498)	-
At 31 December 2013	293	1,809	10,626	2,216	-	14,944
Depreciation:						
At 31 January 2013	-	1,116	614	1,900	-	3,630
Charge for the year	-	55	254	194	-	503
Disposals	-	-	-	(31)	-	(31)
At 31 December 2013	-	1,171	868	2,063	-	4,102
Net book values						
At 31 December 2013	293	638	9,758	153	-	10,842

The buildings relate to the subsidiary of the Bank and are situated on land leased from the Ministry of Industry and Commerce. Even though the current lease expires on 24 October 2024, the management is 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.

12. OTHER ASSETS

	2014	2013
Interest receivable	78	323
Ministry of Finance	183	5,434
Prepayments and other assets	992	807
	1,253	6,564

13. TERM LOANS

	2014	2013
Kuwait Fund for Arab Economic Development	6,628	8,237
Saudi Fund for Development	10,035	10,035
Arab Fund for Economic and Social Development	20,735	11,310
	37,398	29,582

Kuwait Fund for Arab Economic Development (KFAED)

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% (2013: 1.5% and 0.5%) respectively. The Ministry of Finance is a guarantor to the loan.

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13. TERM LOANS (continued)

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 4% ("interest differentials") on such loans to customers. The interest differentials are deposited into KFAED's bank account maintained by the Bank in a fiduciary capacity. The balance at year end was BD 6 thousands (2013: BD 5 thousands). This account can be used only for development activities such as training, feasibility studies and technical assistance to borrowers agreed by both the parties. During 2014, BD 6 thousands (2013: nil) was utilised for such purposes.

Saudi Fund for Development

During 2012, the Bank obtained a loan of SAR 100 million from Saudi Fund for Development. The facility has been fully availed and is repayable semiannually in 25 years (5 years grace period for principal) at an interest of 2.0%. The Ministry of Finance is a guarantor to the loan.

Arab Fund for Economic and Social Development

During 2013, the Bank had obtained a loan of USD 30 million from Arab Fund for Economic and Social Development. The facility has been fully availed and is repayable semiannually in 10 years (3 years grace period for principal) at an interest of 3.0%. During 2014, the Bank had obtained a second loan of USD 50 million from Arab Fund for Economic and Social Development is repayable semiannually in 10 years (3 years grace period for principal) at an interest of 3.0%. The Bank received USD 25 million during the year.

14. DEPOSITS

	2014	2013
Deposits from banks	18,816	13,394
Deposits from customers	38,321	40,283
	57,137	53,677

Deposits from banks include BD 15,800 thousands (2013: BD 5,854 thousands) from Islamic banks placed with BDB on a wakala basis.

Deposits from customer includes BD 348 thousands (2013: BD 832 thousands) kept as margin deposit.

15. OTHER LIABILITIES

	2014	2013
Staff related accruals	855	778
Accounts payable	2,472	1,680
Interest payable	313	228
Others	309	673
	3,949	3,359

Accounts payables include charity account from the Islamic financing deals of BD 31K (2013: BD 41K).

16. SHARE CAPITAL

	Authorised		Issued and fully paid	
	2014	2013	2014	2013
Ordinary shares of BD 1 each	100,000	100,000	65,000	65,000

Name of shareholder	Number of shares	Percentage of holding
Ministry of Finance	58,333,333	89.74%
General Organisation For Social Insurance	3,333,333	5.13%
Pension Fund Commission	3,333,334	5.13%
	65,000,000	100.00%

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17. 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 is transferred to the statutory reserve. 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.

18. OTHER CAPITAL CONTRIBUTION

During the year, a majority shareholder contributed a non-monetary asset in the form of a commercial property to the Bank. The property has been classified as an investment property (refer note 10) at its fair value on the date of transfer and as a capital contribution in the equity of BD 3,623 thousands.

19. INTEREST AND ISLAMIC FINANCING INCOME

	2014	2013
Interest on conventional loans	1,182	1,460
Profit on islamic financing	5,515	4,961
Interest on placements	348	340
Interest on securities	238	150
	7,283	6,911

Interest on placements includes profit from placements with islamic banks of BD 254 thousands (2013: BD 251 thousands).

20. INTEREST AND WAKALA EXPENSE

	2014	2013
Interest on term loans	751	500
Interest on conventional deposits from customers	477	500
Interest on deposits from conventional banks	14	47
Wakala expense on islamic financing	49	38
	1,291	1,085

21. INVESTMENT INCOME

	2014	2013
Gain on sale of available-for-sale investments	3,128	(14)
Gain on sale of subsidiary	372	-
Dividend income	117	212
	3,617	198

22. OTHER INCOME

	2014	2013
Rental income	1,029	808
Course fees and related income	24	239
Miscellaneous income	145	221
	1,198	1,268

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23. CASH AND CASH EQUIVALENTS

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

	2014	2013
Cash in hand	237	223
Balances with Central Bank of Bahrain (excluding reserves)	293	372
Due from banks and other financial institutions with original maturity of 90 days or less	10,529	4,958
	11,059	5,553

24. 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.

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

	Subsidiary	Directors and senior management	Other related companies	Total
2014				
Deposits	67	55	5,358	5,480
Loans and islamic financing to customers	4,985	108	1,794	6,887
Other assets	-	-	250	250
2013				
Deposits	-	481	5,418	5,899
Loans and islamic financing to customers	-	113	4,342	4,455
Other assets	-	-	5,250	5,250

In 2011, the Bank provided a loan of BD 2 million to Arabian Taxi Company (ATC) to settle the finance lease liability. The loan was rescheduled in 2012 and 2013 with first principal repayment due on 31 January 2014 and the last installment due on 28 February 2018. The loan carries interest at a fixed rate of 3% upto May 2013 and 4% thereafter (2012: 3%). The loan has been fully written off in November 2014.

In 2011, the Bank provided a loan of BD 1.6 million to reduce the bank overdraft liability. The loan is fully repayable on 28 February 2017. Interest is charged at a rate of 3% for the first year, 4% for the second year, 5% for the third year, 6% for the fourth year and 7% for the fifth year. The Bank has provided BD 1.5 million on this loan.

The Bank has provided an overdraft facility to ATC for meeting its operational expenses. The outstanding balance as at the reporting date is BD 630 thousands (2013: BD 444 thousands).

The loan to ATC are secured against taxis and taxi operator licenses valued at BD 1.107 million (2013: BD 1.372 million) and BD 2.337 million (2013: BD 2.618 million) respectively.

During the period, the Bank has recognised an impairment provision of BD 2.61 million (2013: BD 890 thousands) against the above loans, of which BD 2 million has been written off.

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24. RELATED PARTY TRANSACTIONS (continued)

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

	Subsidiary	Directors and senior management	Other related companies	Total
2014				
Interest income	277	35	-	312
Interest expense	-	-	27	27
Other expenses	49	-	223	272
Other income	-	-	-	-
2013				
Interest income	-	62	97	159
Interest expense	-	3	42	45
Other expenses	-	-	61	61
Other income	-	-	3	3

Compensation of key management personnel is as follows:

	2014	2013
Salary & short term employee benefits	825	640
Termination benefits	96	94
	921	734

25. 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:

	2014	2013
Contingent liabilities:		
Letters of guarantee	2,270	2,363
Letters of credit	146	404
	2,416	2,767
Commitments:		
Capital expenditure and other commitments	-	690
Irrevocable commitments to extend credit	6,569	7,144
Lease rental commitments	427	471
	6,996	8,305
	9,412	11,072

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25. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

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

	2014	2013
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	207	251
	427	471

26. 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.

Organizational structure

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

Board of directors

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

Audit Committee

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

Senior / Executive management

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

Risk Committee - Credit & Investments

The Risk Committee - Credit & Investments has the general responsibility to grant credit and also makes decisions relating to the execution of investments in line with the Banks 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.

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.

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26. RISK MANAGEMENT STRUCTURE (continued)

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.

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.

(i) Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and islamic financing to customers, placements and debt securities.

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.

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26. RISK MANAGEMENT STRUCTURE (continued)

(i) Credit Risk (continued)

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.

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

The table below shows the maximum exposure to credit risk as at reporting date

	2014	2013
Cash and balances with Central Bank of Bahrain	1,999	2,365
Placement with banks and other financial institutions	30,719	26,187
Loans and islamic financing to customers	110,048	101,367
Available for sale investments	10,883	5,313
Other assets	261	5,573
	153,910	140,805
Contingent liabilities	2,416	2,767
Commitments	6,569	7,834
	8,985	10,601
Total credit risk exposure	162,895	151,406

(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.

	2014	2013
Industry sector		
Banks and financial institutions	43,601	34,088
Trading and manufacturing	54,644	49,493
Education and health	10,380	2,465
Hospitality, media and transportation	8,702	10,212
Fisheries and agriculture	4,437	4,854
Food processing	2,940	3,141
Others	38,191	47,153
	162,895	151,406

(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 and real estate title deeds.

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. The Bank did not occupy repossessed properties for its own business use, as at the reporting date.

(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.

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26. RISK MANAGEMENT STRUCTURE (continued)

(i) Credit Risk (continued)

	2014					
	Neither past due nor impaired			Past due but not impaired	Impaired	Total
	High grade	Standard grade				
Cash and balances with Central Bank of Bahrain	1,999	-	-	-	1,999	
Placement with banks and other financial institutions	30,719	-	-	-	30,719	
Loans and islamic financing to customers	-	84,317	14,733	10,998	110,048	
Other assets	183	66	12	-	261	
Total	32,901	84,383	14,745	10,998	143,027	

	2013					
	Neither past due nor impaired			Past due but not impaired	Impaired	Total
	High grade	Standard grade				
Cash and balances with Central Bank of Bahrain	2,365	-	-	-	2,365	
Placement with banks and other financial institutions	26,187	-	-	-	26,187	
Loans and islamic financing to customers	-	77,296	8,176	15,895	101,367	
Other assets	-	5,245	328	-	5,573	
Total	28,552	82,541	8,504	15,895	135,492	

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

2014	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Other assets	-	-	1	11	12
Loans and islamic financing to customers	10,482	2,610	1,409	232	14,733
Total	10,482	2,610	1,410	243	14,745

2013	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Other assets	23	10	48	247	328
Loans and islamic financing to customers	3,102	2,076	1,827	1,171	8,176
Total	3,125	2,086	1,875	1,418	8,504

Of the total aggregate amount of gross past due but not impaired loans and islamic financing to customers, the fair value of collateral that the Bank held as at 31 December 2014 was BD 1,722 thousands (2013: BD 3,646 thousands).

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26. RISK MANAGEMENT STRUCTURE (continued)

(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 during the year

	2014	2013
Loans and islamic financing to customers	9,569	18,391

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.

(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.

Net interest income sensitivity

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

	Change in basis points		Impact of change on Net interest Income		Impact of change on Net interest Income	
	2014	2013	2014	2013	2014	2013
Bahraini Dinars	+100	(107)	663	-100	107	(663)
Kuwaiti Dinars	+100	2	2	-100	(2)	(2)
Saudi Riyals	+100	(1)	(7)	-100	1	7
United States Dollars	+100	(206)	(172)	-100	206	172

(b) Currency risk

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

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

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26. RISK MANAGEMENT STRUCTURE (continued)

(ii) Market risk (continued)

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 open exposures denominated in foreign currencies as of 31 December 2014:

	Equivalent long (short)	
	2014	2013
Kuwaiti Dinars	248	315
US Dollars	(6,032)	(5,591)
Euro	7	2
Saudi Riyals	(6)	(74)

The effect of a reasonably possible 5% change in the currency exchange rate for Kuwaiti Dinar and Euro, with all other variables constant, will result in an increase of BD 13 thousands (2013: an increase of BD 16 thousands) in the profit for the year.

(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 2014 and 31 December 2013 based on expected maturities.

2014	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
Assets							
Cash and balances with							
Central Bank of Bahrain	2,236	-	-	-	-	-	2,236
Placements with banks and other financial institutions	10,951	3,933	13,835	2,000	-	-	30,719
Loans and Islamic financing to customers	4,111	727	1,763	3,597	21,275	78,575	110,048
Available for sale investments	2,014	3,328	300	3,000	-	6,753	15,395
Investment in associates	-	-	-	-	-	-	272
Investment property	-	-	-	-	-	-	3,623
Property, plant and equipment	-	-	-	-	-	-	10,760
Other assets	-	-	1,253	-	-	-	1,253
Total assets	19,312	7,988	17,151	8,597	21,275	99,983	174,306
Liabilities							
Term loans	-	657	-	657	7,364	28,720	37,398
Deposits	40,269	2,087	13,024	232	1,525	-	57,137
Other liabilities	313	3,636	-	-	-	-	3,949
Total liabilities	40,582	6,380	13,024	889	8,889	28,720	98,484
Net liquidity gap	(21,270)	1,608	4,127	7,708	12,386	71,263	
Cumulative liquidity gap	-	(19,622)	(15,535)	(7,827)	4,559	75,822	

Bank Manages the liquidity Gap with the Board's approved contingency plan.

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26. RISK MANAGEMENT STRUCTURE (continued)

(ii) Market risk (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
2013							
Assets							
Cash and balances with							
Central Bank of Bahrain	2,588	-	-	-	-	-	2,588
other financial institutions	14,804	8,669	2,714	-	-	-	26,187
Other assets	1,014	10	48	5,492	-	-	6,564
Loans and islamic financing to customers	4,338	515	1,095	1,819	34,614	58,986	101,367
Available for sale investments	-	-	-	-	-	10,047	10,047
Investment in associates	-	-	-	-	-	219	219
Property, plant and equipment	-	-	-	-	-	10,842	10,842
Total assets	22,744	9,194	3,857	7,311	34,614	80,094	157,814
Liabilities							
Term loans	-	-	694	694	4,164	24,030	29,582
Deposits	30,293	11,000	704	11,680	-	-	53,677
Accounts payable and other liabilities	-	3,359	-	-	-	-	3,359
Total liabilities	30,293	14,359	1,398	12,374	4,164	24,030	86,618
Net liquidity gap	(7,549)	(5,165)	2,459	(5,063)	30,450	56,064	
Cumulative liquidity gap	-	(12,714)	(10,255)	(15,318)	15,132	71,196	

(d) Price risk

Price risk arises from the changes in the market price of the quoted equity instruments held by the Bank. A 5% change in the market price will increase or decrease the Bank's equity by BD 79 thousands (2013: 75 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 profit and loss 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.

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(Expressed in Thousand Bahrain Dinars)

26. RISK MANAGEMENT STRUCTURE (continued)

(iii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2014 and 31 December 2013 based on contractual undiscounted repayment obligations. See note (c) 'Maturity analysis of assets and liabilities' for the expected maturities of these liabilities.

	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
2014								
Deposits	11,586	28,683	2,092	13,189	236	1,533	-	57,319
Other liabilities	-	313	3,636	-	-	-	-	3,949
Term loans	-	-	100	963	1,057	8,414	27,140	37,675
Total liabilities	11,586	28,996	5,828	14,152	1,293	9,947	27,140	98,943
2013								
Deposits	9,340	20,958	11,009	824	11,686	-	-	53,817
Other liabilities	-	-	3,359	-	-	-	-	3,359
Term loans	-	-	100	933	1,027	6,035	26,535	34,630
Total liabilities	9,340	20,958	14,468	1,757	12,713	6,035	26,535	91,806

Liquidity risk and funding management

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

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
2014					
Contingent liabilities	811	179	956	470	2,416
Commitments	6,569	-	44	383	6,996
Total	7,380	179	1,000	853	9,412
2013					
Contingent liabilities	540	157	1,681	389	2,767
Commitments	7,144	-	734	427	8,305
Total	7,684	157	2,415	816	11,072

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

(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, if any will not be material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

(Expressed in Thousand Bahrain Dinars)

27. FAIR VALUE DISCLOSURES

Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance of risk.

Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

The fair values of financial assets and financial liabilities carried at amortised cost approximate the carrying values as at the reporting date.

No fair value disclosures are provided for equity investment securities of BD 2,904 thousands (2013: BD 3,323 thousands) that are measured at cost because their fair value cannot be reliably measured. These are strategic investments in developing entities and there is no market for them. The Group does not intend to dispose of these investments in the foreseeable future.

Term loans obtained by the Bank are from Development Funds in Kuwait and Kingdom of Saudi Arabia. There is no secondary market for such loans which are at lower than market rates due to the nature of these loans. The Bank has estimated that its financing rates and terms are comparable to that of objectives of other similar development banks in the region and accordingly believes the carrying value of term loans obtained are a close approximation of their fair values.

Fair value of deposit approximates the carrying value as at the reporting date given their short term nature.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

	Level 1	Level 2	Level 3	Total fair value	Total carrying value
2014					
Financial instruments measured at fair value					
Financial assets					
Equity securities	1,590	-	-	1,590	1,590
Debt securities	2,259	8,642	-	10,901	10,901
Financial instruments not measured at fair value					
Financial assets					
Cash and balances with Central Bank of Bahrain	-	2,236	-	2,236	2,236
Placement with banks and other financial institutions	-	30,719	-	30,719	30,719
Loans and islamic financing to customers	-	-	110,048	110,048	110,048
Financial liabilities					
Term loans	-	-	37,398	37,398	37,398
Deposits	-	57,137	-	57,137	57,137

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

(Expressed in Thousand Bahrain Dinars)

27. FAIR VALUE DISCLOSURES (continued)

	Level 1	Level 2	Level 3	Total fair value	Total carrying value
2013					
Financial instruments measured at fair value					
Financial assets					
Equity securities	1,501	-	-	1,501	1,501
Debt securities	-	5,313	-	5,313	5,313
Financial instruments not measured at fair value					
Financial assets					
Cash and balances with Central Bank of Bahrain	-	2,588	-	2,588	2,588
Placement with banks and other financial institutions	-	26,187	-	26,187	26,187
Loans and islamic financing to customers	-	-	101,367	101,367	101,367
Financial liabilities					
Term loans	-	-	29,582	29,582	29,582
Deposits	-	53,677	-	53,677	53,677

28. CATEGORISATION OF FINANCIAL INSTRUMENTS

The classification of financial assets and financial liabilities by accounting categorisation is as follows:

	Available for sale	Loans and receivables	Others at amortized cost	Total
2014				
Cash and balances with Central Bank of Bahrain	-	2,236	-	2,236
Placement with banks and other financial institutions	-	30,719	-	30,719
Loans and islamic financing to customers	-	110,048	-	110,048
Available-for-sale investments	15,395	-	-	15,395
Other assets	-	261	-	261
Total assets	15,395	141,028	-	158,659
Term loans	-	-	37,398	37,398
Deposits	-	-	57,137	57,137
Other liabilities	-	-	3,949	3,949
	-	-	98,484	98,484

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

(Expressed in Thousand Bahrain Dinars)

28. CATEGORISATION OF FINANCIAL INSTRUMENTS (continued)

	Available for sale	Loans and receivab-les	Others at amortized cost	Total
2013				
Cash and balances with Central Bank of Bahrain	-	2,588	-	2,588
Placement with banks and other financial institutions	-	26,187	-	26,187
Loans and islamic financing to customers	-	101,367	-	101,367
Available-for-sale Investments	10,047	-	-	10,047
Other assets	-	5,573	-	5,573
Total assets	10,047	133,127	-	145,762
Term loans	-	-	29,582	29,582
Deposits	-	-	53,677	53,677
Other liabilities	-	-	3,359	3,359
	-	-	86,618	86,618

29. 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:

	2014	2013
Capital base		
Tier 1 capital	75,275	70,947
Tier 2 capital	946	762
Total capital base (a)	76,221	71,709
Risk-weighted assets (b)	173,129	147,989
Capital adequacy ratio (a/b*100)	44%	48%
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.

30. COMPARATIVE FIGURES

Certain of the prior year figures have been regrouped in order to conform with the presentation for the current year. Such re-grouping did not affect previously reported losses, comprehensive income or equity.

BASEL II PILLAR III DISCLOSURES

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BASEL II PILLAR III DISCLOSURES

Year ended 31 December 2014

(Expressed in Thousand Bahrain Dinars)

1. REPORTING ENTITY

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 core activities of the Bank consist of advancing loans for project finance, working capital, 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.

"This financial information is the audited consolidated financial information of Bahrain Development Bank BSC (c) (the "Bank") and its subsidiaries (the "Group") for the year ended 31 December 2014."

As at 31 December 2014, the Group consists of the Bank and its following subsidiaries:

Name	Country of incorporation	Ownership interest	Year end
Bahrain Business Incubator Centre (S.P.C.)	Kingdom of Bahrain	100%	31 December

Basis of consolidation

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.

Restrictions on capital and transfer of funds within the Group

Since none of the Bank's subsidiaries are regulated financial institutions, there is no regulatory impediment to the transfer of retained earnings to the Bank. However, as separate legally incorporated entities, the transfer of paid in capital and mandatory reserves would require shareholder action. As the sole shareholder (either direct or indirect) in these entities, the Bank has the power to undertake the legal processes for the transfer of such capital. The Bank's subsidiaries are registered and domiciled in Bahrain and there are no exchange controls or other restrictions on the transfer of funds.

BASEL II PILLAR III DISCLOSURES

Year ended 31 December 2014

(Expressed in Thousand Bahrain Dinars)

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 BD 76,221 is as detailed below:

	2014		2013	
	Tier 1	Tier 2	Tier 1	Tier 2
A. NET AVAILABLE CAPITAL				
Paid-up share capital	65,000		65,000	
Reserve:				
Statutory reserve	1,081		1,010	
Others	4,048		425	
Retained earnings brought forward	4,441		4,860	
Current year Profit (loss)	705		(348)	
Asset revaluation reserves-Property, plant and equipment (45% only)				
Unrealized gains arising from fair valuing equities (45% only)	-	246	-	112
Excess of total eligible provisions over total expected loss		700		650
TOTAL CAPITAL BEFORE REGULATORY DEDUCTIONS	75,275	946	70,947	762
Less : Regulatory deductions	-	-	-	-
NET AVAILABLE CAPITAL	75,275	946	70,947	762
TOTAL ELIGIBLE CAPITAL BASE (Tier 1 + Tier 2)		76,221		71,709
B. CAPITAL ADEQUACY RATIO				
	2014		2013	
Total eligible capital base		76,221		71,709
Credit risk weighted exposures		158,767		133,891
Market risk weighted exposures		263		317
Operational risk weighted exposures		14,099		13,781
Total risk weighted exposures		173,129		147,989
	Tier 1	Tier 2	Tier 1	Tier 2
Capital Adequacy Ratio	43.48%	0.55%	47.94%	0.51%

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.

BASEL II PILLAR III DISCLOSURES

Year ended 31 December 2014

(Expressed in Thousand Bahrain Dinars)

TABLE 1 - CAPITAL STRUCTURE (continued)

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. Loans restructured

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.

d. Equity Portfolio

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

e. Other exposures

These are risk weighted at 100%.

f. Related party transactions and balances

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Bank exercises significant influence, major shareholders, directors and executive management of the Bank, 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 (Refer note 24 in interim financial information).

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

TABLE 2 - REGULATORY CAPITAL REQUIREMENT FOR CREDIT RISK

	2014 Capital requirement	2013 Capital requirement
Claims on sovereign	-	-
Claims on public sector entities	-	-
Claims on banks	2,120	1,161
Claims on corporate	13,880	12,668
Regulatory retail exposures	-	-
Residential retail exposures	-	-
Equity	762	801
Other exposures	2,289	1,437
TOTAL CREDIT RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)	19,052	16,067

BASEL II PILLAR III DISCLOSURES

Year ended 31 December 2014

(Expressed in Thousand Bahrain Dinars)

TABLE 3 - REGULARATY CAPITAL REQUIREMENT FOR MARKET RISK

The Bank uses the Standardised Approach for calculating market risk capital charges for the following market risk components:

- Equity exposure risk
- Interest rate exposure risk
- Foreign currency exposure risk

The Bank's market risk capital charge is largely composed of foreign currency risk arising from the Bank's foreign exchange exposure on private equity investments denominated mainly in sterling and euros, interest rate risk arising on the bond portfolio, currency and bond futures. The capital requirement for market risk using the Standardised Approach as at 31 December 2014 was as follows:

	Capital requirements			2013
	2014	Maximum	Minimum	
Equity risk capital	-	-	-	-
Foreign exchange risk capital	21	113	17	25
Interest rate risk capital	-	-	-	-
			2014	2013
TOTAL MARKET RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)			32	38

TABLE 4 - REGULARATY CAPITAL REQUIREMENT FOR OPERATIONAL RISK

The capital requirement for operational risk using the Basic Indicator Approach as at 31 December 2014 amounted to

1,692 1,654

TABLE 5 - GROSS CREDIT EXPOSURES BEFORE SUBJECT TO CREDIT RISK MITIGANTS (CRM)

	2014	2014 Average	2013
Balances with Central Bank of Bahrain	1,999	2,138	2,365
Treasury bills and bonds	10,883	8,988	5,313
Due from banks and other financial institutions	30,719	30,769	26,187
Loans and advances to customers	110,048	109,300	101,367
Interest Receivable	78	152	323
Other assets	1,175	2,462	6,241
TOTAL FUNDED EXPOSURES	154,902	153,809	141,796
Contingent liabilities	2,416	2,560	2,767
Other commitments	6,996	7,688	8,305
TOTAL UNFUNDED EXPOSURES	9,412	10,248	11,072
TOTAL CREDIT RISK EXPOSURE	164,314	164,057	152,868

The gross average credit risk exposure are based on year to year end prudential return reporting.

BASEL II PILLAR III DISCLOSURES

Year ended 31 December 2014

(Expressed in Thousand Bahrain Dinars)

TABLE 6 - SECTORAL CLASSIFICATION OF GROSS CREDIT EXPOSURES

	2014		
	Funded	Unfunded	Total
Banks and financial institutions	43,601	-	43,601
Trading and Manufacturing	54,644	-	54,644
Education and Health	10,380	-	10,380
Hospitality, media and transportation	8,702	-	8,702
Fisheries and Agriculture	4,437	-	4,437
Food Processing	2,940	-	2,940
Others	30,198	9,412	39,610
TOTAL	154,902	9,412	164,314

	2013		
	Funded	Unfunded	Total
Banks and financial institutions	28,775	-	28,775
Trading and Manufacturing	49,493	-	49,493
Education and Health	2,465	-	2,465
Hospitality, media and transportation	10,212	-	10,212
Fisheries and Agriculture	4,854	-	4,854
Food Processing	3,141	-	3,141
Others	42,856	11,072	53,928
TOTAL	141,796	11,072	152,868

TABLE 7 - CREDIT CONCENTRATION GREATER THAN 15% INDIVIDUAL OBLIGOR LIMIT

	2014	2013
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.

Restructured Credit Facilities

The bank have BD 9,569 restructured credit facilities during the year period ended 31 December 2014.

Past due 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.

BASEL II PILLAR III DISCLOSURES

Year ended 31 December 2014

(Expressed in Thousand Bahrain Dinars)

TABLE 8 - COUNTERPARTY WISE BREAKDOWN OF IMPAIRED LOANS AND IMPAIRMENT PROVISION

	2014				
	Impaired and past due loans	Specific provision	Charge (recoveries)	Write off	Collective impairment
Project finance	9,742	13,490	2,881	2,009	700
Fisheries and Agriculture	1,257	-	-	-	-
TOTAL	10,999	13,490	2,881	2,009	700

	2013				
	Impaired and past due loans	Specific provision	Charge (recoveries)	Write off	Collective impairment
Project finance	14,539	12,618	1,788	52	650
Fisheries and Agriculture	1,356	-	-	-	-
TOTAL	15,895	12,618	1,788	52	650

TABLE 9 - 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 2014.

	Up to 1 month	2 to 3 months	4 to 6 months	7 months to 1 year	2 to 3 years	4 to 5 years	6 to 10 years	11 to 20 years	Total
2014									
Assets									
Cash and balances with Central Bank of Bahrain	2,236	-	-	-	-	-	-	-	2,236
Due from banks and other financial institutions	10,951	3,933	13,835	2,000	-	-	-	-	30,719
Accounts receivable and other assets	-	-	1,253	-	-	-	-	-	1,253
Loans and advances to customers	4,111	727	1,763	3,597	21,275	58,484	17,823	2,268	110,048
Available for sale investments	2,014	3,328	300	3,000	-	2,242	4,783	-	15,667
Investment property	-	-	-	-	-	-	-	3,623	3,623
Property, plant and equipment	-	-	-	-	-	-	-	10,760	10,760
Total assets	19,312	7,988	17,151	8,597	21,275	60,726	22,606	16,651	174,306
Liabilities									
Deposits	40,269	2,087	13,024	232	1,525	-	-	-	57,137
Accounts payable and other liabilities	313	3,636	-	-	-	-	-	-	3,949
Long term loans	-	657	-	657	7,364	8,976	11,866	7,878	37,398
Total liabilities	40,582	6,380	13,024	889	8,889	8,976	11,866	7,878	98,484
Net liquidity gap	(21,270)	1,608	4,127	7,708	12,386	51,750	10,740	8,773	

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TABLE 9 - RESIDUAL CONTRACTUAL MATURITY (continued)

The table below summarises the maturity profile of the Group's assets and liabilities as at 31 December 2013

	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Total
2013									
Assets									
Cash and balances with Central Bank of Bahrain	2,588	-	-	-	-	-	-	-	2,588
Due from banks and other financial institutions	14,804	8,669	2,714	-	-	-	-	-	26,187
Accounts receivable and other assets	1,014	10	48	5,492	-	-	-	-	6,564
Loans and advances to customers	4,338	515	1,095	1,819	34,614	38,926	20,060	-	101,367
Available for sale investments	-	-	-	6,814	-	-	3,452	-	10,266
Property, plant and equipment	-	-	-	-	-	-	-	10,842	10,842
Total assets	22,744	9,194	3,857	14,125	34,614	38,926	23,512	10,842	157,814
Liabilities									
Deposits	30,293	11,000	704	11,680	-	-	-	-	53,677
Accounts payable and other liabilities	-	3,359	-	-	-	-	-	-	3,359
Long term loans	-	-	694	694	4,164	24,030	-	-	29,582
Total liabilities	30,293	14,359	1,398	12,374	4,164	24,030	-	-	86,618
Net liquidity gap	(7,549)	(5,165)	2,459	1,751	30,450	14,896	23,512	10,842	

TABLE 10 - GEOGRAPHICAL DISTRIBUTION OF IMPAIRMENT PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS

Bank and its subsidiaries are operated locally and Loans granted to Bahrainis only.

	2014	2013
Bahrain		
Specific impairment provision	13,490	12,618
TOTAL	13,490	12,618

BASEL II PILLAR III DISCLOSURES

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(Expressed in Thousand Bahrain Dinars)

TABLE 11 - MOVEMENT IN IMPAIRMENT PROVISION FOR LOANS AND ADVANCES TO CUSTOMERS

	2014						
	Project finance			Fisheries and agriculture			Total
	Specific	Collective	Total	Specific	Collective	Total	
Balance at 1 January 2014	12,618	650	13,268	-	-	-	13,268
Amounts written off during the year	(2,009)	-	(2,009)	-	-	-	(2,009)
Charge for the year	4,940	118	5,058	-	-	-	5,058
Recoveries during the year	(2,059)	(68)	(2,127)	-	-	-	(2,127)
At 31 December 2014	13,490	700	14,190	-	-	-	14,190

	2013						
	Project finance			Fisheries and agriculture			Total
	Specific	Collective	Total	Specific	Collective	Total	
Balance at 1 January 2013	10,882	750	11,632	-	-	-	11,632
Amounts written off during the year	(52)	-	(52)	-	-	-	(52)
Charge for the year	3,258	-	3,258	-	-	-	3,258
Recoveries during the year	(1,470)	(100)	(1,570)	-	-	-	(1,570)
At 31 December 2013	12,618	650	13,268	-	-	-	13,268

TABLE 12 - PAST DUE LOANS - AGE ANALYSIS

	2014			
	Three months to one year	One to three years	Over three years	Total
i) By Geographical area				
Bahrain				
TOTAL	2,394	2,879	5,726	10,999
ii) By Counterparty wise				
Project finance				
Fisheries and Agriculture				
TOTAL	2,394	2,879	5,726	10,999

	2013			
	Three months to one year	One to three years	Over three years	Total
i) By Geographical area				
Bahrain				
TOTAL	7,745	3,612	4,538	15,895
ii) By Counterparty wise				
Project finance				
Fisheries and Agriculture				
TOTAL	7,745	3,612	4,538	15,895

BASEL II PILLAR III DISCLOSURES

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(Expressed in Thousand Bahrain Dinars)

TABLE 13 - CREDIT RISK EXPOSURE POST CREDIT RISK MITIGATION AND CREDIT CONVERSION

	2014	2013
Claims on sovereign	-	-
Claims on public sector entities	-	-
Claims on banks	17,669	9,672
Claims on corporate	101,159	88,550
Past due exposures	14,509	17,019
Equity	6,354	6,679
Other exposures	19,076	11,971
TOTAL	158,767	133,891

TABLE 14 - 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.

	2014		2013	
	Gross exposure	Eligible CRM	Gross exposure	Eligible CRM
Claims on sovereign	-	-	-	-
Claims on banks	17,669	-	9,672	-
Claims on corporate	115,668	293	105,569	16,583
Equity	6,354	-	6,679	-
Other exposures	19,076	-	11,971	-
TOTAL	158,767	293	133,891	16,583

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Year ended 31 December 2014

(Expressed in Thousand Bahrain Dinars)

TABLE 15 - SENSITIVITY ANALYSIS - INTEREST RATE RISK (IRRBB)

Impact on net interest income for the year ended 31 December 2014

	2014
Bahraini Dinar	
Assets	48,768
Liabilities	38,023
(+) 200 basis points	215
(-) 200 basis points	(215)
US Dollar	
Assets	29,256
Liabilities	8,633
(+) 200 basis points	412
(-) 200 basis points	(412)
Kuwaiti Dinar	
Assets	6,646
Liabilities	6,829
(+) 200 basis points	(4)
(-) 200 basis points	4
Saudi Riyals	
Assets	10,119
Liabilities	9,999
(+) 200 basis points	2
(-) 200 basis points	(2)

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TABLE 16 - MARKET RISK, INTEREST RATE GAP

Market risk

Market risk is defined as potential adverse changes in the fair value or future cash flows of a trading position or portfolio of financial instruments resulting from the movement of market variables, such as interest rates, currency rates, equity prices and commodity prices, market indices as well as volatilities and correlations between markets. As its primary tool, the Bank measures its market risk exposure using the Standardised Approach under Basel II.

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.

The Bank's interest rate sensitivity position is based on the contractual repricing or maturity dates, whichever dates are earlier, as follows:

	Up to 1 month	to 3 2 months	to 6 4 months	months 7 to 1 year	to 5 2 years	Over 5 years	Non-interest bearing	Total
2014								
Assets								
Cash and balances with Central Bank of Bahrain	-	-	-	-	-	-	2,236	2,236
Due from banks and other financial institutions	10,951	3,933	13,835	2,000	-	-	-	30,719
Accounts receivable and other assets	2,014	3,328	300	3,000	-	2,241	9,660	20,543
Loans and advances to customers	4,111	727	1,763	3,597	21,275	78,575	-	110,048
Total assets	17,076	7,988	15,898	8,597	21,275	80,816	11,896	163,546
Liabilities								
Deposits	40,269	2,087	13,024	232	1,525	-	-	57,137
Accounts payable and other liabilities	-	-	-	-	-	-	3,949	3,949
Long term loans	-	657	-	657	16,340	19,744	-	37,398
Total liabilities	40,269	2,744	13,024	889	17,865	19,744	3,949	98,484
Net liquidity gap	(23,193)	5,244	2,874	7,708	3,410	61,072	7,947	
	Up to 1 month	to 3 2 months	to 6 4 months	months 7 to 1 year	to 5 2 years	Over 5 years	Non-interest bearing	Total
2013								
Assets								
Cash and balances with Central Bank of Bahrain	-	-	-	-	-	-	2,588	2,588
Due from banks and other financial institutions	14,804	8,669	2,714	-	-	-	-	26,187
Accounts receivable and other assets	-	-	-	-	-	-	16,830	16,830
Loans and advances to customers	4,338	515	1,095	1,819	34,614	58,986	-	101,367
Total assets	19,142	9,184	3,809	1,819	34,614	58,986	19,418	146,972
Liabilities								
Deposits	30,293	11,000	704	11,680	-	-	-	53,677
Accounts payable and other liabilities	-	-	-	-	-	-	3,359	3,359
Long term loans	-	-	694	694	4,164	24,030	-	29,582
Total liabilities	30,293	11,000	1,398	12,374	4,164	24,030	3,359	86,618
Net liquidity gap	(11,151)	(1,816)	2,411	(10,555)	30,450	34,956	16,059	

BASEL II PILLAR III DISCLOSURES

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TABLE 17 - EQUITY POSITION IN THE BANKING BOOK

	2014	
	Net exposure	Capital requirement
Publicly traded	3,831	460
Privately held	11,564	1,388
TOTAL	15,395	1,847

TABLE 18 - GAINS ON EQUITY INVESTMENTS

	2014	2013
Realised gains recognised in the income statement	3,500	-
Unrealised gain recognised in the balance sheet:		
- Tier One	-	-
- Tier Two	246	112

TABLE 19 - OPERATIONAL AND LEGAL RISKS

Operational risk is the risk of loss arising from errors that can be made in instructing payments or settling transactions, breakdown in technology and internal control systems. The bank uses the Basic Indicator Approach under the Basel II framework for measuring and managing its operating risk. Currently, the Bank conducts its business from a single location. BDB is a retail bank with some restrictions and accordingly, the number of client relationships and volume of transactions at BDB are moderate on average.

BDB's operations are conducted according to well-defined procedures. These procedures include a comprehensive system of internal controls, including segregation of duties and other internal checks, which are designed to prevent either inadvertent staff errors or malfeasance prior to the release of a transaction. The Bank also engages in subsequent monitoring of accounting records, daily reconciliation of cash and securities accounts and other checks to enable it detect any erroneous or improper transactions which may have occurred.

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.