

PASSION FOR SUCCESS

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His Royal Highness Prince
Khalifa Bin Salman
Al Khalifa

The Prime Minister



His Majesty King
Hamad Bin Isa
Al Khalifa

The King of the
Kingdom of Bahrain



His Royal Highness Prince
Salman Bin Hamad
Al Khalifa

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

BDB COMMENCED ITS OPERATIONS ON JANUARY 20, 1992 AS THE COUNTRY'S LEADING DEVELOPMENT FINANCIAL INSTITUTION. THE GOVERNMENT HAS ENTRUSTED THE BANK WITH A CRUCIAL TASK OF PROMOTING INVESTMENTS IN BAHRAIN, WITH THE AIM OF DIVERSIFYING THE ECONOMIC BASE, CREATING NEW EMPLOYMENT OPPORTUNITIES FOR BAHRAINIS AND CONTRIBUTING SIGNIFICANTLY TO THE OVERALL SOCIO-ECONOMIC DEVELOPMENT OF THE KINGDOM.

Subsidiaries



Bahrain Business Incubator Center (BBIC)

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.

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.



Bahrain Institute of Entrepreneurship & Technology

BIET was formed to achieve the goal of building a standard curriculum for the IT Training industry in Bahrain and other gulf countries with the co-operation and co-ordination of IT experts in the training field. Bahrain Development Bank (BDB), Bahrain's Leading Development Bank is the driving force behind BIET. BIET is one of the most advanced institutes specializing in Information Technology (IT) within the Kingdom of Bahrain. BIET has been conducting thorough IT training to Bahrain's work force through their qualified and certified Trainers. Recently BIET introduced Entrepreneurship Development program to develop successful entrepreneurs with training, knowledge, and wisdom to grasp the complexity of business and design strategic approaches.

Financial Summary

	2012	2011	2010	2009	2008
Earnings (BD 000's)					
Net interest income	5,279	5,776	5,101	4,704	3,904
Other income	1,725	1,459	1,555	1,603	3,819
Operating expenses	5,881	5,720	5,146	4,082	3,546
Provision for Impairments	4,176	1,289	802	1,473	2,010
Net profit (loss)	(3,053)	226	708	752	3,466
Dividend (percent)	0%	0%	0%	0%	0%
Financial Profile (BD 000's)					
Total assets	159,914	137,673	144,053	124,211	103,370
Loans and Advances	97,327	97,274	102,938	78,529	50,007
Investments	8,985	6,726	6,837	6,657	6,521
Total deposits	63,440	60,300	69,229	50,974	28,889
Customers' deposits	45,949	46,349	46,918	33,428	21,803
Equity	70,893	58,667	58,635	58,167	57,663
Ratios (percentage)					
Profitability					
Return on average equity	-4.71%	0.39%	1.21%	1.30%	6.13%
Return on average assets	-2.05%	0.16%	0.53%	0.66%	3.57%
Earnings per share (fls)	-47	5	14	15	69
Cost-to-income	84%	79%	77%	65%	46%
Capital					
Capital adequacy	40%	44%	40%	53%	66%
Equity/total assets	44%	43%	41%	47%	56%
Total deposits/equity (times)	0.89	1.03	1.18	0.88	0.50
Other					
Loans and advances/total assets	61%	71%	71%	63%	48%
Investments/total assets	6%	5%	5%	5%	6%
Loans and advances/customer deposits	2.12	2.10	2.19	2.35	2.29
Number of employees	165	160	162	147	108

Net Interest Income 2012

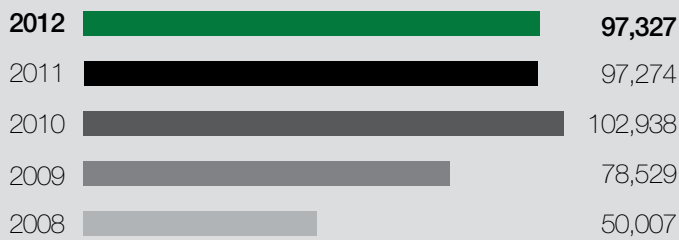
5,279

Loans and Advance 2012

97,327

Loans and Advances

(000's)



Net Profit (loss)

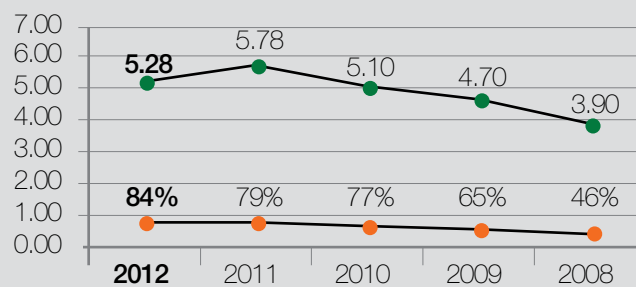
(000's)



● Net Interest Income

(in Million)

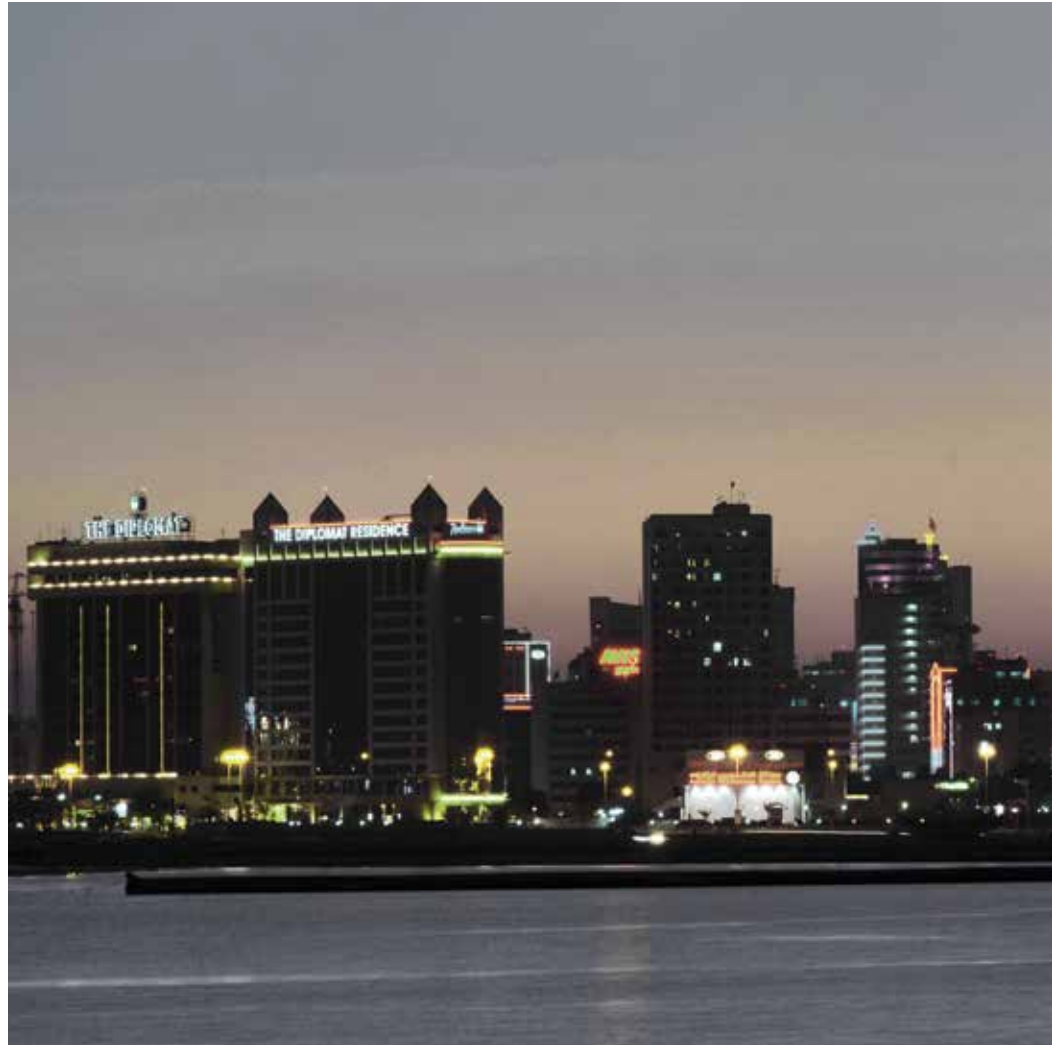
● Cost to Income ratios



Period	Project cost	Loans, Indirect Financing & Equity	New Jobs	Exports	Import Subs.	Foreign Investment	Foreign Currency	Value added
Jan - Dec 2012	129,581	39,272	2,926	44,945	8,764	17,010	45,425	17,178
Jan - Dec 2011	25,895	26,786	2,589	18,775	4,590	200	19,035	11,137

BDB 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, Taxi Finance, 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.



Education Finance

Education finance comes in 2 ways conventional or Islamic (Finance). They are offered by Bahrain development Bank with 4% profit rate (APR 7.2%) 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.

BDB Finance

Islamic Financing: Sharia Compliant with a profit rate of 5.5%. Conventional: with 9.5% reducing interest rate. Minimum Financing Amount BD3,000, 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 BD5,000 with a minimum profit rate of 4.27% (APR 8%). 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) paying 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.

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 20,000.

Overdraft Facility

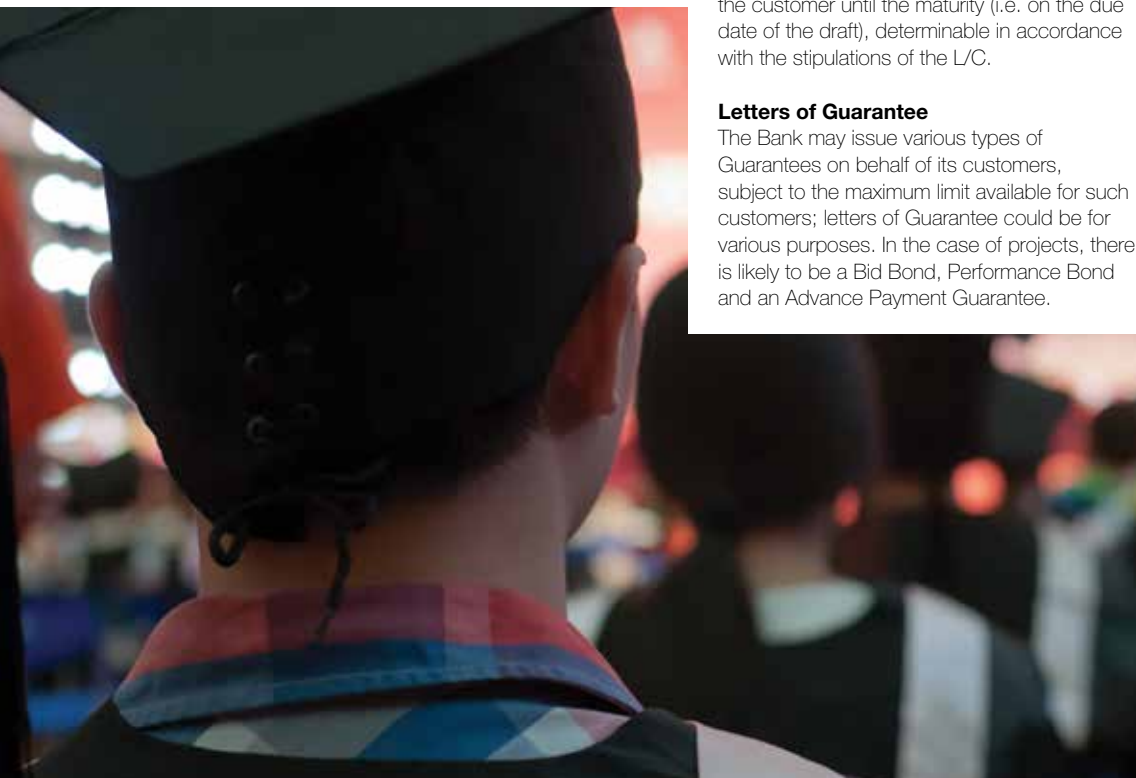
The over draft facility represents the limit up to which a customer is authorized to overdraw his account by prior arrangement with the Bank. Such facilities are normally granted to meet working capital requirements arising from the customer's operating cycle. Hence regular credits into the account or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

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 for boats is BD 10,000 and Banoosh is BHD 15,000.

ICT Finance Scheme

Transform your business with ICT. If you are looking for transforming your business by adopting Information and Communication Technology BDB & Tamkeen can help you to achieve this goal. BDB & Tamkeen offers the Information and Communication Technology Financing Scheme, to help Bahraini enterprises to strengthen their ICT infrastructure and harness ICT within their internal value chains. The scheme aims to facilitate the uptake of ICT by the private sector enterprises by making the cost of which more affordable for these enterprises, especially the SMEs.



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

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 is the Board member and Head of Audit Committee of Arab Financial Services Co, ABC Islamic Bank, Alkhabeer Capital, AlMajdouie Group, Board and Audit committee member of Saudi Hollandi Bank.

3. Ms. Vivian Jamal

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. Currently heads the Business Development Division of the Bahrain Economic Development Board as Executive Director. She is a member of the National Committee for the Implementation of the US-Bahrain Free Trade Agreement and member of the National Oil & Gas Committee.

Her prior experience includes Global Communications and Marketing Director for TAIB Bank E.C. and its thirteen subsidiaries worldwide. She also worked as a business developer for Stark Integrated Marketing; a New York based Communications Company.

4. Mr. Abdullellah Ebrahim Al Qassimi

Has a wealth of public and private sector expertise in engineering, management, facility planning, training and labour. He also in the Board of Tamkeen, and Member of Audit committee since June 2011. With a Master's degree in Health Facility Planning and a Bachelor's degree in Civil Engineering both from the University of London. He retired from his position as the Chief Executive of Tamkeen (2005 - 2010). In addition to being the Director of Engineering & Maintenance at the Ministry of Health for 23 years Mr. Al-Qassimi also occupied the post of Assistant Undersecretary for Training at the Ministry of Labour, between 2001 - 2005.



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5. Mr. Saqer Shaheen Saqer

A Board Member and Vice Treasurer at the Bahrain Chamber of Commerce & Industry. He was former Director of Ministry of Development and Industry. He is currently the Vice Chairman of LMRA and CEO & Managing Director of Shaheen Group SPC with a number of companies under its umbrella including Awal Products Co. Ltd.SPC, Gulf Services Co.SPC, Gypsum products, Shaheen Electro-Mechanical SPC, Inspiration Interior Design, etc. Shaheen Group is involved in a number of activities dealing in contracting, trading and manufacturing. Mr. Shaheen is also the Chairman of Bahrain Industrial group, Falcon Management Company, Hilti Bahrain wll, Asmak B.S.C (Closed) Company and Abrasive Technology Industries Co., Saudi Arabia. He is also Board Member of Naseej Bahrain & Marina Club, Chairman of Fraser Suite & Bahrain-Morocco Business Council, Vice Chairman of Seef Properties, Bahrain Philippines Business Council & Bahrain Thailand Business Council and a Registered International Consultant for the United Nations Industrial Development Organization. Mr. Shaheen was also Board Member of the Social Insurance Organization (SIO).

6. Dr. Mohammed Ahmed Juman

Has a degree in Electrical Engineering in the fields of electronics and telecommunications from Concordia University in Canada. He gained his MSC in Project Engineering from the University of Lancaster and later graduated with a PhD in Avionics from Cranfield University. Dr. Jumaan began his career in the Civil Aviation as an Electronics Engineer and then progressed to the post of Director of Air Navigation. He has extensive experience in the design, implementation and management of Engineering and Information Technology projects ranging in value from BD100k to BD50m. During the last six years he has managed to establish, invest, finance and grow several different businesses in the ICT, Technology, Aviation, Facilities management and Real Estate domains. He is a Certified Information Technology Professional and a Chartered Engineer. He is also a Fellow of Both the Royal Aeronautical Society and the British Computer Society.

7. Sh. Wesal Bint Mohammed Al Khalifa

BSc. in Business, Richmond American University in London, Member supreme council, Kingdom of Bahrain. She managed office of Sh. Hala Bint Duaij 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

Holder of a Bachelors degree in Management and Computer Science, Mr. Aldaaysi is the CEO of Aldaaysi Holding for the last 25 years. He is a board member of Bahrain Chamber of Commerce and Industry heading the Food and Agriculture Committee, as well as 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 and Range Development Cayman Island, to name a few.



**2012 PLAN INCLUDED
A MAJOR PART WHICH
FOCUSED ON THE SUPPORT
OF SMALL & MEDIUM
PROJECTS** TO ASSIST
THEM IN REACHING GLOBAL
MARKETS AND ACTIVATING
EXPORT CREDIT GUARANTEE
PROGRAM.

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



It gives me pleasure to present the 2012 Annual Report of the Bahrain Development Bank Group (Bahrain Development Bank (BDB), the Bahrain Business Incubator Centre (BBIC), and the Bahrain Institute of Entrepreneurship & Technology (BIET). I would like to briefly review the major highlights achieved by the Group last year as outlined in its National Economic Strategy (2009-2014), and defined in the Bahrain Economic Vision 2030.

Last year's achievements have widely enriched the Group's experience that runs over a span of 20 years since the establishment of the Bank in 1991 in the field of specialized development financing of SME's and in the enhancement of entrepreneurs' abilities and potentials. This is, in fact, a rich experience full of ambitious plans and constructive initiatives which have eventually brought forth fruitful and tangible results represented in the expansion and diversification of the scope and type of services and programs provided to this sector, whether on the level of financial services or non-financial services, which are composed of consultation & training services and business incubation services.

2012 Plan included a major part which focused on the support of small & medium projects to assist them in reaching global markets and activating export credit guarantee program, in addition to enhancing the sources of capital and finance, and supporting entrepreneurship development programs, training programs, consultation services, and establishment of risk capital funds to finance innovative projects and upgrade the capacity of business incubators, along with the establishment of new incubators through single or joint initiatives with other relevant parties, on top of which are the Ministry of Industry & Commerce, Tamkeen, the Supreme Council for Women and the University of Bahrain.

In compliance with this plan, the Group achieved good results on the level of the key economic indicators against 2011 figures. The cost of financed projects amounted to BD 129.6 million against BD 26 million in 2011, an increase of 398%. The export volume increased to BD 45 million, against BD 18.8 million in 2011, an increase of 139%. Financing schemes reached BD 41.6 million against BD 28.6 million in 2011, an increase of 46%.

On the level of non-financial services, the number of beneficiaries from the consultative services carried out by the Business Consultation Unit reached 1902 beneficiaries from different segments and categories. The services were carried out in the form of direct consultations, workshops, training programs, etc. in addition to some initiatives and programs which aim at encouraging business and creativity.

With regards to the Business Incubation Centre, construction works of the Woman Incubator Center were completed in collaboration with the Supreme Council for Women. The technical entrepreneurship incubators at the University of Bahrain UoB commenced the provision of consultation, support and follow-up services for students' projects.

Among the accomplishments achieved in 2011 is the initiative which is the first of its kind, which was organized and implemented by the Bahrain Development Bank Group, with the support of the Ministry of Finance. The initiative was represented in the launch of the GCC Future Entrepreneurs Forum, hosted by the Kingdom of Bahrain on 30th and

31st May 2012 as part of the endeavors of the GCC countries aimed at creating a joint strategy to support and develop the business sector in the GCC countries. The forum reflected the unique experience of the Bahrain Development Bank Group and the expansion of its impacts in the field of business development sector at the GCC level, which contributed to enhancing this experience in the Kingdom of Bahrain in particular and the GCC countries in general.

This forum, which attracted the elite of key speakers, experts and entrepreneurs, discussed a number of vital issues related to small & medium projects, such as the issues of finance, spread of entrepreneurial culture, creativity and innovation, and business environment. The forum came out with a number of key recommendations which focused on the necessity to create joint programs and initiatives in financing, technical, informational, and organizational aspects. We hope that this forum would serve as a quantum leap on the front of concerted and joints efforts towards fostering the small and medium projects sector and further enhancing their contributions in building the economy of the GCC countries.

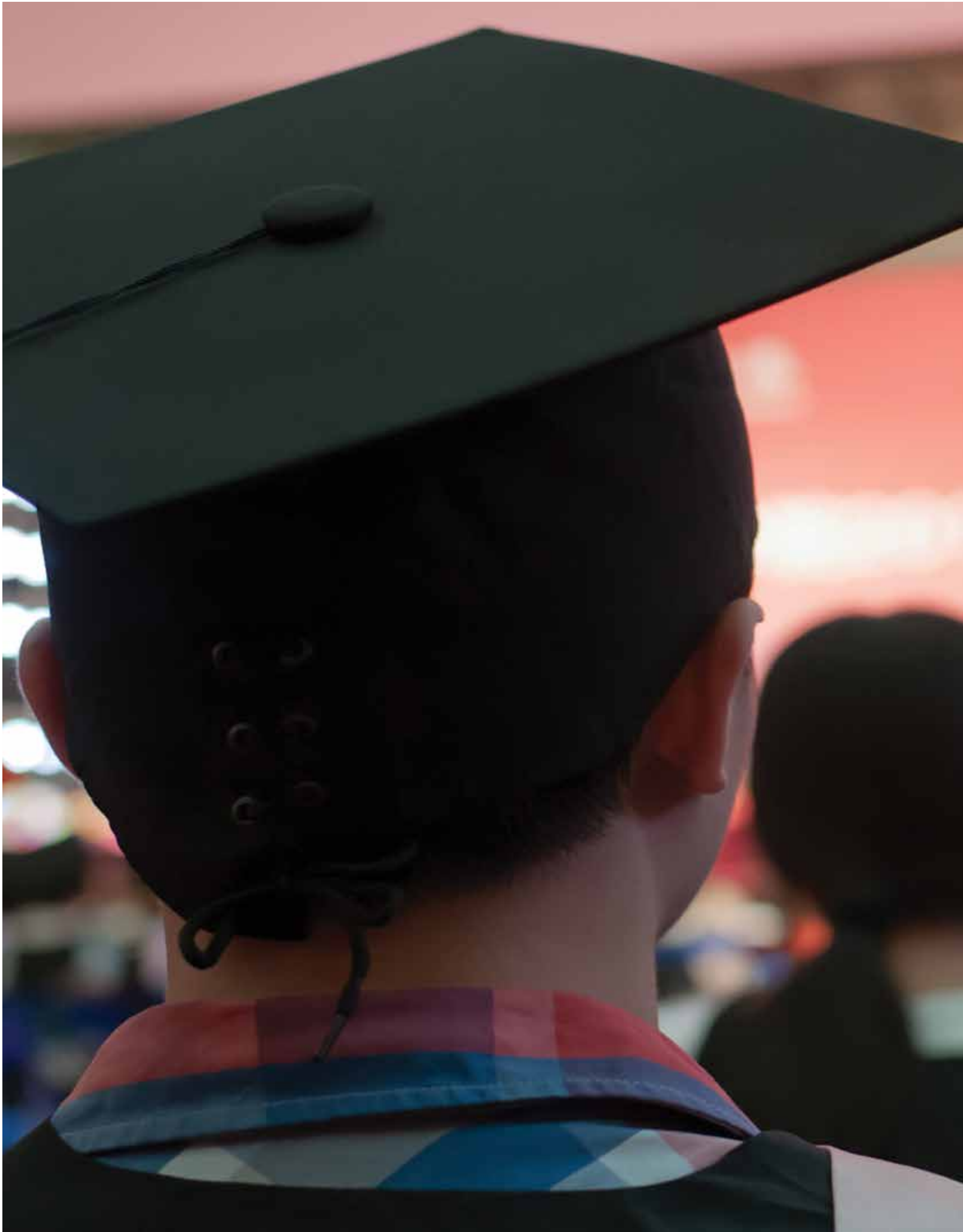
The fast moving changes witnessed by the business world today and the growing attention towards the small and medium establishments at the global front would dictate that we should exert our utmost efforts and proceed with the launch and development of the joint well studied programs and initiatives which drive at creating an ideal business environment which can attract youth programs and enhance creativity and innovation culture, in addition to the provision of financing programs which best suit the requirements of the small and medium projects, as aspired by the Bahrain Development Bank Group looks forwards through its future ambitious plans and active partnerships with various organizations and institutions at domestic, regional and global levels.

In conclusion, I would like to emphasize that the achievements made by the Group in 2012 are the fruitful outcome of the dedicated efforts and loyalty of the employees of the Group at all levels; the Executive Management and the staff, with the valued support and follow up of the Board of Directors.

Meanwhile, I would to express my sincere thanks and appreciation to the wise leadership led by HM King Hamad bin Isa Al Khalifa- King of Kingdom of Bahrain, HRH Prince Khalifa bin Salman Al Khalifa- the Prime Minister, and HRH Prince Salman bin Hamad Al Khalifa- the Crown Prince & Deputy Supreme Commander for their continuous support to the Group.

I also thank all organizations and establishments which cooperated with us and contributed whether directly or indirectly in attaining the remarkable achievements in 2012, looking forward to ongoing constructive partnerships towards achieving further accomplishments and progress which would eventually bolster the position of the Group in fostering and building the national economy of the Kingdom.

Sh. Mohammed Bin Isa Bin Mohammed Al Khalifa
Chairman of the Borad





4% profit rate

Education Finance

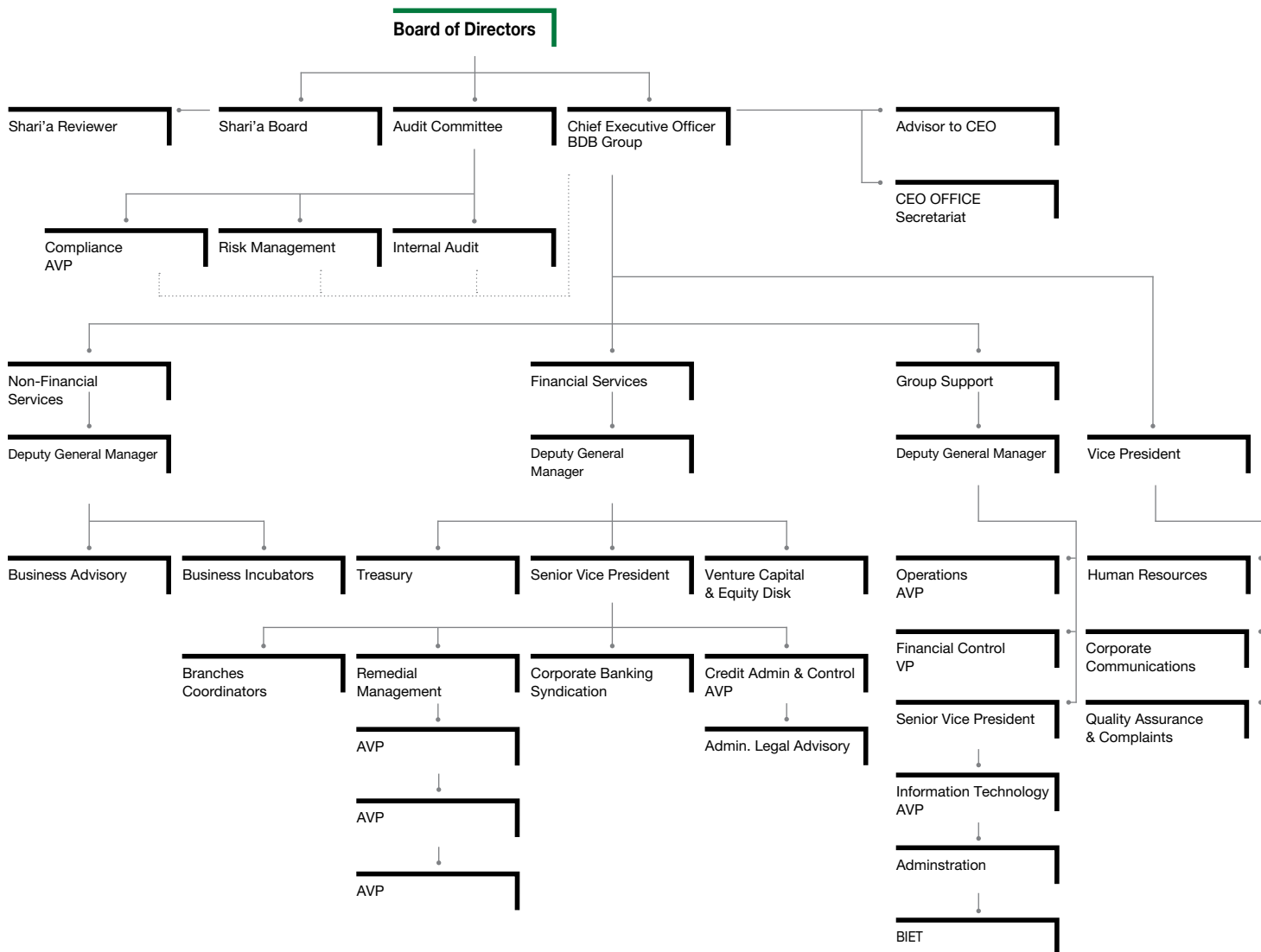
Education finance comes in 2 ways conventional or Islamic (Finance). They are offered by Bahrain development Bank with 4% profit rate APR 7.2% to be used to cover the tuition fees. The minimum facility amount is BD 3,000 and the maximum facility amount is BD 20,000 with maximum repayment period of 7 years with a comfortable grace period.

THE BOARD OF DIRECTORS' CORPORATE GOVERNANCE PHILOSOPHY IS INTENDED TO SUPPORT BDB'S MANAGEMENT IN THE EFFICIENT ADMINISTRATION OF ITS DIVERSE DEVELOPMENT FINANCING AND ACTIVITIES INCLUDING, BUSINESS ADVISORY, ENTREPRENEURIAL TRAINING, BUSINESS INCUBATION SERVICES AND MEETING ALL THE CENTRAL BANK REGULATORY & OTHER LEGAL REQUIREMENTS.

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

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

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



Board of Directors

Board Committees

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

Members

- Mr.Redha Abdullah Faraj – Chairman
- Mr.Abdulillah Ebrahim Al-Qassimi
- Mr.Saqer Shaheen Saqer

Summary terms of reference

Assist the Board in carrying out its duties regarding the integrity of the Bank's financial reporting system, adequacy of the Bank's internal control and risk management processes, to oversee the external and internal audit functions, and Bank's compliance with legal and regulatory requirements

Board Meetings and Attendances

During 2012, No formal Board meetings were held.

During 2012, Audit committee meeting was held in Bahrain on 29 February and all Directors attended the meeting.

Management Executive Committee

1. Nedhal Saleh Al-Aujan

Chief Executive Officer of BDB Group

Chairman of the Gulf Diabetes Specialist Centre B.S.C (C) & Arabian Taxi Company B.S.C (C)

Board & Executive Committee Member in Bahrain Telecommunications Company B.S.C (BATELCO)

Director & Chairman of the Audit Committee of Venture Capital Bank B.S.C (c) Besides Retail Arabia B.S.C (c) & Gulf Membrane & Coating Industries W.L.L. Chairman of the Executive Committee of Bahrain Business Incubator Centre S.P.C. Over 30 years of banking experience, has held a number of senior managerial positions in local and international banks including Senior Manager at Standard Chartered Bank and Al Ahli United Bank. He participated in several senior level international training programs such as 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 Kennedy School Financial Institutions program for Private Enterprise Development in (2008), beside the Strategic Management Program for Leaders of Non-Governmental Organizations (2010). He joined Bahrain Development Bank in 1999.

2. Adnan Mahmood Al Balooshi

Deputy General Manager

Banking Development Division

Board Member of Gulf Diabetes Specialist Centre B.S.C (C) & Board Member of Venture Capital Bahrain Fund Company B.S.C (C). OCBS, University of Bahrain. RSA Level I & II, University of Bahrain, attended the Harvard Kennedy School Financial Institutions Program for Private Enterprise Development. Over 32 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.

3. 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 23 years combined banking experience from conventional & Islamic Banks. During his career he worked with National Bank of Bahrain & Al Salam Bank in various operation departments such as Loans, Time Deposit, Money Transfer, Commercial Services, Customer Services and Treasury Back-office.

He is also, in marketing area which comprises of Retail & Commercial Banking. He joined Bahrain Development Bank in 2011.

4. 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 35 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.

5. Sh.Hesham Mohamed Al-Khalifa

Deputy General Manager

Non-Financial Services Division

Head of Bahrain Business Incubator Centers, Managing Director of Arabian Taxi Company, Board Member of Ebda Bank, and Board Member of Tenmou. Shaikh Hesham has over 21 years of experience having worked as a Director of Projects & Industrial Investments within the Ministry of Development & Industry, and the Ministry of Oil & Industry. He was also a Director of Public Relations & Information, and a Director of Follow-up in the Court of the Crown Prince. During his career he contributed to the development of numerous economic and social programs, such as helping with the developments of the Bahrain Development Bank and the United Nations Industrial Development Organization (UNIDO).



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He also helped develop the methodology and tools for the promotion of domestic investment (Bahrain Model for Entrepreneurial Development) in Bahrain Business Incubators and was involved in the development of the Woman Incubator center & University of Bahrain Incubator Center. He joined the Bahrain Development Bank Group in 2011 and holds a Bachelor of Economics from American University.

6. Tawfeeq Ali Al Qattan
Senior Vice President
Administration

St. Edwards University (Computer Information Science/Business Management) (USA). Over 17 year experience in Information Technology. He has worked for St. Edwards University, Siemens Mobile Networking/Intelligent Networks. He joined Bahrain Development Bank in 2005.

7. Dalal Ismail Ahmed
Senior Vice President
Banking Development

Middle Management Diploma, Bahrain University, Advance Diploma in Islamic Finance, Treasury / Capital Markets Diploma from BIBF. Over 30 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.

8. Hassan Khalil Al-Binmohamed
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 11 years of banking experience. He has worked with Kuwait Finance House as HR Supervisor. He joined Bahrain Development Bank in 2005.

9. Buthayna Ahmed Al Sadiq
Vice President- Financial Control

BSc. in Accounting, University of Bahrain, MBA (Strathclyde University), CPA (California). Over 13 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.

10. Samuel Verghese
Senior Manager- 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.

11. Dr. Srinivasan Sampath
Vice President- Head of Risk Management

Ph.D. [Banking], Mangalore University, India, MBA [Finance], IGNOU, M.A. [Sociology], Annamalai University, Certified Associate of Indian Institute of Banking and Finance, Diploma in Bank Management, Diploma in International Banking, Diploma in Financial Service- Indian Institute of Banking and Finance, PG Diploma in Personnel Management, National Institute of Personnel Management, PG Diploma in International Business Operations and PG Diploma in Financial Management. Fellowships: Diamond Jubilee Overseas Banking Research Fellowship by Indian Institute of Banking and Finance and C H Bhabha Research Fellowship by the Indian Banks' Association. Over 28 years of varied experience in Banking and Consulting sphere. He has worked with Corporation Bank, The Lakshmi Vilas Bank Ltd, Satyam Computers and Infosys Technologies Ltd., in senior management positions both in India and abroad. He joined Bahrain Development Bank in 2011.



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0% interest rate

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 BANK'S GOAL IS TO
CREATE MORE NATIONAL
ENTREPRENEURS, AND
ENCOURAGING THEM TO SEIZE
INVESTMENT OPPORTUNITIES,
IN ADDITION TO INCREASING
THEIR INNOVATIVE ABILITIES
AND CREATING MORE JOB
OPPORTUNITIES FOR NATIONAL
CADRES.**

Nedhal Saleh Al-Aujan
Chief Executive Officer



I am pleased to present the Annual Report for the year 2012. At the outset, I would like to stress that we are fully determined to continue our limitless care for the small and medium projects to facilitate their establishment through the promotion of the entrepreneurial culture and entrepreneurship within an integral framework of finance, training, incubation, and consultation, along with the continuity of the provision of specialized services, products and products which best suit the needs of individuals & entrepreneurs alike.

We are also determined to proceed with assuming our key role as a development organization not only to achieve profits but also to actively contribute to enhancing the growth and development process in our beloved country. Hence, I would prefer to begin first with a quick glimpse of the achievements attained in 2012.

Financial Results

The Bahrain Development Bank (BDB) achieved good business growth during 2012 against 2011 figures:

- Financing schemes reached BD 41.6 million against BD 28.6 million in 2011, or 1228 finances against 1136 finances respectively.
- Added value achieved by the financed projects reached BD 17 million against BD 11 million in 2011, an increase of 55%.
- The index of new business opportunities provided by these projects increased by 13%, and reached 2926 opportunities against 2589 opportunities in 2011.
- The cost of projects financed by the Bank reached BD 129.6 million, against BD 26 million in 2011, an increase of 398%.
- The index of attracting foreign exchange from projects financed by the Bank increased by 139% at BD 45.4 million against BD 19 million in 2011.
- The volume of exports from those projects increased to BD 45 million against BD 18.8 million in 2011, an increase of 139%.
- The percentage of small projects which benefited from the Bank's finances represented 76% of total finances, against 24% occupied by medium projects.
- The percentage of new clients formed 54% of total clients who received finances from the Bank.

Upon reviewing the above results, it is avite clear that the Bank successfully managed to achieve a large number of achievements on more than one front in 2012. This included the financing of a larger number of projects and the increase of the size of finances & loans provided to small & medium projects by 46%, in achievement of the Bank's goal of creating more national entrepreneurs, and encouraging them to seize investment opportunities, in addition to increasing their innovative abilities and creating more job opportunities for national cadres. The financed projects covered various sectors and economic activities, which included wood industries, food industries, textile industries, aluminum, paper industries and ship building. The Bank also financed projects in the services sector, the commercial & tourism sectors, media & publication, engineering & mechanical workshops, educational institutions, the health sector, transport & cargo.

Non-Financial Services Results

- The number of beneficiaries from consultation services provided by the Bank's Business Consultation Unit reached 1902 beneficiaries representing entrepreneurs, and students of schools & universities, in addition to employees and housewives, who benefited from direct consultation services or training & awareness programs.

- The Bahrain Institute of Entrepreneurship & Technology (BIET), one of the establishments of the Bahrain Development Bank Group, provided training in 2012 to a number of 4369 trainees in the field of entrepreneurship and information technology.
- The total number of small & rising projects available at the Bahrain Business Incubator Centre (BBIC), one of the establishments of the Bahrain Development Bank Group, reached 111 projects in the two sectors of services and industries by the end of 2012.
- The Incubator Centre implemented a number of training programs on business leadership and organization performance enhancement, such as Tally Program, and the specialized training program on incubation management. These efforts were praised by ENDOP program of the World Bank, which granted the members of the work team the title of First Accredited Trainer in incubation management in the region.
- The completion of construction & facilitation works of the Woman Incubator Center, established upon a joint initiative between the Bahrain Development Bank Group and the Supreme Council for Women, which was planned for opening by end of 2013. The Technical Incubator Centre was commissioned at the University of Bahrain, upon a joint initiative between the Bahrain Development Bank Group and the University of Bahrain.

On the other hand, the 2012 witnessed the first specialized forum on the search of a joint strategy for the development of business sector in GCC countries. With the support of the Finance Ministry, the Bahrain Development Bank organized the GCC Future Entrepreneurs Forum, which was held by the end of May 2012. Elite of speakers and experts in business sector development took part in that forum.

The forum came out with a number of recommendations on the necessity of creating joint programs and mechanisms among the GCC countries to support Gulf entrepreneurs in terms of finance, organization facilities, and media programs which promote free business and highlight the importance of holding this forum on annual basis.

The Bahrain Development Bank Group is fully determined to forge ahead the path of progress and development towards a prosperous future, which is the key story of our success and the fruitful outcome of the active & positive participation of all relevant parties, in full compliance with the wise Bahrain Economic Vision 2030. I have the honor to express thanks and gratitude to our wise government for its ongoing support, and Ministry of Finance for its valued cooperation. I would also like to sincerely thank the Chairman & Members of the Board of Directors for their kind guidance and ongoing follow-up with the Executive Management towards achieving the aspired strategic goals. Special thanks are extended to all agencies and organizations at domestic, regional and global arenas for their dedicated cooperation with the Bank, led by the Ministry of Industry & Commerce and our strategic partner "Tamkeen".

Finally, I would like to sincerely thank the Executive management and all the human resources of the Group for their dedication and loyalty towards fostering the honorable image of the Bahrain Development Bank Group as a pioneering national organization in our beloved Kingdom.

Nedhal Saleh Al-Aujan
Chief Executive Officer

**You've
got an idea!**
we'll help you turn it
in to a business.

BD 39.272m

With the market conditions showing signs of stability, the Bank could record disbursement of 1,021 number of loans for SME's.

BD 14.725m

During the year, 579 SME clients were assisted in the form of restructuring of their facilities involving outstanding of BD 14.725 million, to enable them to tide over their financial difficulties.

Business Banking

The Bank during the year 2012 adopted a two pronged strategy; on the one hand, it continued to play an active and supportive role in meeting the credit needs of the SME sector and thereby providing an impetus to the growth of the economy. At the same time, wherever SMEs are facing difficulties on account of global financial crisis and local market conditions, the Bank adopted a very pragmatic approach to assist these units to overcome their problems and tread the path of revival. This strategy has helped the Bank to show better performance during the year.

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

With the market conditions showing signs of stability, the Bank could record disbursement of 1,021 number of loans under SME segment aggregating to BD 39.272 million. During the previous year 2011, the Bank had disbursed 968 loans aggregating to BD 26.786 million under the SME segment. Thus, during 2012, disbursement of loans to SME segment witnessed a growth of 47%. During the year, the Bank financed JBF Bahrain which is setting up project in Hidd, to manufacture Biaxially-oriented polyethylene terephthalate (BOPET) films with total outlay of US \$ 200 million. Other major industrial projects financed included Glass Tech Industries, Chocolate & Co etc. These major projects together with the other SME financing, have made valuable contribution to the economy in terms of capital investment, exports, additional employment etc.

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 are experiencing difficulties. As a development financial institution, the Bank assisted such clients in

overcoming their financial difficulties. During the year, 579 SME clients were assisted in the form of restructuring of their facilities involving outstanding of BD 14.725 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. During the year 2012, the Bank disbursed 120 fisheries loans aggregating to BD 0.999 million and 21 agriculture loans aggregating to BD 0.085 million. The Bank provided finance to and an SME unit named "Hanging Gardens", which has taken up innovative farming of agricultural produce mainly hybrid vegetables, contributing to the food security.

The Bank is also contributing towards enhancing the level of education of the Bahraini youth through its Education Finance Scheme. Financing under Education Finance Scheme facilitates Bahraini youth to acquire higher knowledge and thus become eligible to take up jobs at higher levels. During the year 2012, the Bank disbursed 66 educational loans aggregating to BD 1.235 million.

It was another fruitful year of performance in the area of economic contribution through our financing activity. The financing made by the Bank under all segments facilitated in creating an estimated 2,926 jobs. Similarly, significant contributions have been made in other economic parameters namely import substitution, value additions, exports and foreign currency earnings.

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

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.

Our strategy of supporting Bahraini youth and women to start their own entrepreneurship ventures shall continue to receive our enhanced focus and dedicated efforts.

Our strategy of supporting Bahraini youth and women to start their own entrepreneurship ventures shall continue to receive our enhanced focus and dedicated efforts.



Management Review

Continued

Non-Financial Services

The non-financial activity portfolio of the bank for the year 2012 has witnessed growth through new initiatives that took place to further stimulate entrepreneurial culture in the society and facilitate SME development. Keeping in line with the country's economic strategy and Bahrain Economic Vision 2030, emphasis has always been considered on developing the young human capital of Bahrain and facilitating entrepreneurial career choices by the Bahraini youth. The non-financial support services of the bank are implemented under the Entrepreneurial Development Division and cater to capacity building (training and related entrepreneurial events), business counseling, linkage to financial services, business incubation and related services.

Business Advisory

Major highlights among the initiatives taken are:

1. Launch of E-@dvisory – online counseling and services available through the BDB website.
2. Ran the "Challenge yourself" workshop in the Global Entrepreneurship Week (GEW)2012, the workshop was an interactive session dedicated to entrepreneurs on business idea generation and developing business plans. Our participate in GEW has become an annual initiative that has proved to be rewarding for both our team and the participants.
3. Implemented Train the trainers program to University of Bahrain Professors to get a better understanding on Entrepreneurship and how to deal with students who wants to start their own business.
4. Initiated a new service to help support SMEs in various local and international exhibitions along with local partners. This year we supported SMEs in Meet ICT and Italy Expo.
5. Continuation of Youth Entrepreneurship Orientation Program (EOP) several times in every quarter.
6. Continuation of the advanced Entrepreneurship Development Program (EDP) at the Bahrain Institute of Entrepreneurship & Technology (BIET formerly known as BIT).
7. Continuation of pre-seed capital scheme and feasibility study support scheme in partnership with Tamkeen.
8. Printed the fourth edition of the Entrepreneurship Journal that includes fruitful articles on different subjects, upcoming events and useful contact numbers that are relevant to entrepreneurs and SMEs.
9. Conducted "ICT workshop" with Batelco on how to start a business in the ICT field and how to utilize the new technology in setting up a business- December 2012.
10. 3rd group of training conducted in cooperation with the Ministry of Education for final year students in the GSVEC program. Training focused on business planning, entrepreneurship awareness, and capacity building. Students were nominated from both Technical and Commercial schools of the public schooling system. This year the program was tailored to the Ministry of Education's requirements and to fulfill their program curriculum and was split into 4 batches to accommodate to the large number of students. This has become an annual initiative since 2010.
11. Participation in Start-up Weekend for the second year in partnership with Batelco.

In addition, several presentations were conducted at universities, schools, training institutions and at societies, business associations etc aimed at creating awareness on entrepreneurship and encouraging business creation. Under the guidance of the business advisory unit, a total of 908 start-up businesses were supported in terms of business planning and other related capacity building requirements. They were also linked to the bank's financial scheme for further support in implementing the business. Emphasis has also been given to supporting youth through advisory services in which 33.8% of youth have been supported under BDB services.

141

tenants

In 2012 BBIC have served 141 tenants, where 80 new tenants have been accepted during the year.

908

start-up businesses

Under the guidance of the business advisory unit, a total of 908 start-up businesses were supported in terms of business planning and other related capacity building requirements.



Bahrain Business Incubator Center

After the Expansion of BBIC, the total number of units has been increased to be 139 units varying between pre incubation offices (10 m2), Incubation Offices (around 30 m2), small incubation workshops (around 100 m2) and the Enterprise Center Units (350 m2).

In 2012 BBIC have served 141 tenants, where 80 new tenants have been accepted during the year. Where 23% of the businesses are women owned businesses, 39% are youth owned business and 24 %are innovative businesses.

Also, BBIC have graduated 24 tenants in 2012 which helped to serve new Entrepreneurs in establishing their businesses and also helped in achieving BBIC objectives.

The women incubator center in Aali (WIC), was in the building process during the year of 2012, and has only been received from the contractor in Feb. 2013, during the building process of the incubator WIC team worked on promoting its 62 unites and managed to occupy 70% of it up to date by startup business owned by women entrepreneurs and anchor tenants.

The 62 unites will be divided 25% - 75% between enterprises and incubates. The 62 unites vary in sizes, between 100 sqm workshops to 7 sqm offices to accommodate all kind of businesses owned by women.

The University Business Incubator implementation phase has started with the allocation of premises at the Sakheer campus - University of Bahrain and the renovation has been completed and it is expected to be launched officially in the beginning of 2013.

An awareness campaign has been launched at the university to educate both students and faculty of the benefits of the new business incubator and attract new tenants. UBIC started to receive applications for the interested and potential clients. Tenant's accommodation is scheduled to commence by fall semester of 2013.

Bahrain Institute of Entrepreneurship & Technology

BDB's training arm Bahrain Institute of Entrepreneurship and Technology (BIET) continued to offer and enhance specialized entrepreneurship training through the Entrepreneurship Development Program.

In line with the Government Initiative to develop Bahrain as a Regional Training Hub, BIET has trained 3, 221 people under an umbrella of the Capacity Building Project "Qudrat" to support the Bahrain e-Government strategy Overall, BIET has trained more than 3,668 students during 2012, of which 98% were Bahraini.

Human Resources

Recognizing that staff is a key asset of the Bank, the Bank continued to significantly invest in staff welfare and the provision of the necessary training and development opportunities.

About 89.1% of our staff (165 employees as of Dec 2012) 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 2012.

Staff were trained in anti-money laundering procedures, Youth Entrepreneurship Orientation Program, Essentials of Risk Management, Export Credit Guarantee, Islamic Banking, First Aid, plus for other specialized training sessions, conferences and workshops which were attended by Key staff as well from the bank.

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.







0% interest rate

Agricultural Loans

Agricultural loans are offered by Bahrain Development Bank with 0% interest rate to be used for development of agriculture production in Bahrain.

Overview

During the year ended 31 December 2012 the bank recorded a net loss of BD 3.05 million, as compared to a net profit of BD 226K during 2011. Total operating income down by 3 % to BD 7.00 million, due to decreases in net interest income, fee income and dividends. Total assets of BD 159.91 million at the year-end 2012 had shown an increase of 16% as compared to 2011. The deposits from Government and semi Government Institutions of BD 46 million stood at the same level of 2011 and the borrowings from banks has decreased by 4% and stood at BD 12.49 million as on December 2012.

Net Interest Income

Net Interest income decreased by 9 % to BD 5.28 million as compared to BD 5.78 million of the previous year. The decrease in net interest income was mainly on account of restructuring of small and medium term credit facilities where interest income is deferred.

Other Income

Other income was BD1.72 million (2011: 1.46 million) was grown during the year mainly on account of increase in rental income, course fees income from a subsidiary and other income.

Operating Expenses

Total Operating expenses showed an increase of BD 161K (2.81%) over the previous year. Staff expenses rose from BD 3.51 million to BD 3.68 million mainly due to hiring of additional staff to meet the requirements for non-financial services of the Bank. Other operating expenses reflected a decrease of 1 % over the previous year. The cost to income ratio has increased marginally from 79 % to 84 % during the year.

Provisions

Bank's provisioning requirements in respect of its non-performing portfolio is in line with the International Financial Reporting Standards. The loan loss provision for the year net of recoveries was BD 4.11 million as compared to BD 1.24 million for year 2011. Bank also made BD 71K for Provision for Impairment on Available-for-sale investments during the year.

Assets

Increase in total assets mainly attributable to increase in placements with Banks and Investments. Net loans and advances to customers of BD97.33 stood at the same level at year-end 2011. The 14% increase in Property, plant and equipment compared to last year was mainly for the construction of new Women Incubator Centre, which is expected to be completed by first quarter of year 2013.

Equity

As against minimum capital adequacy ratio of 12 % prescribed by the Central Bank of Bahrain (CBB), the Bank's ratio at year end 2012 was 40% (2011: 44%). 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 2012

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Independent auditor's report

to the Shareholders of Bahrain Development Bank B.S.C. (c)

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Bahrain Development Bank B.S.C. (c) ("the Bank") and its subsidiaries (together referred as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in shareholders' equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2012, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

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

BDO

11 March 2013
Manama, Kingdom of Bahrain

Consolidated statement of financial position

as at 31 December 2012
(Expressed in Thousand Bahrain Dinars)

	Notes	2012	2011
Assets			
Cash and balances with Central Bank of Bahrain	5	2,262	2,409
Due from banks and other financial institutions	6	16,064	12,003
Placements with Islamic banks	7	11,925	8,673
Accounts receivable and other assets	8	12,325	881
Loans and advances to customers	9	23,657	29,322
Murabaha receivables	10	72,280	66,571
Ijara receivables	11	1,390	1,381
Available-for-sale investments	12	4,580	2,186
Islamic investments	13	2,366	2,436
Investment in associates	14	359	381
Investment in Islamic associates	15	1,680	1,723
Property, plant and equipment	16	11,026	9,707
Total assets		159,914	137,673
LIABILITIES AND EQUITY			
Liabilities			
Deposits	17	58,439	59,300
Due to Islamic financial institutions	18	5,001	1,000
Accounts payable and other liabilities	19	5,920	4,916
Long term loans	20	19,661	13,790
Total Liabilities		89,021	79,006
Equity			
Share capital	21	65,000	50,000
Statutory reserve	22	1,010	1,010
Cumulative changes in fair value		23	(256)
Retained earnings		4,860	7,913
Total Equity		70,893	58,667
TOTAL LIABILITIES AND EQUITY		159,914	137,673

These consolidated financial statements, set out on pages 31 to 61, were approved for issue by the Board of Directors on 11 March 2013 and signed on its behalf by:

Chairman

Director

Consolidated statement of income

for the year ended 31 December 2012
(Expressed in Thousand Bahrain Dinars)

	Notes	2012	2011
Interest income	23	1,777	2,661
Interest expense	24	(836)	(741)
Net interest income		941	1,920
Profit from Islamic financing	25	4,343	3,860
Wakala expenses	26	(5)	(4)
Net income from Islamic financing		4,338	3,856
Net Income		5,279	5,776
Fee and commission income		403	419
Fee income on Islamic financing		155	143
Rental income		492	396
Course fees and related income		271	142
Dividend income		355	415
Other income		114	52
Share of loss of associates		(22)	(122)
Share of loss of Islamic associates		(43)	-
Total operating income		7,004	7,221
Administration expenses	27	(4,160)	(3,989)
Other operating expenses		(1,721)	(1,731)
Profit before provision and foreign currency translation		1,123	1,501
Provision for impairment on loans and advances	9 & 10	(4,105)	(1,244)
Provision for impairment on Islamic investments		(71)	(45)
Gain on foreign currency translation		-	14
Net (loss)/profit for the year		(3,053)	226

Consolidated statement of comprehensive income

for the year ended 31 December 2012
(Expressed in Thousand Bahrain Dinars)

	2012	2011
Net (loss)/profit for the year	(3,053)	226
Net movement in cumulative changes in fair value - available for sale investments	279	(194)
Total comprehensive (loss)/profit for the year	(2,774)	32

Consolidated statement of changes in shareholders' equity

for the year ended 31 December 2012
(Expressed in Thousand Bahrain Dinars)

	Share capital	Statutory reserve	Cumulative change in fair value	Retained earnings	Total
Balance at 1 January 2011	50,000	987	(62)	7,710	58,635
Total comprehensive income for the year	-	-	(194)	226	32
Transfer to statutory reserve	-	23	-	(23)	-
Balance at 31 December 2011	50,000	1,010	(256)	7,913	58,667
Additional paid in capital	15,000	-	-	-	15,000
Total comprehensive loss for the year	-	-	279	(3,053)	(2,774)
Transfer to statutory reserve	-	-	-	-	-
Balance at 31 December 2012	65,000	1,010	23	4,860	70,893

Consolidated statement of cash flows

for the year ended 31 December 2012
(Expressed in Thousand Bahrain Dinars)

	Notes	2012	2011
Operating activities			
Net (loss)/profit for the year		(3,053)	226
Adjustments for:			
Depreciation	16	481	479
Provision for impairment on loans and advances		4,105	1,244
Provision for impairment on Islamic investments		71	45
Dividend income		(355)	(415)
Share of loss of associates		22	122
Share of loss of Islamic associates		43	-
Loss on sale of fixed assets		4	-
Gain on foreign currency translation		-	(14)
Operating profit before changes in operating assets and liabilities		1,318	1,687
Changes in operating assets and liabilities:			
Due from banks and other financial institutions		165	1,454
Placements with Islamic banks		(3,243)	(4,758)
Accounts receivable and other assets		(194)	(56)
Loans and advances to customers		1,560	2,546
Murabaha receivables		(5,709)	3,255
Ijara receivables		(9)	(1,381)
Deposits		(861)	(7,929)
Due to Islamic financial institutions		4,001	(1,000)
Accounts payable and other liabilities		1,004	1,067
Net cash used in operating activities		(1,968)	(5,115)
Investing activities			
Purchase of property, plant and equipment	16	(1,805)	(929)
Proceeds from sale of property, plant and equipment	16	1	-
Purchase of investments		(2,117)	(250)
Dividend income received		355	415
Net cash used in investing activities		(3,566)	(764)
Financing activities			
Proceeds from long term loan		5,871	1,450
Additional capital received		3,750	-
Net cash provided by financing activities		9,621	1,450
Increase/(decrease) in cash and cash equivalents		4,087	(4,429)
Cash and cash equivalents at 1 January		1,091	5,520
Cash and cash equivalents at 31 December	28	5,178	1,091

Notes to the consolidated financial statements

for the year ended 31 December 2012
(Expressed in Thousand Bahrain Dinars)

1 Activities

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

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

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

"The Group" consists of the Bank and its following subsidiaries:

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

2 Basis of preparation

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

Statement of compliance

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

Basis of presentation

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

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies.

Improvements/amendments to IFRS 2009/2011 cycle

Improvements/amendments to IFRS issued in 2009/2011 cycle contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments are effective for the Group's annual audited financial statements beginning on or after 1 January 2013 with earlier adoption permitted. No material changes to accounting policies are expected as a result of these amendments.

Standards, amendments and interpretations issued and effective in 2012 but not relevant

The following new standards, amendments to existing standards and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2012 or subsequent periods, but are not relevant to the Group's operations:

Standard or Interpretation	Title	Effective for annual periods beginning on or after
IAS 12	Income Taxes	1 January 2012
IFRS 1	First Time Adoption of International Financial Reporting Standards	1 July 2010 / 1 January 2011
IFRS 7	Financial Instruments – Disclosures	1 January 2011

Notes to the consolidated financial statements

for the year ended 31 December 2012
(Expressed in Thousand Bahrain Dinars)

Standards, amendments and interpretations issued but not yet effective in 2012

The following IFRS and IFRIC interpretations issued/revised as at 1 January 2012 or subsequent periods have not been early adopted by the Bank's management:

Standard or Interpretation	Title	Effective for annual periods beginning on or after
IAS 1	Presentation of Financial Statements	1 July 2012
IAS 19	Employee Benefits	1 January 2013
IAS 27	Separate Financial Statements	1 January 2013
IAS 28	Investments in Associates and Joint Ventures	1 January 2013
IAS 32	Financial Instruments – Presentation	1 January 2014
IFRS 1	First Time Adoption of International Financial Reporting Standards	1 January 2013
IFRS 7	Financial Instruments – Disclosures	1 January 2013/ 1 January 2015
IFRS 9	Financial Instruments – Classification and Measurement	1 January 2015
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint Agreements	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013
IFRS 20	Stripping Costs in the Production Phase of Surface Mine	1 January 2013

Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank using consistent accounting policies.

All intra group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated on consolidation.

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

3 Significant accounting policies

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

Cash and balances with Central Bank of Bahrain (CBB)

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

Due from banks and other financial institutions, placement with Islamic banks, loans and advances to customers, Murabaha receivables and Ijara receivables

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

Accounts receivable and other assets

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

Available-for-sale investments and Islamic investments

Available-for-sale investments are non-derivatives that are not classified as financial assets at fair value through profit or loss. These are included in non-current assets unless management has the express intention of holding the investment for less than twelve months from the consolidated statement of financial position date. Available-for-sale investments are initially recorded at cost and subsequently remeasured at their fair values. Any changes in fair values of such investments subsequent to initial recognition are included in the investment fair value reserve as a part of shareholders' equity.

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3 Significant accounting policies (continued)

All purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Investments are derecognised when the right to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Fair value of investments listed on active markets is determined by reference to the quoted market prices. The fair value of unquoted securities, where available, is the Group's proportionate share of the net assets of the investee company. In the absence of active markets or other appropriate methods from which to derive reliable fair values, the unquoted securities are stated at cost.

Investment in associates and investment in Islamic associates

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

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

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

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

Property, plant and equipment

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

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

Deposits and due to Islamic financial institutions

All deposits are carried at cost, less amount repaid.

Accounts payable and other liabilities

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

Provisions

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

Employees' end of service benefits

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

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

Notes to the consolidated financial statements

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Revenue recognition

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

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

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

Fees receivable are recognised as the services are provided.

Training and other fees are recognised when earned.

Foreign currencies

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

4 Critical accounting judgments and key source of estimation uncertainty

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

Classification of investments

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

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

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

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

Economic useful lives of property, plant and equipment

The property, plant and equipment are depreciated on a straight-line basis over their economic useful lives.

Useful economic lives of property, plant and equipment are reviewed by management annually. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group.

Provisions

At 31 December 2012, in the opinion of the management, an amount of BD14,143 thousand has been provided for impaired receivables (2011: BD9,460 thousand). When evaluating the adequacy of an allowance for doubtful receivables, management bases its estimate on current overall economic conditions, ageing of the receivable balances, historical write-off experience, customer credit worthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful receivables recorded in the consolidated financial statements.

Contingencies

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

Impairment losses on loans and advances and investments

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

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5 Cash and balances with banks and Central Bank of Bahrain

	2012	2011
Cash	135	145
Balances with Central Bank of Bahrain	2,127	2,264
	2,262	2,409

6 Due from banks and other financial institutions

	2012	2011
Nostro balances with other banks	331	141
Placements with banks and financial institutions	15,733	11,862
	16,064	12,003

Nostro balances with banks include an amount of BD2 thousand (2011: BD2 thousand) maintained by the Bank in a fiduciary capacity (note 20).

7 Placements with Islamic banks

	2012	2011
Nostro balances with Islamic banks	27	19
Placements with Islamic financial institutions	11,898	8,654
	11,925	8,673

8 Accounts receivable and other assets

	2012	2011
Interest	232	197
Ministry of Finance – Capital contribution	11,250	-
Prepayments and other assets	843	684
	12,325	881

9 Loan and advances to customers

	2012	2011
Project finance	26,242	30,377
Fisheries and agriculture	4,160	4,110
Others	1,222	1,031
	31,624	35,518
Less: Provision for impairment		
- Specific	(7,217)	(5,871)
- Collective	(750)	(325)
	23,657	29,322

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

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

	2012	2011
At 1 January	6,196	6,712
Increase in provision	1,075	8
Written off during the year	(18)	(33)
Interest suspended	714	(491)
Balance at 31 December	7,967	6,196
Gross amount of loans, individually assessed to be impaired before deducting any individually assessed impairment allowance (see note below)	16,819	10,316

Note: This includes BD849 thousand (2011: BD1,079 thousand) relating to agriculture and fishery loans which are considered as impaired but no provision has been made as these loans are considered secured through the reimbursement arrangement with the Government of the Kingdom of Bahrain.

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

The fair value of collateral that the Bank holds relating to loans individually determined to be impaired at 31 December 2012 amounts to BD1,836 thousand (2011: BD1,700 thousand). For more detailed description, see note 32 (i) (c) collateral and other credit enhancements.

10 Murabaha receivables

	2012	2011
Project finance	78,456	69,835
Less: Provision for impairment - Specific	(6,176)	(3,264)
	72,280	66,571

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

	2012	2011
At 1 January	3,264	1,385
Increase in provision	3,030	1,236
Interest suspended	(118)	643
Balance at 31 December	6,176	3,264
Gross amount of loans, individually assessed to be impaired before deducting any individually assessed impairment allowance	9,797	13,309

11 Ijara receivables

	2012	2011
Ijara Muntaha Biltamlek	1,311	1,345
Ijara receivable	79	36
	1,390	1,381

Notes to the consolidated financial statements

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12 Available for sale investments

The Bank has the following investments which have been classified as Available for sale investments:

	2012	2011
Quoted	992	713
Unquoted	4,214	2,144
	5,206	2,857
Less: Provision for Impairment	(626)	(671)
	4,580	2,186

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 investment is made is monitored on an ongoing basis. Once the venture attains stability, the Bank intends to exit from the investments either through IPO or by way of selling to any strategic investor.

13 Islamic investments

	2012	2011
Unquoted	2,366	2,436

14 Investment in associates

	2012	2011
Share of associates' statement of financial positions		
Arabian Taxi Company	25	47
EBDA Bank	334	334
	359	381

15 Investment in Islamic associates

	2012	2011
Venture Capital Fund (Murabaha Investment)	1,680	1,723

Notes to the consolidated financial statements

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16 Property, plant and equipment

	Freehold land	Freehold premises	Building on leasehold improvements*	Furniture, fixtures, vehicles, computers, and office equipment	Capital work-in-progress	Total
2012						
Cost						
At 1 January 2012	293	1,809	8,128	1,899	735	12,864
Additions	-	-	-	142	1,663	1,805
Disposals	-	-	-	(13)	-	(13)
At 31 December 2012	293	1,809	8,128	2,028	2,398	14,656
Depreciation						
At 1 January 2012	-	1,060	582	1,515	-	3,157
Charge for the year	-	56	32	393	-	481
Disposals	-	-	-	(8)	-	(8)
At 31 December 2012	-	1,116	614	1,900	-	3,630
Net book amount						
At 31 December 2012	293	693	7,514	128	2,398	11,026
	Freehold land	Freehold premises	Building on leasehold improvements	Furniture, fixtures, vehicles, computers, and office equipment	Capital work-in-progress	Total
2011						
Cost						
At 1 January 2011	293	1,809	8,058	1,732	43	11,935
Additions	-	-	70	167	692	929
At 31 December 2011	293	1,809	8,128	1,899	735	12,864
Depreciation						
At 1 January 2011	-	995	349	1,334	-	2,678
Charge for the year	-	65	233	181	-	479
At 31 December 2011	-	1,060	582	1,515	-	3,157
Net book amount						
At 31 December 2011	293	749	7,546	384	735	9,707

*These buildings relate to a subsidiary of the Bank and are situated on land leased from the Ministry of Industry and Commerce (Note 31). Even though the current lease expires on 24 October 2024, the directors are confident that the lease will be renewed for a second term of 25 years at the expiry of the current lease. Hence the buildings on leasehold land are depreciated over 40 years.

The capital work in progress as of 31 December 2012 represents amounts incurred for the proposed Women Incubator Centre.

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17 Deposits

	2012	2011
Bank deposits	12,490	12,951
Customer deposits	45,949	46,349
	58,439	59,300

Customer deposit includes BD1.840 million (2011: BD720 thousand) kept as margin deposit.

18 Due to Islamic financial institutions

	2012	2011
Wakala with banks	5,001	1,000

19 Accounts payable and other liabilities

	2012	2011
Amount due to Ministry of Agriculture	425	425
Staff related accruals	1,037	619
Accounts payable	1,228	1,001
Interest payable	158	177
Others	3,072	2,694
	5,920	4,916

BD112 thousand (2011: BD36 thousand) is included in accounts payable and other liabilities representing amount payable to Kuwait Fund for Arab Economic Development (KFAED) and Saudi Fund for Development (SFD).

20 Long term loans

Kuwait Fund for Arab Economic Development (KFAED)

The Bank had obtained a loan from 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% (2011: 1.5% and 0.5%) respectively. The outstanding balance as at 31 December 2012 was KD7.19 million (2011: KD8.21 million).

The loan proceeds were utilised by the Bank to advance loans to customers. One of the covenants of KFAED's loan agreement requires the Bank to repay KFAED any margin earned in excess of a spread of 2% ("interest differentials") on such loans to customers. The interest differentials are deposited into KFAED's bank account maintained by the Bank in a fiduciary capacity. The balance at year end was BD2 thousand (2011: BD2 thousand). This account can be used only for development activities such as training, feasibility studies and technical assistance to borrowers agreed by both the parties. During 2012, BDNil (2011: BDNil) was utilised for such purposes.

Saudi Fund for Development (SFD)

During 2012, the Bank had obtained a loan of SAR100 million from SFD. The facility has been fully availed and is repayable semiannually in 25 years (5 years grace period) at an interest of 2.0%.

21 Share capital

	Authorised		Issued and fully paid	
	2012	2011	2012	2011
Ordinary shares of BD1 each	100,000	100,000	65,000	50,000

Ministry of Finance has consented to subscribe additional capital of BD15 million. The Bank has received BD3.75 million as first tranche in December 2012 and expects to receive the balance during 2013.

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22 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 should be transferred to a statutory reserve. Accordingly, BD nill (2011: BD23 thousand) has been transferred to the statutory reserve during the year. The Bank may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital. This reserve is not distributable, but can be utilised for the purposes of a distribution in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

23 Interest income

	2012	2011
Loans and advances	1,481	2,352
Due from banks and other financial institutions	166	192
Interest recoveries relating to impaired loans	130	117
	1,777	2,661

24 Interest expense

	2012	2011
Loan from Kuwait Fund for Arab Economic Development	208	239
Loan from Saudi Fund for Development	162	7
Bank deposits	37	83
Customer deposits	429	412
	836	741

25 Profit from Islamic financing

	2012	2011
Murabaha profit	3,882	3,510
Ijarah profit	222	148
Due from Islamic banks	239	202
	4,343	3,860

26 Wakala expenses

	2012	2011
Due to Islamic financial institutions	5	4
	5	4

27 Administration expenses

	2012	2011
Staff costs	3,679	3,510
Depreciation	481	479
	4,160	3,989

Notes to the consolidated financial statements

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28 Cash and cash equivalents

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

	2012	2011
Cash	135	145
Balances with Central Bank of Bahrain excluding reserves	335	436
Due from banks and other financial institutions with original maturity of 90 days or less	4,708	510
	5,178	1,091

29 Related party transactions

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

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

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

	Directors and senior management	Other related companies	Total
2012			
Deposits	33	10,652	10,685
Loans and advances to customers	331	3,836	4,167
Accounts payable and other liabilities	-	4	4
2011			
Deposits	26	10,622	10,648
Loans and advances to customers	316	3,688	4,004
Accounts payable and other liabilities	-	4	4

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

In June 2011, the bank granted another loan to Arabian Taxi Company W.L.L., for BD2 million. The rate of interest rates starts at 2% and increases progressively to 6% over the tenor of the loan. Repayment starts after grace period of 1 year. Interest shall be serviced during the grace period. This loan has since been rescheduled and the repayments are due from March 2013.

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

	Directors and senior management	Other related companies	Total
2012			
Interest income	17	110	127
Interest expense	-	54	54
Rental expenses	-	48	48
Other expenses	-	18	18
	Directors and senior management	Other related companies	Total
2011			
Interest income	10	46	56
Interest expense	-	21	21
Rental expenses	-	48	48
Other expenses	-	25	25

Compensation of key management personnel is as follows:

	2012	2011
Salaries & short term employee benefits	502	481
Termination benefits	158	141
	660	622

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30 Segmental information

The financial position of the Bank and the group as of 31 December 2012 was on follows

	Bank		Subsidiaries			Total
	Head Office and equity Investments division*	Development activities division**	Sub-total	Bahrain Institute of Entrepreneurship & Technology	Bahrain Business Incubator Centre	
2012						
ASSETS						
Cash and balances with the Central Bank of Bahrain	-	2,262	2,262	-	-	2,262
Due from banks and other financial institutions	-	15,988	15,988	13	63	16,064
Placements with Islamic banks	-	11,925	11,925	-	-	11,925
Accounts receivable and other assets	-	11,987	11,987	45	293	12,325
Loans and advances to customers	-	23,657	23,657	-	-	23,657
Murabaha receivables	-	72,280	72,280	-	-	72,280
Ijara receivables	-	1,390	1,390	-	-	1,390
Available for sale investments	4,580	-	4,580	-	-	4,580
Islamic investments	2,366	-	2,366	-	-	2,366
Investment in associates	359	-	359	-	-	359
Investment in Islamic Associates	1,680	-	1,680	-	-	1,680
Property, plant and Equipment	1,262	-	1,262	2	9,762	11,026
TOTAL ASSETS	10,247	139,489	149,736	60	10,118	159,914
LIABILITIES AND EQUITY						
LIABILITIES						
Deposits	-	58,439	58,439	-	-	58,439
Due to Islamic financial institutions	-	5,001	5,001	-	-	5,001
Accounts payable and other liabilities	3,969	1,772	5,741	118	61	5,920
Long term loans	-	19,661	19,661	-	-	19,661
TOTAL LIABILITIES	3,969	84,873	88,842	118	61	89,021
EQUITY						
Share capital	65,000	-	65,000	-	-	65,000
Statutory reserve	1,010	-	1,010	-	-	1,010
Cumulative changes in fair value	23	-	23	-	-	23
Retained earnings	4,860	-	4,860	-	-	4,860
	70,893	-	70,893	-	-	70,893
Intra division/Intra group balances	(64,615)	54,616	(9,999)	(58)	10,057	-
TOTAL LIABILITIES AND EQUITY	10,247	139,489	149,736	60	10,118	159,914

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

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

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30 Segmental information (continued)

The financial position of the Bank and the group as of 31 December 2011 was on follows

	Bank			Subsidiaries		Total
	Head Office and equity investments division*	Development activities division**	Sub-total	Bahrain Institute of Entrepreneurship & Technology	Bahrain Business Incubator Centre	
2011						
ASSETS						
Cash and balances with the Central Bank of Bahrain	-	2,409	2,409	-	-	2,409
Due from banks and other financial institutions	-	11,945	11,945	6	52	12,003
12Placements with Islamic Banks	-	8,673	8,673	-	-	8,673
Accounts receivable and other assets	-	677	677	74	130	881
Loans and advances to customers	-	29,322	29,322	-	-	29,322
Murabaha receivables	-	66,571	66,571	-	-	66,571
Ijara receivables	-	1,381	1,381	-	-	1,381
Available for sale investments	2,186	-	2,186	-	-	2,186
Islamic investments	2,436	-	2,436	-	-	2,436
Investment in associates	381	-	381	-	-	381
Investment in Islamic associates	1,723	-	1,723	-	-	1,723
Property, plant and equipment	1,351	-	1,351	14	8,342	9,707
TOTAL ASSETS	8,077	120,978	129,055	94	8,524	137,673
LIABILITIES AND EQUITY						
LIABILITIES						
Deposits	-	59,300	59,300	-	-	59,300
Due to Islamic financial institutions	-	1,000	1,000	-	-	1,000
Accounts payable and other liabilities	3,218	1,601	4,819	58	39	4,916
Long term loans	-	13,790	13,790	-	-	13,790
TOTAL LIABILITIES	3,218	75,691	78,909	58	39	79,006
EQUITY						
Share capital	50,000	-	50,000	-	-	50,000
Statutory reserve	1,010	-	1,010	-	-	1,010
Cumulative changes in fair Value	(256)	-	(256)	-	-	(256)
Retained earnings	7,913	-	7,913	-	-	7,913
	58,667	-	58,667	-	-	58,667
Intra division/Intra group balances	(53,808)	45,287	(8,521)	36	8,485	-
TOTAL LIABILITIES AND EQUITY	8,077	120,978	129,055	94	8,524	137,673

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

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

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30 Segmental information (continued)

The income and expenses of the Bank and the Group for the year ended 31 December 2012 are as follows:

	Bank			Subsidiaries		Total
	Head Office and equity investments division*	Development activities division**	Sub-total	Bahrain Institute of Entrepreneurship & Technology	Bahrain Business Incubator Centre	
2012						
Interest income	-	1,777	1,777	-	-	1,777
Interest expense	-	(836)	(836)	-	-	(836)
Net interest income	-	941	941	-	-	941
Profit from Islamic financing	-	4,343	4,343	-	-	4,343
Wakala expense	-	(5)	(5)	-	-	(5)
Net income from Islamic financing	-	4,338	4,338	-	-	4,338
Net income	-	5,279	5,279	-	-	5,279
Fee and commission income	-	403	403	-	-	403
Fee income on Islamic financing	-	155	155	-	-	155
Rental income	85	-	85	-	407	492
Course fees and related income	-	-	-	271	-	271
Dividend income	355	-	355	-	-	355
Other operating income	38	-	38	40	36	114
Share of loss of associates	(22)	-	(22)	-	-	(22)
Share of loss of Islamic associates	(43)	-	(43)	-	-	(43)
Exchange gain	-	-	-	-	-	-
Total operating income	413	5,837	6,250	311	443	7,004
Administration expenses	-	-	-	(176)	(451)	(627)
Provision for impairment	-	(4,176)	(4,176)	-	-	(4,176)
Other operating expenses	-	-	-	(231)	(202)	(433)
	-	(4,176)	(4,176)	(407)	(653)	(5,236)
DIVISIONAL PROFIT/(LOSS)	413	1,661	2,074	(96)	(210)	1,768
Unallocated administration expenses			(3,533)	-	-	(3,533)
Unallocated operating expenses			(1,288)	-	-	(1,288)
LOSS FOR THE YEAR			(2,747)	(96)	(210)	(3,053)

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

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

Notes to the consolidated financial statements

for the year ended 31 December 2012
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30 Segmental information (continued)

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

	Bank			Subsidiaries		Total
	Head Office and equity Investments division*	Development activities division**	Sub-total	Bahrain Institute of Entrepreneurship & Technology	Bahrain Business Incubator Centre	
2011						
Interest income	-	2,661	2,661	-	-	2,661
Interest expense	-	(741)	(741)	-	-	(741)
Net interest income	-	1,920	1,920	-	-	1,920
Profit from Islamic financing	-	3,860	3,860	-	-	3,860
Wakala expense	-	(4)	(4)	-	-	(4)
Net income from Islamic financing	-	3,856	3,856	-	-	3,856
Net interest income	-	5,776	5,776	-	-	5,776
Fee and commission income	-	419	419	-	-	419
Fee income on Islamic financing	-	143	143	-	-	143
Rental income	128	-	128	-	268	396
Course fees and related income	-	-	-	142	-	142
Dividend income	415	-	415	-	-	415
Other operating income	12	-	12	12	28	52
Share of loss of associates	(122)	-	(122)	-	-	(122)
Share of loss of Islamic associates	-	-	-	-	-	-
Exchange gain	-	14	14	-	-	14
Total operating income	433	6,352	6,785	154	296	7,235
Administration expenses	-	-	-	(149)	(423)	(572)
Provision for impairment	-	(1,289)	(1,289)	-	-	(1,289)
Other operating expenses	-	-	-	(201)	(240)	(441)
	-	(1,289)	(1,289)	(350)	(663)	(2,302)
DIVISIONAL PROFIT/(LOSS)	433	5,063	5,496	(196)	(367)	4,933
Unallocated administration expenses			(3,417)	-	-	(3,417)
Unallocated operating expenses			(1,290)	-	-	(1,290)
PROFIT/(LOSS) FOR THE YEAR			789	(196)	(367)	226

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

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

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31 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:

	2012	2011
Contingent liabilities:		
Letters of guarantee	2,467	2,396
Letters of credit	107	210
	2,574	2,606
Commitments:		
Capital expenditure and other commitments	784	2,500
Irrevocable commitments to extend credit	8,207	11,121
Lease rental commitments	515	561
	9,506	14,182
	12,080	16,788

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

	2012	2011
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	295	341
	515	561

32 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 commensuration with their risk appetite and strategic plan approved by the Board of Directors.

Risk management structure

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

Board of directors

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

Audit Committee

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

Senior / Executive management

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

Notes to the consolidated financial statements

for the year ended 31 December 2012
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Risk Committee – Credit & Investments

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

Investment committee

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

Asset and liability committee

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

Treasury

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

Risk management

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

Legal

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

Internal audit

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

Risk measurement and reporting systems

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

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

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

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

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.

32 (i) Credit Risk

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

Notes to the consolidated financial statements

for the year ended 31 December 2012
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32 Risk management structure (continued)

32 (i) Credit risk (continued)

Limits and concentrations:

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

Concentrations arise when a number of counterparties are engaged in similar business activities, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

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

External credit assessment

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

Classification

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

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

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

	2012	2011
Balances with Central Bank of Bahrain	2,127	2,264
Due from banks and financial institutions	16,064	12,003
Placements with Islamic banks	11,925	8,673
Accounts receivable and other assets (excluding prepayments)	12,216	778
Loans and advances to customers	23,657	29,322
Murabaha receivables	72,280	66,571
Ijara receivables	1,390	1,381
	139,659	120,992
Contingent liabilities	2,574	2,606
Commitments	9,506	14,182
	12,080	16,788
Total credit risk exposure	151,739	137,780

b) Concentration of credit risk

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

	2012	2011
Industry sector		
Banks and financial institutions	30,116	22,940
Trading and manufacturing	43,744	41,028
Education and health	2,618	13,048
Hospitality, media and transportation	9,089	10,215
Fisheries and agriculture	4,550	4,175
Food processing	2,338	2,552
Others	59,284	43,822
	151,739	137,780

Notes to the consolidated financial statements

for the year ended 31 December 2012
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32 Risk management structure (continued)

32 (i) Credit risk (continued)

c) Collateral and other credit enhancements

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

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

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

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

d) Credit quality per class of financial assets

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

	2012				
	Neither past due nor impaired		Past due but not impaired	Impaired	Total
	High grade	Standard grade			
Balances with Central Bank of Bahrain	2,127	-	-	-	2,127
Due from banks and financial institutions	16,064	-	-	-	16,064
Placements with Islamic banks	11,925	-	-	-	11,925
Accounts receivable and other assets (excluding prepayments)	-	11,882	334	-	12,216
Loans and advances to customers	-	17,899	3,928	1,830	23,657
Murabaha receivables	-	52,058	9,898	10,324	72,280
Ijara receivables	-	1,390	-	-	1,390
Total	30,116	83,229	14,160	12,154	139,659
	2011				
	Neither past due nor impaired		Past due but not impaired	Impaired	Total
	High grade	Standard grade			
Balances with Central Bank of Bahrain	2,264	-	-	-	2,264
Due from banks and financial institutions	12,003	-	-	-	12,003
Placements with Islamic banks	8,673	-	-	-	8,673
Accounts receivable and other assets (excluding prepayments)	-	689	89	-	778
Loans and advances to customers	-	15,266	9,551	4,505	29,322
Murabaha receivables	-	48,765	8,305	9,501	66,571
Ijara receivables	-	1,381	-	-	1,381
Total	22,940	66,101	17,945	14,006	120,992

Notes to the consolidated financial statements

for the year ended 31 December 2012
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32 Risk management structure (continued)

32 (i) Credit risk (continued)

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

	Less than 30 days	31 to 60 days	61 to 90 Days	More than 91 days	Total
2012					
Accounts receivable and other assets (excluding prepayments)	84	30	30	190	334
Loans and advances to customers	2,622	1,080	226	-	3,928
Murabaha receivables	6,192	2,305	1,391	10	9,898
Total	8,898	3,415	1,647	200	14,160
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
2011					
Accounts receivable and other assets (excluding prepayments)	21	16	19	33	89
Loans and advances to customers	8,032	991	466	62	9,551
Murabaha receivables	4,100	2,899	1,230	76	8,305
Total	12,153	3,906	1,715	171	17,945

Of the total aggregate amount of gross past due but not impaired loans and advances to customers, the fair value of collateral that the Bank held as at 31 December 2012 was BD1,836 thousand (2011: BD1,300 thousand). See note 32(i) (c) for the details of types of collateral held.

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

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

	2012	2011
Loans and advances to customers	14,725	19,987

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.

32 (ii) Market risk

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

a) Interest rate risk

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

Notes to the consolidated financial statements

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32 Risk management structure (continued)

32 (ii) Market risk (continued)

Net interest income sensitivity

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

	Change in	Impact of change on	2011	Change in	Impact of change on	2011
	basis points	net interest income		basis points	net interest income	
		2012			2012	
Bahraini Dinars	+100	176	21	-100	(176)	(21)
Kuwaiti Dinars	+100	3	4	-100	(3)	(4)
Saudi Riyals	+100	(87)	-	-100	87	-
United States Dollars	+100	(192)	(166)	-100	192	166

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

b) Currency risk

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

The Bank primarily deals in five currencies, namely Bahraini Dinars, Kuwaiti Dinars, Saudi Riyals, Euro and United States Dollars.

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

	Equivalent long/(short)	
	2012	2011
Kuwaiti Dinars	342	414
United States Dollars	(12,949)	(13,036)
Euro	2	(5)
Saudi Riyals	(1,370)	(2)

The effect of a reasonably possible 5% change in the currency exchange rate for Kuwaiti Dinar, with all other variables constant, will result in an increase of BD17 thousand (2011: an increase of BD47 thousand) in the profit for the year.

Notes to the consolidated financial statements

for the year ended 31 December 2012
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32 Risk management structure (continued)

32 (ii) Market risk (continued)

c) Maturity analysis of assets and liabilities

The table below summarises the maturity profile of the Group's assets and liabilities as at 31 December 2012 and 31 December 2011 based on expected maturities.

	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
2012							
ASSETS							
Cash and balances with the Central Bank of Bahrain	2,262	-	-	-	-	-	2,262
Due from banks and other financial institutions	4,681	8,669	2,714	-	-	-	16,064
Placements with Islamic banks	2,297	5,541	4,087	-	-	-	11,925
Accounts receivable and other assets	12,075	30	30	190	-	-	12,325
Loans and advances to customers	1,204	286	505	775	5,105	15,782	23,657
Murabaha receivables	3,134	229	590	1,044	29,509	37,774	72,280
Ijara receivables	-	-	-	-	-	1,390	1,390
Available for sale investments	-	-	-	-	-	4,580	4,580
Islamic investments	-	1,131	-	-	-	1,235	2,366
Investment in associates	-	-	-	-	-	359	359
Investment in Islamic associates	-	-	-	-	-	1,680	1,680
Property, plant and equipment	-	-	-	-	-	11,026	11,026
TOTAL ASSETS	25,653	15,886	7,926	2,009	34,614	73,826	159,914
LIABILITIES							
Deposits	30,293	15,762	704	11,680	-	-	58,439
Due to Islamic financial institutions	5,001	-	-	-	-	-	5,001
Accounts payable and other liabilities	-	5,920	-	-	-	-	5,920
Long term loan	-	-	694	694	4,164	14,109	19,661
TOTAL LIABILITIES	35,294	21,682	1,398	12,374	4,164	14,109	89,021
NET LIQUIDITY GAP	(9,641)	(5,796)	6,528	(10,365)	30,450	59,717	

Bank Manages the liquidity Gap with the Board's approved contingency plan. In particular, the bank has approved limits from financial institutions equivalent to BD 47.21 million out of which BD 29.41 million is unutilized limit.

Notes to the consolidated financial statements

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32 Risk management structure (continued)

32 (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
2011							
ASSETS							
Cash and balances with the Central Bank of Bahrain	2,409	-	-	-	-	-	2,409
Due from banks and other financial institutions	492	8,247	3,264	-	-	-	12,003
Placements with Islamic banks	18	6,000	2,655	-	-	-	8,673
Accounts receivable and other assets	813	16	19	33	-	-	881
Loans and advances to customers	1,383	308	810	1,216	7,284	18,321	29,322
Murabaha receivables	328	429	1,081	489	18,028	46,216	66,571
Ijarah receivables	-	-	-	-	-	1,381	1,381
Available for sale investments	-	-	-	-	-	2,186	2,186
Islamic Investments	-	-	-	-	-	2,436	2,436
Investment in associates	-	-	-	-	-	381	381
Investment in Islamic associates	-	-	-	-	-	1,723	1,723
Property, plant and equipment	-	-	-	-	-	9,707	9,707
TOTAL ASSETS	5,443	15,000	7,829	1,738	25,312	82,351	137,673
LIABILITIES							
Deposits	42,605	15,357	544	794	-	-	59,300
Due to Islamic financial Institutions	1,000	-	-	-	-	-	1,000
Accounts payable and other Liabilities	-	4,916	-	-	-	-	4,916
Long term loan	-	-	696	696	2,784	9,614	13,790
TOTAL LIABILITIES	43,605	20,273	1,240	1,490	2,784	9,614	79,006
NET LIQUIDITY GAP	(38,162)	(5,273)	6,589	248	22,528	72,737	

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 BD50 thousands (2011: BD45 thousands).

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

Notes to the consolidated financial statements

for the year ended 31 December 2012
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32 Risk management structure (continued)

32 (iii) Liquidity risk

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

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2012 and 31 December 2011 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
2012								
Deposits	18,482	11,811	15,762	704	11,680	-	-	58,439
Accounts payable and other liabilities	-	-	5,920	-	-	-	-	5,920
Long term loans	-	-	10	806	826	4,621	15,112	21,375
Total liabilities	18,482	11,811	21,692	1,510	12,506	4,621	15,112	85,734
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
2011								
Deposits	18,482	25,123	15,357	544	794	-	-	60,300
Accounts payable and other liabilities	-	-	4,916	-	-	-	-	4,916
Long term loans	-	-	10	808	828	3,241	10,617	15,504
Total liabilities	18,482	25,123	20,283	1,352	1,622	3,241	10,617	80,720

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
2012					
Contingent liabilities	557	126	1,062	829	2,574
Commitments	8,207	-	828	471	9,506
Total	8,764	126	1,890	1,300	12,080
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
2011					
Contingent liabilities	579	180	658	1,189	2,606
Commitments	11,121	-	2,544	517	14,182
Total	11,700	180	3,202	1,706	16,788

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

32 (iv) Legal risk and claims

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

Notes to the consolidated financial statements

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33 Fair values of financial instruments

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

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:-

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

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

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

	Level 1	Total
Quoted equity investments	992	992

There are no financial instruments that qualify for classification under Level 2 or Level 3 as at 31 December 2012.

At 31 December 2011 and 2012, the estimated fair values of the financial instruments are not materially different from their carrying amounts in the consolidated financial statements except for unquoted available for sale investments and long term loans.

34 Capital adequacy

	2012	2011
Capital base		
Tier 1 capital	59,630	58,667
Tier 2 capital	-	-
Total capital base (a)	59,630	58,667
Risk-weighted assets (b)	147,372	133,263
Capital adequacy ratio (a/b*100)	40%	44%
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.

35 Assets under management

Assets under management, which are held or managed on behalf of clients, whether under the name of the Company or clients, and whether managed on a discretionary or non-discretionary basis, amounted to BD Nil at 31 December 2012 (2011: BD Nil).

36 Subsequent events

No events have occurred subsequent to 31 December 2012 and before the date of this report that would have a significant effect on these consolidated financial statements.

37 Comparative figures

Certain of the prior year assets and liabilities have been reclassified in order to conform with the presentation for the current year. Such reclassifications do not affect previously reported profit, comprehensive income or equity.

BASEL II PILLAR III DISCLOSURES 2012

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Table 1 - Capital Structure

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

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

	2012		2011	
	Tier 1	Tier 2	Tier 1	Tier 2
A. Net Available Capital				
Paid-up share capital	53,750		50,000	
Reserve:				
Statutory reserve	1,010		1,010	
Retained earnings brought forward	7,913		7,687	
Current year (loss) profit	(3,053)		226	
Asset revaluation reserves-Property, plant and equipment (45% only)				
Unrealized gains arising from fair valuing equities (45% only)	-	23		(256)
TOTAL CAPITAL BEFORE REGULATORY DEDUCTIONS	59,620	23	58,923	(256)
Less : Regulatory deductions	-	-	-	-
NET AVAILABLE CAPITAL	59,620	23	58,923	(256)
TOTAL ELIGIBLE CAPITAL BASE (Tier 1 + Tier 2)		59,643		58,667

	2012	2011
B. Capital Adequacy Ratio		
Total eligible capital base	59,643	58,667
Credit risk weighted exposures	132,987	123,786
Market risk weighted exposures	1,370	414
Operational risk weighted exposures	13,015	11,582
Total risk weighted exposures	147,372	135,782
Tier 1 ratio	40.46%	43.40%
Total capital adequacy ratio	40.47%	43.21%

Risk Weighted Assets Profile and Capital Requirement for Credit, Market and Operational Risk

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

Credit Risk

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

Brief description of applicable standard portfolio are as follows:

a. Claims on banks:

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

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

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

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

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b. Claims on corporates:

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

c. Equity Portfolio:

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

d. Other exposures:

These are risk weighted at 100%.

Table 2 - Capital Requirement for Credit, Market and Operational Risks

	2012	2011
	Capital requirement	Capital requirement
Claims on sovereign	-	-
Claims on public sector entities	-	-
Claims on banks	1,344	1,007
Claims on corporate	11,808	11,718
Regulatory retail exposures	-	-
Residential retail exposures	-	-
Equity	1,052	654
Other exposures	1,755	1,475
TOTAL CREDIT RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)	15,958	14,854
TOTAL MARKET RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)	-	50
TOTAL OPERATIONAL RISK CAPITAL REQUIREMENT (BASIC INDICATOR APPROACH)	-	1,390
TOTAL	15,958	16,294

Table 3 - Gross Credit Exposures before Subject to Credit Risk Mitigants (CRM)

	2012	2011
Balances with Central Bank of Bahrain	2,127	2,264
Due from banks and other financial institutions	27,989	20,676
Loans and advances to customers	97,327	97,274
Other assets	12,216	778
TOTAL FUNDED EXPOSURES	139,659	120,992
Contingent liabilities	2,574	2,606
Other commitments	9,506	14,182
TOTAL UNFUNDED EXPOSURES	12,080	16,788
TOTAL CREDIT RISK EXPOSURE	151,739	137,780

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Table 4 - Sectoral Classification of Gross Credit Exposures

	2012		
	Funded	Unfunded	Total
Banks and financial institutions	30,116	-	30,116
Trading and Manufacturing	41,170	2,574	43,744
Education and Health	2,618	-	2,618
Hospitality, media and transportation	9,089	-	9,089
Fisheries and Agriculture	4,550	-	4,550
Food Processing	2,338	-	2,338
Others	49,778	9,506	59,284
TOTAL	139,659	12,080	151,739

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

Table 5 - Credit Concentration greater than 15% Individual Obligor Limit

	2012	2011
Total credit exposures in excess of 15% individual obligor limit	-	-

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Impairment of assets

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

Pastdue exposures

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

Table 6 - Counterparty Wise Breakdown of Impaired Loans and Impairment Provision

	2012				
	Impaired and past due loans	Specific provision	Charge (recoveries)	Write off	Collective impairment
Project finance	16,725	13,393	4,701	18	750
Fisheries and Agriculture	849	-	-	-	-
TOTAL	17,574	13,393	4,701	18	750
	2011				
	Impaired and past due loans	Specific provision	Charge (recoveries)	Write off	Collective impairment
Project finance	13,403	9,135	1,399	33	325
Fisheries and Agriculture	1,079	-	-	-	-
TOTAL	14,482	9,135	1,399	33	325

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Table 7 - Residual Contractual Maturity

Maturity analysis of assets and liabilities

The table below summarises the maturity profile of the Group's assets and liabilities as at 31 December 2012.

	<i>Up to 1 month</i>	<i>1 to 3 months</i>	<i>3 to 6 months</i>	<i>6 months to 1 year</i>	<i>1 to 3 years</i>	<i>3 to 5 years</i>	<i>5 to 10 years</i>	<i>10 to 20 years</i>	<i>Total</i>
2012									
Assets									
Cash and balances with Central Bank of Bahrain	2,262	-	-	-	-	-	-	-	2,262
Due from banks and other financial institutions	6,978	14,210	6,801	-	-	-	-	-	27,989
Accounts receivable and other assets	12,075	30	30	190	-	-	-	-	12,325
Loans and advances to customers	4,338	515	1,095	1,819	34,614	43,359	11,578	9	97,327
Available for sale investments	-	1,131	-	-	-	-	5,815	-	6,946
Investment in associates	-	-	-	-	-	-	-	2,039	2,039
Property, plant and equipment	-	-	-	-	-	-	-	11,026	11,026
Total assets	25,653	15,886	7,926	2,009	34,614	43,359	17,393	13,074	159,914
Liabilities									
Deposits	35,294	15,762	704	11,680	-	-	-	-	63,440
Accounts payable and other liabilities	-	5,920	-	-	-	-	-	-	5,920
Long term loans	-	-	694	694	4,164	14,109	-	-	19,661
Total liabilities	35,294	21,682	1,398	12,374	4,164	14,109	-	-	89,021
Net liquidity gap	(9,641)	(5,796)	6,528	(10,365)	30,450	29,250	17,393	13,074	

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

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

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Table 8 - Geographical Distribution of Impairment Provisions for Loans and Advances to Customers

	2012	2011
Bahrain		
Specific impairment provision	13,393	9,135
TOTAL	13,393	9,135

Table 9 - Movement in Impairment Provision for Loans and Advances to Customers and Interest in Suspense

	2012						
	Project finance			Fisheries and agriculture			
	<i>Specific</i>	<i>Collective</i>	<i>Total</i>	<i>Specific</i>	<i>Collective</i>	<i>Total</i>	<i>Total</i>
Balance at 1 January 2012	9,135	325	9,460	-	-	-	9,460
Amounts written off during the year	(18)	-	(18)	-	-	-	(18)
Charge for the year	5,073	425	5,498	-	-	-	5,498
Recoveries during the year	(1,393)	-	(1,393)	-	-	-	(1,393)
Interest suspended during the year (net)	596	-	596	-	-	-	596
At 31 December 2012	13,393	750	14,143	-	-	-	14,143
	2011						
	Project finance			Fisheries and agriculture			
	<i>Specific</i>	<i>Collective</i>	<i>Total</i>	<i>Specific</i>	<i>Collective</i>	<i>Total</i>	<i>Total</i>
Balance at 1 January 2011	7,144	950	8,094	3	-	3	8,097
Amounts written off during the year	(33)	-	(33)	-	-	-	(33)
Charge for the year	2,936	-	2,936	-	-	-	2,936
Recoveries during the year	(1,064)	(625)	(1,689)	(3)	-	(3)	(1,692)
Interest suspended during the year (net)	152	0	152	-	-	-	152
At 31 December 2011	9,135	325	9,460	-	-	-	9,460

Table 10 - Past due Loans - Age Analysis

i) By Geographical area

	2012			
	<i>Three months to one year</i>	<i>One to three years</i>	<i>Over three years</i>	<i>Total</i>
Bahrain	6,212	4,744	2,266	13,222
TOTAL	6,212	4,744	2,266	13,222

ii) By Counterparty wise

	<i>Three months to one year</i>	<i>One to three years</i>	<i>Over three years</i>	<i>Total</i>
Project finance	5,845	4,466	2,062	12,373
Fisheries and Agriculture	367	278	204	849
TOTAL	6,212	4,744	2,266	13,222

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i) By Geographical area

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

ii) By Counterparty wise

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

Table 11 - Credit Risk Exposure Post Credit Risk Mitigation and Credit Conversion

	2012	2011
Claims on sovereign	3,258	-
Claims on public sector entities	-	-
Claims on banks	11,202	8,392
Claims on corporate	100,540	97,651
Equity	8,765	5,452
Other exposures	12,480	12,292
TOTAL	136,245	123,786

Table 12 - Eligible Financial Collateral and Guarantees

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

	2012		2011	
	Gross exposure	Eligible CRM	Gross exposure	Eligible CRM
Claims on sovereign	3,258	-	3,395	-
Claims on public sector entities	-	-	-	-
Claims on MDBs	-	-	-	-
Claims on banks	11,202	-	8,392	-
Claims on corporate	100,540	12,953	97,651	10,700
Equity	8,765	-	5,452	-
Other exposures	12,481	-	12,292	-
TOTAL	136,245	12,953	127,181	10,700

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Table 13 - Sensitivity Analysis - Interest Rate Risk

Impact on net interest income for the year ended 31 December 2012 and 31 December 2011

	2012	2011
Bahraini Dinar		
(+) 200 basis points	352	42
(-) 200 basis points	(352)	(42)
US Dollar		
(+) 200 basis points	(384)	(332)
(-) 200 basis points	384	332
Kuwaiti Dinar		
(+) 200 basis points	6	8
(-) 200 basis points	(6)	(8)
Saudi Riyals		
(+) 200 basis points	(174)	-
(-) 200 basis points	174	-

Table 14 - Equity Position in the Banking Book

	2012		2011	
	<i>Gross exposure</i>	<i>Capital requirement</i>	<i>Gross exposure</i>	<i>Capital requirement</i>
Publicly traded	992	119	713	86
Privately held	7,773	933	4,739	569
TOTAL	8,765	1,052	5,452	654

Table 15 - Gains on Equity Investments

	2012	2011
Realised gains recognised in the income statement	-	-
Unrealised gain recognised in the balance sheet:		
- Tier One	-	-
- Tier Two	23	(256)

Table 16 - Operational Risk

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