



بنك البحرين للتنمية
BAHRAIN DEVELOPMENT BANK B.S.C

2015 ANNUAL REPORT

Driving growth. Leading progress.



2030
البحرين
BAHRAIN

Contents

Section 1 | Business Review

Profile	02
Overview, Vision & Mission	03
Financial Highlights	04
Operational Highlights	05
Financial Services	06

Section 2 | Governance

Board of Directors	08
Chairman's Statement	10
Corporate Governance	12
Management Executive Committee	16
CEO's Statement	18
Management Review	20
Success Stories	26
Financial Review	36

Section 3 | Financial Statements

Independent Auditors' Report to the Shareholders	38
Consolidated Statement of Financial Position	39
Consolidated Statement of Profit and Loss	40
Consolidated Statement of Comprehensive income	41
Consolidated Statement of Changes in Equity	42
Consolidated Statement of Cash Flows	43
Notes to the Consolidated Financial Statements	44



HIS ROYAL HIGHNESS
PRINCE SALMAN BIN
HAMAD AL KHALIFA

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



HIS MAJESTY
KING HAMAD
BIN ISA AL KHALIFA

The King of the
Kingdom of Bahrain



HIS ROYAL HIGHNESS
PRINCE KHALIFA BIN
SALMAN AL KHALIFA

The Prime Minister of
the Kingdom of Bahrain

Bahrain Development Bank B.S.C. (c)

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Profile

Bahrain Development Bank, as the name suggests, is focused on funding new businesses for economic development through equity or loan capital. Unlike other conventional commercial Banks, BDB assumes exposures in high risk segments normally avoided by other Banks.

Bahrain Development Bank is distinct among others as it offers unique financial and technical assistance to a wide range of Small and Medium Enterprises including other focused segments like Agriculture, Fisheries, Education and many others that are instrumental in creating value addition to the economy of the Kingdom of Bahrain.

Overview

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

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

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

Vision

To support projects that yield substantial economic, social and environmental benefits.

Mission

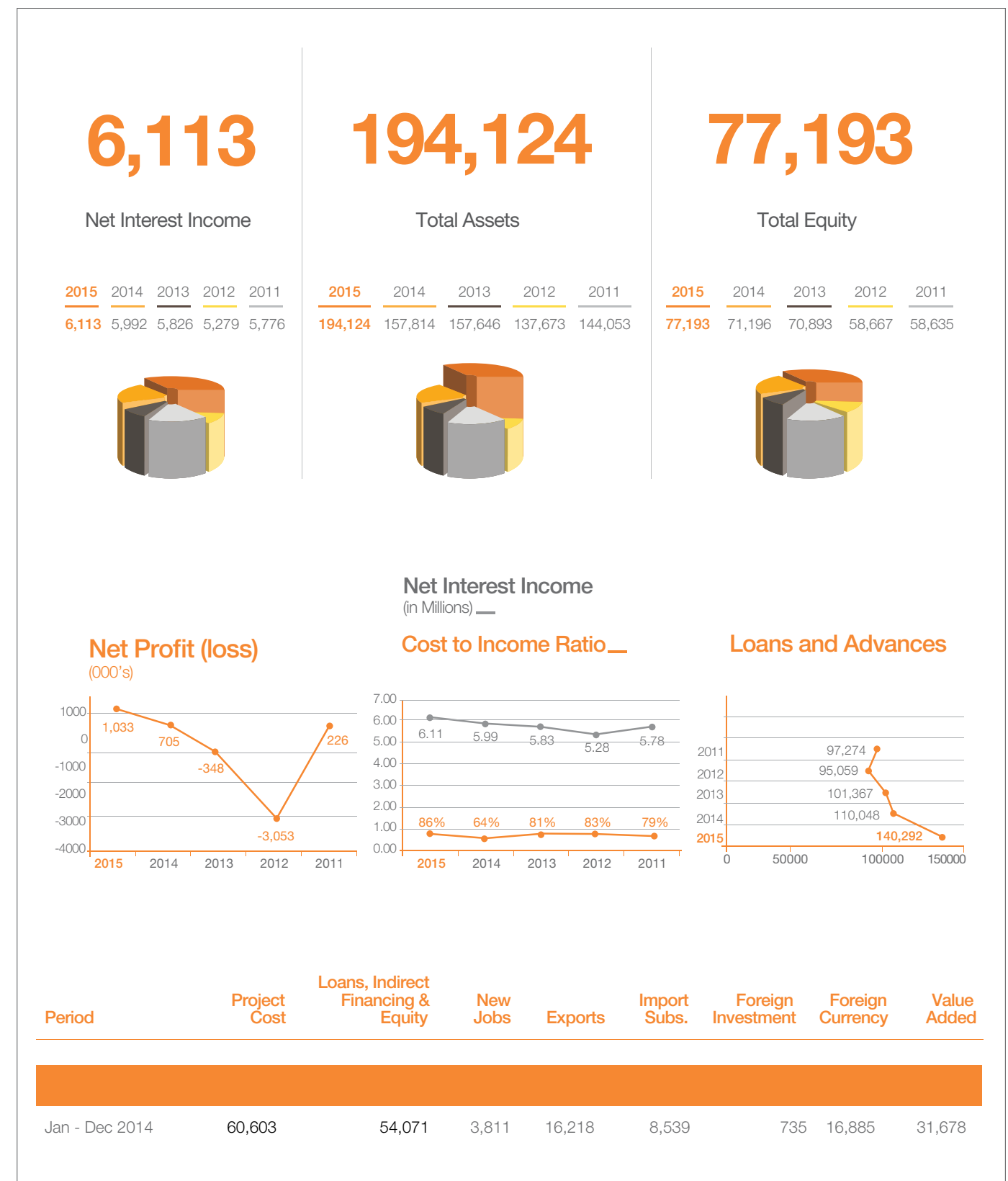
To promote entrepreneurship and innovation in the Kingdom by encouraging Bahraini professionals, enterprising women and ambitious youth, who demonstrate strong business acumen and leadership qualities in promoting the growth and prosperity of Small and Medium Enterprises (SMEs) through financial support and advisory services.



Financial Highlights

	Amount in 000s				
	2015	2014	2013	2012	2011
Income Statement Highlights (BD thousands)					
Net interest income	6,113	5,992	5,826	5,279	5,776
Other income	4,351	5,197	1,999	1,768	1,459
Operating expenses	8,954	7,204	6,312	5,881	5,720
Provision for Impairments	477	3,280	1,861	4,176	1,289
Net profit	1,033	705	(348)	(3,053)	226
Dividend (percent)	0%	0%	0%	0%	0%
Financial Statement Highlights (BD thousands)					
Total assets	194,124	174,306	157,814	157,646	137,673
Loans and Advances	140,292	110,048	101,367	95,059	97,274
Investments	23,533	19,290	10,266	8,985	6,726
Total deposits	67,184	57,137	53,677	63,440	60,300
Customers' deposits	49,098	38,321	40,283	45,949	46,349
Total Equity	77,193	75,822	71,196	70,893	58,667
Ratios (percent) Profitability					
Return on average equity	1.35%	0.96%	-0.49%	-4.71%	0.39%
Return on average assets	0.56%	0.42%	-0.22%	-2.07%	0.16%
Earnings per share (fils)	16	11	-5	-47	5
Cost-to-income	86%	64%	81%	83%	79%
Capital					
Capital adequacy	37%	44%	48%	40%	44%
Equity/total assets	40%	43%	45%	45%	43%
Total deposits/equity (times)	0.87	0.75	0.75	0.89	1.03
Business indicators					
Loans and advances/total assets	72%	63%	64%	60%	71%
Investments/total assets	12%	11%	7%	6%	5%
Loans and advances/customer deposits	2.86	2.87	2.52	2.12	2.10
Number of employees	203	200	186	165	160

Operational Highlights



Financial Services

As the country's leading developmental financial institution, BDB remains committed to promoting and serving the SME sector, which helps in diversifying the economic base, creating new employment opportunities for Bahrainis and contributing to the overall socio-economic development of the Kingdom.

The focused segments where BDB extends financial assistance are the Small & Medium Enterprises, Self Employed Professionals, Agriculture, Fisheries, Education, Specific Employment oriented enterprises promoted by Bahraini youth & women and other segments as considered necessary with the main objective of value addition to the economy of the Kingdom of Bahrain.

Education Finance

Education finance is provided by way of Islamic (Finance) by Bahrain Development Bank with profit rate of 4% p.a. (flat) 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% p.a. (flat). Conventional: with 9.5% p.a. reducing interest rate. Minimum Financing Amount BD 3,000 usually used to finance a specific asset, such as plant or machinery, or working capital loans with a comfortable repayment and grace period.



BDB & Tamkeen Finance

Minimum Amount BD 5,000 with profit rate ranging from 4.27% p.a. (flat) to 4.56% p.a. (flat) depending on the tenor. 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.



Overdraft Facility

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



Letters of Credit

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



Agricultural Loans

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



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 requirement for Bid Bond, Performance Bond and an Advance Payment Guarantee.

Fisheries Loans

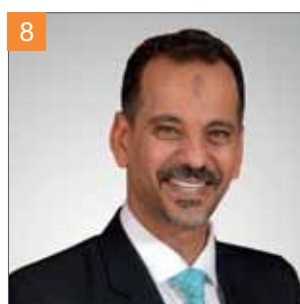
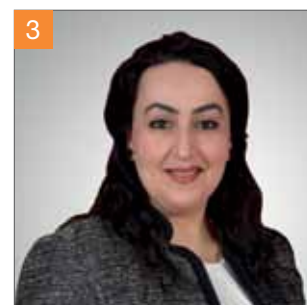
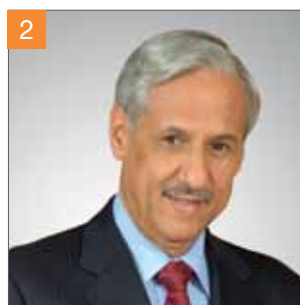
We offer loans for fisheries with 0% interest rate to assist them in purchasing new/used boats, engine, spare parts, fishing items, or for maintenance. The maximum facility amount is BD 15,000.

Board of Directors



1. Shaikh Mohammed Bin Essa Al Khalifa Chairman

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



2. Mr. Saleh Hassan Ali Hussain

Board Member

Holds a Master's degree in Business Administration from Brunel University in United Kingdom with over 35 years of banking experience. He is the President of Saleh Hussain Consultancy and holds the following memberships:

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

3. Ms. Vivian Abdulla Jamal

Board Member

Currently heads the Global Communications and Marketing Department as Executive Director at the Bahrain Economic Development Board (EDB). Prior to that, Ms. Jamal was Executive Director for the Business Development Division. Previously, she held the position of Global Communications and Marketing Director for TAIB Bank E.C. and its thirteen subsidiaries worldwide. Before that, she worked as a business developer for Stark Integrated Marketing - a New York based communications company. Her role included establishing a regional office, new business development and project management in the Gulf region. Academically, Vivian was awarded a B.Sc. in Architectural Engineering from the University of Bahrain with distinction and an Honours Masters of Business Administration, Economics and Finance from the Charles H. Kellstadt Graduate School of Business - DePaul University, USA. She currently holds the following positions by special appointment:

- Board Director of Bahrain Development Bank
- Member of the National Committee for the Implementation of the US-Bahrain Free Trade Agreement
- Member of the National Oil & Gas Committee

4. Mr. Abdullellah Ebrahim Al Qassimi

Independent, Non-Executive Board Member

Appointed 15 July 2012 and elected 31 March 2013 (approved by the CBB on 9 May 2013) Mr. Al-Qassimi has more than 32 years of diversified management experience. His previous positions include Chief Executive of the Labour Fund (Tamkeen), from which he resigned in May 2010, Deputy Chief Executive Officer of Labour Fund Project at the Bahrain Economic Development Board, Assistant Undersecretary for Training at the Bahrain Ministry of Labour

and Social Affairs, Director of Engineering and Maintenance at the Bahrain Ministry of Health. He has also served as the Chairman of the Bahrain Qualifications Framework Steering Committee and the Steering Committee of Career Expo and was a Board member of the Bahrain Society of Engineers and the Bahrain Consumer Protection Society. He is currently a Member of the Board of Ithmaar Bank, Tamkeen, Solidarity Group Holding, Durah Resort Management Company, Naseej BSC, Faysal Bank Limited (Pakistan) and the Bahrain Development Bank, as well as a Member of the Committee for HRH Princess Sabeeka bint Ibrahim Al Khalifa's Award for Women Empowerment (Supreme Council for Women, SCW). Mr. Al-Qassimi holds a B.Sc. in Civil Engineering from Queen Mary College, University of London, UK, and an M.Sc. in Health Facility Planning from the University of North London, UK, and a Diploma in Health Care Management from the Royal College of Surgeons in Ireland, Bahrain.

5. Mr. Saqer Shaheen Saqer

Board Member

Mr. Shaheen is the 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 Co. SPC, etc. He also holds various positions in the following associated Companies: Chairman of Hilti Bahrain; Executive Director of Abrasive Technology Industries, KSA; and Chairman of Asmak B.S.C.(Closed). He is currently the Vice Chairman of LMRA, the Board Member of Naseej B.S.C., the Board Member of Marina Club, the Chairman of Fraser Suites Bahrain, the Vice Chairman & Executive Committee Member of Seef Properties and the Board Member of Amlak. He is also a registered International Consultant in the United Nations Industrial Development Organization (UNIDO). He was a former Board Member in organizations like Telecommunication Regulatory Authority, Social Insurance Organization, OSOOL Asset Management, Bahrain Chamber of Commerce & Industry, Gulf Organization for Industrial Consulting, Gulf Petrochemical Industries Co. BSC., and Vice Chairman of BALEXCO, Chairman of Bahrain Industrial Group, Vice Chairman of Bahrain-Philippines Business Council, Vice Chairman of Bahrain-Thailand Business Council, and Chairman of Bahrain-Morocco Business Council etc.

6. Dr. Mohamed Ahmed Juman

Board Member

Holds a degree in Electrical Engineering in the fields of electronics and telecommunications from Concordia University in Canada. He gained his M.Sc. in Project Engineering from

the University of Lancaster and later graduated with a Ph.D. in Avionics from Cranfield University. Dr. Jumaan began his career in the Civil Aviation as an Electronics Engineer and then progressed to the post of Director of Air Navigation. He has extensive experience in the design, implementation and management of Engineering and Information Technology projects ranging in value from BD100k to BD50m. In 2005, Dr. Jumaan retired to create and invest in new businesses. During the last ten years he has managed to establish, invest, finance and grow several different businesses in the IT, Engineering and Real Estate domains. Some of these companies are TIG Software (Import, export and sale of computer hardware and software systems), Red Stallion Interactive (Computer software design, development and maintenance), Mena Aerospace Enterprises (an Aviation Company), Pan Gulf Gourmet (Food & Beverage company) and ATYAF (a Telecommunications Company). Dr. Jumaan is also the member of a number of prestigious societies globally such:

- Fellow Member of the Royal Aeronautical Society (FRAes)
- Fellow Member of the British Computer Society
- Senior Member of the Institute of Electrical and Electronics Engineering and several others.

7. Sh. Wesal Bint Mohammed Al Khalifa

Board Member

Holds a B.Sc. in Business from Richmond American University in London, and has been a member of the Supreme Council for Women, Bahrain from 2007-2014. She has also managed the office of Sh. Hala Bint Duajj Al Khalifa from May 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 to the UK. Founder of "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 a number of charity organizations inside and outside the Kingdom.

8. Mr. Ebrahim Abduali Al Daaysi

Board Member

Holder of a Master's degree in Management and Computer Science, Mr. Aldaaysi is the CEO of Aldaaysi Holding for the last 32 years. He is a Board Member of Labour Fund (Ministry of Social Development), Food World in Saudia Arabia and Life Telecommunication Bahrain and Saudia. Is also a Board Member of Range Hospitality UAE, AlKawather Orphan Society, Bahrain and Range Development Cayman Island, to name a few. He is a former Board Member of the Bahrain Chamber of Commerce and Industry heading the Food & Agriculture Committee.

Chairman's Statement



**Shaikh Mohammed Bin Essa
Al Khalifa**
Chairman of the Board

BDB's plan was focused on adopting effective integrated programs to facilitate the establishment of small and medium-sized enterprises with a focus on expansion and development of existing enterprises.

I am pleased to present to you the Annual Report of the Bahrain Development Bank Group and its subsidiary (BDB) for 2015, which includes the financial statements of the Group and its overall activities including financing, development and operations that have been implemented based on the plan drawn for this year; this encompasses the BDB's five-year strategy (2015 to 2019) which is aligned with Bahrain's Economic Vision 2030.

BDB's plan was focused on adopting effective integrated programs to facilitate the establishment of small and medium-sized enterprises with a focus on expansion and development of existing enterprises. The plan also enabled BDB to play a major developmental role through diversification of its investment activities with a focus on new sectors with added value such as refining industry, food industry, tourism, and health projects. At the core of this plan was also the aim to support troubled projects and put them back on the path to profitability. Since small and medium enterprises form an integral part of the business activity and impact entrepreneurial development in the Kingdom of Bahrain, these mechanisms were designed and implemented in accordance with the BDB's expertise in this area and were in line with the existing economic, financial and technological conditions on local and global levels.

The result of these plans has been that the Bank has achieved good results on the financing front, with total financing portfolio for this year amounting to BD 77.6 million for all funding programs, compared to BD 55.6 million in 2014, registering an increase of 40%. While the total cost of the projects funded amounted to BD 91.7 million, compared with BD 60.6 million in 2014, thus achieving a 51% growth.

Several other economic indicators were also achieved such as an increase in job opportunities, the size of exports and the inflow of foreign investments resulting in value-added and significant growth compared to the previous year; the performance of these indicators were based on expectations associated with the start of work that was financed and projects that went into operation.

With an aim to develop Bahraini youth and strengthen their capacity to take up entrepreneurship alongside the establishing of small enterprises, the Group developed a number of programs like the "Pioneers" program which is a comprehensive program designed to support entrepreneurs develop their ideas and start their own businesses.

Supporting entrepreneurship will remain a key element in our development plans as we will continue to provide a variety of programs and activities that contribute in attracting existing entrepreneurs as well as encouraging students of secondary schools and universities to consider entrepreneurship as a viable option.

As the economic conditions veer towards instability, it casts a shadow on the business and investment environment, thus posing a big challenge for BDB in terms of providing financing and encouraging development of small and medium enterprises which serve as alternative economic tributaries critical to the diversification of the national economy. In this scenario, it is even more imperative that we as a Group intensify our efforts to strengthen and improve the performance of the private sector institutions through the encouragement of quality investment opportunities in various sectors.

In conclusion, I am pleased to take this opportunity to extend my sincere thanks and gratitude to the wise leadership represented by His Majesty King Hamad bin Isa Al Khalifa, King of Bahrain, His Royal Highness Prince Khalifa bin Salman Al Khalifa, the Prime Minister, and His Royal Highness Prince Salman bin Hamad Al Khalifa, Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister, for their continued support of the Group.

I would also like to express my sincere thanks and gratitude towards the members of the Board of Directors and all team members of the group, as well as all the partners for their continued involvement and guidance.

We look forward to strengthening our partnerships with the coordination of joint efforts and initiatives so as to contribute to the development of the small and medium enterprises' performance in the Kingdom of Bahrain thus delivering on our overall mission to enhance self-employment and achieve higher contribution of this sector towards the national economy.

Shaikh Mohammed Bin Essa Al Khalifa
Chairman of the Board

Corporate Governance

Bahrain Development Bank BSC (C) (BDB) is committed to full compliance with the values and the best international practices/standards of personal and professional ethics. Fulfilling this commitment requires that everything done by the group, either collectively or individually, is consistent with the highest ethical and professional standards.

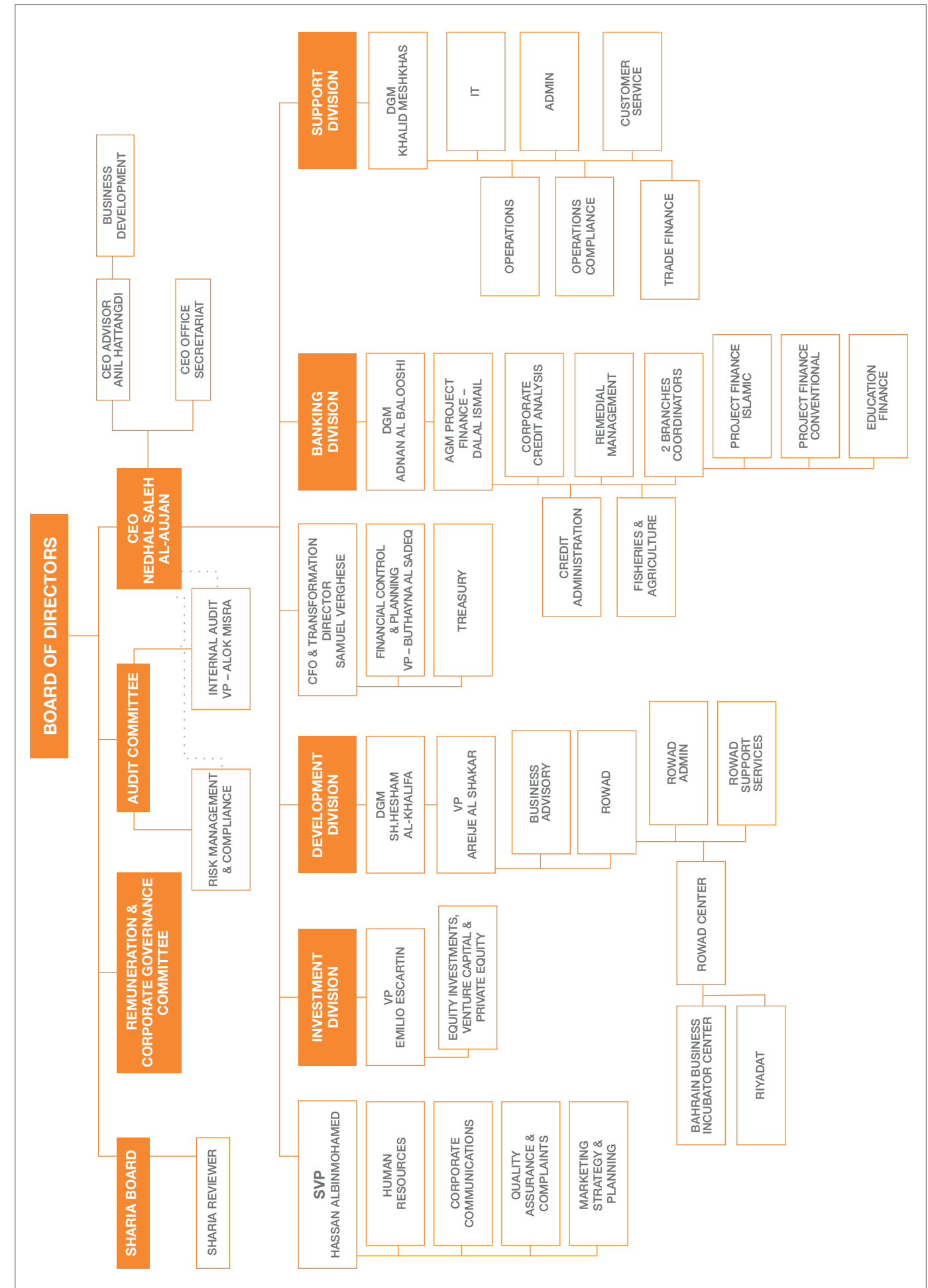
BDB's Board Directors have validated the Corporate Governance principles and practices in the policy documents, '(1) Commitment by Board of Directors & Management of BDB Group to the Code of Conduct and (2) the Code of Ethics & Business Conduct', which are endorsed by BDB employees.

BDB's Board of Directors, nominated by a Royal Decree, presently comprises of eight independent Non-Executive Directors, including the Chairman. The Board is guided by its Charter framed in accordance with applicable regulations. The Board establishes the objectives of the bank, provides guidance & approves the strategy, budgets for achievement of the Bank's objectives, adopts and reviews the systems and controls framework, monitors the implementation of strategy by the management, overall group & management performance, ensures accurate preparation along with disclosure of the financial statements, monitors conflicts of interest in preventing improper related party transactions. The Board also provides assistance in securing funding from government and semi-government institutions and continues to focus on long term strategic issues; growth and diversification of BDB group's activities, and the achievement of its vision and mission.

The Board of Directors is assisted by following Board Committees: (1) Remuneration and Governance Committee (2) Audit & Risk Committee (3) Sharia Supervisory Board and a new committee to be appointed: (4) Credit & Investment Committee. The members of Senior Management regularly attend Board & Committee meetings. The responsibilities of these committees for oversight are governed by their respective Charters, terms of reference and functions under its supervision that are reviewed and updated periodically. While RGC is assisting the Board in

strengthening the corporate governance standards and implementation of sound remuneration and HR practices, the Audit & Risk Committee assists the Board in carrying out its duties regarding the integrity of the Bank's financial reporting system; the adequacy of the Bank's internal control and risk management processes; the performance of independent auditors and internal audit function; the independent Auditor's qualifications & independence and the Bank's compliance with legal obligations and the Sharia Supervisory Board comprising three Islamic scholars provides guidance, reviews and supervises the Bank's Islamic financing activities to ensure that they are in compliance with Islamic Sharia's rules and principles.

In addition, the Remuneration & Governance Committee and Audit & Risk Committee also assist the Board in conducting self-evaluation of the Board & Committees thereof indicating high level of involvement and understanding among Board members of its roles and responsibilities, with suggestions for further improvements. In 2015, the Bank's Board approved a Five Year (2015-2019) Strategy design that included growth strategy and implementation plan developed by Oliver Wyman - a reputed consultant firm for BDB.



Corporate Governance (continued)

Board Meetings and Attendance

Details of meetings held during 2015 and attendance of Directors are as follows:

S.No.	Name of the Directors	25 Feb	18 Mar	29 Apr	16 Jul
1	H.E. Sh. Mohammed Bin Essa Al Khalifa	✓	✓	×	✓
2	Mr. Saqer Shaheen Saqer	✓	✓	✓	✓
3	Ms. Vivian Abdulla Jamal	✓	✓	✓	✓
4	Mr. Abdullellah Ebrahim Al Qassimi	×	✓	✓	✓
5	Mr. Saleh Hassan Ali Hussain	✓	✓	×	✓
6	Dr. Mohamed Ahmed Juman	✓	✓	✓	✓
7	Sh. Wesal Bint Mohammed Al Khalifa	×	×	×	×
8	Mr. Ebrahim Abduali Al Daaysi	✓	✓	✓	×

Audit Committee Meetings and Attendance

Details of meetings held during 2015 and attendance of Members are as follows:

S.No.	Name of the Directors	18 Feb	26 Apr	15 Jul	1 Nov	28 Dec
1	Mr. Saqer Shaheen Saqer	✓	✓	✓	✓	✓
2	Mr. Abdullellah Ebrahim Al Qassimi	✓	✓	✓	✓	✓
3	Mr. Saleh Hassan Ali Hussain	✓	✓	✓	✓	✓

Remuneration and Governance Committee

Details of meetings held during 2015 and attendance of Members are as follows:

S.No.	Name of the Directors	29 Apr	16 Jul
1	H.E. Sh. Mohammed Bin Essa Al Khalifa	×	✓
2	Ms. Vivian Abdulla Jamal	✓	✓
3	Dr. Mohamed Ahmed Juman	✓	✓

Sharia Supervisory Board

Details of meetings held during 2015 and attendance of Members are as follows:

S.No.	Name of the Directors	5 Feb	8 Apr	29 Jul	13 Oct	27 Dec
1	Sh. A. Nasser Omar Al Mahmood	✓	✓	✓	✓	✓
2	Sh. Muhammed Burhan Arbouna	✓	✓	✓	✓	✓
3	Sh. Omar Alani	✓	✓	✓	✓	✓

Details of Remuneration Paid for the Financial Year Ended 2015

Categories	No.	Fixed Remuneration			Variable Remuneration	Total
		Salaries & Wages	Other Benefits/ Allowance	Total	*Performance Bonuses (in cash)	
1. Members of the Board	8		60,000	60,000		60,000
2. Approved Persons (not incl in 1, 3, to 6)	4	254,100	81,484	335,584	134,063	469,646
3. Approved Persons in Risk Management, Internal Audit, Operations, Financial Control, AML, Compliance Functions	5	189,160	71,752	260,912	59,550	320,462
4. Employees Engaged in Risk taking activities (Business Areas)	91	1,216,740	246,153	1,462,893	211,595	1,674,488
5. Employees other than approved persons engaged in functions under 3	44	421,728	90,997	512,725	79,486	592,211
6. Other Employees	60	749,703	155,614	905,317	185,749	1,091,066
Total	212	2,831,431	706,000	3,537,431	670,443	4,207,874

* Pending for approval

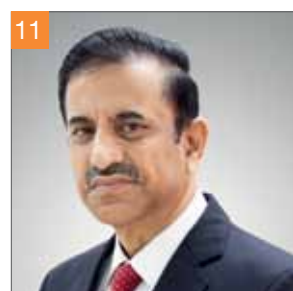
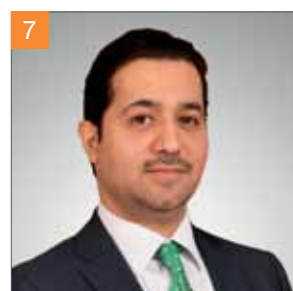
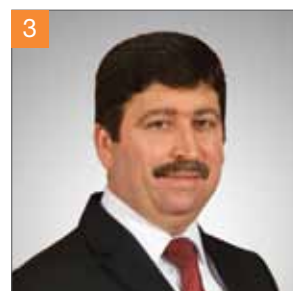
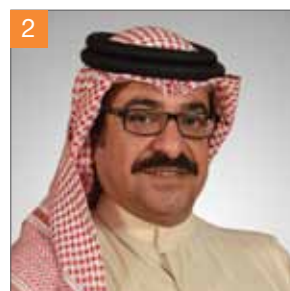
Management Executive Committee



1. Nedhal Saleh Al-Aujan

Chief Executive Officer – BDB Group of Banking, Investment; Business Advisory, Incubation and Support Services

Joined in 1999 and was promoted by the Board as General Manager in 2001 and as CEO in 2007. Held senior managerial positions at Standard Chartered Bank and Al Ahli United Bank. Has over 32 years of experience in banks. He is the Chairman of Gulf Diabetes Specialist Centre BSC (C), Arabian Taxi Company BSC (C), Middle East Corner Consultancy Company WLL, Director and Chairman of the Audit Committee of Venture Capital Bank, Chairman of Executive Committee of Bahrain Business Incubator Centre SPC. He attended several external training programs including Citibank Credit Program in Athens (1986), the Gulf Executive Management of Strategic Leadership Program (1997), The Graduate School of Business of Columbia University, Harvard University Kennedy School of Government: (a) Financial Institutions program for Private Enterprise Development in (2008), and (b) the Program for Strategic Management for Leaders of Non-Governmental Organizations (2010).



2. Sh. Hesham Bin Mohamed Al-Khalifa

Deputy General Manager – Development Services Division

Sh. Hesham is a leading industry specialist on entrepreneurship and economic development holding over twenty years of experience. Throughout his career he has contributed to the development of numerous economic and social strategies and programs, namely the development and institutionalization of Bahrain-Arab Model for Enterprise Development & Investment Promotion in coordination with Bahrain Development Bank (BDB) and The United Nations Industrial Development Organization (Unido), the development of Bahrain Business Incubator, Riyadat (Women Incubator Center), Rukn.me (ICT Incubator), and various strategies in economic development and entrepreneurship. In his role Sh. Hesham serves as board member of various steering committees and societies in support of entrepreneurship such as MENA Inc, AIESEC, and KPMG Entrepreneurship.

3. Adnan Mahmood Al Balooshi

Deputy General Manager – Banking Services Division

Board member of Asmak, Board Member of Gulf Diabetes Specialist Centre BSC (C), attended the Harvard Kennedy School Financial Institutions Program for Private Enterprise Development. Has over 33 years of banking experience. He has worked with Bank of Bahrain & Kuwait, Al Ahli Commercial Bank, Gulf Riyadh Bank in various areas including as Head of Credit Administration and Corporate Manager. He joined Bahrain Development Bank in 2005.

4. Khalid Yousif Meshkhas

Deputy General Manager – Support Services Division

Board Member of Bahrain Specialist Hospital BSC (C) and Estate Company for Health Services WLL. Holds an Associate Diploma in Accounting from University of Bahrain and Advanced Banking Diploma from Bahrain Institute of Banking and Finance (BIBF). Mr. Khalid has gained 25 years of combined banking experience from conventional & Islamic Banks. During his career he has worked with National Bank of Bahrain and Al Salam Bank in various operation departments such as Loans, Time Deposit, Money Transfer, Commercial Services, Customer Services and Treasury back-office. He has also worked in the marketing field which includes Retail & Commercial Banking. He joined Bahrain Development Bank in 2011.

5. Anil R. Hattangdi

Executive Vice President – CEO Advisor and Board Secretary

Holds a B.A. in Economics from Bombay University, and is a Certified Associate of Indian Institute of Bankers (C.A.I.I.B). After several years with Union Bank of India in Branch Banking, SME finance and District Development banking, joined Al-Ahli Commercial Bank, Bahrain (1980). He joined Bahrain Development Bank in 1997.

6. Dalal Ismail Ahmed

Assistant General Manager – Banking Services Division

Board Member of Ebdaa Bank. Holds an Advanced & Executive Management Diploma, Bahrain University, an Advanced Diploma in Islamic Finance, and a Treasury/Capital Markets Diploma (TCMDP) from BIBF. Has over 34 years of banking experience mainly in the fields of Retail, Commercial & Project Finance in conventional and Islamic banking with specific expertise in Credit Control, Risk Management and Legal aspects. She has worked with Ahli United Bank and Standard Chartered Bank in various area including branches, treasury and credit. She joined Bahrain Development Bank in 2003.

7. Hassan Khalil Al-Binmohamed

Senior Vice President – Human Resources & Corporate Communications

Holds a B.A. in Government from Eastern Washington University, USA; and a Diploma from Spokane Falls Community College, USA. He has obtained his CIPD in 2012 and attended Harvard Business School's Executive Program in 2013. He has 14 years of banking experience, having worked with Kuwait Finance House as HR Supervisor. He joined Bahrain Development Bank in 2005.

8. Samuel Verghese

Vice President Chief Financial Officer

Holds a B.Com, University of Calicut, India; and FCA, Institute of Chartered Accounts of India. Has experience of over 26 years of which 20 years has been in the Banking sector. Before joining BDB he has worked with Remya Plastics as Manager (F&A), Steel Authority of India Ltd (SAIL) as Junior Manager (Budget & MIS), The South Indian Bank Ltd, as Chief Manager (Corporate Financial Management), Kerala Financial Corporation as General Manager (Finance) and Oman Development Bank as Chief Accountant. He joined Bahrain Development Bank in 2007 as Senior Manager (Financial Control) and was Head of Internal Audit from 2008 till April 2015. He was designated as BDB CFO in 2015.

9. Buthayna Ahmed Al-Sadeq

Vice President – Financial Control

Holds a B.Sc. in Accounting, University of Bahrain, MBA (Strathclyde University), and CPA (California). Has over 15 years of banking experience and 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. Emilio Escartin

Vice President – Head of Investment

Board Member of Gulf Diabetes Specialist Hospital, BSC (c), BDB SME Fund Management Company, BSC (c) and Food Corp, WLL. Holds a B.Sc. in Business Administration from CUNEF (Universidad Complutense de Madrid,

Spain), General Management Program from IESE Business School (Universidad de Navarra, Spain), FIPED Program of Microfinance from HARVARD Kennedy School of Government (Harvard University) and a Corporate Finance Program with a focus on Companies Valuation by IE Business School (Madrid, Spain). Holds 20+ years of experience in Private Equity, having managed 4 Private Equity Funds (EBN VACCARIA FUND, EBM ALISMA FUND, EBM PRINCIPIA FUND and DIANA CAPITAL FUND I). During his career he has worked as an Investment Director of Private Equity of EBN CAPITAL (General Partner of Private Equity of EBN BANK) in Madrid (Spain), where he managed 3 Private Equity Funds (1 Startup Fund and 2 Funds specialized in Growth Capital and Buyouts). He was member of the Board of Directors of EBN CAPITAL, Pescanova, Textura, Cadena Q and Nekicesa. He was Director of BDO Corporate Finance and Transaction Advisory Services (M&A, Due Diligence and Valuation) in Madrid (Spain). He also worked as an Investment Director of DIANA CAPITAL in Madrid (Spain), a Private Equity firm raising and managing DIANA CAPITAL FUND I; and Senior Associate of M&A of a subsidiary firm of CCF-Charterhouse (HSBC). He joined Bahrain Development Bank in 2014.

11. Ashok Gulvady

Senior Vice President Head – Risk Management & Compliance

Holds a B.Com and is a Certified Associate of the Indian Institute of Banking (CAIB). Has over 38 years of all-round banking experience out of which more than 29 years in the Arabian Gulf (Bahrain / UAE). He has held senior positions in various banks including Barclays Bank, Dubai (Head of Corporate Credit – UAE & GCC) and National Bank of Fujairah (Senior Executive – Risk Management). During his career he has been nominated for several high profile training courses and seminars in London, Cyprus, Hong Kong and Singapore. He joined Bahrain Development Bank in 2013.

12. Alok Misra

Vice President Head – Internal Audit

Joined BDB in 2015. Is a Chartered Accountant from India and a Certified Internal Auditor from the Institute of Internal Auditors, USA. Over a career spanning 27 years of banking and financial services experience, Alok has worked in Internal Audit in banks in India, Oman and Bahrain for 12 years. Prior to joining BDB, Alok was the Head of Audit for a retail commercial bank in Bahrain for over 4 years.

CEO's Statement



Nedhal Saleh Al-Aujan
Chief Executive Officer

At the end of year 2015, we reflect on a year past and assess our performance and efforts with objectivity, so that we may move forward with our strategic objectives to fulfil the aspirations of our enterprising customers as they continue to progress further. We march ahead with confidence guided by the principles of a comprehensive long-term vision consistent with Bahrain's Economic Vision 2030.

As per the economic indicators and the Bahrain Development Bank's 2015 report, the Bank showed significant growth compared to the year 2014, whereby the volume of investment on projects which was funded by the Bank reached BD 91.7 million compared to BD 60.6 million for 2014, an increase of 51%.

The total finance portfolio equaled BD 77.6 million compared to BD 55.6 million, an increase of 40% across all the funding programs offered by the Bank represented in the financing of small and medium enterprises and the financing for specific sectors like Fisheries, Agriculture, Finance and Education.

On the other hand, key economic indicators reported a significant increase in volume of exports compared to 2014, with exports reaching BD 30.1 million compared to BD 16.2 million, an increase of 86%, while foreign currency amounted to BD 43.5 million compared to BD 26.3 million, an increase of 65%. The added value achieved by these projects funded by BDB amounted to BD 48 million compared to BD 32 million, registering an average increase of 50%.

New jobs resulting from these projects totaled 4,308 jobs compared to 3,811 opportunities arising for the year 2014, an increase of 13%.

In terms of the size of projects or beneficiary institutions that were in receipt of the funding, the percentage of small enterprises was 49%, while the proportion of medium-sized enterprises amounted to 51%. New customers who were brought in by the bank increased by 52% while the number of beneficiaries of Consulting Services totaled 3,850 which included business entrepreneurs and students of schools/universities among others interested in entrepreneurship.

The positive results achieved by the Bahrain Development Bank - and the group in general - during the year 2015, which saw a significant increase compared to the year 2014, was a result of the group's adoption of new initiatives and mechanisms for financing small and medium enterprises, either through direct funding or through investment and participation in the capital, which also involved the search for suitable investment opportunities in promising sectors.

Initiatives in 2015:

- The application of new technology systems and speeding up of the funding procedures, as well as the improved branch services and their inter-connectedness with each other for more effective operations.
- Opening of a new branch in Seef Mall-Muharraq during the first half of the year 2015 to reach small and

medium-sized enterprises located within the Muharraq Governorate, which represent a variety of economic activities across sectors and covers a number of industrial areas.

- The volume of the finance portfolio between the BDB and "Tamkeen" totaled BD 202 million, whereby this joint financing program for small, medium and growing enterprises contributed towards achieving of its overall objectives.
- Signing of an agreement between the Bank and "Tamkeen" to promote "Incubators Support Program", which is a joint initiative between the two parties to support start-ups in their initial stages.
- With regard to the developmental services (consulting, training, incubation), the group has launched several initiatives and programs specialized in these areas through programs and services focused on business development and training of entrepreneurs.
- Providing integrated support for companies and institutions owned by the Bank, or those where the Bank has specific shares, in order to achieve the desired development of the group as a whole.

While these may be the highlights for 2015, it is obvious that our task does not end there, that we will continue evolving our effective development processes to match our rising aspirations with new improved ways and compatible solutions that are in sync with the emerging market dynamics to put forth viable alternatives and innovative solutions for the benefit of our customers.

In conclusion, it is my pleasure to express my sincere thanks and gratitude to the wise government for its continued support, and special thanks and gratitude to the Chairman and members of the Board of Directors, and to all institutions and local, regional and international bodies cooperating with the bank, particularly the Ministry of Finance, Ministry of Industry and Commerce, and our strategic partner, "Tamkeen", along with the Supreme Council for Women.

I am also pleased to express my sincere thanks and appreciation towards the Executive Management team and all the employees of the Bahrain Development Bank Group for their hard work and determination to work as a family for the sake of the renaissance of our beloved Kingdom.

Nedhal Saleh Al-Aujan
Chief Executive Officer

Management Review

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

Business Banking

BDB as a development financial institution has been playing a vital role in the development of the SME sector in Bahrain. The year 2015 was significant as the Bank adopted some of the recommendations of the consultants "Oliver Wyman", namely forming a team of Senior Account Officers for concentrating on sourcing medium deals and Syndicated / Club Deals, which has helped in showing better performance. It has been our considered view that medium deals contribute more towards overall development and growth of the economy in terms of providing more employment, import substitution, export earnings and value addition to the economy.

Further, development of the medium segment will also help in development of ancillary and small businesses. The Bank continued to support financing small businesses and start-up business ventures and encouraging / motivating more of Bahraini youth and women to venture into the challenging careers of entrepreneurship. With the blended version of specially customized finance products and the unique business advisory and consultation services, the Bank offered its clients a package of support to facilitate business establishment and operational growth.

The Bank, during 2015, registered an impressive performance under disbursement to the SME sector by assisting 1,063 clients with a total funding of BD 75.434 million. During the previous year 2014, 966 clients were assisted with a total funding of BD 54.071 million. Thus growth in disbursement to the SME sector was around 40% during 2015. The manufacturing sector accounted for 36% of the total disbursement.

Our specialized financing products under the BDB-Tamkeen Joint Finance Scheme continued to be much sought after by the SME segment. The Bank continued its thrust on lending to the SME sector under the scheme. On account of overall economic slowdown in the global economy coupled with market conditions prevailing in

the local market, many of the 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 2015, a total of 352 SME clients were assisted in the form of restructuring of their facilities involving outstanding of BD 8.150 million, to enable them to tide over their financial difficulties.

The Bank continued its financial assistance to other priority sectors like fisheries and agriculture, thereby enabling the clients to acquire gainful self-employment and earn their livelihood. The Bank is also contributing towards enhancing the level of education of the Bahraini youth through its Education Finance Scheme.

The performance in the area of economic contribution through our financing activity has been encouraging. The financing made by the Bank facilitated in creating an estimated 4,308 jobs. Similarly, significant contributions have been made in other economic parameters namely facilitating exports of BD 30.141 million and foreign investment of BD 11.313 million and import substitution of BD 17.373 million.

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

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

1,063

SMEs received financial assistance

4,308

New jobs created

BD75,434

Disbursed to SMEs

Investment Division

In line with The Kingdom of Bahrain's Economic Vision 2030 to promote economic diversification and reduce the Kingdom's dependency on hydrocarbon sector, and as part of BDB's continued efforts to assist entrepreneurs and the private sector, the Investment Division works closely with the Banking Division and the Development Division to identify opportunities and offer a complete platform for entrepreneurs consisting of a wide variety of products and services including Equity, Credit Facilities, Advisory Services and Incubation.

The Investment Division provides minority interest equity participation as a shareholder into private companies as a mode of financing. Investments can be made at different levels of a firm's business cycle, including establishment and growth stage, focusing primarily on businesses with opportunity to be leaders in a fragmented market, firms with potential for going international, and those with high commitment from both its owners and management. The main aim is to assist the entrepreneurs in achieving their goals and reaching their full potential.

Currently, BDB holds investments in 21 companies, out of which 6 were new investments made during the year 2015. As part of the bank's efforts to support economic diversification and the private sector in The Kingdom of Bahrain, the Bank's Investment portfolio has focused on supporting key industries such as Food and beverages, Transportation, Manufacturing, Recycling, Services, Microfinance, Healthcare, and

Business Incubators among others. BDB's Investment Division support to the above mentioned companies has helped in creating 194 new jobs with a value added of BHD 4.6 million during 2015.

The total fair market value of the bank's Investments was BHD19.5 million at the end of 2015. The total income generated from Investments during the year 2015 was BHD 1.8 million. During the year 2015, the realized gain on sale of investments was BHD 665 thousand out of which BHD 500 thousand was adjusted to opening retained earnings and the remaining BHD 164 was recorded in the income statement. Moreover, the Bank earned BHD 104 thousand from dividend income. The Bank also recorded an unrealized gain of BHD 1.6 million due to fair valuation of Equity Investments as per the provisions of IFRS9.

During the year 2015, the bank has launched SME Fund I, a Private Equity Fund with a geographic focus on the Kingdom of Bahrain where BDB will be the seed investor. The Fund is a Shariah Compliant closed-ended Bahrain domiciled PIU created pursuant to the Collective Investment Undertakings Module contained in Volume 7 of the CBB Rulebook. The bank's subsidiary BDB SME Fund Company, BSC (c) was created to issue units in the fund. The fund's objective is to invest in small and medium size companies in the growth stage of their business cycle. The target sectors include Healthcare, Education, Manufacturing, Retail, Infrastructure and others that meets Shariah principles.

Development Services Overview

Development Services is an entrepreneurial division reaching out to the public in an effort to foster an entrepreneurial, innovative, and enterprising society highlighting the importance of developing a national economy driven by the private sector through the organization's core objective and mandate of supporting entrepreneurs and SMEs in Bahrain. The division hosts a unique set of products and services delivered through an innovative platform tailored to meet the needs of entrepreneurs and sectors in line with the National Economic Strategy and Vision 2030.

Development Services Division aims at providing a holistic ecosystem for entrepreneurs through its sub-units and departments which include; Business Advisory and Rowad Subsidiaries.

Our mission is to foster an entrepreneurial, innovative, and enterprising society. With a vision to develop an entrepreneurial knowledge based economy with quality growth and diversification.

The Business Advisory Department is comprised of a team of certified coaches and mentors and focused on the development of entrepreneur capacity through specialized programs in training, coaching, funding, and mentorship. The Business Advisory team offers products and services under the umbrella of the Rowad Program.

The Rowad Program a comprehensive platform designed to assist and empower entrepreneurs in starting their business.

The program supports entrepreneurs from the earliest stage of idea conceptualization all the way to scaling and growing their business along with support through distressed stages. The program resides on the main pillars of Coaching, Training, Incubation, Funding, and Mentoring, offering entrepreneurs a holistic platform of products and services.

The Rowad Coaching program focuses on enabling and empowering entrepreneurs. The Rowad Coaching program aims at developing individuals to drive successful businesses. This program tracks the entrepreneur's personal development along with the business progress in a structured approach, guiding them to learn all the required skills to successfully run and grow their business, and support them in developing their businesses, overcoming challenges, and helping them achieve any goals they have as entrepreneurs. Coaching is offered at any stage of the business cycle and here are some of the areas that **coaching is offered: Startup Coaching, Business Plan Coaching, Personal Development Coaching, Business or Growth Strategy Coaching, Export Coaching**

Rowad Training comprises a variety of capacity building programs that are designed to help entrepreneurs develop and enhance their soft and business skills in order to be able to start-up or scale their business and be able to attract funding whenever required. These programs are available for start-ups and growing enterprises and those at other stages of the business cycle. The aim of the training is to assist entrepreneurs in testing their business ideas, developing a business plan, to serve as a road map for start-ups and growth enterprises, help attract investment, explore market opportunities, limit error and risk during the start-up stages of a business, present practical examples of entrepreneurial success and their business strategies, the importance of growth strategy for every startup, help companies scale and grow their business, and introduce them to the entrepreneurship ecosystem and its support programs.

Rowad Incubation Centers are dedicated to supporting the successful development of pioneering entrepreneurial enterprises with a vision of providing an ideal environment to accelerate the growth of business enterprises. As a tenant of the Rowad Centers, entrepreneurs can benefit from subsidized rental fees, advisory services, training, coaching, access to finance,

business linkages, marketing support, and other shared facilities. Rowad is a subsidiary owned by the Bank which hosts all the various incubator centers owned and operated by the Bank itself through the Development Services division. **Centers include: Bahrain Business Incubator Center, Riyadat, and Rukn.me**

Rowad Funding supports the growth and development of innovative projects through equity & debt financing clubbed with advisory support services. The program supports projects that yield substantial economic, social & environmental benefits; giving priority to projects that have a strong impact on the economy such as high productivity, job creation, and export capabilities, among others. Debt Financing Options provided through BDB Banking Division which include: Loans, LG, Trade Finance. Equity Funding Options provided through the following: Pre-Seed Grant (BD 5,000 given by BDB in partnership with Tamkeen), Seed Fuel (BD 25,000 investment at seed stage by Development Services at BDB), Equity Investment (BDB Investment Division), and through other network startup funds and venture capital entities.

The Rowad Mentoring Program is a network built to help all types of entrepreneurs at any stage of the business cycle. Our network consists of individuals from different backgrounds which include entrepreneurs, industry specialists, academics, certified mentors, and organizations to support entrepreneurs and assist them to start-up, grow, or even enhance their distressed enterprise. Rowad Mentoring Program is a global program that also provides virtual mentorship for those who are challenged by physical distance.

Mentoring is an important tool for entrepreneurs to avail of at all stages of the business cycle and the Rowad Mentoring Network provides them with access not only to their very own network but also to other mentor networks regionally and globally.

Management Review (continued)

Development Services witnessed yet another year of growth through innovative projects and new initiatives in line with Bahrain's Economic Vision 2030 with the emphasis on developing the human capital of Bahrain and facilitating an entrepreneurial based economy.

During 2015, BDB Investment Division identified companies (medium sized) demanding equity funds for BD 25 million in order to use for expansion of their activities internationally to GCC countries and abroad.

Development Services

Development Services is an entrepreneurial division that delivers an innovative platform of development services and products that are tailored to meet the needs of entrepreneurs and sector specific industries in line with the National Economic Strategy.

Development Services launched the Rowad Program in 2015, a holistic program designed to assist and empower entrepreneurs in starting their business.

In 2015, Development Services continued on its mission to foster an entrepreneurial, innovative, and enterprising society highlighting the importance of developing a National Economy driven by the private sector through the organization's core objective and mandate of supporting entrepreneurs and SMEs in Bahrain.

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

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

Rowad is a subsidiary owned by the Bank which hosts all the various incubator centers owned and operated by the Bank itself through the Development Services division. Our incubators provide space and a range of business resources designed to support the successful

development of entrepreneurial companies in an environment allowing them to comfortably start-up and grow their business.

Development Services witnessed yet another year of growth through innovative projects and new initiatives in line with Bahrain's Economic Vision 2030 with the emphasis on developing the human capital of Bahrain and facilitating an entrepreneurial based economy. The year 2015 was dedicated towards not only introducing new services and products, but also enhancing our current platform in support of entrepreneurs of which the highlights are shared below:

Business Advisory New Products & Services

Rowad Program is a newly launched comprehensive program designed to assist and empower entrepreneurs in starting their business. The program supports entrepreneurs from the earliest stage of idea conceptualization all the way to scaling and growing their business along with distressed stages. The program resides on three main pillars which are Training & Coaching; Incubation; and Funding offering entrepreneurs a holistic platform of products and services. The program has offered its services to 3,265 beneficiaries which includes Training & Coaching, Incubation and Funding.

The Business Advisory Unit improved its Equity Advisory program to Rowad Funding in 2015, which aims at assisting the growth and development of innovative projects through equity financing clubbed with advisory support services. Rowad Funding supports projects that yield substantial economic, social & environmental benefits; giving priority to projects with strong value-added components, high productivity and potential for creating job opportunities for Bahraini citizens.

Milestones in Training & Events

The Business Advisory Rowad Coaching & Training team launched its newly developed specialized programs and presentations with network support organizations. These specialized programs & presentations were tailored to build awareness on Rowad programs as well as on various areas of entrepreneurship and the stages of the business cycle. This year 1,017 individuals benefitted from the specialized programs and presentations and the aim is to continue this growth to contribute towards building awareness on entrepreneurship in Bahrain. Rowad Specialized Workshops made its first appearance in 2015 with the launch of its Financial Management specialized workshop focused on developing value propositions for its Rowad program members and incubator tenants. Specialized workshops will continue in 2016 with a larger array of topics and themes.

The unit continued to conduct the Entrepreneurship Orientation Program (EOP) in 2015 continuing with interactive group activity, creativity and innovation being at the heart of the program and introducing new topics such as legal structures, intellectual property, and business model canvas. This year, 103 individuals were trained and the program completed its 40th batch of training.

Our annual initiative since 2010, GSVEC program in cooperation with the Ministry of Education for final year students ran its 6th Batch of Takween Program which trained 664 students this year. The training focuses on business planning, entrepreneurship awareness, and capacity building with a new focus on interactive group activity ending with a business plan presentation competition.

For the second consecutive year, the Business Advisory team worked with the Ministry of Education on the Ambitious Entrepreneurs program which is a national business plan competition for the Advance track commercial school students. This year our support extended to the program was in the form of coaching and judging. The program hosted over 265 participants in 2015 which is over 100% growth from the previous year.

In an effort to introduce new value propositions and create a community of entrepreneurs, the Development Services Division launched its Rowad Majlis in November 2015. Rowad Majlis is a quarterly networking evening where entrepreneurs can mingle with fellow entrepreneurs, industry specialists, incubator tenants, mentors, and coaches. Rowad Majlis will be held every quarter and will be an opportunity for entrepreneurs to meet and build their network, engage in thought provoking discussions on entrepreneurship and related topics, and become attuned to being part of a community.

Milestones in Technology & the ICT Sector

Bahrain Development Bank and the eGovernment Authority ran the second batch of Technopreneur Bahrain, an ICT accelerator program dedicated towards the growth of the ICT sector in Bahrain jointly initiated by both entities.

The program offers a unique and comprehensive platform to tech entrepreneurs (Technopreneurs) that includes capacity building, coaching, mentorship, and funding, as well as other support services aimed at developing their ICT concepts and transforming them into commercial business ventures.

During 2015, the three top project ideas of Technopreneur 1 were awarded funding and the second batch of the program has completed the program training and capacity building and will be funded in 2016.

Our Initiatives & Related Schemes

In 2015, the Development Services continued to publish Rowad Magazine, a licensed publication by entrepreneurs for entrepreneurs, distributed locally, regionally, and internationally. The quarterly magazine showcases success stories, serves as a reference tool for entrepreneurs, and features advice from other entrepreneurs across various industries.

The Pre-Seed Capital & Feasibility Study Support schemes in partnership with Tamkeen continued in 2015 where The Pre-Seed Capital scheme provided grants to two new entrepreneurs to support their innovative project ideas. The Feasibility Study Support helped three beneficiaries on their new ventures.

In line with the Bank and overall division strategy, 2015 aimed at enhancing current programs and incubator centers offering value propositions to improve entrepreneurial growth and development.

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. During the year about 93.6% of our staff (190 employees as of Nov. 2015) attended several in-house training sessions, courses run by the Bahrain Institute of Banking and Finance (BIBF) and elsewhere in Bahrain and abroad. Staff were trained on Anti-Money Laundering Procedures, BDB Products & Services Overview, Introduction to IPPF, Enterprise Risk Management & Risk Control Self-Assessment, Electronic Fund Transfer System, Corporate Governance & Value Creation and Islamic Financing. In addition to other specialized training sessions, conferences and workshops which were attended by key staff as well from the Bank.

Success Stories

BDB celebrates the success of Bahraini entrepreneurs who, with belief and confidence, brought their ideas to life and strived to better their success. Their stories serve as a motivation to institutions like ours that serve to broaden the entrepreneurial base, expand the national human resources and provide further employment opportunities with a view to diversifying the economic base of the Kingdom of Bahrain.



Success Stories

Hassan Salman

Jarada Fish

The idea of this unique project was born in 2003, following a long search for a solution to the marine planktons menace that fishermen faced. The most difficult type of plankton was the 'jellyfish', as it can cause serious skin burns once it touches the fisherman's skin. The jellyfish would also create obstacles for water desalination and electricity generation projects.

The concerned authorities did their best to get rid of a large number of jellyfish but the problem still persisted. Mr. Hassan Salman was able - due to his long marine experience - to find a very smart solution, that would invest this huge quantities of jellyfish into a profitable project.

He presented his idea to Bahrain Development Bank at that time and the project concept received a great welcome, and was financed and supported with confidence.

Today Jarada Fish exports jellyfish to Japan, Korea and China. Jellyfish is considered a popular dish in Japan, and it is also used to produce chemical fertilizers, medicines, and cosmetics.

“My advice to every entrepreneur before they start out on any project is to study the feasibility of his idea and to be directly involved in the business. I believe that each project, no matter how small, requires serious work and continuous pursuit of development and improvement. After that, success and profits are the blessings of God.”



Success Stories

Jamil Salman

Safa Poultry Farm

From being a conventional poultry to the largest poultry farm in Bahrain, Safa Poultry Farm has won many awards, including Frankfurt City Award for using the latest technology in the Middle East.

It is a story of ambition and dedication which started out with Mr. Jamil Salman's dream to create a legacy in the world of entrepreneurship. Since childhood, he was determined to be self-employed and work tirelessly to carve a name by developing a project that would create value for himself and his country.

The business enabled him to teach his kids the value of independence and self-sufficiency. Jamil Salman notes that his strong relationship with Bahrain Development Bank contributed to the success of his business; it was with their full support and financing, that he was able to achieve valuable milestones in managing a variety of projects, creating job opportunities for Bahrainis, and providing a healthy and modern environment for poultry farming.

“We are lucky in Bahrain as everyone has access to opportunities and support in every aspect of doing business. I would advice every entrepreneur that they should be willing to face the inevitable challenges with passion, determination, integrity, and relentless work to achieve their goals.”



Success Stories

Dr. Lamia Mahmoud

Specialized Dental Center

Despite the fact that Dr. Lamia comes from a wealthy background with lots of doctors in the family, it was her determination, skill, versatility and most of all her self-reliance that helped her make a place in the people's hearts through her dental clinic.

Dr. Lamia is also the first female Bahraini holding a Master's degree in Lazer Science from Germany. Her clinic became the first of its kind in Muharraq in 1996, and she became the youngest Bahraini female dentist to open her own private clinic in that area. That is the kind of passion and talent Dr. Lamia brings to her business also.

The Center started with just three people, and today the working team has reached a total of 35 people consisting of doctors, technicians and administrators. Her success led her to open another center in Riffa recently. She feels that her success was the result of pure ambition, and the desire to prove to oneself, it was also the result of taking calculated risks and structuring her unlimited ambitions. Dr. Lamia is truly proud to be one of many successful Bahraini women in business.

"I feel that excellent time management is one of the key foundations for success so as to maintain the balance and not compromise between family and career. Also Bahrain Development Bank has been an important part of the growth and success of my business from start until today and I appreciate their flexible and effective service."



Success Stories

Mohammed Al Aali

Wires International

What happens when an entrepreneur with sweeping ambitions and a distinctive character faces obstacles? He defies failure and decides to start afresh, no matter how challenging it might be. One such entrepreneur is Mr. Mohammed Al Aali who thinks he was actually lucky to handle a project that was drowning in difficulties. That motivated him to start fresh and develop the project with creativity and innovation.

Today, Wires International is considered the third largest manufacturer of aluminum wires in terms of production for it exports to more than 42 countries worldwide. In 2001, after receiving financing from Bahrain Development Bank, the size of the factory increased threefolds since its inception in 1984. Currently, work is in progress for further expansions with the support of BDB.

The factory had also developed strategic partnerships with international companies to market its products globally. The Wires International business model is today seen as an example of team work based on loyalty, where 90% of the factory's management are Bahrainis, and a lot of staff who started out as simple workers have become key personnel with senior positions.

“The foundations of my business success were patience and the right advice from professionals. No matter how experienced or intelligent one is, one must always listen to the advice of those who have more insight, like my father for example, who was the real entrepreneur behind this project. Our strength also lies in the creation of diversity and expansion which stems from the famous principle Think Global, Act Local.”

Financial Review

Overview

During the year ended 31st December 2015 the Bank achieved net profit of BD 1.03 million, as compared to a net profit of BD 705,000 during 2014.

At year-end 2015, the Bank's total balance sheet stood at BD 194.12 million, compared to BD 174.31 million at year-end 2014 with a growth of 11% mainly due to the significant growth of 27% in the loans and advances to the customers.

Net Interest Income

Net interest income of BD 6.11 million reported a marginal growth of 2% (2014: BD 5.99 million).

Other Income

Total other income generated during the year was BD 4.35 million (2014: 5.20 million). Other income includes 'Changes in fair value' of FVTPL investments of BD 1.55 million due to implementation of the new IFRS 9 standard.

Operating Expenses

Operating expenses of BD 8.95 million were increased by 24% to cater to the expenses related mainly to Sitra Mall transferred by Ministry of Municipality during November 2014 under BDB management and consultation fee paid for the strategic consultant of the Bank.

Net Provisions

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

The net provision for loans loss and impaired assets was BD 477,000 in 2015 as compared to BD 3.28 million for year 2014 due to strong recovery and maintaining better asset quality.

Assets

The net loans and advances to customers stood at BD 140.29 million, registering a growth of 27% as compared to 2014.

The Bank's Investment portfolio of BD 23.53 million (2014: BD 19.29 million) showing an increase of 22% was mainly due to reclassification of incubator assets of BD 9.47 million as Investment Property during 2015.

Equity

Bank's Equity stood at BD 77.19 million as compared to BD 75.82 million of 2014.

As against minimum capital adequacy ratio of 12% prescribed by the Central Bank of Bahrain (CBB), the Bank's ratio at year-end 2015 was 37% (2014: 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 2015

Contents

Corporate Information	08
Independent Auditors' Report to the Shareholders	38
Consolidated Statement of Financial Position	39
Consolidated Statement of Profit or Loss	40
Consolidated Statement of Comprehensive Income	41
Consolidated Statement of Changes in Equity	42
Consolidated Statement of Cash Flows	43
Notes to the Consolidated Financial Statements	44

Independent Auditors' Report to the shareholders

Report on the consolidated financial statements

We have audited the accompanying the consolidated financial statements of Bahrain Development Bank B.S.C. (the "Bank") and its subsidiary (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Responsibility of the board of directors for the consolidated financial statements

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

Auditors' responsibility

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

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

presentation of the consolidated financial statements. on on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2015, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

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

- 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 during the year of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1, applicable provisions of Volume 6 and CBB directives) or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and
- satisfactory explanations and information have been provided to us by management in response to all our requests.

KPMG Fakhro
Partner Registration No. 83
18 February 2016

Consolidated statement of financial position

Year ended 31 December 2015
(Expressed in Thousand Bahraini Dinars)

	Note	2015	2014
ASSETS			
Cash and balances with Central Bank of Bahrain	5	2,443	2,236
Placement with banks and other financial institutions	6	23,829	30,719
Loans and Islamic financing to customers	7	140,292	110,048
Investment securities	8	10,595	15,395
Investment in associates	9	253	272
Investment property	10	12,685	3,623
Property and equipment	11	1,321	10,760
Other assets	12	2,706	1,253
TOTAL ASSETS		194,124	174,306
LIABILITIES AND EQUITY			
Liabilities			
Term loans	13	45,323	37,398
Deposits	14	67,184	57,137
Other liabilities	15	4,400	3,949
Total liabilities		116,907	98,484
EQUITY			
Share capital	16	65,000	65,000
Statutory reserve	17	1,186	1,081
Investments fair value reserve		-	547
Other capital contribution	18	4,048	4,048
Retained earnings		6,959	5,146
Equity attributable to owners of the Bank		77,193	75,822
Non-controlling interest		24	-
Total equity		77,217	75,822
TOTAL LIABILITIES AND EQUITY		194,124	174,306

These consolidated financial statements, set out on pages 39 to 86, were approved for issue by the Board of Directors on 18 February 2016 and signed on its behalf by:

Chairman

Director

Consolidated statement of profit and loss

Year ended 31 December 2015
(Expressed in Thousand Bahraini Dinars)

	Note	2015	2014
INCOME			
Interest and Islamic financing income	19	7,764	7,283
Interest and Wakala expense	20	(1,651)	(1,291)
Net interest and Islamic finance income		6,113	5,992
Fee and commission income		753	419
Investment income	21	1,822	3,617
Share of loss in associates		(19)	(37)
Other income	22	1,795	1,198
TOTAL INCOME		10,464	11,189
Expenses			
Staff cost		(4,823)	(4,372)
Other operating expenses		(4,131)	(2,832)
Profit before impairment provision		1,510	3,985
Impairment provision on loans and Islamic financing	7	(477)	(2,931)
Impairment provision on investments	8	-	(349)
PROFIT FOR THE YEAR		1,033	705
Profit attributable to:			
- Owners of the Bank		1,051	705
- Non-controlling interest		(18)	-
		1,033	705

These consolidated financial statements, set out on pages 39 to 86, were approved for issue by the Board of Directors on 18 February 2016 and signed on its behalf by:

Chairman

Director

Consolidated statement of comprehensive income

Year ended 31 December 2015
(Expressed in Thousand Bahraini Dinars)

	2015	2014
Profit for the year	1,033	705
Other comprehensive income		
Items that are or may be reclassified subsequently to profit or loss:		
Fair value reserve on AFS investments		
Net changes in fair value	-	210
Transferred to profit or loss on impairment	-	130
Transferred to profit or loss on sale	-	(42)
Total other comprehensive income for the year	-	298
Total comprehensive income for the year	1,033	1,003
Total comprehensive income attributable to:		
- Owners of the Bank	1,051	1,003
- Non-controlling interest	(18)	-
TOTAL	1,033	1,003

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

Consolidated statement of changes in equity

For the year ended 31 December 2015
(Expressed in Thousand Bahraini Dinars)

	Share capital	Statutory reserve	Investment fair value reserve	Other capital contribution	Retained earnings	Total	Non - controlling interest	Total equity
As at 1 January 2015	65,000	1,081	547	4,048	5,146	75,822	-	75,822
Impact of adopting IFRS 9 (2009) at 1 January 2015			(547)		867	320		320
Restated balance at 1 January 2015	65,000	1,081	-	4,048	6,013	76,142	-	76,142
Net movements in non-controlling interest	-	-	-	-	-	-	42	42
Comprehensive income for the year:								
Profit for the year	-	-	-	-	1,051	1,051	(18)	1,033
Other comprehensive income:								
Items that may be reclassified subsequently to profit or loss:								
Fair value reserve on AFS investments	-	-	-	-	-	-	-	-
Net changes in fair value	-	-	-	-	-	-	-	-
Transfer to profit or loss on impairment	-	-	-	-	-	-	-	-
Transfer to profit on sale	-	-	-	-	-	-	-	-
Transfer to statutory reserve	-	105	-	-	(105)	-	-	-
Balance at 31 December 2015	65,000	1,186	-	4,048	6,959	77,193	24	77,217
Balance at 1 January 2014	65,000	1,010	249	425	4,512	71,196	-	71,196
Contribution from shareholder (note 18)	-	-	-	3,623	-	3,623	-	3,623
Comprehensive income for the year:								
Profit for the year	-	-	-	-	705	705	-	705
Other comprehensive income:								
Items that may be reclassified subsequently to profit or loss:								
Fair value reserve on AFS investments	-	-	210	-	-	210	-	210
Net changes in fair value	-	-	210	-	-	210	-	210
Transfer to profit or loss on impairment	-	-	130	-	-	130	-	130
Transfer to profit on sale	-	-	(42)	-	-	(42)	-	(42)
Transfer to statutory reserve	-	71	-	-	(71)	-	-	-
Balance at 31 December 2014	65,000	1,081	547	4,048	5,146	75,822	-	75,822

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

Consolidated statement of cash flows

Year ended 31 December 2015
(Expressed in Thousand Bahraini Dinars)

	Note	2015	2014
Operating activities			
Profit for the year		1,033	705
Adjustments for:			
Depreciation	10,11	764	569
Provision for impairment loans and Islamic financing to customers		477	2,931
Provision for impairment on equity investments		-	349
Net gain from investing activities		(1,554)	-
Dividend income		(104)	(117)
Share of loss of associates		19	37
Gain on sale from investments		(164)	(3,500)
Loss on foreign currency translation		14	9
Operating profit before changes in operating assets and liabilities		485	983
Changes in operating assets and liabilities:			
Placement with banks and other financial institutions		5,045	1,326
Accounts receivable and other assets		(1,453)	3,061
Loans and Islamic financing to customers		(30,721)	(11,612)
Deposits		10,047	3,460
Accounts payable and other liabilities		451	590
Net cash used in operating activities		(16,146)	(2,192)
Investing activities			
Purchases for property and equipment (net of disposal)		(358)	(487)
Purchase of investments		(6,551)	(11,049)
Proceeds from sale of investments		13,432	9,060
Purchases in investment property		(29)	-
Dividend income received		104	117
Net cash generated from / (used in) investing activities		6,598	(2,359)
Financing activities			
Proceeds from term loan - net		7,925	7,807
Additional capital proceeds received		-	2,250
Net cash generated from financing activities		7,925	10,057
Increase in cash and cash equivalents during the year		(1,623)	5,506
Cash and cash equivalents at 1 January		11,059	5,553
Cash and cash equivalents at 31 December	23	9,436	11,059

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

Notes to the consolidated financial statements

Year ended 31 December 2015
(Expressed in Thousand Bahraini Dinars)

1. REPORTING ENTITY

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

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

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

The Group consists of the Bank and its following subsidiary:

Name	Country of incorporation	Ownership interest	Year end	Principal activity
Bahrain Business Incubator Centre S.P.C.	Bahrain	100%	31 December	Development and assistance to emerging Bahraini entrepreneurs
BDB SME Fund Company BSC (c)	Bahrain	99%	31 December	Managing SME funds
Middle East Corner Consultancy Co. WLL	Bahrain	28.6%	31 December	Consultancy to small and medium enterprises

The Bank is exposed, or has rights, to variable returns from its involvement with Middle East Corner Consultancy Co. WLL; and has the ability to affect those returns through its power over Middle East Corner Consultancy Co. WLL and thus is deemed as subsidiary of the Bank.

2. BASIS OF PREPARATION

a) Statement of compliance

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

b) Functional and presentation currency

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

c) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

Notes to the consolidated financial statements

Year ended 31 December 2015
(Expressed in Thousand Bahraini Dinars)

- investments in equity instruments are measured at fair value;
- other financial assets (debt instruments) not held in a business model whose objective is to hold assets to collect contractual cash flows or whose contractual terms do not give rise solely to payments of principal and interest are measured at fair value (this policy is applicable from 1 January 2015);
- Available-for-sale financial assets are measured at fair value (policy applicable prior to 1 January 2015).

d) Changes in accounting policies

Financial assets (early adoption of IFRS 9)

The Group has early adopted IFRS 9 Financial Instruments issued in November 2009 with a date of initial application of 1 January 2015.

The requirements of IFRS 9 represent a significant change from the classification and measurement requirements in IAS 39 Financial Instruments: Recognition and Measurement in respect of financial assets. IFRS 9 contains two primary measurement categories for financial assets: amortized cost and fair value. Unless it is designated as measured at fair value, a financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets are measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables.

IFRS 9 requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortized cost or fair value.

For investments in equity instruments that are not held for trading, IFRS 9 allows an irrevocable election, on an investment-by-investment basis, to present fair value changes from the investment in other comprehensive income. Dividends on such investments are generally recognized in profit or loss.

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied on a retrospective basis except as described below from 1 January 2015 without restatement of prior periods.

- Changes resulting from assessments made on the basis of facts and circumstances that existed at the date of initial application (1 January 2015). The changes are measured as at the first date of the current reporting period (1 January 2015).
 - the assessment of whether a financial asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.
 - the designation of certain investments in equity instruments that are not held for trading as at fair value through profit or loss.
- Change resulting from assessments made at the date of initial application (1 January 2015) and measured at the date of initial application - investments in unquoted equity instruments, which were previously accounted for at cost in accordance with IAS 39, are now measured at fair value through profit or loss.

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

2. BASIS OF PREPARATION (continued)

d) Changes in accounting policies (continued)

Differences between the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognized in opening retained earnings for the year ended 31 December 2015, i.e. as at 1 January 2015.

The provisions of IFRS 9 have not been applied to financial assets derecognized before 1 January 2015.

For more information and details on the new classification refer note 28.

e) New standards, amendments and interpretations effective from 1 January 2015

The following standards, amendments and interpretations, which became effective as of 1 January 2015, and are relevant to the Group:

i) Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)

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

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

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

ii) Annual Improvements to IFRSs 2010–2012 and 2011–2013 Cycles various standards

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

The adoption of these amendments had no significant impact on the consolidated financial statements.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2016, and have not been applied in preparing these consolidated financial statements. Those which are relevant to the Group are set out below.

i) IFRS 9 - Financial Instruments (2014)

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

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

IFRS 9 (2014) is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group has early adopted IFRS 9 Financial Instruments issued in November 2009 with a date of initial application of 1 January 2015.

ii) IFRS 15- Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

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

iii) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).

The IASB has made limited scope amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures.

The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations).

Where the non-monetary assets constitute a business, the investor will recognize the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognized by the investor only to the extent of the other investor's investors in the associate or joint venture.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Early adoption is permitted.

The Group does not expect to have a significant impact on its consolidated financial statements.

iv) Annual Improvements to IFRSs 2012–2014 Cycle – various standards

The annual improvements to IFRSs to 2012-2014 cycles include a number of amendments to various IFRSs. Most amendments will apply prospectively for annual periods beginning on or after 1 January 2016; earlier application is permitted (along with the special transitional requirement in each case), in which case the related consequential amendments to other IFRSs would also apply.

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

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

2. BASIS OF PREPARATION (continued)

e) New standards, amendments and interpretations effective from 1 January 2015 (continued)

v) Disclosure Initiative (Amendments to IAS 1)

The amendments to IAS 1 Presentation of Financial Statements are made in the context of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments provide clarifications on a number of issues, including:

- Materiality – an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.
- Disaggregation and subtotals – line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. There is also new guidance on the use of subtotals.
- Notes – confirmation that the notes do not need to be presented in a particular order.
- OCI arising from investments accounted for under the equity method – the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income.

According to the transitional provisions, the disclosures in IAS 8 regarding the adoption of new standards/ accounting policies are not required for these amendments.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Early adoption is permitted.

f) Early adoption of standards

The Group has early adopted IFRS 9 Financial Instruments issued in November 2009 with a date of initial application of 1 January 2015. Refer 2 (d) above.

3. CRITICAL JUDGMENTS AND ESTIMATES

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

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

- economic useful lives of property, plant and equipment;
- impairment losses on loans and Islamic financing to customers and investments; and
- Financial asset classification

Economic useful lives of property and equipment; and investment property

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

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

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

Impairment losses on loans and Islamic financing to customers and investments

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

Financial asset classification

Business model – Applicable from 1 January 2015

In making an assessment whether a business model's objective is to hold assets in order to collect contractual cash flows, the Group considers at which level of its business activities such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management. However, in some circumstances it may not be clear whether a particular activity involves one business model with some infrequent asset sales or whether the anticipated sales indicate that there are two different business models.

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows the Group considers:

- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focuses on earning contractual interest revenues;
- the degree of frequency of any expected asset sales;
- the reason for any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

In particular, the Group exercises judgement to determine the objective of the business model for portfolios which are held for liquidity purposes. Debt securities are held by the Group in order to manage short-term liquidity. Sales from this portfolio are frequently made to meet ongoing business needs. The Group determines that these securities are not held within a business model whose objective is to held assets in order to collect contractual cash flows.

Contractual cash flows of financial assets – Applicable from 1 January 2015

The Group exercises judgement in determining whether the contractual terms of financial assets it originates or acquires give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding and so may qualify for amortized cost measurement. In making the assessment the Group considers all contractual terms, including any prepayment terms or provisions to extend the maturity of the assets, terms that change the amount and timing of cash flows and whether the contractual terms contain leverage. For financial assets in respect of which the Group's claims are limited to specific assets of the debtor (non-recourse assets) the Group assess whether the contractual terms of such financial assets limit the cash flows in a manner inconsistent with those payments representing principal and interest.

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year; except that the Group has early adopted IFRS 9 issued in November 2009 during the year.

a) Basis of consolidation

i) Subsidiaries

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

ii) Non-controlling interests

NCI are measured at their appropriate share of the acquiree's identifiable net assets at the date of the acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted as equity transactions.

iii) Loss of control

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

iv) Transactions eliminated on consolidation

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

v) Investment in associates

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

Interests in associates are accounted for using the equity method. They are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity accounted investees, until the date on which significant influence ceases.

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

b) Foreign currencies

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

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

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

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

c) Cash and cash equivalents

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

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

d) Financial assets and financial liabilities

i) Recognition and initial measurement

The Group initially recognizes loans and advances and deposits on the date at which they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

ii) Classification

Financial assets – Policy applicable from 1 January 2015

At inception a financial asset is classified as measured at amortized cost or fair value. A financial asset qualifies for amortized cost measurement only if it meets both of the following conditions:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Financial assets and financial liabilities (continued)

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If a financial asset does not meet both of these conditions, then it is measured at fair value.

The Group makes an assessment of a business model at a portfolio level as this reflects best the way the business is managed and information is provided to management.

Financial assets held for trading are not held within a business model whose objective is to hold the asset in order to collect contractual cash flows.

Note 28 also sets out reconciliation between financial asset classes and measurement categories.

Financial assets - Policy applicable prior to 1 January 2015

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

- loans and receivables; and
- Available-for-sale

Financial liabilities

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

iii) Derecognition

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

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognized as a separate asset or liability in the statement of financial position.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognized in profit or loss. In addition, prior to 1 January 2015 any cumulative gain or loss that had been recognized in other comprehensive income was also recognized in profit or loss.

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

iv) Fair value measurement

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

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

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

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

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

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

v) Amortized cost measurement

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

vi) Identification and measurement of impairment

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

Objective evidence that financial assets are impaired includes:

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

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Financial assets and financial liabilities (continued)

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

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

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

Policy applicable prior to 1 January 2015

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

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

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

vii) Loans and Islamic financing to customers

Policy applicable from 1 January 2015

Loans and Islamic financing to customers are non-derivative financial assets with fixed or determinable payments, other than investment securities, that are not held for trading. Subsequent to initial recognition loans and advances are measured at amortized cost using the effective interest method.

Policy applicable prior to 1 January 2015

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

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

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

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

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

viii) Investment securities

Policy applicable from 1 January 2015

Subsequent to initial recognition, investment securities are accounted for depending on their classification as either amortized cost, fair value through profit or loss or fair value through other comprehensive income.

Investment securities are measured at amortized cost using the effective interest method, if:

- they are held within a business model with an objective to hold assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest; and
- they have not been designated previously as measured at fair value through profit or loss.

The Group elects to present changes in fair value of certain investments in equity instruments held for strategic purposes in other comprehensive income or at fair value through profit or loss. The election is irrevocable and is made on an instrument-by-instrument basis at initial recognition.

Gains and losses on equity instruments at fair value in other comprehensive income are never reclassified to profit or loss and no impairment is recognized in profit or loss. Dividends are recognized in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognized in other comprehensive income. Cumulative gains and losses recognized in other comprehensive income are transferred to retained earnings on disposal of an investment.

Other investment securities are measured at fair value through profit or loss.

Policy applicable prior to 1 January 2015

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

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

ix) Derivatives

In the ordinary course of business, the Bank enters into transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. Derivative financial instruments include forward exchange contracts.

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Financial assets and financial liabilities (continued)

ix) Derivatives (continued)

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

e) Property and equipment

i) Recognition and measurement

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

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

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

ii) Subsequent costs

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

iii) Depreciation

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

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

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

iv) Reclassification to investment property

When the use of a property changes from owner-occupied to investment property, the property is classified to investment property and carried at cost in line with accounting policy as per 4 (f).

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

f) Investment property

Investment properties are those which are held by the Group to earn rental income or for capital appreciation or both. Investment properties are stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated on cost by the straight-line method at annual rates which are intended to write off the cost of the investment property over their estimated useful lives of 30-40 years. Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from the disposal and the carrying amount of the item) is recognized in profit or loss.

g) Accounts receivable

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

h) Term loans

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

i) Deposits

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

j) Provisions

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

k) Employees' end of service benefits

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

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

l) Income recognition

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

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Income recognition (continued)

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

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

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

m) Dividend income

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

n) Fee and commission income

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

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

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

o) Rental income

Rental income from investment property is recognized as revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

5. CASH AND BALANCES WITH CENTRAL BANK OF BAHRAIN

	2015	2014
Cash in hand	318	237
Balances with Central Bank of Bahrain (CBB)	2,125	1,999
	2,443	2,236

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

6. PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2015	2014
Nostro balances	400	551
Placements with banks and other financial institutions	23,429	30,168
	23,829	30,719

Nostro balances include nostro balances with Islamic banks of BD 69 thousand (2014: BD 118 thousand).

Placements with banks and other financial institutions include placements of BD 11,856 thousand (2014: BD 18,950 thousand) with Islamic financial institutions.

7. LOANS AND ISLAMIC FINANCING TO CUSTOMERS

	2015	2014
Project finance - conventional	17,124	20,916
Project finance - Islamic	129,274	95,866
Fisheries and agriculture	4,650	4,170
Ijara receivable	731	951
Other loans	1,831	2,335
	153,610	124,238
Less: Provision for impairment - Specific	(12,445)	(13,490)
Less: Provision for impairment - Collective	(873)	(700)
	140,292	110,048

Provision for impairment includes specific provision of BD 7,069 thousand (2014: BD 6,690 thousand) and collective provision of BD 738 thousand (2014: BD 519 thousand) against Islamic financing to customers. Non-performing loans as per regulatory requirements are BD 24,020 thousand (2014: BD 19,118 thousand.)

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

Tamkeen guarantees 50% of the outstanding balance of loss Islamic financing and 50% of the profit on Islamic financing to customers in accordance with the agreement between the Bank and Tamkeen. Non-performing loans includes BD11,878 thousand (2014: BD8,465 thousand) financed through Tamkeen scheme.

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

7. LOANS AND ISLAMIC FINANCING TO CUSTOMERS (continued)

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

	2015		2014	
	Specific provision	Collective provision	Specific provision	Collective provision
At 1 January	13,490	700	12,618	650
Charge for the year	304	173	2,881	50
Written off during the year	(1,349)	-	(2,009)	-
Balance at 31 December	12,445	873	13,490	700

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

24,020 19,118

Impaired non-performing loans includes BD 1,400 thousand (2014: BD 1,110 thousand) relating to agriculture and fishery loans which are considered as impaired but no provision has been made as these loans are secured through the reimbursement arrangement with the Government of Bahrain.

The fair value of collateral that the Bank holds relating to loans individually determined to be impaired at 31 December 2015 amounts to BD 7,262 thousand (2014: BD 3,955 thousand). For more detailed description see note 26 (c) collateral and other credit enhancements.

8. INVESTMENT SECURITIES

	2015	2014
(i) Investment securities measured at fair value through profit or loss		
Conventional - Equities	5,309	-
Islamic - Equities	1,042	-
Islamic - Sukuk	4,244	-
	10,595	-
(ii) Available-for-sale investments		
Conventional - Equity	-	3,680
Conventional - Debt	-	8,642
Islamic - Equity	-	2,052
Islamic - Sukuk	-	2,259
		16,633
Less: Impairment provision	-	(1,238)
	-	15,395

On adoption of IFRS 9 on 1st January 2015 [refer to note 2 (d)], all investment securities have been measured at fair value through profit or loss.

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

9. INVESTMENT IN ASSOCIATES

	2015	2014
EBDA Bank	253	272
	253	272

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

All of the above associates are accounted for using the equity method in these consolidated financial statements. Investment in Arabian Taxi Company was written down to zero in 2013.

10. INVESTMENT PROPERTY

	2015	2014
At 1 January	3,623	-
Additions during the year	29	3,623
Reclassification from property, plant and equipment (refer note 11)	9,470	-
Depreciation	(437)	-
	12,685	3,623

Cost:

	2015
At 1 January	3,623
Reclassification from property, plant and equipment	10,835
Additions during the year	29
At 31 December 2015	14,487

Depreciation:

	2015
At 1 January	-
Reclassification from property, plant and equipment	1,365
Charge for the year	437
At 31 December 2015	1,802

Net book values

At 31 December 2015	12,685
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Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

10. INVESTMENT PROPERTY (continued)

Effective 1 January 2015, two buildings were transferred to investment property at a net book value of BD 9,470 thousand (Level3: fair value BD 11,018 thousand) due to change in use of the property.

During 2014, a majority shareholder transferred a commercial property to the Bank for fifty years at a nominal lease payment. This property is leased to third parties. The property has fair value of BD 6, 089 thousand (2014: BD 3,623 thousand) as determined by an external, independent property valuer, having appropriate recognized professional qualifications and recent experience in the location and category of the property being valued.

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

11. PROPERTY AND EQUIPMENT

	Freehold land	Freehold premises	Buildings on leasehold premises	Furniture, fixtures, vehicles, computers and office equipment	Total
2015					
Cost:					
At 1 January 2015	293	1,809	10,835	2,128	15,065
Additions	-	-	-	358	358
Disposals	-	-	-	-	-
Reclassification to Investment property (refer note 10)	-	-	(10,835)	-	(10,835)
At 31 December 2015	293	1,809	-	2,486	
Depreciation:					
At 1 January 2015	-	1,226	1,365	1,714	4,305
Charge for the year	-	55	-	272	327
Disposals	-	-	-	-	-
Reclassification to Investment property (note 10)	-	-	(1,365)	-	(1,365)
At 31 December 2015	-	1,281	-	1,986	
Net book values					
At 31 December 2015	293	528	-	500	1,321

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

	Freehold land	Freehold premises	Buildings on leasehold premises	Furniture, fixtures, vehicles, computers and office equipment	Total
2014					
Cost:					
At 1 January 2014	293	1,809	10,626	2,216	14,944
Additions	-	-	209	282	491
Disposals	-	-	-	(370)	(370)
At 31 December 2014	293	1,809	10,835	2,128	15,065
Depreciation:					
At 1 January 2014	-	1,171	1,067	1,864	4,102
Charge for the year	-	55	298	216	569
Disposals	-	-	-	(366)	(366)
At 31 December 2014	-	1,226	1,365	1,714	4,305
Net book values					
At 31 December 2014	293	583	9,470	414	10,760

12. OTHER ASSETS

	2015	2014
Interest receivable	165	78
Ministry of Finance	225	183
Other account receivables	1,428	387
Prepayments and other assets	888	605
	2,706	1,253

13. TERM LOANS

	2015	2014
Kuwait Fund for Arab Economic Development	5,128	6,628
Saudi Fund for Development	10,035	10,035
Arab Fund for Economic and Social Development	30,160	20,735
	45,323	37,398

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

13. TERM LOANS (continued)

Kuwait Fund for Arab Economic Development (KFAED)

The Bank had obtained a loan from Kuwait Fund for Arab Economic Development (KFAED) in 1998. The entire facility has been drawn down and is repayable in thirty equal half yearly installments, which commenced from 15 May 2005. This bears an interest and management fees of 1.5% and 0.5% (2014: 1.5% and 0.5%) respectively. The Ministry of Finance is a guarantor to the loan.

The loan proceeds were utilised by the Bank to advance loans to customers. One of the covenants of KFAED's loan agreement requires the Bank to repay KFAED any margin earned in excess of a spread of 4% ("interest differentials") on such loans to customers. The interest differentials are deposited into KFAED's bank account maintained by the Bank in a fiduciary capacity. The balance at year end was BD 6 thousand (2014: BD 6 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 2015, no amount was utilised for such purposes (2014: BD6 thousand).

Saudi Fund for Development

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

Arab Fund for Economic and Social Development

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

14. DEPOSITS

	2015	2014
Deposits from banks	18,086	18,816
Deposits from customers	49,098	38,321
	67,184	57,137

Deposits from banks include BD 14,401 thousand (2014: BD 15,800 thousand) from Islamic banks placed with BDB on a wakala basis.

Deposits from customer includes BD 406 thousand (2014: BD 348 thousand) kept as margin deposit.

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

15. OTHER LIABILITIES

	2015	2014
Staff related accruals	856	855
Accounts payable	2,445	2,472
Interest payable	476	313
Others	623	309
	4,400	3,949

Accounts payables include charity account from the Islamic financing deals of BD 3 thousand (2014: BD 31 thousand).

16. SHARE CAPITAL

	Authorized		Issued and fully paid	
	2015	2014	2015	2014
Ordinary shares of BD 1 each	100,000	100,000	65,000	65,000

The percentage of shareholding is as below

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

17. STATUTORY RESERVE AND RETAINED EARNINGS

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

18. OTHER CAPITAL CONTRIBUTION

During 2014, a majority shareholder contributed a non-monetary asset in the form of a commercial property to the Bank. The property has been classified as an investment property (refer note 10) at its fair value on the date of transfer and as a capital contribution in the equity of BD 3,623 thousand.

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

19. INTEREST AND ISLAMIC FINANCING INCOME

	2015	2014
Interest on conventional loans	1,048	1,182
Profit on Islamic financing	6,190	5,515
Interest on placements	271	348
Interest on securities	255	238
	7,764	7,283

Interest on placements and securities includes profit from placements and securities with Islamic banks of BD 398 thousand (2014: BD 254 thousand).

20. INTEREST AND WAKALA EXPENSE

	2015	2014
Interest on term loans	1,136	751
Interest on conventional deposits from customers	423	477
Interest on deposits from conventional banks	17	14
Wakala expense on Islamic financing	75	49
	1,651	1,291

21. INVESTMENT INCOME

	2015	2014
Changes in fair value on investments	1,554	-
Gain on sale of investments	164	3,128
Gain on sale of subsidiary	-	372
Dividend income	104	117
	1,822	3,617

22. OTHER INCOME

	2015	2014
Rental income	1,561	1,029
Miscellaneous income	234	169
	1,795	1,198

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

23. CASH AND CASH EQUIVALENTS

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

	2015	2014
Cash in hand	318	237
Balances with Central Bank of Bahrain (excluding reserves)	533	293
Due from banks and other financial institutions with original maturity of 90 days or less	8,585	10,529
	9,436	11,059

24. RELATED PARTY TRANSACTIONS

The Group enters into transactions with related parties which comprise major shareholders, associates, directors, senior management and entities controlled jointly or significantly influenced by such related parties in the ordinary course of business at commercial interest and commission rates.

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

	Subsidiary	Directors and senior management	Other related companies	Total
2015				
Deposits	125	17	7,478	7,620
Loans and Islamic financing to customers	4,916	111	709	5,736
Other assets	-	-	225	225
Other liabilities	8	-	-	8
		Directors and senior management	Other related companies	Total
2014				
Deposits	67	55	5,358	5,480
Loans and Islamic financing to customers	4,985	108	1,794	6,887
Other assets	-	-	250	250

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

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

24. RELATED PARTY TRANSACTIONS (continued)

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

The Bank has provided an overdraft facility to ATC for meeting its operational expenses. The outstanding balance as at the reporting date is BD 158 thousand (2014: BD 630 thousand).

During the period, the Bank has recognised an impairment provision of nil (2014: BD 2.61 thousand) against the above loans.

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

	Subsidiary	Directors and senior management	Other related companies	Total
2015				
Interest income	101	-	61	162
Interest expense	-	-	49	49
Other expenses	49	2	227	278
Other income	6	229	3	238
2014				
Interest income	277	35	-	312
Interest expense	-	-	27	27
Other expenses	49	-	223	272
Other income	-	-	-	-
Compensation of key management personnel is as follows:				
			2015	2014
Salary & short term employee benefits			856	825
Termination benefits			104	96
			960	921

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

25. CONTINGENT LIABILITIES AND COMMITMENTS

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

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

Details of contingent liabilities and commitments are given below:

	2015	2014
Contingent liabilities:		
Letters of guarantee	2,437	2,270
Letters of credit	64	146
	2,501	2,416
Commitments:		
Irrevocable commitments to extend credit	23,059	6,569
Lease rental commitments	606	427
	23,665	6,996
	26,166	9,412
Lease rental commitments include lease rental payable on the land leased from Ministry of Industry and Commerce which is as follows:		
	2015	2014
Future minimum lease payments:		
Within one year	57	44
Later than 1 year but not later than 5 years	247	176
Later than 5 years	302	207
	606	427

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

26. RISK MANAGEMENT STRUCTURE

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

Organizational Structure

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

Board of Directors

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

Audit Committee of the Board

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.

Remuneration & Governance Committee of the Board

Remuneration & Governance Committee of the Board comprises certain members of the Board to monitor the adequacy of the Banks's policies and practices on the Corporate Governance and recommend appropriate guidelines to the Board subject to local regulations i.e. Bahrain Commercial Companies Law 2001, Bahrain Corporate Governance Code, Bahrain Labour Law, Central Bank of Bahrain and the Bank's Memorandum and Articles of Association. The Committee also assists the Board of Directors in establishing a fair and transparent process for the remuneration of directors, other Board Committees and the Chief Executive Officer and of the Executive Management.

Executive Management

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.

Management Executive Committee

Management Executive Committee has the responsibility to perform tasks collectively to ensure day-to-day management activities. The Committee has a dual responsibility of approving and monitoring the Bank's various business activities in accordance with the strategic plan approved by the Board. In order to fulfill its responsibilities, the Committee may appoint other Sub-Committees and delegate specific tasks and adequate powers and authorities for effectively and efficiently carrying out the responsibilities assigned to them.

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

Risk Executive Committee

Risk Executive Committee has the primary objective of overseeing the Bank's activities in managing credit risk, market risk, liquidity risk, operational risk, legal risk and other risks. Risk Executive Committee has to ensure that the Bank has adequate risk management processes in place in order to identify, measure, monitor and manage risks across all of its operations.

Credit & Investment Approval Authority

Approval Authority - Credit & Investments, has the responsibility to grant / approve credit facilities as within their delegated authority and also makes decisions relating to the execution of investments in line with the Banks investment strategy and management of credit and concentration risks. Proposals exceeding their delegated authority are escalated to the Board of Directors for consideration.

Asset and Liability Committee

Assets and Liabilities 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 Delegated Approval Authority / Board.

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

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 panel of external legal counsels to handle all legal cases initiated for recovery of difficult loan cases. The progress and outcomes on such cases are monitored by the Risk Executive Committee.

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.

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

26. RISK MANAGEMENT STRUCTURE (continued)

Risk Measurement and Reporting Systems

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

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

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

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

Risk Mitigation

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

(i) Credit risk

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

Limits and concentrations

Limits are assigned for each individual counterparty group and for each industrial segment. The Bank also monitors credit exposures, and continually assesses the credit-worthiness 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.

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

Classification

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

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

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

	2015	2014
Balances with Central Bank of Bahrain	2,125	1,999
Placement with banks and other financial institutions	23,829	30,719
Loans and Islamic financing to customers	140,292	110,048
Investment securities	4,244	10,883
Other assets	1,818	261
	172,308	153,910
Contingent liabilities	2,501	2,416
Commitments	23,059	6,569
	25,560	8,985
Maximum credit risk exposure	197,868	162,895

(b) Concentration of credit risk

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

	2015	2014
Industry sector		
Banks and financial institutions	30,198	43,601
Trading and manufacturing	67,863	54,644
Education and health	8,006	10,380
Hospitality, media and transportation	11,849	8,702
Fisheries and agriculture	5,377	4,437
Food processing	7,581	2,940
Others	66,994	38,191
	197,868	162,895

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

26. RISK MANAGEMENT STRUCTURE (continued)

Risk Mitigation (continued)

(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 and real estate title deeds.

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

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

(d) Credit quality per class of financial assets

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

	2015				
	Neither past due nor impaired				
	High grade	Standard grade	Past due but not impaired	Impaired	Total
Cash and balances with Central Bank of Bahrain	2,125	-	-	-	2,125
Placement with banks and other financial institutions	23,829	-	-	-	23,829
Loans and Islamic financing to customers	-	105,352	25,634	9,306	140,292
Investment securities	4,244	-	-	-	4,244
Other assets	994	144	620	60	1,818
Total	31,192	105,496	26,254	9,366	172,308

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

	2014				
	Neither past due nor impaired				
	High grade	Standard grade	Past due but not impaired	Impaired	Total
Cash and balances with Central Bank of Bahrain	1,999	-	-	-	1,999
Placement with banks and other financial institutions	30,719	-	-	-	30,719
Loans and Islamic financing to customers	-	86,309	18,111	5,628	110,048
Investment securities	10,883	-	-	-	10,883
Other assets	183	66	12	-	261
Total	43,784	86,375	18,123	5,628	153,910

The impaired loans does not include BD2,269 thousand (2014: BD 2,090 thousand) with past dues of over 90 days, classified as non performing and interest/profit has been suspended, for which provision for impairment is not considered necessary on the basis of subsequent collections, level of collateral available and or stage of collections of amounts owed to the Bank. Of the total amount of gross past due but not impaired loans and Islamic financing to customers, the fair value of collateral that the Bank held as at 31 December 2015 was BD 6,147 thousands (2014: BD 9,599 thousands).

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

In accordance with the Bank's policy and the Central Bank of Bahrain guidelines, loans on which payments of interest or repayments of principal are 90 days past due, are defined as non-performing. The following is the ageing schedule of non-performing, impaired and past due loans and advances. The table shows the time period since the date of last repayment of principal or interest by the customer.

	2015	2014
As at December		
Up to 3 months	23,244	15,790
Over 3 months to 1 year	2,884	2,325
1 to 3 years	118	-
Over 3 years	8	8
	26,254	18,123

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

26. RISK MANAGEMENT STRUCTURE (continued)

Risk Mitigation (continued)

(i) Credit risk (continued)

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

This includes BD 2,354 thousands (2014: BD 1,980 thousands) relating to agriculture and fishery loans which are non performing but no provision has been made as these loans are considered secured through the reimbursement arrangement with the Government of Bahrain.

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

The table below shows the carrying amount for renegotiated financial assets during the year

	2015	2014
Loans and Islamic financing to customers	8,150	9,569

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

(ii) Market risk

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

(a) Interest rate risk

Interest rate risk arises from the possibility that changes 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

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

Net interest income sensitivity

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

	Change in basis points	Impact of change on Net Interest Income		Change in basis points	Impact of change on Net Interest Income	
		2015	2014		2015	2014
Bahraini Dinars	+100	808	(107)	-100	(808)	107
Kuwaiti Dinars	+100	1	2	-100	(1)	(2)
Saudi Riyals	+100	(1)	(1)	-100	1	1
United States Dollars	+100	(257)	(206)	-100	257	206

(b) Currency risk

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

The Bank primarily deals with only 4 currencies, namely Bahraini Dinars, Kuwaiti Dinars, Saudi Riyals 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 open exposures denominated in foreign currencies as of 31 December 2015:

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

26. RISK MANAGEMENT STRUCTURE (continued)

Risk Mitigation (continued)

(ii) Market risk (continued)

(b) Currency risk (continued)

	Equivalent long (short)	
	2015	2014
Kuwaiti Dinars	189	248
US Dollars	(12,501)	(6,032)
Euro	2	7
GBP	5	3
Saudi Riyals	(8)	(6)

The effect of a reasonably possible 5% change in the currency exchange rate for Kuwaiti Dinar, with all other variables constant, will result in an increase of BD 9 thousand (2014: an increase of BD 13 thousand) in the profit for the year.

(c) Maturity analysis of assets and liabilities

The table below summarises the maturity profile of the Group's assets and liabilities as at 31 December 2015 and 31 December 2014 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
2015							
Assets							
Cash and balances with Central Bank of Bahrain	2,443	-	-	-	-	-	2,443
Placements with banks and other financial institutions	10,585	6,227	7,017	-	-	-	23,829
Loans and Islamic financing to customers	4,129	697	1,319	3,016	23,630	107,501	140,292
Investment securities	4,408	-	-	-	-	6,187	10,595
Investment in associates	-	-	-	-	-	253	253
Investment property	-	-	-	-	-	12,685	12,685
Property and equipment	-	-	-	-	-	1,321	1,321
Other assets	-	-	2,706	-	-	-	2,706
Total assets	21,565	6,924	11,042	3,016	23,630	127,947	194,124
Liabilities							
Term loans	-	251	1,387	1,638	9,569	32,478	45,323
Deposits	47,888	15,677	3,421	198	-	-	67,184
Other liabilities	-	-	4,400	-	-	-	4,400
Total liabilities	47,888	15,928	9,208	1,836	9,569	32,478	116,907
Net liquidity gap	(26,323)	(9,004)	1,834	1,180	14,061	95,469	
Cumulative liquidity gap	-	(35,327)	(33,493)	(32,313)	(18,252)	77,217	

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
2014							
Assets							
Cash and balances with Central Bank of Bahrain	2,236	-	-	-	-	-	2,236
Placements with banks and other financial institutions	10,951	3,933	13,835	2,000	-	-	30,719
Loans and Islamic financing to customers	4,111	727	1,763	3,597	21,275	78,575	110,048
Available for sale investments	2,014	3,328	300	3,000	-	6,753	15,395
Investment in associates	-	-	-	-	-	272	272
Investment property	-	-	-	-	-	3,623	3,623
Property, plant and equipment	-	-	-	-	-	10,760	10,760
Other assets	-	-	1,253	-	-	-	1,253
Total assets	19,312	7,988	17,151	8,597	21,275	99,983	174,306
Liabilities							
Term loans	-	657	-	657	7,364	28,720	37,398
Deposits	40,269	2,087	13,024	232	1,525	-	57,137
Accounts payable and other liabilities	313	3,636	-	-	-	-	3,949
Total liabilities	40,582	6,380	13,024	889	8,889	28,720	98,484
Net liquidity gap	(21,270)	1,608	4,127	7,708	12,386	71,263	
Cumulative liquidity gap	-	(19,662)	(15,535)	(7,827)	4,559	75,822	

Bank manages the liquidity gap with the Board's approved contingency plan.

(iii) Liquidity risk

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

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2015 and 31 December 2014 based on contractual undiscounted repayment obligations. See note (c) 'Maturity analysis of assets and liabilities' for the expected maturities of these liabilities.

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

26. RISK MANAGEMENT STRUCTURE (continued)

Risk Mitigation (continued)

(iii) Liquidity risk (continued)

	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
2015								
Deposits	13,574	34,612	15,787	3,514	201	-	-	67,688
Other liabilities	-	-	4,400	-	-	-	-	4,400
Term loans	-	-	352	2,240	1,874	12,402	29,529	46,397
Total liabilities	13,574	34,612	20,539	5,754	2,075	12,402	29,529	118,485
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
2014								
Deposits	11,586	28,683	2,092	13,189	236	1,533	-	57,319
Other liabilities	-	313	3,636	-	-	-	-	3,949
Term loans	-	-	100	963	1,057	8,414	27,140	37,675
Total liabilities	11,586	28,996	5,828	14,152	1,293	9,947	27,140	98,943

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
2015					
Contingent liabilities	812	75	848	766	2,501
Commitments	23,059	-	57	549	23,665
Total	23,871	75	905	1,315	26,166
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
2014					
Contingent liabilities	811	179	956	470	2,416
Commitments	6,569	-	44	383	6,996
Total	7,380	179	1,000	853	9,412

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

(iv) Legal risk and claims

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

The Group had contracted Poullaides Construction Co. WLL for construction of the Incubator centre. The final completion certificate was issued on 29 December 2011. Due to delay in construction and variation on the initial estimate by the contractor, the Group has declined the final claim of BD 249,700 by the contractor. No provision has been made for this amount. As at the reporting date, the case is under arbitration proceedings.

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

27. DERIVATIVES

The Group has entered, with Central Bank of Bahrain, into a forward contract with Nominal Value of BD 16,960 thousand maturing on 28 January 2016.

28. FAIR VALUE DISCLOSURES

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

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

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

In 2014, no fair value disclosures are provided for equity investment securities of BD 2,904 thousand that are measured at cost because their fair value cannot be reliably measured. These are strategic investments in developing entities and there is no market for them. The Group does not intend to dispose of these investments in the foreseeable future.

These equity securities have been fair valued in 2015 and disclosed under the Level 3 hierarchy. There have been no movements between the levels from 2014 to 2015.

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

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

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

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

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

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

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

28. FAIR VALUE DISCLOSURES (continued)

	Level 1	Level 2	Level 3	Total fair value	Total carrying value
2015					
Financial instruments measured at fair value					
Financial assets					
Equity securities	164	652	5,535	6,351	6,351
Debt securities	4,244	-	-	4,244	4,244
Forward contracts	-	16,960	-	16,960	16,960
Financial instruments not measured at fair value					
Financial assets					
Cash and balances with Central Bank of Bahrain	-	2,443	-	2,443	2,443
Placement with banks and other financial institutions	-	23,829	-	23,829	23,829
Loans and Islamic financing to customers	-	-	140,292	140,292	140,292
Financial liabilities					
Term loans	-	-	45,323	45,323	45,323
Deposits	-	67,184	-	67,184	67,184
	Level 1	Level 2	Level 3	Total fair value	Total carrying value
2014					
Financial instruments measured at fair value					
Financial assets					
Equity securities	1,590	-	-	1,590	1,590
Debt securities	2,241	8,642	-	10,883	10,883
Financial instruments not measured at fair value					
Financial assets					
Cash and balances with Central Bank of Bahrain	-	2,236	-	2,236	2,236
Placement with banks and other financial institutions	-	30,719	-	30,719	30,719
Loans and Islamic financing to customers	-	-	110,048	110,048	110,048
Financial liabilities					
Term loans	-	-	37,398	37,398	37,398
Deposits	-	57,137	-	57,137	57,137

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

Sensitivity Analysis

Investments at fair value through profit or loss comprises investments in private equity entities and funds. The main principles, estimates and assumptions adopted to arrive at fair value include estimated future cash flows which have been provided by the management of the investee companies but have been reviewed for reasonableness by the Group and the external valuer. Cash flows have been projected for an initial period of five years or over the project life in certain cases and then a terminal value has been estimated at a growth rate of 2% to 3%.

The potential effect of using reasonable possible alternative assumptions for fair valuing the investments at fair value through profit or loss are summarised below:

Valuation technique used	Key unobservable inputs	Fair value at 31 December 2015	Reasonable possible shift +/- (in any input)	Increase / (decrease) in valuation
Discounted cash flow	Discount rate	4,788	+/- 0.5%	208 / (30)
	Growth rate		+/- 0.5%	98 / (355)
Net Assets Value	NAV	747	+/- 5%	48 / (48)

29. CATEGORIZATION OF FINANCIAL INSTRUMENTS

Classification of financial assets on the date of initial application of IFRS 9.

The following table summarises the transitional classification and measurement adjustments to the Group's financial assets on 1 January 2015, the Group's date of initial application of IFRS 9. In addition, the table sets out the measurement adjustments, which were recognised as an adjustment to the opening equity as at 1 January 2015:

	Original classification under IAS 39	New classification under IFRS 9	At 1 January 2015	
			Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial instruments				
Cash and balances with Central Bank of Bahrain	Loans and receivables	Amortized cost	2,236	2,236
Placement with banks and other financial institutions	Loans and receivables	Amortized cost	30,719	30,719
Loans and Islamic financing to customers	Loans and receivables	Amortized cost	110,048	110,048
Investment securities - equity instruments	Available for sale	Fair value through profit or loss	4,494	4,814
Investment Securities - Debt instruments	Available for sale	Fair value through profit or loss	2,259	2,259
Other assets	Loans and receivables	Amortized cost	261	261
Total assets			150,017	150,337

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

29. CATEGORIZATION OF FINANCIAL INSTRUMENTS (continued)

a) Debt securities are held by the Group in order to manage the short-term liquidity. Sales from this portfolio are frequently made to meet the ongoing business needs. The Group has determined that these securities are not held within a business model whose objective is to hold assets in order to collect contractual cash flows. These assets are therefore measured at fair value through profit or loss.

b) Under IFRS 9 all equity instruments other than those for which the fair value through other comprehensive income option is selected, are measured at fair value through profit or loss. Prior to the adoption of IFRS 9 all equity instruments not held for trading were classified as available-for-sale equity investments.

	Fair value through profit or loss	Amortized cost	Liabilities at amortized cost	Total
2015				
Cash and balances with Central Bank of Bahrain	-	2,443	-	2,443
Placement with banks and other financial institutions	-	23,829	-	23,829
Loans and Islamic financing to customers	-	140,292	-	140,292
Investment securities	10,595	-	-	10,595
Other assets	-	1,818	-	1,818
Total assets	10,595	168,382	-	178,977
Term loans	-	-	45,323	45,323
Deposits	-	-	67,184	67,184
Other liabilities	-	-	4,400	4,400
Total liabilities	-	-	116,907	116,907
	Fair value through profit or loss	Amortized cost	Liabilities at amortized cost	Total
2014				
Cash and balances with Central Bank of Bahrain	-	2,236	-	2,236
Placement with banks and other financial institutions	-	30,719	-	30,719
Loans and Islamic financing to customers	-	110,048	-	110,048
Available-for-sale Investments	15,395	-	-	15,395
Other assets	-	261	-	261
Total assets	15,395	143,264	-	158,659
Term loans	-	-	37,398	37,398
Deposits	-	-	57,137	57,137
Other liabilities	-	-	3,949	3,949
Total liabilities	-	-	98,484	98,484

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

30. CAPITAL ADEQUACY

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

	2015	2014
Capital base		
Tier 1 capital	77,193	75,275
Tier 2 capital	873	946
Total capital base (a)	78,066	76,221
Risk-weighted assets (b)	214,140	173,129
Capital adequacy ratio (a/b*100)	36%	44%
Minimum requirement	12.5%	12%

The Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Bank as a whole. In implementing current capital requirements CBB requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets. Capital adequacy regulations of CBB is based on the principles of Basel III of the IFSB guidelines.

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital: includes CET1 and AT1.

CET1 comprise of ordinary share capital that meet the classification as common shares for regulatory purposes, disclosed reserves including share premium, general reserves, legal / statutory reserve, common shares issued by consolidated banking subsidiaries of the Bank and held by third parties, retained earnings after regulatory adjustments relating to goodwill and items that are included in equity which are treated differently for capital adequacy purposes.

AT1 comprises of instruments that meet the criteria for inclusion in AT1, instruments issued by consolidated banking subsidiaries of the Bank held by third parties which meet the criteria of AT1, and regulatory adjustments applied in calculation of AT1.

- Tier 2 capital, includes instruments issued by the Bank that meet the criteria for inclusion in Tier 2 capital, stock surplus resulting from issue of Tier 2 capital, instruments issued by consolidated banking subsidiaries of the Bank held by third parties that meet the criteria for inclusion in Tier 2, general provisions held against unidentified losses on financing and qualify for inclusion within Tier 2, asset revaluation reserve from revaluation of fixed assets and instruments purposes and regulatory adjustments applied in the calculation of Tier 2 capital.

Notes to the consolidated financial statements

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

30. CAPITAL ADEQUACY (continued)

The regulatory adjustments are subject to limits prescribed by the CA module, these deductions would be effective in a phased manner through transitional arrangements from 2015 to 2018. The regulations prescribe higher risk weights for certain exposures that exceeds materiality thresholds. These regulatory adjustments required for certain items such as goodwill on mortgage service right, deferred tax assets, cash flow hedge reserve, gain on sale of related securitization transactions, defined benefit pension fund assets and liabilities, investment in own shares and reciprocal cross holdings in the capital of Banking and financial entities, investment in the capital of Banking and financial entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of issued common shares capital of the entity and significant investments in the capital of banking and financial entities that are outside the scope of regulatory consolidation.

Banking operations are categorized as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

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 maximize 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.

Basel II Pillar III Disclosures

Contents

Table 1	Capital Structure	89
Table 2	Regulatory Capital Requirement for Credit Risk	91
Table 3	Regulatory Capital Requirement for Market Risk	91
Table 4	Regulatory Capital Requirement for Operational Risk	91
Table 5	Gross Credit Exposures before Subject to Credit Risk Mitigants (CRM)	92
Table 6	Sectoral Classification of Gross Credit Exposures	92
Table 7	Credit Concentration Greater than 15% Individual Obligor Limit	93
Table 8	Counterparty-wise Breakdown of Impaired Loans and Impairment Provision	93
Table 9	Residual Contractual Maturity	94
Table 10	Geographical Distribution of Impairment Provisions for Loans and Advances to Customers	95
Table 11	Movement in Impairment Provision for Loans and Advances to Customers and Interest in Suspense	96
Table 12	Past Due Loans and Other Assets - Age Analysis	96
Table 13	Credit Risk Exposure Post Credit Risk Mitigation and Credit Conversion	97
Table 14	Eligible Financial Collateral and Guarantees	98
Table 15	Sensitivity Analysis - Interest Rate Risk (IRRBB)	98
Table 16	Market Risk, Interest Rate GAP	99
Table 17	Equity Position in the Banking Book	100
Table 18	Gain on Equity Investments	101
Table 19	Operational and Legal Risks	101
Table 20	Fines and Penalty	101

Basel II Pillar III Disclosures

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

1. REPORTING ENTITY

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

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

As at 31 December 2015, the Group consists of the Bank and its following subsidiaries:

Name	Country of incorporation	Ownership interest	Year end
Bahrain Business Incubator Centre (S.P.C.)	Kingdom of Bahrain	100%	31 December
BDB SME Fund Company BSC (c)	Kingdom of Bahrain	99%	31 December
Middle East Corner Consultancy CO. WLL	Kingdom of Bahrain	28.6%	31 December

The Bank is exposed, or has rights, to variable returns from its involvement with Middle East Corner Consultancy Co. WLL; and has the ability to affect those returns through its power over Middle East Corner Consultancy Co. WLL and thus is deemed as subsidiary of the Bank.

Basis of consolidation

Financial statements incorporate the financial statements of the Bank and its subsidiaries. The financial statements of the subsidiary is 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.

The subsidiary is consolidated from the date on which control is transferred to the Bank and ceases to be consolidated from the date on which control is transferred out of the Bank.

Restrictions on capital and transfer of funds within the Group

Since the Bank's subsidiaries are not a regulated financial institution, there is no regulatory impediment to the transfer of retained earnings to the Bank. However, as a separate legally incorporated entity, the transfer of paid in capital and mandatory reserves would require shareholder action. As the sole shareholder (either direct or indirect) in the entity, the Bank has the power to undertake the legal processes for the transfer of such capital. The Bank's subsidiaries are registered and domiciled in Bahrain and there are no exchange controls or other restrictions on the transfer of funds.

Basel II Pillar III Disclosures

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

TABLE 1 - CAPITAL STRUCTURE

The Bank's regulatory capital base comprises of (a) CET 1 capital which includes share capital, reserves and retained earnings. (b) Tier 2 capital which consist of general loan loss provisions.

The Bank's regulatory capital base of BD 78,066 is as detailed below:

	2015		2014	
A. NET AVAILABLE CAPITAL	CET 1	Tier 2	Tier 1	Tier 2
Paid-up share capital	65,000	-	65,000	-
Legal / Statutory reserve	1,186	-	1,081	-
Retained earnings	5,908	-	4,441	-
Other reserves	4,048	-	4,048	-
Current year profit	1,051	-	705	-
Unrealized gains arising from fair valuing equities	-	-	-	246
General loan loss provisions	-	873	-	700
TOTAL CAPITAL BEFORE REGULATORY DEDUCTIONS	77,193	873	75,275	946
Less : Regulatory deductions	-	-	-	-
NET AVAILABLE CAPITAL	77,193	873	75,275	946
TOTAL ELIGIBLE CAPITAL BASE (CET 1 + Tier 2)	78,066		76,221	
B. CAPITAL ADEQUACY RATIO		2015		2014
Total eligible capital base		78,066		76,221
Credit risk weighted exposures		198,779		158,767
Market risk weighted exposures		200		263
Operational risk weighted exposures		15,161		14,099
Total risk weighted exposures		214,140		173,129
	CET 1 capital ratio	Total capital ratio	Tier 1 capital ratio	Total capital ratio
Capital Adequacy Ratio	36.05%	36.46%	43.48%	44.03%

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 operational 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.

Basel II Pillar III Disclosures

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

TABLE 1 - CAPITAL STRUCTURE (continued)

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 Dollars.

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.

b. Claims on corporates:

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

c. Loans restructured:

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

d. Equity Portfolio:

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 10% of the eligible capital of investee entity, in which case they are deducted from the Bank's capital.

e. Other exposures:

These are risk weighted at 100%.

f. Related party transactions and balances:

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Bank exercises significant influence, major shareholders, directors and executive management of the Bank. Such related parties in the ordinary course of business at commercial interest and commission rates (Refer note 24 in the audited financial statements).

Amounts due from related parties are unsecured.

Basel II Pillar III Disclosures

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

TABLE 2 - REGULATORY CAPITAL REQUIREMENT FOR CREDIT RISK

	2015 Capital requirement	2014 Capital requirement
Claims on sovereign	-	-
Claims on public sector entities	-	-
Claims on banks	1,010	2,120
Claims on corporate	18,615	13,880
Regulatory retail exposures	-	-
Residential retail exposures	-	-
Equity	1,120	762
Other exposures	3,848	2,289
TOTAL CREDIT RISK CAPITAL REQUIREMENT (STANDARDIZED APPROACH)	24,592	19,052

TABLE 3 - REGULATORY CAPITAL REQUIREMENT FOR MARKET RISK

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

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

The Bank's market risk capital charge is largely composed of foreign currency risk arising from the Bank's foreign exchange exposure on investments denominated mainly in Kuwaiti Dinars, Saudi Riyals and USD, and interest rate risk arising on the bond portfolio. The capital requirement for market risk using the Standardized Approach as at 31 December 2015 was as follows:

	Capital requirements			2014
	2015	Maximum	Minimum	
Equity risk capital	-	-	-	-
Foreign exchange risk capital	16	18	18	21
Interest rate risk capital	-	-	-	-
		2015		2014
TOTAL MARKET RISK CAPITAL REQUIREMENT (STANDARDIZED APPROACH)		25		32

TABLE 4 - REGULATORY CAPITAL REQUIREMENT FOR OPERATIONAL RISK

	2015	2014
The capital requirement for operational risk using the Basic Indicator Approach as at 31 December 2015 amounted to	1,895	1,692

Basel II Pillar III Disclosures

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

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

	2015	2015 Average	2014	2014 Average
Balances with Central Bank of Bahrain	2,125	2,187	1,999	2,138
Treasury bills and bonds	4,244	5,974	10,883	8,988
Due from banks and other financial institutions	23,829	28,024	30,719	30,769
Loans and advances to customers	140,292	132,426	110,048	109,300
Interest receivable	165	157	78	152
Other assets	2,541	2,490	1,175	2,462
TOTAL FUNDED EXPOSURES	173,196	171,258	154,902	153,809
Contingent liabilities	2,501	2,550	2,416	2,560
Other commitments	23,059	19,496	6,996	7,688
TOTAL UNFUNDED EXPOSURES	25,560	22,046	9,412	10,248
TOTAL CREDIT RISK EXPOSURE	198,756	193,304	164,314	164,057

The gross average credit risk exposures are based on six months and year end prudential return reporting.

TABLE 6 - SECTORAL CLASSIFICATION OF GROSS CREDIT EXPOSURES

	2015		
	Funded	Unfunded	Total
Banks and financial institutions	25,954	-	25,954
Trading and manufacturing	67,863	-	67,863
Education and health	8,006	-	8,006
Hospitality, media and transportation	11,849	-	11,849
Fisheries and agriculture	5,377	-	5,377
Food processing	7,581	-	7,581
Government	4,244	-	4,244
Others	42,322	25,560	67,882
TOTAL	173,196	25,560	198,756
	2014		
	Funded	Unfunded	Total
Banks and financial institutions	43,601	-	43,601
Trading and manufacturing	54,644	-	54,644
Education and health	10,380	-	10,380
Hospitality, media and transportation	8,702	-	8,702
Fisheries and agriculture	4,437	-	4,437
Food processing	2,940	-	2,940
Others	30,198	9,412	39,610
TOTAL	154,902	9,412	164,314

Basel II Pillar III Disclosures

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

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

	2015	2014
Total credit exposures in excess of 15% individual obligor limit	-	-

Impairment of assets

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

Restructured credit facilities

The Bank have BD 8,150 restructured credit facilities during the year period ended 31 December 2015.

Past due exposures

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

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

	2015				
	Impaired and past due loans	Specific provision	Charge for the year	Write off	Collective impairment
Project finance	32,586	12,445	304	1,349	873
Fisheries and agriculture	2,354	-	-	-	-
TOTAL	34,940	12,445	304	1,349	873
	2014				
	Impaired and past due loans	Specific provision	Charge (recoveries)	Write off	Collective impairment
Project finance	21,759	13,490	2,881	2,009	700
Fisheries and agriculture	1,980	-	-	-	-
TOTAL	23,739	13,490	2,881	2,009	700

Basel II Pillar III Disclosures

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

TABLE 9 - RESIDUAL CONTRACTUAL MATURITY

Maturity analysis of assets and liabilities

The table below summarises the maturity profile of the Group's assets and liabilities as at 31 December 2015.

	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Total
2015									
Assets									
Cash and balances with Central Bank of Bahrain	2,443	-	-	-	-	-	-	-	2,443
Due from banks and other financial institutions	10,585	6,227	7,017	-	-	-	-	-	23,829
Accounts receivable and other assets	-	-	2,706	-	-	-	-	-	2,706
Loans and advances to customers	4,129	697	1,319	3,016	23,630	75,507	30,512	1,482	140,292
Investment securities	4,408	-	-	-	-	-	6,187	-	10,595
Investment in associates	-	-	-	-	-	-	253	-	253
Investment property	-	-	-	-	-	-	-	12,685	12,685
Property, plant and equipment	-	-	-	-	-	-	-	1,321	1,321
Total assets	21,565	6,924	11,042	3,016	23,630	75,507	36,952	15,488	194,124
Liabilities									
Deposits	47,888	15,677	3,421	198	-	-	-	-	67,184
Accounts payable and other liabilities	-	-	4,400	-	-	-	-	-	4,400
Long term loans	-	251	1,387	1,638	9,569	8,368	19,101	5,009	45,323
Total liabilities	47,888	15,928	9,208	1,836	9,569	8,368	19,101	5,009	116,907
Net liquidity gap	(26,323)	(9,004)	1,834	1,180	14,061	67,139	17,851	10,479	

Basel II Pillar III Disclosures

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

The table below summarizes the maturity profile of the Group's assets and liabilities as at 31 December 2014.

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

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

Bank and its subsidiary is operated locally and Loans granted to Bahrain entities and persons only.

	2015	2014
Bahrain		
Specific impairment provision	12,445	13,490
TOTAL	12,445	13,490

Basel II Pillar III Disclosures

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

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

	2015						Total
	Project finance		Fisheries and agriculture				
	Specific	Collective	Specific	Collective	Total		
Balance at 1 January 2015	13,490	700	14,190	-	-	-	14,190
Amounts written off during the period	(1,349)	-	(1,349)	-	-	-	(1,349)
Charge for the period	2,510	173	2,683	-	-	-	2,683
Recoveries during the period	(2,206)	-	(2,206)	-	-	-	(2,206)
At 31 December 2015	12,445	873	13,318	-	-	-	13,318

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

TABLE 12 - PAST DUE LOANS AND OTHER ASSETS - AGE ANALYSIS

i) By Geographical area

	2015			
	Three months to one year	One to three years	Over three years	Total
Bahrain	26,128	118	8	26,254
TOTAL	26,128	118	8	26,254

ii) By Counterparty wise

	Three months to one year	One to three years	Over three years	Total
Project finance	24,475	100	-	24,575
Fisheries and agriculture	1,060	-	-	1,060
Other assets	593	18	8	619
TOTAL	26,128	118	8	26,254

Basel II Pillar III Disclosures

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

i) By Geographical area

	2014			Total
	Three months to one year	One to three years	Over three years	
Bahrain	18,115	-	8	18,123
TOTAL	18,115	-	8	18,123

ii) By Counterparty wise

	Three months to one year	One to three years	Over three years	Total
Project finance	17,051	-	-	17,051
Fisheries and Agriculture	1,060	-	-	1,060
Other Assets	4	-	8	12
TOTAL	18,115	-	8	18,123

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

	2015	2014
Claims on sovereign	-	-
Claims on public sector entities	-	-
Claims on banks	8,079	17,669
Claims on corporate	134,081	101,159
Past due exposures	14,836	14,509
Equity	8,957	6,354
Other exposures	32,826	19,076
TOTAL	198,779	158,767

Basel II Pillar III Disclosures

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

TABLE 14 - ELIGIBLE FINANCIAL COLLATERAL AND GUARANTEES

Collateral from borrowers consist of cash deposits, letters of guarantee and real estate 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.

	2015		2014	
	Gross exposure	Eligible CRM	Gross exposure	Eligible CRM
Claims on sovereign	-	-	-	-
Claims on public sector entities	-	-	-	-
Claims on MDBs	-	-	-	-
Claims on banks	8,079	-	17,669	-
Claims on corporate	148,917	329	115,668	293
Equity	8,957	-	6,354	-
Other exposures	32,826	-	19,076	-
TOTAL	198,779	329	158,767	293

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

Impact on net interest income for the year ended 31 December 2015

	2015
Bahraini Dinar	
Assets	149,675
Liabilities	51,899
(+) 200 basis points	1,956
(-) 200 basis points	(1,956)
US Dollar	
Assets	12,157
Liabilities	45,348
(+) 200 basis points	(664)
(-) 200 basis points	664
Kuwaiti Dinar	
Assets	5,292
Liabilities	5,141
(+) 200 basis points	3
(-) 200 basis points	(3)
Saudi Riyals	
Assets	10,035
Liabilities	10,119
(+) 200 basis points	(2)
(-) 200 basis points	2

Basel II Pillar III Disclosures

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

TABLE 16 - MARKET RISK, INTEREST RATE GAP

Market risk

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

Interest rate risk

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

The Bank's interest rate sensitivity position is based on the maturity dates, as follows

	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Non-interest bearing	Total
2015								
Assets								
Cash and balances with Central Bank of Bahrain	-	-	-	-	-	-	2,443	2,443
Due from banks and other financial institutions	10,585	6,227	7,017	-	-	-	-	23,829
Accounts receivable and other assets	4,408	-	-	-	-	-	21,831	26,239
Loans and advances to customers	4,129	697	1,319	3,016	99,137	31,994	-	140,292
Total assets	19,122	6,924	8,336	3,016	99,137	31,994	24,274	192,803
Liabilities								
Deposits	47,888	15,677	3,421	198	-	-	-	67,184
Accounts payable and other liabilities	-	-	-	-	-	-	4,400	4,400
Long term loans	-	251	1,387	1,638	17,937	24,110	-	45,323
Total liabilities	47,888	15,928	4,808	1,836	17,937	24,110	4,400	116,907
Net liquidity gap	(28,766)	(9,004)	3,528	1,180	81,200	7,884	19,874	

Basel II Pillar III Disclosures

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

TABLE 16 - MARKET RISK, INTEREST RATE GAP (continued)

	Up to 1 month	2 to 3 months	4 to 6 months	7 months to 1 year	2 to 5 years	Over 5 years	Non-interest bearing	Total
2014								
Assets								
Cash and balances with Central Bank of Bahrain	-	-	-	-	-	-	2,236	2,236
Due from banks and other financial institutions	10,951	3,933	13,835	2,000	-	-	-	30,719
Accounts receivable and other assets	2,014	3,328	300	3,000	-	2,241	9,660	20,543
Loans and advances to customers	4,111	727	1,763	3,597	21,275	78,575	-	110,048
Total assets	17,076	7,988	15,898	8,597	21,275	80,816	11,896	163,546
Liabilities								
Deposits	40,269	2,087	13,024	232	1,525	-	-	57,137
Accounts payable and other liabilities	-	-	-	-	-	-	3,949	3,949
Long term loans	-	657	-	657	16,340	19,744	-	37,398
Total liabilities	40,269	2,744	13,024	889	17,865	19,744	3,949	98,484
Net liquidity gap	(23,193)	5,244	2,874	7,708	3,410	61,072	7,947	

TABLE 17 - EQUITY POSITION IN THE BANKING BOOK

	2015		2014	
	Net exposure	Capital requirement	Net exposure	Capital requirement
Publicly traded	4,408	529	3,831	460
Privately held	6,187	742	11,564	1,388
TOTAL	10,595	1,271	15,395	1,847

Basel II Pillar III Disclosures

Year ended 31 December 2015

(Expressed in Thousand Bahraini Dinars)

TABLE 18 - GAINS ON EQUITY INVESTMENTS

	2015	2014
Realized gains recognized in the statement of profit or loss	1,718	3,500
Unrealized gain recognized in the statement of financial position:		
- CET 1	-	547
- Tier 2	-	-

TABLE 19 - OPERATIONAL AND LEGAL RISKS

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

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

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

TABLE 20 - FINES AND PENALTY

	2015	2014
Penalty paid to Central Bank of Bahrain (Amount in BD Actual)	50	-