PASSION FOR **SUCCESS**

Annual Report 2013

البحرين
BAHRAIN

بنك البحرين للتنمية ش.م.ب
Bahrain Development Bank B.S.C

Contents

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

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His Royal Highness Prince Khalifa bin Salman Al Khalifa

The Prime Minister of
The Kingdom of Bahrain

His Majesty King Hamad bin Isa Al Khalifa

The King of
the Kingdom of Bahrain

His Royal Highness Prince Salman bin Hamad Al Khalifa

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

Profile

BDB commenced its operations on January 20, 1992 as the country's leading Development financial institution. The government has entrusted the Bank with a crucial task of promoting Investments in Bahrain, with the aim of Diversifying the economic base, creating New employment opportunities for Bahrainis and contributing significantly to the overall socio-economic development of the kingdom.

Mission

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

Subsidiaries

Bahrain Business Incubator Center (BBIC)

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

Bahrain Institute of Entrepreneurship & Technology (BIET)

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

Financial Highlights

	2013	2012	2011	2010	2009
Earnings (BD 000's)					
Net interest income	**5,826**	5,279	5,776	5,101	4,704
Other income	**1,999**	1,768	1,459	1,555	1,603
Operating expenses	**6,312**	5,881	5,720	5,146	4,082
Provision for Impairments	**1,861**	4,176	1,289	802	1,473
Net profit (loss)	**(348)**	(3,053)	226	708	752
Dividend (percent)	**0%**	0%	0%	0%	0%
Financial Profile (BD 000's)					
Total assets	**157,814**	157,646	137,673	144,053	124,211
Loans and Advances	**101,367**	95,059	97,274	102,938	78,529
Investments	**10,266**	8,985	6,726	6,837	6,657
Total deposits	**53,677**	63,440	60,300	69,229	50,974
Customers' deposits	**40,283**	45,949	46,349	46,918	33,428
Equity	**71,196**	70,893	58,667	58,635	58,167
Rations (percentage)					
Profitability					
Return on average equity	**(0.49%)**	(4.71%)	0.39%	1.21%	1.30%
Return on average assets	**(0.22%)**	(2.05%)	0.16%	0.53%	0.66%
Earnings per share (fils)	**(5)**	(47)	5	14	15
Cost-to-income	**81%**	84%	79%	77%	65%
Capital					
Capital adequacy	**48%**	40%	44%	40%	53%
Equity/total assets	**45%**	44%	43%	41%	47%
Total deposits/equity (times)	**0.75**	0.89	1.03	1.18	0.88
Other					
Loans and advances/total assets	**64%**	61%	71%	71%	63%
Investments/total assets	**7%**	6%	5%	5%	5%
Loans and advances/customer deposits	**2.52**	2.12	2.10	2.19	2.35
Number of employees	**186**	165	160	162	147

Net Interest Income

5,826

2013	2012	2011	2010	2009
5,826	5,279	5,776	5,101	4,704

Total Assets

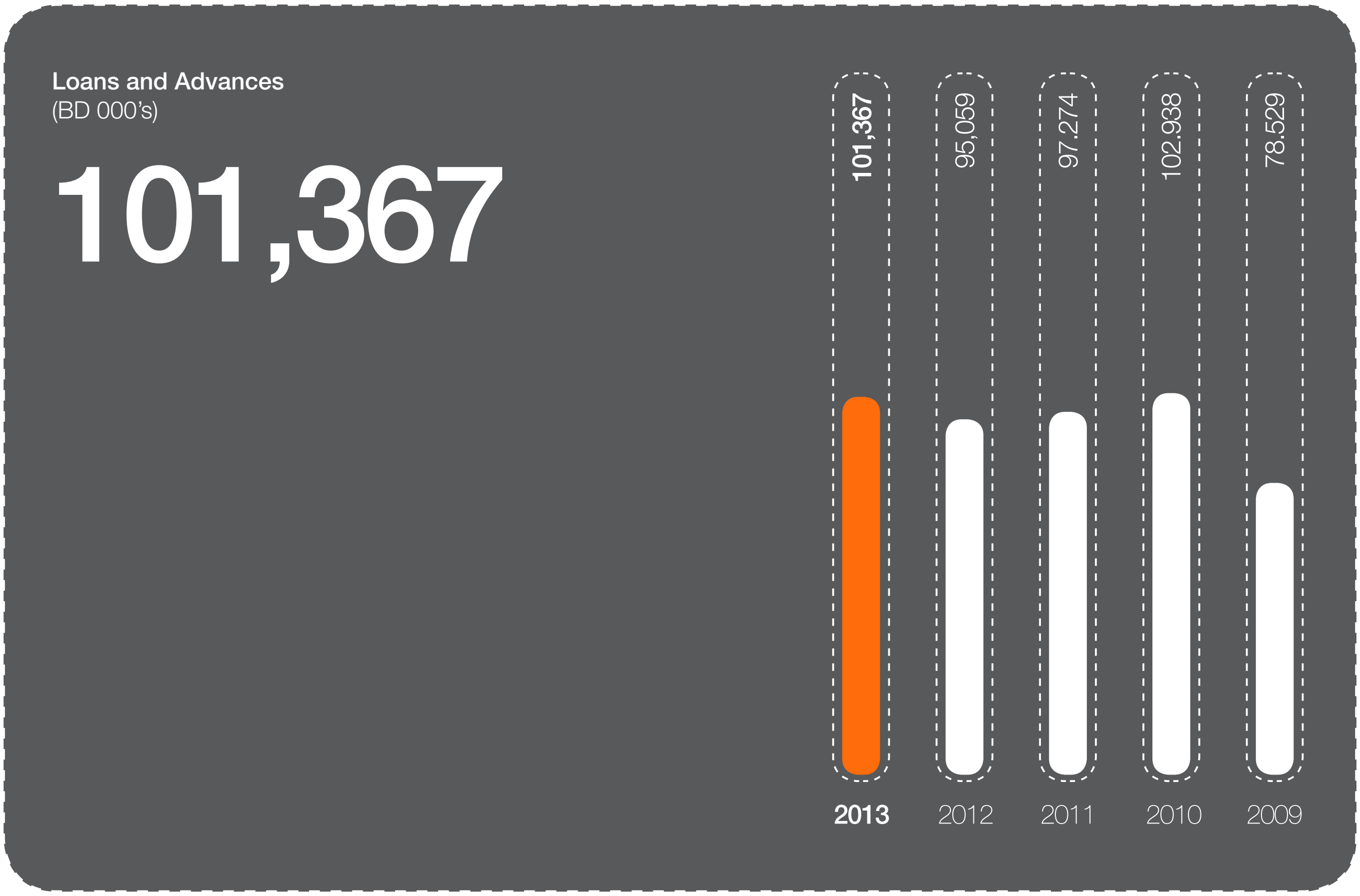
157,814

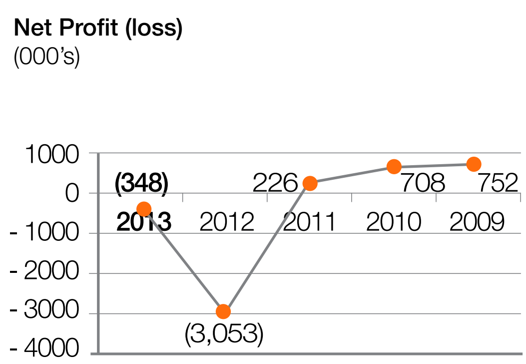
2013	2012	2011	2010	2009
157,814	157,646	137,673	144,053	124,211

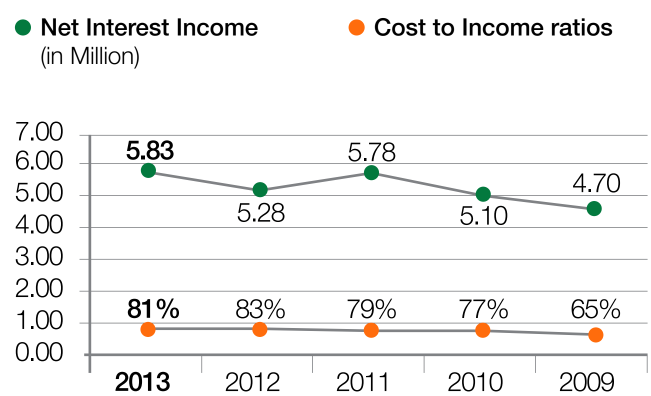
Equity/Total Assets

45%

2013	2012	2011	2010	2009
45%	44%	43%	41%	47%







Period	Project cost	Loans, Indirect Financing & Equity	New Jobs	Exports	Import Subs.	Foreign Investment	Foreign Currency	Value added
Jan - Dec 2013	**43,300**	**42,758**	**3,396**	**6,089**	**5,070**	**495**	**7,542**	**25,128**
Jan - Dec 2012	129,581	39,272	2,926	44,945	8,764	17,010	45,425	17,178

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

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

1 Education Finance

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

2 BDB Finance

Islamic Financing: Shari'a Compliant with a profit rate of 5.5%. Conventional: with 9.5% reducing interest rate. Minimum Financing Amount BD3,000, usually used to finance a specific asset, such as plant or machinery, or working capital loans with a comfortable repayment and grace period.

3 BDB &Tamkeen Finance

Minimum Amount BD5,000 with a minimum profit rate of 4.27% (APR 8%).50% of the profit is subsidized by Tamkeen. Usually used to finance a specific asset, such as plant or machinery, or working capital loans with a comfortable repayment and grace period.

4 Letters of Credit

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

5 Letters of Guarantee

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

6 Agricultural Loans

Agricultural loans are offered by Bahrain Development Bank with 0% interest rate to be used for development of agriculture production in Bahrain. The maximum facility amount is BD 20,000.

7 Overdraft Facility

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

8 Fisheries Loans

We offer loans for fisheries with 0% interest rate to assist them in purchasing new/used boats, engine, spare parts, fishing items or for maintenance. The maximum facility amount for boats is BD 10,000 and Banoosh is BHD 15,000.

9 ICT Finance Scheme

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

Board of Directors

Sh. Mohammed Bin Isa Bin Mohammed Al Khalifa
Chairman

Mr. Saleh Hassan Ali Hussain
Board Member

Ms. Vivian Abdulla Jamal
Board Member

Mr. Abdulellah Ebrahim Al Qassimi
Board Member

Mr. Saqer Shaheen Saqer
Board Member

Dr. Mohamed Ahmed Juman
Board Member

Sh. Wesal Bint Mohammed Al Khalifa
Board Member

Mr. Ebrahim Abduali Al Daaysi
Board Member

Shaikh Mohammed Bin Isa Bin Mohammed Al Khalifa

Chairman

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

Mr. Saleh Hassan Ali Hussain

Board Member

Master Degree in Business Administration from Brunel University in United Kingdom has over 35 years banking experience. He is the chairman of the Board of Directors of Solidarity General Takaful and President of Saleh Hussain Consultancy. He is the Board member and Head of Audit Committee of Arab Financial Services Co, ABC Islamic Bank, Alkhabeer Capital, AlMajdouie Group, Board and Audit committee member of Saudi Hollandi Bank.

Ms. Vivian Abdulla Jamal

Board Member

B.Sc. in Architectural Engineering from the University of Bahrain with distinction and an Honors Masters of Business Administration, Economics and Finance from the Charles H. Kellstadt Graduate School of Business – DePaul University, USA. Currently heads the Business Development Division of the Bahrain Economic Development Board as Executive Director. She is a member of the National Committee for the Implementation of the US-Bahrain Free Trade Agreement and member of the National Oil & Gas Committee. Her prior experience includes Global Communications and Marketing Director for TAIB Bank E.C. and its thirteen subsidiaries worldwide. She also worked as a business developer for Stark Integrated Marketing; a New York based Communications Company.

Mr. Abdulellah Ebrahim Al Qassimi

Board Member

Has a wealth of public and private sector expertise in engineering, management, facility planning, training and labour. He is a Board member of Tamkeen, and Member of the Audit committee since June 2011. He is also a Board member of Ithmaar Bank, Solidarity Holding Group and the American Mission Hospital. He holds a Master's degree in Health Facility Planning and a Bachelor's degree in Civil Engineering from the University of London. He was the former Chief Executive of Tamkeen (2005 - 2010). In addition to being the Director of Engineering & Maintenance at the Ministry of Health for 23 years Mr. Al-Qassimi also occupied the post of Assistant Undersecretary for Training at the Ministry of Labour, between 2001 - 2005.

Mr. 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 is currently the Vice Chairman of LMRA, Board Member & Executive Committee Member of OSOOL, and the Vice Chairman & Executive Committee Member of Seef Properties. He is also a registered International Consultant in the United Nations Industrial Development Organization (UNIDO). He was a Board Member of organizations like Telecommunication Regulatory Authority, Social Insurance Organization, BALEXCO, Gulf Organisation for Industrial Consulting, Gulf Petrochemical Induductries Co. BSC. etc.

Dr. Mohamed Ahmed Juman

Board Member

Has a degree in Electrical Engineering in the fields of electronics and telecommunications from Concordia University in Canada. He gained his MSC in Project Engineering from the University of Lancaster and later graduated with a PhD in Avionics from Cranfield University. Dr. Jumaan began his career in the Civil Aviation as an Electronics Engineer and then progressed to the post of Director of Air Navigation.

He has extensive experience in the design, implementation and management of Engineering and Information Technology projects ranging in value from BDlOOk to BD50m. During the last six years he has managed to establish, invest, finance and grow several different businesses in the ICT, Technology, Aviation, Facilities management and Real Estate domains. He is a Certified Information Technology Professional and a Chartered Engineer. He is also a Fellow of Both the Royal Aeronautical Society and the British Computer Society.

Sh. Wesal Bint Mohammed Al Khalifa

Board Member

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

Mr. Ebrahim Abduali Al Daaysi

Board Member

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

2013

2013 Plan focused on the provision of facilities and update of mechanisms aimed at easing the acquisition of financing and investment in various sectors through the improvement of customer services and the launch of various alternatives and new financing products for entrepreneurs.

Sh. Mohammed Bin Isa Bin Mohammed Al Khalifa
Chairman

It gives me pleasure to present the 2013 Annual Report of the Bahrain Development Bank Group -Bahrain Development Bank (BDB), the Bahrain Business Incubator Centre (BBIC), and the Bahrain Institute of Entrepreneurship & Technology (BIET). I would like to briefly review the major highlights achieved by the Group last year as outlined in its National Economic Strategy (2009-2014), and defined in the Bahrain Economic Vision 2030.

The Group successfully managed to achieve excellent results on the level of key economic indicators. The Bank's financing volume during the year 2013 for all financing programs reached BD 44.6 million against BD 41.6 in 2012. Medium establishments received BD 37.3 million from the loans portfolio up to 31st December 2013, against BD 31.1 million in 2012, an increase of 20%. The volume of investment in small and rising projects reached BD 43.3 million in various sectors and projects in the Kingdom.

The added value achieved by financed projects reached BD 25 million, against BD 17.2 million in 2012, an increase of 46%. With regards to new business opportunities provided by the financed projects, they reached 3396 opportunities against 2962 business opportunities in 2012, an increase of 16%. In addition, the Bank achieved a tangible increase in other different indicators against anticipated figures during that year. For instance, an increase was achieved in imports vale which reached BD 5 million against anticipated figure of BD 3 million only, representing an increase of 66.7%.

On the other hand, the accumulating financing volume of industrial projects up to the end of December 2013 reached over BD 85 million, and the accumulating financing volume of all programs and services up to the end of 2013 reached over BD 344.3 million.

2013 Plan focused on the provision of facilities and update of mechanisms aimed at easing the acquisition of financing and investment in various sectors through the improvement of customer services and the launch of various alternatives and new financing products for entrepreneurs who own small and rising projects, in addition to the expansion of the branches network and service centres located in various key parts of the Kingdom. The Bank's branch of Riyadat Center located in Al'Ali was opened in November 2012, which primarily aims at fostering existing women projects, in addition to other establishments situated in this area.

Due to the growing importance of the non-financial services in developing the entrepreneurship sector and supporting the small and medium projects, the Group attached prior concern to these services through adoption and implementation of a number of programs and initiatives on the level of business consultancy services, training of entrepreneurs and spread of entrepreneurship culture, in addition to promoting innovation programs among the Bahraini youth and developing the programs and plans of entrepreneur incubators in relation to the opening of new incubators, led by the quality project established jointly with the Supreme Council of Bahrain and represented in the opening of Women Incubator Centre (Riyadat), inaugurated by HRH Princess Sabeeka bint Ebrahim Al-Khalifa, Wife of HM the King of Bahrain and Chairperson of Supreme Council for Women in November 2013. The Centre is envisaged as an advanced initiative and innovative idea for fostering the business of Bahraini women and encouraging them to establish their own projects by making use of the specialized services provided by the Centre.

In conclusion, I would like to emphasize that the achievements made by the Group in 2013 are the fruitful outcome of the concerted efforts and dedication of the executive management and employees of the Group at all levels, with the valued support and follow up of the Board of Directors.

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

I also thank all organizations and establishments which cooperated with us and contributed whether directly or indirectly in attaining the remarkable achievements in 2013, looking forward to ongoing constructive partnerships towards achieving further accomplishments and progress which would eventually bolster the position of the Group in fostering and building the national economy of the Kingdom.

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

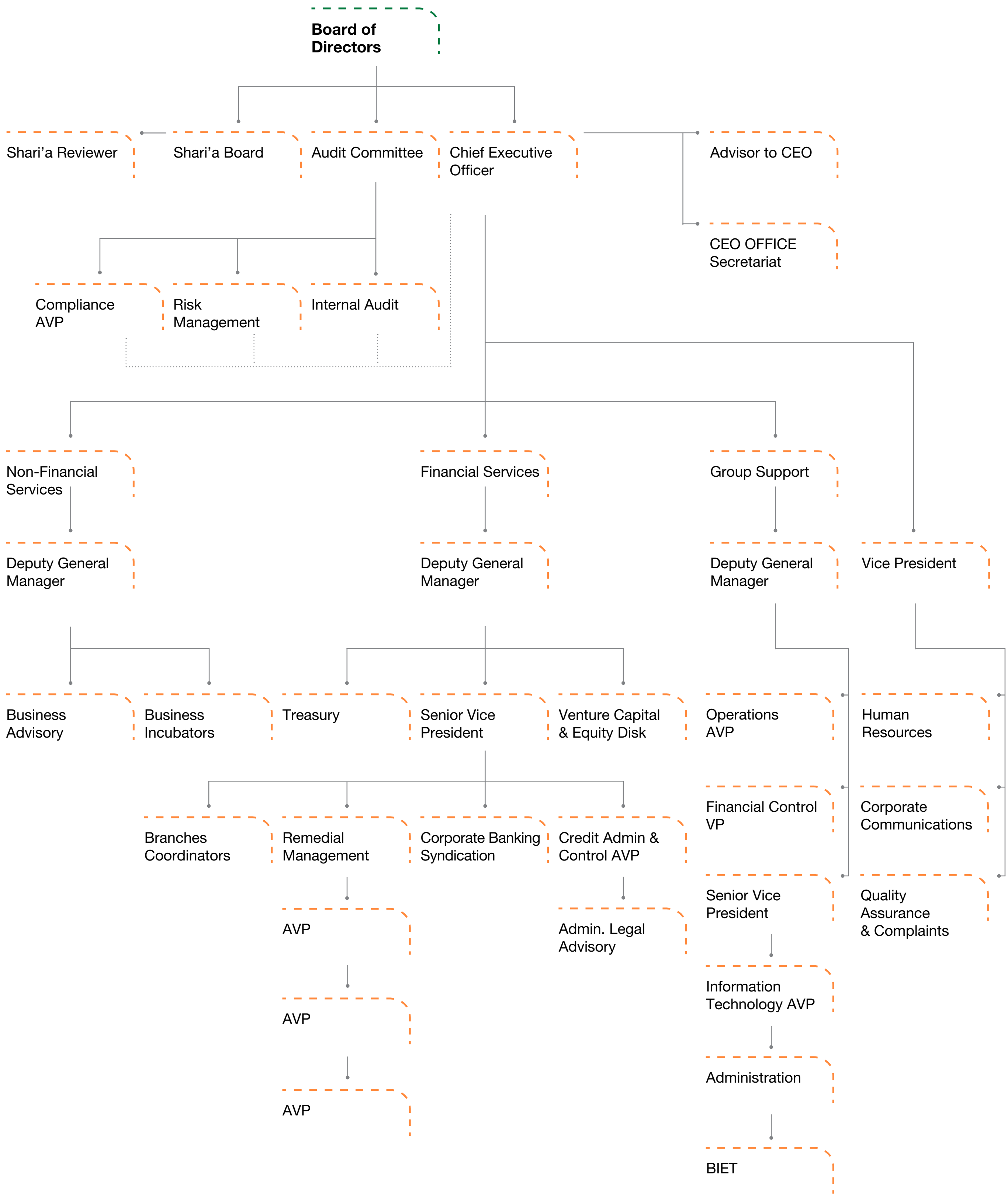
The Board currently consists of eight independent Non-Executive Directors who were nominated by His Highness Crown Prince of the Kingdom of Bahrain through a Decree. The Board established Remuneration and Governance Committee (R & G Committee) during the year, to assist the Board in accomplishing its overseeing responsibilities.

The Board also determined; (a) to review the independence of each director at least annually in light of the interests disclosed by them and review declaration & approval of related party transactions at every Board meeting (b) the board to conduct evaluation of performance of the Board, Committees and individual directors to provide feedback and (c) the Board to establish corporate standards for 'approved persons' and employees by introducing Code of Ethics for employees and another for directors. Accordingly, based on recommendations of R & G Committee, the board established Code of Conduct, Code of Ethics & Business Conduct and Self- Assessment system for implementation.

The Board is empowered to oversee the management and functioning of the Bank. The Board derives its powers and responsibilities through its Memorandum and Articles of Association or resolutions of the general meeting. The Board is authorised to pass the resolutions and internal regulations for the effective management of the Bank, its financial and administrative affairs, personnel regulations, formation of committees, determination of committees' terms of reference, approval of delegation of authority (wherever required) and to lay down such rules and regulations which are required for the attainment of the objectives with which the Bank is established.

The present term of the Board of Directors started on 17 September 2012 for a period of 3 years.

No remuneration was paid to Directors during the year.


Board of Directors
Shari'a Reviewer
Shari'a Board
Audit Committee
Chief Executive Officer
Advisor to CEO
CEO OFFICE Secretariat
Compliance AVP
Risk Management
Internal Audit
Non-Financial Services
Financial Services
Group Support
Deputy General Manager
Deputy General Manager
Deputy General Manager
Vice President
Business Advisory
Business Incubators
Treasury
Senior Vice President
Venture Capital & Equity Disk
Operations AVP
Human Resources
Financial Control VP
Corporate Communications
Branches Coordinators
Remedial Management
Corporate Banking Syndication
Credit Admin & Control AVP
Senior Vice President
Quality Assurance & Complaints
AVP
Admin. Legal Advisory
Information Technology AVP
AVP
Administration
AVP
BIET

Corporate Governance

Board Meetings and Attendance

During 2013, Board meetings were held in Bahrain on, February 3, May 19, July 21, October 28, and December 15. The following Directors attended the meetings:

Sl No	Name of the Directors	February 3	May 19	July 21	October 28	December 15
1	H.E. Sh. Mohammed Bin Isa Al Khalifa	✓	✓	✓	×	✓
2	Mr. Saqer Shaheen Saqer	✓	✓	✓	✓	×
3	Ms. Vivian Abdulla Jamal	✓	✓	✓	✓	✓
4	Mr. Abdulellah 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

During 2013, Audit committee meetings were held in Bahrain on March 11, April 28, July 17, October 22, and December 22. The following Directors attended the meetings:

Sl No	Name of the Directors	March 11	April 28	July 17	October 22	December 22
1	Mr. Saqer Shaheen Saqer	✓	✓	✓	✓	✓
2	Mr. Abdulellah Ebrahim Al Qassimi	×	×	×	×	✓
3	Mr. Saleh Hassan Ali Hussain	✓	✓	✓	✓	✓

Remuneration and Governance Committee (RGC)

During 2013, RGC Meeting was held in Bahrain on December 15, the following Directors attended the meeting:

Sl No	Name of the Directors	December 15	Summary Terms of Reference
1	H.E. Sh. Mohammed Bin Isa Al Khalifa	✓	Monitor the adequacy of the Banks's policies and practices on the Corporate Governance and recommend to the Board Corporate Governance guidelines, assist the Board of Directors in establishing a fair and transparent process for the remuneration of directors, other Board Committees, the Chief Executive Officer and of Executive Management team.
2	Ms. Vivian Abdulla Jamal	✓	
3	Dr. Mohamed Ahmed Juman	✓	

The Board of Directors' Corporate Governance Philosophy is intended to fortify BDB's management in competent administration of its diverse development financing and activities including, business advisory, entrepreneurial training, business incubation services and meeting all the Central Bank regulatory and other legal requirements. The following Executive Committees are in place: Management Executive Committee, Risk Executive Committee, Assets & Liabilities Committee (ALCO), IT Steering Committee and Human Resources (HR) & Remuneration Committee. The Board of Directors is committed to ensure effective governance over the affairs of the Bank and its subsidiaries in the best interests and for benefit of all its stakeholders. Bank is in the process of preparing the Remuneration policy as per the CBB guidelines.

As part of the best practice Auditors were changed generally after a term of three years by AGM. The details of remuneration paid to the Auditors were available at the corporate office and disclosed under other operating expenses.

Management Executive Committee

Nedhal Saleh Al-Aujan
Chief Executive Officer

Sh.Hesham Mohamed Al-Khalifa
Deputy General Manager
Non-Financial Services Division

Adnan Mahmood Al Balooshi
Deputy General Manager, Banking Services Division

Khalid Yousif Meshkhas
Deputy General Manager Support Services Division

Anil R. Hattangdi
Executive Vice President,
CEO Advisor and Board Secretary

Dalal Ismail Ahmed
Assistant General Manager,
Banking Services Division

Hassan Khalil Al-Binmohamed
Senior Vice President,
Human Resources & Corporate Communications

Tawfeeq Ali Al Qattan
Senior Vice President,
Support Services

Buthayna Ahmed Al- Sadeq
Vice President,
Financial Control

Samuel Verghese
Assistant Vice President,
Head of Internal Audit

Ashok Gulvady
Senior Vice President,
Head of Risk Management

Nedhal Saleh Al-Aujan

Chief Executive Officer, BDB Group of Banking, Business Advisory, Incubation and Support services

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

Adnan Mahmood Al Balooshi

Deputy General Manager, Banking Services Division

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

Khalid Yousif Meshkhas

Deputy General Manager Support Services Division

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

Anil R. Hattangdi

Executive Vice President, CEO Advisor and Board Secretary

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

Sh.Hesham Mohamed Al-Khalifa

Deputy General Manager Non-Financial Services Division

Head of Bahrain Business Incubator Centers, Managing Director of Arabian Taxi Company, Board Member of Ebda Bank, and Board Member of Tenmou. Shaikh Hesham has over 22 years of experience and holds a Bachelor of Economics from American University, having worked as a Director of Projects & Industrial Investments within the Ministry of Development & Industry, and the Ministry of Oil & Industry. He was also a Director of Public Relations & Information, and a Director of Follow-up in the Court of the Crown Prince. During his career he contributed to the development of numerous economic and social programs, such as helping with the developments of the Bahrain Development Bank and the United Nations Industrial Development Organization (UNIDO). He also helped develop the methodology and tools for the promotion of domestic investment (Bahrain Model for Entrepreneurial Development) in Bahrain Business Incubators and was involved in the development of the Woman Incubator center & University of Bahrain Incubator Center. He joined the Bahrain Development Bank Group in 2011.

Tawfeeq Ali Al Qattan

Senior Vice President, Support Services

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

Dalal Ismail Ahmed

Assistant General Manager, Banking Services Division

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

Hassan Khalil Al-Binmohamed

Senior Vice President, Human Resources & Corporate Communications

B.A. in Government, Eastern Washington University, USA. Associate of Art, Spokane Falls Community College, USA. Diploma in Human Resources CIPD. Over 12 years of banking experience. He has worked with Kuwait Finance House as HR Supervisor. He joined Bahrain Development Bank in 2005.

Buthayna Ahmed Al- Sadeq

Vice President- Financial Control

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

Samuel Verghese

Assistant Vice President, Head of Internal Audit

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

Ashok Gulvady

Senior Vice President, Head of Risk Management

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

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

2013

The Group successfully managed to establish a wider base of customers with an accumulating financing volume of BD 344.3 million and over 10.972 financing services up to the end of December 2013.

Nedhal Saleh Al-Aujan
Chief Executive Officer

It gives me pleasure to present the Annual Report for the Year 2013. The Bahrain Development Bank Group introduced a wide spectrum of financing services and products to cater for the needs of small and medium enterprises. The good results achieved during that year vividly reflected the Group's leading status and outstanding excellence in serving the goals of the national economy and the key projects and initiatives related thereto.

The role assumed by the Group in all domains of economy is evident as it heavily counted on a variety of integrated services and geographic expansion through its branches, service centres, representation offices and specialized industrial and technical incubators located in various parts of the Kingdom. The Group successfully managed to establish a wider base of customers with an accumulating financing volume of BD 344.3 million and over 10.972 financing services up to the end of December 2013.

The growing base of clients notably increases every year which is attributed to the outstanding success of our specialized programs, ambitious initiatives and overall services, in addition to the growing confidence of the various segments of clients in our services and products, and the excellent measures and mechanisms which we are committed to follow for enhancing client services and achieving customer satisfaction on a regular basis.

This stems from the fact that the customer's success is certainly the success of each and every one of us and the success of our national economy as a whole. Hence, we are constantly dedicated to provide our valued clients with superior services to ensure their continued success and fulfil their investment visions as ideally as possible.

I have the pleasure to review with you the major milestones achieved during 2013 in various domains and aspects in terms of the financial results as follows:-

Financing schemes reached BD 44.6 million with 1323 finances during 2013. The Bank focused on vital sectors including projects of information technology, foods, green environment and energy, which are promising and major sectors in Bahrain, and they provide key investment opportunities for the Kingdom.

Added value achieved by financed projects reached BD 25 million. The index of new business opportunities provided by those projects increased by 16% to 3396 against 2926 opportunities in 2012.

The percentage of new clients formed 57% of total clients who received finances from the Bank. The small and start-up projects formed 67% of total finances.

Non-Financial Services Results

The number of beneficiaries from consultation services and training programs provided by the Bank's Business Consultation Unit for entrepreneurs and other awareness programs reached 5265 beneficiaries including beneficiaries in business and information technology provided by The Bahrain Institute of Entrepreneurship & Technology BIET, one of the establishments of the Bahrain Development Bank Group for improving the field of entrepreneurship and business in the Kingdom through development of the potentials of Bahraini youth in this field, and enhancement of the awareness of the significance of this segment in practicing business and providing them with required skills and specialized practical programs in establishing and managing small and rising projects, in addition to the investment and development of innovation.

The total number of small & rising projects available at the Bahrain Business Incubator Centre (BBIC), one of the establishments of the Bahrain Development Bank Group, reached 111 projects in the two sectors of services and industries by the end of 2013.

Numerous Achievements During 2013

- The inauguration of the Bahrain Women Incubator Centre (Riyadat) located in Al'Ali, the first of its kind in the Middle East region. The centre was established upon a joint initiative between the Bahrain Development Bank and the Supreme council for Women. At present it incubates more than 50 projects.
- The operation of the Technical Business Incubator at the University of Bahrain, also commissioned upon a joint initiative between the Bank and the University.
- The establishment of a specialized incubator for information technology and telecommunications projects (Rukun).
- The Bank's winning of the Banker Middle East Industry Award 2013 provided by CPI Financial during an award ceremony held on 19th June 2013 at Jumeriah Emirates Towers, Dubai in the presence of over 450 key banking figures running the most leading and specialized banks and financial institutions in the Middle East and North Africa. We take great pride in this remarkable achievement. It is a tangible outcome of our dedicated and concerted efforts and ongoing development based on the principle of integration in support and incubation. The award is a vivid reflection of the Group's continued commitment to visualize the true meaning of development through the application of flexibility and full understanding of needs and requirements towards the fulfilment of the aspired goals of the youth with efficiency and credibility.
- The BDB Manager HR & Public Relation Mr. Hasan Al Binmohamed's winning of the Asian HR Leadership Award 2013 after the World HR Supreme Council's nomination of Mr. Al Binmohamed to receive this prominent award during the award ceremony held in Dubai on 24th September 2013. The award represents another major milestone achieved by the Group which adopts flexible policies and specialized programs in enhancing HR management.

The achievements attained by the Bahrain Development Bank were and still are a clear reflection of the devoted efforts exerted by the Wise Government in supporting the small and rising projects, and attaching prior concern to this vital sector, in addition to its ongoing dedicated endeavours in encouraging the owners of these establishments to develop their activities considering the aspired returns resulting from the growth of this key sector in full compliance with the wise Bahrain Economic Vision 2030.

I would like to sincerely thank the Wise Government for its continued support, and my sincere appreciation to the Ministry of Finance for its dedicated efforts. I also express my sincere thanks to the Chairman & Members of the Board of Directors for their kind guidance and ongoing follow-up towards achieving the aspired strategic goals. Special thanks are extended to all agencies and organizations at domestic, regional and global arenas for their dedicated cooperation with the Bank, led by the Ministry of Industry & Commerce and our strategic partner "Tamkeen".

Finally, I would like to sincerely thank the Executive Management and all the human resources of the Group for their dedication and loyalty towards fulfilling the aspirations of the Bahrain Development Bank Group and its growth plans in the Kingdom of Bahrain.

Nedhal Saleh Al-Aujan
Chief Executive Officer

BD 20,000

Education Finance

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.

Business Banking

BDB as a development financial institution has been playing a vital role in the development of SME sector in Bahrain. The Bank during the year 2013 continued with its strategy of meeting the credit needs of the SME sector and thereby providing an impetus to the growth and diversification of the economy. Further, the Bank continued to provide assistance to SME clients facing financial difficulties to overcome their problems.

In line with the bank's main objective, the emphasis and focus were more on financing small businesses and start-up business ventures and encouraging / motivating more of Bahraini youth and women to venture into the challenging careers of entrepreneurship. With the blended version of specially customized finance products and the unique business advisory and consultation services, the Bank offered its clients a package of support to facilitate business establishment and operational growth. With the market conditions showing signs of improvement, the Bank could record disbursement of 1,121 loans under SME segment aggregating to BD 42.758 million. During the previous year 2012, the Bank had disbursed 1,021 loans aggregating to BD 39.272 million under the SME segment.

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

On account of the after effects of global financial crisis coupled with market conditions prevailing in the local market, many of the small units in the SME sector are experiencing difficulties.

As a development financial institution, the Bank assisted such clients in overcoming their financial difficulties. During the year 2013, a total of 586 SME clients were assisted in the form of restructuring of their facilities involving outstanding of BD 18.391 million, to enable them to tide over their financial difficulties.

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

The performance in the area of economic contribution through our financing activity has been encouraging. The financing made by the Bank facilitated in creating an estimated 3,396 jobs. Similarly, significant contributions have been made in other economic parameters namely facilitating exports of BD 6.089 million and foreign currency earnings of BD 7.542 million and import substitution of BD 5.070 million.

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

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

Non-Financial Services

Non-Financial Services has witnessed a year of growth through innovative projects and new initiatives all aiming at fostering an entrepreneurial, innovative, and enterprising society. The Non-Financial services division provides a holistic eco-system for entrepreneurs through its units. The Business Advisory Unit develops entrepreneurs capacity through specialized training programs , supports their business venture development through guidance and counselling, and assists them with access to finance by linking them with the bank's financial services and other network organizations and angel funds.

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.

4%

interest rate

Education Finance

Education finance comes in 2 ways conventional or Islamic (Finance). They are offered by Bahrain development Bank with 4% profit rate APR 7.2%) to be used to cover the tuition fees.

0%

interest rate

Agricultural Loans

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

BD 20,000

Agricultural Loans

The maximum facility amount is BD 20,000.

The Incubator Unit provides space and a range of business resources designed to support the successful development of entrepreneurial companies in an environment allowing them to comfortably start-up and grow their business. The division's development and growth has been in line with Bahrain's Economic Vision 2030 with the emphasis considered on developing the young human capital of Bahrain and facilitating an entrepreneurial based economy. The year 2013 focused on introducing new services and products to support entrepreneurs of which the highlights are shown below:

Business Advisory

2013 marked the launch of Rowad, a magazine focused on entrepreneurs and related topics. Four issues were published on a quarterly basis, which enhanced the overall outreach to entrepreneurs providing them with advice, showcasing success stories, and providing them with important information that they require.

Milestones in Training & Events

Wamda Mix & Mentor event to Bahrain for the first time and was hosted by Bahrain Development Bank alongside network partners. The event is a regional networking event, hosted by Wamda a platform designed to empower entrepreneurs in the MENA region. The event attracted over 100 entrepreneurs who interacted together learning from each other's experiences and learning about support tools in the environment.

The team conducted Train the Trainers program for the second year for University of Bahrain Professors. The program aims at giving professors a better understanding of Entrepreneurship to enable them to encourage and deal with students who want to start their own business, 44 professors benefitted from the training in 2013. BDB continued their, Exhibition Support Scheme. The scheme aims at supporting 20% of the costs of participation at exhibitions as sister product to the Tamkeen Tarweej scheme. This year SMEs were supported in various local and international exhibitions and supported 30 SMEs.

The unit continued to conduct the Entrepreneurship Orientation Program (EOP) with a new focus in 2013 on interactive group activity and creativity and innovation being added as a topic.

The training occurred several times throughout the year. The Entrepreneurship Laboratory (E-Lab) in partnership with the Bahrain Polytechnic was launched in 2013 to promote entrepreneurship in both the engineering and business schools on campus with the aim to graduate entrepreneurs from both. Our annual initiative since 2010, GSVEC program in cooperation with the Ministry of Education for final year students ran its 4th Batch of Takween Program which trained 345 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. Several new events were supported throughout the year with the support of the team by conducting workshops, hosting informative sessions and providing coaching services to entrepreneurs during the event. Some of these events are the Bab Market, Bahrain International Design Week, Social Business Week, Market 338.

Milestones in Technology & The ICT Sector

Technovation an ICT competition in partnership with Batelco was launched to encourage innovative entrepreneurs from the industry. The competition attracted hundreds of applications which underwent rigorous screening process to identify innovative projects that can contribute to the society and economy. The final stage hosted a total of 7 competitors and a final number of three winners. BDB Group signed an MOU with Eshabab the national technology competition in an effort to support innovation and entrepreneurship. The collaboration in 2013 included guidance and counseling to the innovators along with support services to the winners of the competition.

Our Initiatives & Related Schemes

Social Entrepreneurship was identified as a new focus area for the bank. The BDB Group participated as a strategic partner of The Bahrain Social Business Week, in cooperation with Family Bank. This week marked the launch of the "Start Social" business competition created by the Business Advisory Unit. The competition aimed at building awareness on the importance of social entrepreneurship and encouraging the growth of start-up social enterprises.

BD 10,000

Fisheries Loans

The maximum facility amount for boats is BD 10,000 and Banoosh is BHD 15,000.

The Pre-Seed Capital & Feasibility Study Support schemes in partnership with Tamkeen continued on in 2013. The Pre-Seed Capital scheme providing grants to innovative project ideas supported 5 new entrepreneurs. The feasibility study support supported two beneficiaries for new ventures.

As part of the bank's strategy the aim has been to focus on creating specialized incubator facilities to focus on certain sectors and industries. This year marked the establishment of the first ICT Incubator in Bahrain, Rukn.me which is due to be launched in 2014. Alongside that the division has launched its first retail incubator location at the Bahrain International Airport. The retail incubator is a new initiative launch in 2013 that will be located in different areas of Bahrain providing businesses with retail space at affordable rates. 2013 only marked the beginning as many new incubators are to be established next year.

Incubators

Bahrain Business Incubator Center (BBIC)

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

Milestones in Incubation

In 2013 BBIC, has successfully reached out to many Bahraini SMEs. Total Occupation of Incubators as at end of 2013 was at 90%. The total graduates in 2013 were 35 businesses.

New Initiatives

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

Riyadat

The Business Women Incubator Center (Riyadat) was officially opened by HRH Princess Sabeeka Bint Ebrahim Al Khalifa on November 27th, 2013. The center has been established to be utilized for unique types of business start-ups owned by Bahraini women entrepreneurs and other anchor tenants.

Milestones

Riyadat incubates and hosts 62 various sizes and types of units 21% dedicated to enterprises and the remainder 79% as incubators. The units comprise of 45 workshops and 17 offices to accommodate all types and sectors of businesses. At the end of 2013 89% of Riyadat units are occupied.

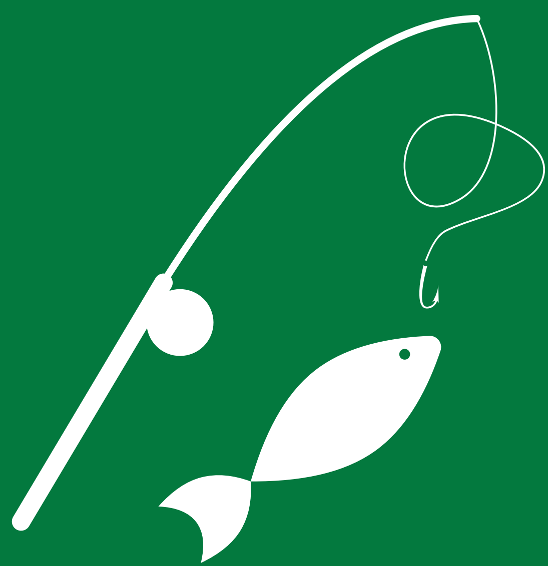
Riyadat aims as not only being a typical incubator, it is a training and development center, a virtual incubator and a perfect place to hold workshops, seminars, conferences and events.

Human Resources

Recognizing that the employees are 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.

In 2013, we had a different approach of training which focused on specialized sessions where 94% of our staff (186 employees as of Dec 2013) attended several In- House sessions and training courses run by different training institutes in Bahrain and abroad.

Fundamental training areas have been covered during that period, such as: Customer Services, Credit Appraisal & Review, Risk Management Awareness, Entrepreneurship Orientation Program, Anti-Money Laundering, Accredited Mentors, Islamic Financing: Structure & Products, plus for other specialized training programs, conferences and workshops which were attended by Key staff as well from the bank. Training Programs have been thoroughly chosen based on a proper TNA and Skill Gap Analysis which the Bank continuously conduct.



0%

interest rate

Fisheries Loans

We offer loans for fisheries with 0% interest rate to assist them in purchasing new/used boats, engine, spare parts, fishing items or for maintenance.

Financial Review

Overview

During the year ended 31 December 2013 the bank recorded a net loss of BD 348K, as compared to a net loss of BD 3.05 million during 2012. Total operating income higher by 11 % to BD 7.83 million, due to increases in net interest income and fee income. Total assets of BD 157.81 million at the year end 2013 stood at the same level of 2012. The deposits from Government and semi Government Institutions down by 12% to BD 40.00 million, and the borrowings from banks has decreased by 23% and stood at BD 13.39 million as on December 2013.

Net Interest Income

Net Interest income increased by 10% to BD 5.83 million as compared to BD 5.28 million of the previous year.

Other Income

Other income was BD 2.00 million (2012: BD 1.77 million) was grown during the year mainly on account of increase in fee and rental income from Incubators.

Operating Expenses

Total Operating expenses showed an increase of BD 431K (7%) over the previous year. Staff expenses rose from BD 3.68 million to BD 3.97 million mainly due to hiring of additional staff to meet the requirements for non-financial services of the Bank. Other operating expenses reflected an increase of 6 % over the previous year. The cost to income ratio has decreased marginally from 84 % to 81 % during the year.

Provisions

Bank's provisioning requirements in respect of its non-performing portfolio is in line with the International Financial Reporting Standards. The loan loss provision for the year net of recoveries was BD 1.69 million as compared to BD 4.11 million for year 2012. Bank also made BD 173K for provision for impairment on investments during the year.

Loans & Advances

Loans and Advances has increased from BD 95 million to BD 101 million during the year registering a growth of 6 %.

Equity

As against minimum capital adequacy ratio of 12 % prescribed by the Central Bank of Bahrain (CBB), the Bank's ratio at year end 2013 was 48% (2012: 40%). The ratio, based on guidelines issued by CBB, which are compatible with those of the Basel Committee on Banking Supervision, measures total qualifying capital held by an institution in relation to its risk weighted assets.

Contents

Financial Statements 2013

Independent auditor's report

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

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Bahrain Development Bank BSC (c) ("the Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, 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 of the Bank 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.

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 2013, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The consolidated financial statements of Bahrain Development Bank B.S.C. (c) for the year ended 31 December 2012, were audited by another auditor who expressed an unmodified opinion on those statements on 11 March 2013.

Report on other legal and regulatory requirements

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

KPMG

Manama, Kingdom of Bahrain
16 February 2014

Consolidated Statement of Financial Position

Year ended 31 December 2013

(Expressed in Thousand Bahrain Dinars)

	Notes	2013	2012
ASSETS			
Cash and balances with Central Bank of Bahrain	5	**2,588**	2,262
Placement with banks and other financial institutions	6	**26,187**	27,989
Loans and islamic financing to customers	7	**101,367**	95,059
Available-for-sale Investments	8	**10,047**	8,626
Investment in associates	9	**219**	359
Property, plant and equipment	10	**10,842**	11,026
Other assets	11	**6,564**	12,325
TOTAL ASSETS		**157,814**	157,646
LIABILITIES AND EQUITY			
Liabilities			
Term loans	12	**29,582**	19,661
Deposits	13	**53,677**	63,440
Accounts payable and other liabilities	14	**3,359**	3,652
Total Liabilities		**86,618**	86,753
Equity			
Share capital	15	**65,000**	65,000
Statutory reserve	17	**1,010**	1,010
Cumulative changes in fair value reserve		**249**	23
Other capital contribution	16	**425**	-
Retained earnings		**4,512**	4,860
Total Equity		**71,196**	70,893
TOTAL LIABILITIES AND EQUITY		**157,814**	157,646

These consolidated financial statements, set out on pages 29 to 56, were approved for issue by the Board of Directors on 16 February 2014 and signed on its behalf by:

Chairman

Director

Consolidated statement of profit and loss

Year ended 31 December 2013

(Expressed in Thousand Bahrain Dinars)

	Notes	2013	2012
Interest and islamic financing income	18	**6,911**	6,120
Interest and wakala expense	19	**(1,085)**	(841)
Net Interest and islamic finance Income		**5,826**	5,279
Fee and commission income		**660**	558
Course fees and related income		**239**	271
Dividend income		**212**	355
Share of loss of associates		**(141)**	(22)
Other income	20	**1,029**	606
Total operating income		**7,825**	7,047
Staff costs		**(3,974)**	(3,679)
Other operating expenses		**(2,338)**	(2,202)
Profit before provision		**1,513**	1,166
Impairment provision on loans and islamic financing	7	**(1,688)**	(4,105)
Impairment provision on investments		**(173)**	(114)
Net loss for the year		**(348)**	(3,053)

These consolidated financial statements, set out on pages 29 to 56, were approved for issue by the Board of Directors on 16 February 2014 and signed on its behalf by:

Chairman

Director

Consolidated statement of comprehensive income

Year ended 31 December 2013

(Expressed in Thousand Bahrain Dinars)

	2013	2012
Net loss for the year	**(348)**	(3,053)
Other comprehensive income		
Fair value changes on AFS investments	**226**	279
Total comprehensive income for the year	**(122)**	(2,774)

Consolidated statement of shareholders' equity

Year ended 31 December 2013

(Expressed in Thousand Bahrain Dinars)

	Share capital	Statutory reserve	Cumulative changes in fair value	Other capital contribution	Retained earnings	Total Equity
As at 1 January 2013	**65,000**	**1,010**	**23**	**-**	**4,860**	**70,893**
Contribution from shareholder (note 16)	**-**	**-**	**-**	**425**	**-**	**425**
Comprehensive income for the year:						
Loss for the year	**-**	**-**	**-**	**-**	**(348)**	**(348)**
Other comprehensive Income:						
Items that may be reclassified subsequently to profit or loss:						
Fair value changes on AFS investments	**-**	**-**	**226**	**-**	**-**	**226**
Balance at 31 December 2013	**65,000**	**1,010**	**249**	**425**	**4,512**	**71,196**

Balance at 1 January 2012	50,000	1,010	(256)	-	7,913	58,667
Additional paid in Capital	15,000	-	-	-	-	15,000
Comprehensive income for the year:						
Loss for the year	-	-	-	-	(3,053)	(3,053)
Other comprehensive Income:						
Items that may be reclassified subsequently to profit or loss:						
Fair value changes on AFS investments	-	-	279	-	-	279
Balance at 31 December 2012	65,000	1,010	23	-	4,860	70,893

Consolidated statement of cashflows

Year ended 31 December 2013

(Expressed in Thousand Bahrain Dinars)

	Note	2013	2012
Operating activities			
Net loss for the year		**(348)**	(3,053)
Adjustments for:			
Depreciation	10	**503**	481
Provision for impairment Loans and islamic financing to customers		**1,688**	4,105
Provision for impairment on equity investments		**173**	114
Dividend income		**(212)**	(355)
Share of loss of associates		**141**	22
(Gain)/ loss on sale of fixed assets		**(15)**	4
Loss on foreign currency translation		**7**	-
Operating profit before changes in operating assets and liabilities		**1,937**	1,318
Changes in operating assets and liabilities:			
Placement with banks and other financial institutions		**1,844**	(3,078)
Accounts receivable and other assets		**(239)**	(194)
Loans and islamic financing to customers		**(7,996)**	(4,158)
Deposits		**(9,763)**	3,140
Accounts payable and other liabilities		**132**	1,004
Net cash used in operating activities		**(14,085)**	(1,968)
Investing activities			
Purchase of property, plant and equipment	10	**(319)**	(1,805)
Disposal of property, plant and equipment	10	**15**	1
Purchase of investments		**(1,369)**	(2,117)
Dividend income received		**212**	355
Net cash used in investing activities		**(1,461)**	(3,566)
Financing activities			
Proceeds from term loan - net		**9,921**	5,871
Additional capital received		**6,000**	3,750
Net cash provided by financing activities		**15,921**	9,621
Increase in cash and cash equivalents		**375**	4,087
Cash and cash equivalents at 1 January		**5,178**	1,091
Cash and cash equivalents at 31 December	21	**5,553**	5,178

for the year ended 31 December 2013 (Expressed in Thousand Bahrain Dinars)

1 REPORTING ENTITY

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

The 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 subsidiaries:

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

2 BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), the Central Bank of Bahrain, Financial Institutions Law 2006, CBB Rulebook (Volume 1 and applicable provisions of Volume 6) and CBB Directives, and the requirements of the Bahrain Commercial Companies Law (BCCL) 2001.

b) Functional and presentation currency

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

c) Basis of measurement

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

d) New standards, amendments and interpretations effective from 1 January 2013

The following standards, amendments and interpretations, which became effective as of 1 January 2013, and are relevant to the Group:

i) IAS 1 (amendment) - Presentation of items of other comprehensive income

The amendments to IAS 1 require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss.

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

ii) IAS 19 – Employee benefits (2011)

IAS 19 (2011) changes the definition of short-term and other long-term employee benefits to clarify the distinction between the two. The adoption of this amendment had no significant impact on the consolidated financial statements.

iii) IAS 28 (2011) – Investment in Associates and Joint ventures

IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the following amendments;

Associates held for sale: IFRS 5 Non-current Assets Held for Sale and Discontinued Operations applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the entity applies the equity method until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture, and

On cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or vice versa, the entity does not re-measure the retained interest.

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

2 BASIS OF PREPARATION (continued)

iv) Amendments to IFRS 7 on offsetting financial assets and financial liabilities (2011)

Disclosures – Offsetting Financial Assets and Financial Liabilities (amendments to IFRS 7) introduces disclosures about the impact of netting arrangements on an entity's financial position. Based on the new disclosure requirements the Group has to provide information about what amounts have been offset in the statement of financial position and the nature and extent of rights of set off under master netting arrangements or similar arrangements.

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

v) IFRS 10 - Consolidated financial statements and IAS 27 Separate Financial Statements (2011)

IFRS 10 introduces a single control model to determine whether an investee should be consolidated. IFRS 10 replaces the parts of previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. This new control model focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. The Group has amended its accounting policy on consolidation in line with requirements of IFRS 10 and has re-assessed its consolidation conclusion.

The reassessment of control and consolidation requirements had no significant impact on the consolidated financial statements.

vi) IFRS 12 - Disclosures of interests in other entities

IFRS 12 brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. It requires the disclosure of information about the nature, risks and financial effects of these interests.

As a result of IFRS 12, the Group has expanded its disclosures about its interests in associates (refer to note 9).

vii) IFRS 13 - Fair value measurement

IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. It unifies the definition of fair value as 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. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7.

As a result, the Group has included additional disclosures in this regard (refer to note 9 to 22). The change had no significant impact on the measurements of the Group's assets and liabilities.

viii) Improvements to IFRSs (2011)

Improvements to IFRS issued in 2011 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. There were no significant changes to the current accounting policies of the Group as a result of these amendments.

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2014, and have not been applied in preparing these consolidated financial statements. Those which are relevant to the Group are set out below. The Group does not plan to early adopt these standards.

i) IFRS 9 - Financial Instruments

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions to the standard relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised 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 would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables.

For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognised in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognised in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognised in profit or loss.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

2 BASIS OF PREPARATION (continued)

The mandatory effective date of IFRS 9 is not specified but will be determined when the outstanding phases are finalised. However, application of IFRS 9 is permitted. The IASB decided to consider making limited amendments to IFRS 9 to address practice and other issues. The Group has commenced the process of evaluating the potential effect of this standard but is awaiting finalisation of the limited amendments before the evaluation can be completed.

Given the nature of the Group's operations, this standard is not expected to have a significant impact on the Group's financial statements.

ii) Amendments to IAS 19: Employee Benefits

IAS 19 Employee Benefits (Amendments to IAS 19) apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service.

The amendments are effective for annual periods beginning on or after 1 January 2014. Early application is permitted.

The Group is not expecting a significant impact from the adoption of these amendments.

f) Early adoption of standards

The Group did not early adopt new or amended standards in the year ended 31 December 2013.

3 CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCE OF ESTIMATION UNCERTAINTY

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

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

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

Classification of investments

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

Economic useful lives of property, plant and equipment

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

Impairment losses on loans and islamic financing to customers and investments

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

4 SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of consolidation

i) Subsidiaries

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

ii) Loss of control

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

ii) 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.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Foreign currencies

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

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

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

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

c) Cash and cash equivalents

Cash and cash equivalents comprise cash, balances with CBB including reserves, due from banks and other financial institutions and placement with Islamic banks.

These are initially recorded at fair value of the consideration given. After initial measurement these are subsequently measured at amortised cost.

d) Financial assets and financial liabilities

i) Classification

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

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

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

ii) Recognition

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

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

iii) Derecognition

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

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

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

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

iv) Fair value measurement

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

v) Amortised cost measurement

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

vi) Identification and measurement of impairment

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

Objective evidence that financial assets are impaired includes:

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

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

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

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

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

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

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

e) Loans and islamic financing to customers

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

f) Available for sale investments

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

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

g) Investment in associates

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

h) Property, plant and equipment

i) Recognition and measurement

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

If significant parts of an item of property, plant or 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, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised within other income in profit or loss.

ii) Subsequent costs

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

iii) Depreciation

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

The estimated useful lives of significant items of property and equipment are as follows:

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

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

i) 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.

j) Term loans

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

k) Deposits

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

l) Provisions

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

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4 SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Employees' end of service benefits

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

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

n) Revenue recognition

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

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

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

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

o) Dividend income

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

p) Fee and commission income

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

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

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

5 CASH AND BALANCES WITH CENTRAL BANK OF BAHRAIN

	2013	2012
Cash in hand	**223**	135
Balances with Central Bank of Bahrain (CBB)	**2,365**	2,127
	2,588	2,262

6 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2013	2012
Nostro balances	**247**	358
Placements with banks and other financial institutions	**25,940**	27,631
	26,187	27,989

Nostro balances include nostro balances with islamic banks of BD 5 thousands (2012: BD 27 thousands).

Placements with banks and other financial institutions include placements of BD 14,843 thousands (2012: BD 11,898 thousands) with islamic financial institutions.

for the year ended 31 December 2013 (Expressed in Thousand Bahrain Dinars)

7 LOANS AND ISLAMIC FINANCING TO CUSTOMERS

	2013	2012
Project finance - conventional	**24,920**	26,242
Project finance - islamic	**85,413**	76,188
Fisheries and agriculture	**4,254**	4,160
Ijara receivable	**1,170**	1,390
Other loans	**2,005**	1,222
	117,762	109,202
Less: Provision for impairment - Specific	**(15,745)**	(13,393)
- Collective	**(650)**	(750)
	101,367	95,059

Provision for impairment includes specific provision of BD 7,262 thousands (2012: 6,176 thousands) and collective provision of BD 496 thousands (2012: BD 436 thousands) against islamic financing to customers. Non performing loans as per reugulatory requirements are BD 27,596 thousands (2012: BD 26,616 thousands.)

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

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

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

	2013		2012	
	Specific provision	**Collective provision**	Specific provision	Collective provision
At 1 January	**13,393**	**750**	9,135	325
Charge/(reversal) for the year	**1,788**	**(100)**	3,680	425
Written off during the year	**(52)**	**-**	(18)	-
Interest suspended	**616**	**-**	596	-
Balance at 31 December	**15,745**	**650**	13,393	750
Gross amount of loans, individually assessed to be impaired before deducting any individually assessed impairment allowance (see note below)	**31,640**		26,616	

Note : This includes BD 819 thousands (2012: BD 849 thousands) relating to agriculture and fishery loans which are considered as impaired but no provision has been made as these loans are considered secured through the reimbursement arrangement with the Government of Bahrain.

The fair value of collateral that the Bank holds relating to loans individually determined to be impaired at 31 December 2013 amounts to BD 2,009 thousands (2012: BD 1,836 thousands). For more detailed description see note 24 (c) collateral and other credit enhancements.

8 AVAILABLE FOR SALE INVESTMENTS

	2013	2012
Conventional - Quoted	**1,240**	992
- Unquoted	**7,695**	4,214
Islamic - Quoted	**261**	397
- Unquoted	**1,740**	3,765
	10,936	9,368
Less: Impairment provision	**(889)**	(742)
	10,047	8,626

 (Expressed in Thousand Bahrain Dinars)

8 AVAILABLE FOR SALE INVESTMENTS (continued)

Unquoted investments are stated at cost less provision for impairment, due to the unpredictable nature of future cash flows and the lack of suitable other methods for arriving at a reliable fair value. The primary objective with which the Bank makes such investments is to assist in the economic development of the Kingdom and to promote entrepreneurship. The financial position of the entities in which the investments are made, are monitored on an ongoing basis. The Group does not intend to dispose of these investments in the forseeable future.

9 INVESTMENT IN ASSOCIATES

	2013	2012
Arabian Taxi Company	**-**	25
EBDA Bank	**219**	334
	219	359

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

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

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

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

	2013	2012
Arabian Taxi Company		
Percentage share of ownership	**20%**	20%
Current assets	**54**	119
Non-current assets	**5,083**	5,106
Current liabilities	**(1,007)**	(749)
Other current liabilities	**(3,312)**	(3,284)
Net assets	**818**	1,192
Group's share of net assets (20%)	**164**	238
Adjustments	**(164)**	(79)
Carrying amount of interest in Associate	**-**	159
Revenue	**661**	1,165
Profit or loss from continuing operations	**(374)**	(9)
Other comprehensive income	**-**	628
Total Comprehensive Income	**(374)**	619
Group's share (20%)	**(25)**	124
Adjustments	**-**	(146)
Group's share of total comprehensive income	**(25)**	(22)

for the year ended 31 December 2013 (Expressed in Thousand Bahrain Dinars)

9 INVESTMENT IN ASSOCIATES (continued)

	2013	2012
Ebdaa Bank		
Percentage share of ownership	20%	20%
Current assets	2,169	2,511
Non-current assets	69	95
Current liabilities	(144)	(51)
Other current liabilities	(1,000)	(1,000)
Net assets	1,094	1,555
Group's share of net assets (20%)	219	311
Adjustments	-	23
Carrying amount of interest in Associate	219	334

	2013	2012
Revenue	194	244
Profit or loss from continuing operations	(192)	(25)
Other comprehensive income	-	-
Total Comprehensive Income	(192)	(25)
Group's share (20%)	(38)	(5)
Adjustments *	(78)	5
Group's share of total comprehensive income	(116)	-

*The Bank has booked share of loss for 2012 in the current period since the Bank did not have audited financial statements of Ebdaa Bank in 2012.

10 PROPERTY, PLANT AND EQUIPMENT

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

 (Expressed in Thousand Bahrain Dinars)

10 PROPERTY, PLANT AND EQUIPMENT (continued)

	Freehold land	Freehold premises	Buildings on leasehold premises	Furniture, fixtures, vehicles computers and office equipment	Capital work-in-progress	Total
2012						
Cost:						
At 31 January 2012	293	1,809	8,128	1,899	735	12,864
Additions	-	-	-	142	1,663	1,805
Disposals	-	-	-	(13)	-	(13)
At 31 December 2012	293	1,809	8,128	2,028	2,398	14,656
Depreciation:						
At 31 January 2012	-	1,060	582	1,515	-	3,157
Charge for the year	-	56	32	393	-	481
Disposals	-	-	-	(8)	-	(8)
At 31 December 2012	-	1,116	614	1,900	-	3,630
Net book values						
At 31 December 2012	293	693	7,514	128	2,398	11,026

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

11 OTHER ASSETS

	2013	2012
Interest receivable	**323**	232
Ministry of Finance	**5,250**	11,250
Prepayments and other assets	**991**	843
	6,564	12,325

The Bank has a receivable of BD 5.25 million (2012: BD 11.25 million) from the Ministry of Finance in December 2013 and expects to receive it during 2014.

12 TERM LOANS

	2013	2012
Kuwait Fund for Arab Economic Development	**8,237**	9,626
Saudi Fund for Development	**10,035**	10,035
Arab Fund for Economic and Social Development	**11,310**	-
	29,582	19,661

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% (2012: 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 2% ("interest differentials") on such loans to customers. The interest differentials are deposited into KFAED's bank account maintained by the Bank in a fiduciary capacity. The balance at year end was BD 5 thousands (2012: BD 2 thousands). This account can be used only for development activities such as training, feasibility studies and technical assistance to borrowers agreed by both the parties. During 2013, BD Nil (2012: nil) was utilised for such purposes.

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12 TERM LOANS (continued)

Saudi Fund for Development

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

Arab Fund for Economic and Social Development

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

13 DEPOSITS

	2013	2012
Deposits from banks	13,394	17,491
Deposits from customers	40,283	45,949
	53,677	63,440

Deposits from banks include BD 5,854 thousands (2012: BD 5,001 thousands) from islamic banks placed with BDB on a wakala basis.

Deposits from customer includes BD 832 thousands (2012: BD1,840 thousands) kept as margin deposit.

14 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2013	2012
Amount due to Ministry of Finance	-	425
Staff related accruals	778	1,037
Accounts payable	1,680	1,228
Interest payable	228	158
Others	673	804
	3,359	3,652

15 SHARE CAPITAL

	Authorised		Issued and fully paid	
	2013	2012	2013	2012
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	58,333,333	89.74%
General Organisation For Social Insurance	3,333,333	5.13%
Pension Fund Commission	3,333,334	5.13%
	65,000,000	100.00%

16 OTHER CAPITAL CONTRIBUTION

The Bank agreed with its major shareholder to transfer BD 425 thousands which was due to the shareholder to shareholders' equity as a non-reciprocal capital contribution. Accordingly, the amount has been reclassified from liabilities to capital contribution in shareholders' equity.

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. As the Bank has incurred a loss in 2013 and 2012, there has not been any transfer 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 utlised 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.

(Expressed in Thousand Bahrain Dinars)

18 INTEREST AND ISLAMIC FINANCING INCOME

	2013	2012
Interest on conventional loans	1,460	1,611
Profit on islamic financing	4,961	4,104
Interest on placements	340	374
Interest on securities	150	31
	6,911	6,120

Interest on placements includes profit from placements with islamic banks of BD 248 thousands (2012: BD 239 thousands).

19 INTEREST AND WAKALA EXPENSE

	2013	2012
Interest on term loans	500	370
Interest on conventional deposits from customers	500	429
Interest on deposits from conventional banks	47	37
Wakala expense on islamic financing	38	5
	1,085	841

20 OTHER INCOME

	2013	2012
Rental income	808	492
Early settlement fees	17	20
Advisory service fees	18	17
Others	186	77
	1,029	606

21 CASH AND CASH EQUIVALENTS

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

	2013	2012
Cash	223	135
Balances with Central Bank of Bahrain excluding reserves	372	335
Due from banks and other financial institutions		
with original maturity of 90 days or less	4,958	4,708
	5,553	5,178

22 RELATED PARTY TRANSACTIONS

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

for the year ended 31 December 2013 (Expressed in Thousand Bahrain Dinars)

22 RELATED PARTY TRANSACTIONS (continued)

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

	Directors and senior management	**Other related companies**	**Total**
2013			
Deposits	**481**	**5,418**	**5,899**
Loans and islamic financing to customers	**113**	**4,342**	**4,455**
Other assets	**-**	**5,250**	**5,250**

	Directors and senior management	Other related companies	Total
2012			
Deposits	33	10,652	10,685
Loans and islamic financing to customers	331	3,836	4,167
Other assets	-	11,250	11,250
Accounts payable and other liabilities	-	4	4

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

In 2011, the Bank provided a loan of BD 1.6 million to reduce the bank overdraft liability. The loan is fully repayable on 28 February 2017. Interest is charged at a rate of 3% for the first year, 4% for the second year, 5% for the third year, 6% for the fourth year and 7% for the fifth year. The loan is in the process of being restructured in 2014.

The Bank has provided an overdraft facility to ATC for meeting its operational expenses. The outstanding balance as at the reporting date is BD 444 thousands (2012: BD 236 thousands).

The above loans are secured against taxis and taxi operator licenses valued at BD 1.283 million (2012: BD 1.550 million) and BD 1.870 million (2012: BD 1.870 million) respectively.

During the period, the Bank has recognised an impairment provision of BD 890 thousands against the above loans.

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

	Directors and senior management	**Other related companies**	**Total**
2013			
Interest income	**62**	**97**	**159**
Interest expense	**3**	**42**	**45**
Other expenses	**-**	**61**	**61**
Other income	**-**	**3**	**3**

	Directors and senior management	Other related companies	Total
2012			
Interest income	17	110	127
Interest expense	-	54	54
Other expenses	-	18	18
Other income	-	3	3

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22 RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel is as follows:

	2013	2012
Salary & short term employee benefits	640	502
Termination benefits	94	158
	734	660

23 CONTINGENT LIABILITIES AND COMMITMENTS

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

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

Details of contingent liabilities and commitments are given below:

	2013	2012
Contingent liabilities:		
Letters of guarantee	2,363	2,467
Letters of credit	404	107
	2,767	2,574
Commitments:		
Capital expenditure and other commitments	690	784
Irrevocable commitments to extend credit	7,144	8,207
Lease rental commitments	471	515
	8,305	9,506
	11,072	12,080

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

	2013	2012
Future minimum lease payments:		
Within one year	44	44
Later than 1 year but not later than 5 years	176	176
Later than 5 years	251	295
	471	515

24 RISK MANAGEMENT STRUCTURE

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

Organizational structure

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

Board of directors

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

Audit Committee

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

24 RISK MANAGEMENT STRUCTURE (continued)

Senior / Executive management

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

Risk Committee – Credit & Investments

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

Investment committee

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

Asset and liability committee

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

Treasury

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

Risk management

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

Legal

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

Internal audit

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

Risk measurement and reporting systems

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

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

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

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

Risk mitigation

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

(i) Credit Risk

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

Limits and concentrations:

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

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

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

(Expressed in Thousand Bahrain Dinars)

24 RISK MANAGEMENT STRUCTURE (continued)

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.

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

	2013	2012
Cash and balances with Central Bank of Bahrain	**2,365**	2,127
Placement with banks and other financial institutions	**26,187**	27,989
Loans and islamic financing to customers	**101,367**	95,059
Other assets	**5,573**	11,482
	135,492	136,657
Contingent liabilities	**2,767**	2,574
Commitments	**8,305**	9,506
	11,072	12,080
Total credit risk exposure	**146,564**	148,737

(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.

	2013	2012
Industry sector		
Banks and financial institutions	**28,775**	30,116
Trading and manufacturing	**49,493**	43,744
Education and health	**2,465**	2,618
Hospitality, media and transportation	**10,212**	9,089
Fisheries and agriculture	**4,854**	4,550
Food processing	**3,141**	2,338
Others	**47,624**	56,282
	146,564	148,737

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

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

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

for the year ended 31 December 2013 (Expressed in Thousand Bahrain Dinars)

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

	2012				
	Neither past due nor impaired				
	High grade	Standard grade	Past due but not impaired	Impaired	Total
Cash and balances with Central Bank of Bahrain	2,127	-	-	-	2,127
Placement with banks and other financial institutions	27,989	-	-	-	27,989
Loans and islamic financing to customers	-	77,296	4,540	13,223	95,059
Other assets	-	11,148	334	-	11,482
Total	30,116	88,444	4,874	13,223	136,657

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

	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
2013					
Other assets	23	10	48	247	328
Loans and islamic financing to customers					
	3,102	2,076	1,827	1,171	8,176
Total	**3,125**	**2,086**	**1,875**	**1,418**	**8,504**

	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
2012					
Other assets	84	30	30	190	334
Loans and islamic financing to customers					
	834	2,305	1,391	10	4,540
Total	918	2,335	1,421	200	4,874

Of the total aggregate amount of gross past due but not impaired loans and islamic financing to customers, the fair value of collateral that the Bank held as at 31 December 2013 was BD 3,646 thousands (2012: BD 1,934 thousands).

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24 RISK MANAGEMENT STRUCTURE (continued)

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

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

	2013	2012
Loans and islamic financing to customers	**18,391**	14,725

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.

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	
		2013	2012		**2013**	2012
Bahraini Dinars	**+100**	**663**	176	**-100**	**(663)**	(176)
Kuwaiti Dinars	**+100**	**2**	3	**-100**	**(2)**	(3)
Saudi Riyals	**+100**	**(7)**	(87)	**-100**	**7**	87
United States Dollars	**+100**	**(172)**	(192)	**-100**	**172**	192

(b) Currency risk

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

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

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 2013:

	Equivalent long (short)	
	2013	2012
Kuwaiti Dinars	**315**	342
US Dollars	**(5,591)**	(12,949)
Euro	**2**	2
Saudi Riyals	**(74)**	(1,370)

The effect of a reasonably possible 5% change in the currency exchange rate for Kuwaiti Dinar and Euro, with all other variables constant, will result in an increase of BD 16 thousands (2012: an increase of BD 17 thousands) in the profit for the year.

(c) Maturity analysis of assets and liabilities

The table below summarises the maturity profile of the Group's assets and liabilities as at 31 December 2013 and 31 December 2012 based on expected maturities.

 (Expressed in Thousand Bahrain Dinars)

24 RISK MANAGEMENT STRUCTURE (continued)

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

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

2012	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
Assets							
Cash and balances with Central Bank of Bahrain	2,262	-	-	-	-	-	2,262
Placements with banks and other financial institutions	6,978	14,210	6,801	-	-	-	27,989
Other assets	12,075	30	30	190	-	-	12,325
Loans and islamic financing to customers	2,169	515	1,095	1,819	34,614	54,847	95,059
Available for sale investments	-	-	-	-	-	8,626	8,626
Investment in associates	-	-	-	-	-	359	359
Property, plant and equipment	-	-	-	-	-	11,026	11,026
Total assets	23,484	14,755	7,926	2,009	34,614	74,858	157,646
Liabilities							
Term loans	-	-	694	694	4,164	14,109	19,661
Deposits	35,294	15,762	704	11,680	-	-	63,440
Accounts payable and other liabilities	-	3,652	-	-	-	-	3,652
Total liabilities	35,294	19,414	1,398	12,374	4,164	14,109	86,753
Net liquidity gap	(11,810)	(4,659)	6,528	(10,365)	30,450	60,749	
Cumulative liquidity gap	-	(16,469)	(9,941)	(20,306)	10,144	70,893	

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24 RISK MANAGEMENT STRUCTURE (continued)

(d) Price risk

Price risk arises from the changes in the market price of the quoted equity instruments held by the Bank. A 5% change in the market price will increase or decrease the Bank's equity by BD 75 thousands (2012: 50 thousands).

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

(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 2013 and 31 December 2012 based on contractual undiscounted repayment obligations. See note (c) 'Maturity analysis of assets and liabilities' for the expected maturities of these liabilities.

	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
2013								
Deposits	**9,340**	**20,958**	**11,009**	**824**	**11,686**	**-**	**-**	**53,817**
Accounts payable and other liabilities	-	**-**	**3,359**	**-**	**-**	**-**	**-**	**3,359**
Term loans	**-**	**-**	**100**	**933**	**1,027**	**6,035**	**26,535**	**34,630**
Total liabilities	**9,340**	**20,958**	**3,459**	**1,757**	**12,713**	**6,035**	**26,535**	**91,806**

	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
2012								
Deposits	18,482	11,811	20,763	704	11,680	-	-	63,440
Accounts payable and other liabilities	-	-	3,652	-	-	-	-	3,652
Term loans	-	-	10	806	826	4,621	15,112	21,375
Total liabilities	18,482	11,811	24,425	1,510	12,506	4,621	15,112	88,467

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
2013					
Contingent liabilities	**540**	**157**	**1,681**	**389**	**2,767**
Commitments	**7,144**	**-**	**734**	**427**	**8,305**
Total	**7,684**	**157**	**2,415**	**816**	**11,072**
2012					
Contingent liabilities	557	126	1,062	829	2,574
Commitments	8,207	-	828	471	9,506
Total	8,764	126	1,890	1,300	12,080

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

for the year ended 31 December 2013 (Expressed in Thousand Bahrain Dinars)

24 RISK MANAGEMENT STRUCTURE (continued)

(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.

25 FAIR VALUE DISCLOSURES

The Group's financial assets and financial liabilities are measured at amortised cost except for quoted investments, which are carried at fair value. 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.

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

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

No fair value disclosures are provided for equity investment securities of BD 8,546 thousands (2012: BD 7,237 thousands) that are measured at cost because their fair value cannot be reliably measured. These are strategic investments in developing entities and there is no market for them. The Group does not intend to dispose of these investments in the forseable future.

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

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

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

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

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

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

	Level 1	**Level 2**	**Level 3**	**Total fair value**	**Total carrying value**
2013					
Financial assets					
Available-for-sale Investments	**1,501**	**-**	**-**	**1,501**	**1,501**
Loans and islamic financing to customers	**-**	**-**	**101,367**	**101,367**	**101,367**
Financial liabilities					
Term loans	**-**	**-**	**29,582**	**29,582**	**29,582**
Deposits	**-**	**53,677**	**-**	**53,677**	**53,677**

	Level 1	Level 2	Level 3	Total fair value	Total carrying value
2012					
Financial assets					
Available-for-sale Investments	1,389	-	-	1,389	1,389
Loans and islamic financing to customers	-	-	95,059	95,059	95,059
Financial liabilities					
Term loans	-	-	19,661	19,661	19,661
Deposits	-	63,440	-	63,440	63,440

(Expressed in Thousand Bahrain Dinars)

26 CATEGORISATION OF FINANCIAL INSTRUMENTS

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

2013	Available for sale	Loans and receivables	Others at amortized cost	Total
Investments	10,047	-	-	10,047
Cash and balances with Central Bank of Bahrain	-	2,588	-	2,588
Placement with banks and other financial institutions	-	26,187	-	26,187
Loans and islamic financing to customers	-	101,367	-	101,367
Other assets	-	5,573	-	5,573
Total assets	10,047	135,715	-	145,762
Term loans	-	-	29,582	29,582
Deposits	-	-	53,677	53,677
Accounts payable and other liabilities	-	-	3,359	3,359
Total liabilities	-	-	86,618	86,618

2012	Available for sale	Loans and receivables	Others at amortized cost	Total
Investments	8,626	-	-	8,626
Cash and balances with Central Bank of Bahrain	-	2,262	-	2,262
Placement with banks and other financial institutions	-	27,989	-	27,989
Loans and islamic financing to customers	-	95,059	-	95,059
Other assets	-	11,482	-	11,482
Total assets	8,626	136,792	-	145,418
Term loans	-	-	19,661	19,661
Deposits	-	-	63,440	63,440
Accounts payable and other liabilities	-	-	3,652	3,652
Total liabilities	-	-	86,753	86,753

27 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:

	2013	2012
Capital base		
Tier 1 capital	70,947	59,630
Tier 2 capital	762	-
Total capital base (a)	71,709	59,630
Risk-weighted assets (b)	147,989	147,372
Capital adequacy ratio (a/b*100)	48%	40%
Minimum requirement	12%	12%

Capital management

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

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

28 COMPARATIVE FIGURES

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

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Basel II Pillar III Disclosures 2013

(Expressed in Thousand Bahrain Dinars)

1 REPORTING ENTITY

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

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

This financial information is the audited consolidated financial information of Bahrain Development Bank BSC (c) (the "Bank") and its subsidiaries (the "Group") for the year ended 31 December 2013.

As at 31 December 2013, the Group consists of the Bank and its following subsidiaries:

Name	Country of incorporation	Ownership interest	Year end
Bahrain Institute of Entrepreneurship & Technology W.L.L.	Kingdom of Bahrain	100%	31 December
Bahrain Business Incubator Centre (S.P.C.)	Kingdom of Bahrain	100%	31 December

Basis of consolidation

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

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

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

Restrictions on capital and transfer of funds within the Group

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

TABLE 1 - CAPITAL STRUCTURE

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

The Bank's regulatory capital base of BD 71,709 is as detailed below:

	2013		2012	
A. Net available capital	**Tier 1**	**Tier 2**	Tier 1	Tier 2
Paid-up share capital	**65,000**		53,750	
Reserve:				
Statutory reserve	**1,010**		1,010	
Others	**425**			
Retained earnings brought forward	**4,860**		7,913	
Current year (loss) profit	**(348)**		(3,053)	
Asset revaluation reserves-Property, plant and equipment (45% only)				
Unrealized gains arising from fair valuing equities (45% only)	**-**	**112**	-	23
Excess of total eligible provisions over total expected loss		**650**		
Total capital before regulatory deductions	**70,947**	**762**	59,620	23
Less : Regulatory deductions	**-**	**-**	-	-
Net available capital	**70,947**	**762**	59,620	23
Total eligible capital base (Tier 1 + Tier 2)		**71,709**		59,643

(Expressed in Thousand Bahrain Dinars)

TABLE 1 - CAPITAL STRUCTURE (continued)

B. Capital adequacy ratio	**2013**	2012
Total eligible capital base	**71,709**	59,643
Credit risk weighted exposures	**133,891**	132,987
Market risk weighted exposures	**317**	1,370
Operational risk weighted exposures	**13,781**	13,015
Total risk weighted exposures	**147,989**	147,372
Capital Adequacy Ratio	**48.46%**	40.47%

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

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

Credit Risk

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

Brief description of applicable standard portfolio are as follows:

a. Claims on banks:

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

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

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

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

b. Claims on corporates:

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

c. Loans restructured:

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

d. Equity Portfolio:

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

e. Other exposures:

These are risk weighted at 100%.

f. Related party transactions and balances:

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Bank exercises significant influence, major shareholders, directors and executive management of the Bank. such related parties in the ordinary course of business at commercial interest and commission rates. All the loans and advances to related parties are performing and are free of any specific impairment provision (Refer note 11 in interim financial information).

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

(Expressed in Thousand Bahrain Dinars)

TABLE 2 - REGULARATY CAPITAL REQUIREMENT FOR CREDIT RISK

	2013 Capital requirement	2012 Capital requirement
Claims on sovereign	-	-
Claims on public sector entities	-	-
Claims on banks	1,161	1,344
Claims on corporate	12,668	11,808
Regulatory retail exposures	-	-
Residential retail exposures	-	-
Equity	801	1,052
Other exposures	1,437	1,755
Total credit risk capital requirement (Standardised approach)	**16,067**	15,959

TABLE 3 - REGULARATY CAPITAL REQUIREMENT FOR MARKET RISK

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

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

The Bank's market risk capital charge is largely composed of foreign currency risk arising from the Bank's foreign exchange exposure on private equity investments denominated mainly in sterling and euros, interest rate risk arising on the bond portfolio, currency and bond futures. The capital requirement for market risk using the Standardised Approach as at 31 December 2013 was as follows:

	Capital requirements			
	2013	Maximum	Minimum	2012
Equity risk capital	-	-	-	-
Foreign exchange risk capital	25	113	26	110
Interest rate risk capital	-	-	-	-

	2013	2012
Total market risk capital requirement (Standardised approach)	**38**	164

TABLE 4 - REGULARATY CAPITAL REQUIREMENT FOR OPERATIONAL RISK

The capital requirement for operational risk using the Basic Indicator Approach as at 31 December 2013 amounted to	**1,654**	1,562

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

	31-Dec-13	2013 Average	31-Dec-12
Balances with Central Bank of Bahrain	2,365	2,246	2,127.00
Treasury bills and bonds	5,313	4,281	3,248.00
Due from banks and other financial institutions	26,187	27,088	27,989.00
Loans and advances to customers	101,367	98,213	95,059.00
Interest Receivable	323	278	232.00
Other assets	6,241	9,167	12,093.00
Total funded exposures	**141,796**	**141,273**	140,748
Contingent liabilities	2,767	2,671	2,574
Other commitments	8,305	8,906	9,506
Total unfunded exposures	**11,072**	**11,577**	12,080
Total credit risk exposure	**152,868**	**152,850**	152,828

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

(Expressed in Thousand Bahrain Dinars)

TABLE 6 - SECTORAL CLASSIFICATION OF GROSS CREDIT EXPOSURES

	2013		
	Funded	**Unfunded**	**Total**
Banks and financial institutions	**28,775**	**-**	**28,775**
Trading and Manufacturing	**49,493**	**-**	**49,493**
Education and Health	**2,465**	**-**	**2,465**
Hospitality, media and transportation	**10,212**	**-**	**10,212**
Fisheries and Agriculture	**4,854**	**-**	**4,854**
Food Processing	**3,141**	**-**	**3,141**
Others	**47,624**	**11,072**	**58,696**
Total	**146,564**	**11,072**	**157,636**

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

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

	2013	2012
Total credit exposures in excess of 15% individual obligor limit	**-**	-

Impairment of assets

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

Restructured Credit Facilities

The bank have BD18,391 restructured credit facilities during the year period ended 31 December 2013.

Pastdue exposures

This includes claims, for which the repayment is overedue 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.

(Expressed in Thousand Bahrain Dinars)

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

	2013				
	Impaired and past due loans	**Specific provision**	**Charge (recoveries)**	**Write off**	**Collective impairment**
Project finance	**14,539**	**15,745**	**2,304**	**52**	**650**
Fisheries and Agriculture	**1,356**	**-**	**-**	**-**	**-**
Total	**15,895**	**15,745**	**2,304**	**52**	**650**

	2012				
	Impaired and past due loans	*Specific provision*	*Charge (recoveries)*	*Write off*	*Collective impairment*
Project finance	16,725	13,393	4,701	18	750
Fisheries and Agriculture	849	-	-	-	-
TOTAL	17,574	13,393	4,701	18	750

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 2013.

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

For the year ended 31 December 2013 (Expressed in Thousand Bahrain Dinars)

TABLE 9 - RESIDUAL CONTRACTUAL MATURITY (continued)

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

	Up to 1 month	2 to 3 months	4 to 6 months	7 months to 1 year	2 to 3 years	4 to 5 years	6 to 10 years	11 to 20 years	Total
2012									
Assets									
Cash and balances with Central Bank of Bahrain	2,262	-	-	-	-	-	-	-	2,262
Due from banks and other financial institutions	6,978	14,210	6,801	-	-	-	-	-	27,989
Accounts receivable and other assets	12,075	30	30	190	-	-	-	-	12,325
Loans and advances to customers	4,338	515	1,095	1,819	34,614	43,359	11,578	9	95,059
Available for sale investments	-	1,131	-	-	-	-	5,815	-	6,946
Investment in associates	-	-	-	-	-	-	-	2,039	2,039
Property, plant and equipment	-	-	-	-	-	-	-	11,026	11,026
Total assets	25,653	15,886	7,926	2,009	34,614	43,359	17,393	13,074	159,914
Liabilities									
Deposits	35,294	15,762	704	11,680	-	-	-	-	63,440
Accounts payable and other liabilities	-	3,652	-	-	-	-	-	-	3,652
Long term loans	-	-	694	694	4,164	14,109	-	-	19,661
Total liabilities	35,294	21,682	1,398	12,374	4,164	14,109	-	-	89,021
Net liquidity gap	(9,641)	(5,796)	6,528	(10,365)	30,450	29,250	17,393	13,074	

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

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

	2013	2012
Bahrain		
Specific impairment provision	**15,745**	13,393
Total	**15,745**	13,393

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

	2013						
	Project finance			**Fisheries and agriculture**			
	Specific	**Collective**	**Total**	**Specific**	**Collective**	**Total**	**Total**
Balance at 1 January 2013	**13,393**	**750**	**14,143**	**-**	**-**	**-**	**14,143**
Amounts written off during the year	**(52)**	**-**	**(52)**	**-**	**-**	**-**	**(52)**
Charge for the year	**3,225**	**-**	**3,225**	**-**	**-**	**-**	**3,225**
Recoveries during the year	**(1,437)**	**(100)**	**(1,537)**	**-**	**-**	**-**	**(1,537)**
Interest suspended during the year (net)	**616**	**-**	**616**	**-**	**-**	**-**	**616**
At 31 December 2013	**15,745**	**650**	**16,395**	**-**	**-**	**-**	**16,395**

(Expressed in Thousand Bahrain Dinars)

TABLE 11 - MOVEMENT IN IMPAIRMENT PROVISION FOR LOANS AND ADVANCES TO CUSTOMERS AND INTEREST IN SUSPENSE (continued)

	2012						
	Project finance			Fisheries and agriculture			
	Specific	Collective	Total	Specific	Collective	Total	Total
Balance at 1 January 2012	9,135	325	9,460	-	-	-	9,460
Amounts written off during the year	(18)	-	(18)	-	-	-	(18)
Charge for the year	5,073	425	5,498	-	-	-	5,498
Recoveries during the year	(1,393)	-	(1,393)	-	-	-	(1,393)
Interest suspended during the year (net)	596	-	596	-	-	-	596
At 31 December 2012	13,393	750	14,143	-	-	-	14,143

TABLE 12 - PAST DUE LOANS - AGE ANALYSIS

i) By Geographical area

	2013			
	Three months to one year	**One to three years**	**Over three years**	**Total**
Bahrain	**7,745**	**3,612**	**4,538**	**15,895**
Total	**7,745**	**3,612**	**4,538**	**15,895**

ii) By Counterparty wise

	Three months to one year	**One to three years**	**Over three years**	**Total**
Project finance	**6,881**	**3,341**	**4,317**	**14,539**
Fisheries and Agriculture	**864**	**271**	**221**	**1,356**
Total	**7,745**	**3,612**	**4,538**	**15,895**

i) By Geographical area

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

ii) By Counterparty wise

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

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

	2013	2012
Claims on sovereign	**-**	-
Claims on public sector entities	**-**	
Claims on banks	**9,672**	11,202
Claims on corporate	**88,550**	83,160
Past due exposures	**17,019**	15,239
Equity	**6,679**	11,285
Other exposures	**11,971**	12,101
Total	**133,891**	132,987

(Expressed in Thousand Bahrain Dinars)

TABLE 14 - ELIGIBLE FINANCIAL COLLATERAL AND GUARANTEES

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

	2013		2012	
	Gross exposure	**Eligible CRM**	Gross exposure	Eligible CRM
Claims on sovereign	**-**	**-**	-	-
Claims on banks	**9,672**	**-**	11,202	-
Claims on corporate	**105,569**	**16,583**	98,399	12,953
Equity	**6,679**	**-**	11,285	-
Other exposures	**11,971**	**-**	12,101	-
Total	**133,891**	**16,583**	132,987	12,953

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

Impact on net interest income for the year ended 31 December 2013

	2013
Bahraini Dinar	
Assets	41,812
Liabilities	42,071
(+) 200 basis points	**(5)**
(-) 200 basis points	**5**
US Dollar	
Assets	7,766
Liabilities	24,944
(+) 200 basis points	**(344)**
(-) 200 basis points	**344**
Kuwaiti Dinar	
Assets	8,495
Liabilities	8,259
(+) 200 basis points	**5**
(-) 200 basis points	**(5)**
Saudi Riyals	
Assets	9,346
Liabilities	10,034
(+) 200 basis points	**(14)**
(-) 200 basis points	**14**

 (Expressed in Thousand Bahrain 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 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 Basel II.

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. Positioned are mentioned periodically that this is maintained within the established limits.

The Banks interest rate sensitivity is based on the contractual repricing or maturity dates, whichever dates are earlier, as follows.

	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
2013								
Assets								
Cash and balances with Central Bank of Bahrain	-	-	-	-	-	-	2,588	2,588
Due from banks and other financial institutions	14,804	8,669	2,714	-	-	-	-	26,187
Accounts receivable and other assets	-	-	-	-	-	-	16,830	16,830
Loans and advances to customers	4,338	515	1,095	1,819	34,614	58,986	-	101,367
Total assets	19,142	9,184	3,809	1,819	34,614	58,986	19,418	146,972
Liabilities								
Deposits	30,293	11,000	704	11,680	-	-	-	53,677
Accounts payable and other liabilities	-	-	-	-	-	-	3,359	3,359
Long term loans	-	-	694	694	4,164	24,030	-	29,582
Total liabilities	30,293	11,000	1,398	12,374	4,164	24,030	3,359	86,618
Net liquidity gap	(11,151)	(1,816)	2,411	(10,555)	30,450	34,956	16,059	

	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
2012								
Assets								
Cash and balances with Central Bank of Bahrain	-	-	-	-	-	-	2,262	2,262
Due from banks and other financial institutions	6,978	14,210	6,801	-	-	-	-	27,989
Accounts receivable and other assets	-	-	-	-	-	-	21,310	21,310
Loans and advances to customers	2,169	515	1,095	1,819	34,614	54,847	-	95,059
Total assets	9,147	14,725	7,896	1,819	34,614	54,847	23,572	146,620
Liabilities								
Deposits	35,294	15,762	704	11,680	-	-	-	63,440
Accounts payable and other liabilities	-	-	-	-	-	-	3,652	3,652
Long term loans	-	-	694	694	4,164	14,109	-	19,661
Total liabilities	35,294	15,762	1,398	12,374	4,164	14,109	3,652	86,753
Net liquidity gap	(26,147)	(1,037)	6,498	(10,555)	30,450	40,738	19,920	

(Expressed in Thousand Bahrain Dinars)

TABLE 17 - EQUITY POSITION IN THE BANKING BOOK

	2013	
	Gross exposure	Capital requirement
Publicly traded	1,501	180
Privately held	8,546	1,026
Total	**10,047**	**1,206**

TABLE 18 - GAINS ON EQUITY INVESTMENTS

	2013	2012
Realised gains recognised in the income statement	-	-
Unrealised gain recognised in the balance sheet:		
- Tier One	-	-
- Tier Two	112	10

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.