البحرين 2030
BAHRAIN

BDB
بنك البحرين للتنمية ش.م.ب (م)
BAHRAIN DEVELOPMENT BANK B.S.C (c)

Empowering Businesses Supporting Tomorrow

Annual Report | 2017

CONTENTS

Bahrain Development Bank B.S.C. (c)
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View our Annual Report and other information about Bahrain Development Bank www.bdb-bh.com

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

Overview

Bahrain Development Bank (BDB) provides a variety of financial services that are tailored to meet the needs of small and medium businesses in Bahrain and promote their development in both the industrial and service sectors.

BDB commenced its operations in 1992 as a specialist Bank. BDB's activities are focused on financing and developing of small and medium businesses in addition to encouraging and supporting the entrepreneurship activities in the Kingdom of Bahrain.

Working in-line with Bahrain Economic Vision 2030, BDB adopts a dynamic and effective strategy for stimulating entrepreneurial activity in implementing its plans for financing & advising small and medium businesses.

This strategy is in line with the Bank's mission of being an active participant in national strategy by supporting this sector of the economy. BDB's role in this context is especially significant given the growing size and contribution of this important segment to domestic economic activity.

SMEs are garnering special status and attention worldwide due to their comparative advantage relative to larger enterprises and projects.Hence, facilitating SME's development has positive impact on the development of the economy.

BDB adopts a dynamic and effective strategy for stimulating entrepreneurial activity in implementing its plans for financing & advising small and medium businesses.

Vision

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

Mission

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

DIVERSIFIED RANGE OF PRODUCTS & SERVICES

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

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

Financial Services

Bahrain Development Bank (BDB) provides a variety of financial services at highly competitive interest rates that are tailored to meet the needs of small and medium businesses in Bahrain and promote the development of small and medium-sized projects in both the industrial and service sectors.

- BDB Finance
- BDB & Tamkeen Finance
- Women Business Finance Scheme "Riyadat"
- Overdraft Facility
- Letters of Credit
- Letters of Guarantee
- Education Finance
- Agricultural Loans
- Fisheries Loans

Development Services

Development Services Division provides a holistic eco-system for entrepreneurs through its sub-units and departments which include; Business Advisory and Rowad Subsidiaries. The division hosts a unique set of products and services delivered through an innovative platform tailored to meet the needs of entrepreneurs in various industries.

- Rowad Coaching
- Rowad Training
- Rowad Incubation
- Rowad Funding
- Rowad Mentoring
- Rowad Partners

Investment Services

In line with The Kingdom of Bahrain's Economic Vision 2030, the Investment Division works closely with the Banking and the Development Divisions to identify opportunities and offer a complete platform for entrepreneurs consisting of a wide variety of products and services including Equity, Credit Facilities, Advisory Services and Incubation.

Financial Highlights

	2017	2016	2015	2014	2013
Income statement (BD thousands)					
Net islamic financing and interest income	**6,701**	7,996	6,113	5,992	5,826
Other income	**3,115**	2,201	4,351	5,197	1,999
Operating expenses	**9,335**	9,279	8,954	7,204	6,312
Impairment provision on islamic financing and loans	**8,152**	1,971	477	3,280	1,861
Net profit (loss)	**(7,671)**	(1,053)	1,033	705	(348)
Dividend (percent)	**0%**	0%	0%	0%	0%
Balance sheet (BD thousands)					
Total assets	**176,170**	211,333	198,140	174,306	157,814
Islamic financing and loans to customers	**114,535**	139,221	144,308	110,048	101,367
Investments	**27,595**	26,903	23,533	19,290	10,266
Total deposits	**46,440**	69,216	67,184	57,137	53,677
Customers' deposits	**35,084**	58,541	49,098	38,321	40,283
Total Equity	**72,685**	80,361	81,233	75,822	71,196
Profitability					
Return on average equity	**-10.02%**	-1.30%	1.32%	0.96%	-0.49%
Return on average assets	**-3.96%**	-0.51%	0.55%	0.42%	-0.22%
Earnings (loss) per share (fils)	**-118**	-16	16	11	-5
Cost-to-income ratio	**95%**	91%	86%	64%	81%
Capital					
Equity/total assets	**41%**	38%	41%	43%	45%
Total deposits/equity (times)	**0.64**	0.86	0.83	0.75	0.75
Capital adequacy	**39.80%**	38.61%	37.98%	44%	48%
Business indicators					
Islamic financing and loans to customers/total assets	**65%**	66%	73%	63%	64%
Investments/total assets	**16%**	13%	12%	11%	7%
Islamic financing and loans to customers/customer deposits	**3.26**	2.38	2.94	2.87	2.52
Number of employees	**182**	188	203	200	186

Key Ratios

Net Interest Income
(BD Millions)

6.701

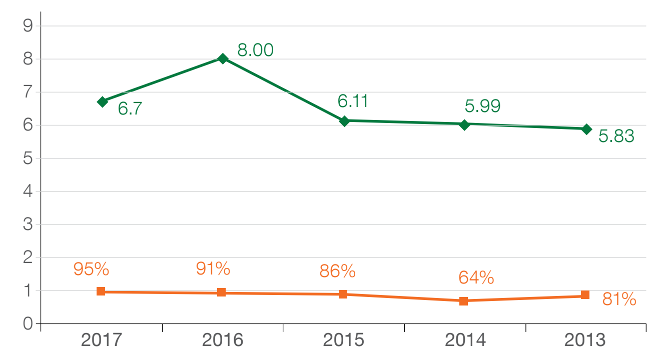
Total Assets
(BD Millions)

176.170

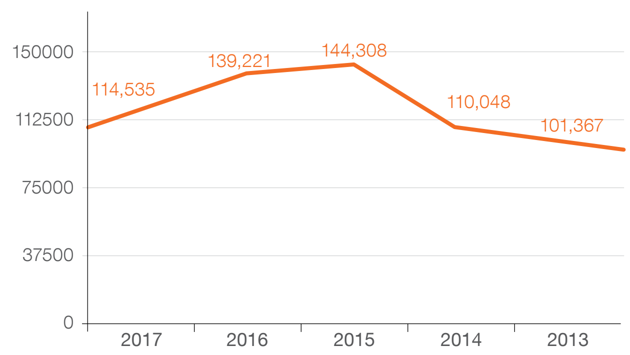
Total Equity
(BD Millions)

72.685

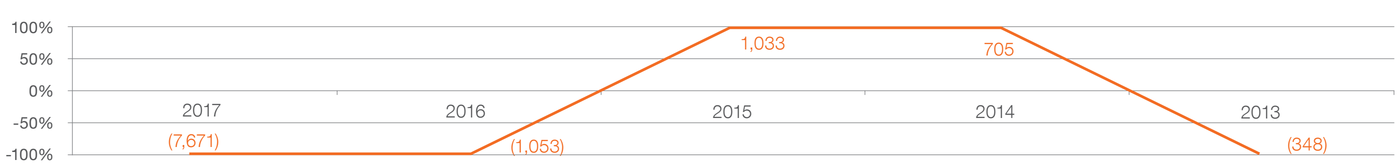
Net Interest Income (millions)
Cost to Income Ratio



Loans and Advances



Net profit (loss) 000's



Financial Review

Bahrain Development Bank (BDB) considers the following financial and strategic measures as key performance indicators (KPIs) of the Group's overall performance for the year ended 31 December 2017.

Overview

The Bank reported a net loss for 2017 amounting to BD 7.67 million, compared to a net loss of BD 1.05 million reported last year. This increase was mainly due to a steep increase in the burden of specific provisions for Islamic financing and loan losses by 314%.

At year-end 2017, the Bank's total balance sheet stood at BD 176.17 million, compared to BD 211.33 million at year-end 2016. The decline of 17% was mainly due to decrease in Islamic financing and loans to customers by 18%, placements with banks and other financial institutions by 27% and customer deposits by 40%.

Net Islamic Finance and Interest Income

Net Islamic finance and interest income of BD 6.70 million reported a decline of 16 % (2016: BD 8.00 million).

Other Income

Total other income generated during the year was BD 3.12 million (2016: 2.20 million) mainly from the rentals income from subsidiaries.

Operating Expenses

Operating expenses of BD 9.34 million were slightly higher by 0.6% compared to last year (2016: 9.28 million).

Net Provisions

The group has recognized impairment provisions amounting to BD 8.15 million on Islamic financing and loans for the year ended 31 December 2017, as compared to BD 1.97 million for year 2016.

Equity

The equity attributable to the Bank's shareholders, at BD 72.69 million, has decreased from BD 80.36 million at the end of 2016 on account of the losses incurred.

Capital Adequacy Ratio

As against minimum capital adequacy ratio of 12.5 % prescribed by the Central Bank of Bahrain (CBB), the Bank's ratio at year end 2017 was 39.80% (2016: 38.61%). 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.

Board of Directors

Khalid Al Rumaihi
Chairman

Sabah Khalil Al-Moayyed
Member

Saleh Hassan Ali Hussain
Member

Tariq Jaleel Al Saffar
Member

Tala Abdulrahman Fakhro
Member

Marwan Khalid Tabbara
Member

Ghassan Ghaleb Abdulaal
Member

Maryam Adnan Al Ansari
Member

Khalid Al Rumaihi
Chairman

Appointed the Chairman of the Bahrain Development Bank in March 2016. Khalid Al Rumaihi was appointed as Chief Executive of the Bahrain Economic Development Board (EDB) in March 2015. Mr. Al Rumaihi currently serves as a Board Director of the National Bank of Bahrain, Bahrain Mumtalakat Holding Company, Bahrain Tourism & Exhibitions Authority and Education & Training Quality Authority. He remains a Board Director of the EDB.

Mr. Al Rumaihi previously spent more than 10 years at Investcorp as a Managing Director, a member of the Management Committee and Head of the Institutional Placement Team covering Investcorp's clients in the Gulf. Before joining Investcorp, Mr. Al Rumaihi spent 9 years serving at J.P. Morgan as head of the private client group in the Gulf. He Chaired the Board of Bahrain Airport Company and held previous Board positions at Gulf Air and Securities Investment Company (SICO).

He holds a Masters degree in Public Policy, specialising in Economic Development, from Harvard University, and a Bachelor of Science degree in Foreign Service from Georgetown University.

Sabah Khalil Al-Moayyed
Member

Managing Partner of Intellect Resources Management W.L.L., a Management Consultancy firm. She is widely recognized as a veteran banker and an advocate of promoting innovation, leadership and entrepreneurship within industries and organizations and is a regular speaker at various regional and international forums. Al-Moayyed was the Chief Executive Officer at Eskan Bank Bahrain.

Al-Moayyed holds a Bachelor of Science degree in Economics and Business Administration from the American University of Beirut, Lebanon, and Masters in Business Administration Finance degree from Kelastat Business School, University of De Paul, Chicago and has attended executive management programs at leading universities in the USA. She is the President of Bahrain Banker's Association. Chairman of Pinebridge Middle East Bank, Member of the Executive Committee EBDAA Bank, Member of the Board and Chair of Risk Committee Naseej, Member of Vocational Training Committee for the Banking Sector Board, The Deposit Scheme of Bahrain, American University of Beirut Board of Trustee-Suleiman Olayan Business School, Bahrain Chamber of Commerce Foreign Trade Committee, Consultative Committee for Council of the Gulf States, Society of Honour "Deltamiu" USA, Global Women Corporate Directors, New York. Founding Member, The GCC Women Corporate Directors Gulf Chapter and Norway-Bahrain Business Council. Member and Head of Economics Committee Supreme Council for Women, Board of Trustees Bahrain Bayan School, Board Member Mumtalakat Holding Company, Member / Chair of the Finance & Administrative Committee Higher Education Council.

Saleh Hassan Ali Hussain
Member

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

Board Member and Head of Audit Committee of ABC Islamic Bank, Bahrain, Board Member of Solidarity Holding Company, Bahrain, Head of Audit Committee of Alkhabeer Capital, KSA, Head of Audit Committee of AlMajdouie Group, KSA, Member of Audit committee of Saudi Hollandi Bank, Board Member of Saudi Solidarity Takaful Company, KSA and Audit Committee member of National Health Care Company, KSA.

Tariq Jaleel Al Saffar
Member

A Bahraini Graduate with Bachelor of Business, Marketing and entrepreneurship from Edith Cowan University in Perth, Australia, achieved distinctions in Enterprise and Creativity.

He comes from a merchant family which focuses on FMCG products and food distribution, has worked very closely with Multi-Nationals like P&G, Clorox, Gillette, Kellogg's, etc. Passion for technology; Set up the 1st electronic payment platform that allows payment of electricity and other utility bills as well as mobile top-ups. Has over 24 years' experience working with local & Multi-National companies in the communication arena and distributions & operate and invest in Real Estate, Electronic Payments, Health Care and Distribution. He is the Board Member, Mohamed Ebrahim Al Saffar Company (MES), Bahrain Economic Development Board (EDB), Telecommunication Regulatory Authority (TRA), Board member & Chairman of the Executive committee of Bahrain International Circuit (BIC), Chairman KKT Clinic, Chairman & CEO of Harbour Investment Holding company (HIH),Chairman Payment International Enterprise B.S.C (PIE).

Tala Abdulrahman Fakhro
Member

The Director of the Market Strategy & Intelligence department at the Economic Development Board. Tala is a seasoned government administration, fixed income products and legal professional with extensive experience of structuring and portfolio management experience at Morgan Stanley in London, Gulf International Bank, the Saudi National Commercial Bank and NCB Capital in Bahrain.

She has a Bachelors in Economics from Smith College, Northampton, holds a Juris Doctor from the Georgetown University Law Center in Washington DC, and has passed the New York bar exam. Tala was appointed as a director of the board of Bahrain Development Bank in 2016.

Marwan Khalid Tabbara
Member

Co-founder and Managing Partner of Stratum, a management consultancy firm headquartered in the Kingdom of Bahrain. Mr. Tabbara represents distinguished experience in strategic and corporate advisory. He has advised the firm's clients on projects both regionally and internationally and has supported the development and growth of a range of businesses. Having previously worked in the Global Corporate & Investment Banking division of Citigroup in New York, London, and Bahrain, he has also supported large private and public sector clients on a range of banking transactions within the Middle East and internationally. He currently serves as Vice Chairman of the Board and Audit Committee Member of the Bahrain Bourse B.S.C. (c) (Bahrain's national stock exchange), and as Board Member and Investment Committee Member of publicly listed Bahrain Flour Mills Company B.S.C. (Al-Matahin).

Mr. Tabbara holds a Master of Engineering Management and a Bachelor of Science in Electrical Engineering and Economics from Duke University, North Carolina, in the United States of America.

Ghassan Ghaleb Abdulaal
Member

Heads the clients services function within the placement and relationship management team at Investcorp since 2012. This is Mr. Abdulaal's second stint at Investcorp having served with the firm for six years previously between 2003-2009. In the intervening period between 2009 and 2012, he worked as an Investment Manager with Bahrain Mumtalakat Holding Company. Prior to joining Investcorp in 2003, Mr. Abdulaal worked at KPMG Consulting where he was a Consultant within the Business Performance Improvement Group. Prior to that, Ghassan worked briefly with the HEC School of Management in Paris.

Mr. Abdulaal holds a BA (Hons) in Accounting and Finance from the University of Kent at Canterbury, UK, and an MSc in Analysis, Design and Management of Information Systems from the London School of Economics.

Maryam Adnan Al Ansari
Member

Graduated from McGill University, in 2009 with a Bachelor in Commerce. She joined the Economic Development Board in February 2010 as part of the Reform Projects department, where she contributed to revising the National Economic Strategy, and worked closely with the Ministry of Housing and the Ministry of Transportation and Telecommunication on key strategic projects. In May 2013, Ms. Al Ansari joined the Office of the First Deputy Prime Minister as a member of the Projects department, where she is in charge of strategic Housing and Infrastructure projects.

Chairman Statement

Khalid Al Rumaihi
Chairman

The Bank has financed various projects and activities in the industrial and service sectors through direct and indirect financing and capital participation, as well as funding for the Fisheries and Agricultural Programs and the Education Funding Program.

It gives me great pleasure the annual report of Bahrain Development Bank Group, (the Bank and Its subsidiaries), including the financial statements, activities and operations for the year 2017.

The Bank was active during the reporting period as it remained steadfast in its mission to support the development of SME's and facilitate entrepreneurship in the Kingdom in line with the Group's strategy and Bahrain's Economic Vision 2030.

The Bank undertook numerous financing and development activities during the reporting period, with a total of 917 projects funded with a total funding portfolio of BD 39.3 million for the year. In particular, the Bank financed various projects and initiatives in the industrial and service sectors through direct and indirect financing and capital participation. Funding was also provided for the Fisheries and Agricultural Programs and the Education Funding Program. Since the commencement of the Bank's operations in 1992, I am pleased to report that the Bahrain Development Bank has supported the Kingdom's SME's with BD 565,856 million in funding.

In addition to funding, the Bank has joined hands with 3,699 beneficiaries, providing services that empower Bahraini entrepreneurs with a supportive environment and the skills they need to succeed. This included the provision of incubation services for start-ups as well as entrepreneurship awareness and training programs designed to develop skills and provide entrepreneurs with the experiences they need to contribute to Bahrain's burgeoning entrepreneurial ecosystem.

I am also pleased to report that the year witnessed substantial growth in the Kingdom's non-oil sector, reflecting the robust performance of the private sector as a result of the myriad of growth incentives, mechanisms and support programs that have been put in place to drive innovation and growth, of which the BDB continues to play a pivotal role.

Aligned with the Bank's dedication to support the Kingdom's plan to become the region's leading Fintech hub, the Bank , in cooperation with other stakeholders, launched a number of joint initiatives related to financial technology during the year. These initiatives included the introduction of financial technology programs and partnerships that support the Kingdom's drive to enhance the digital economy, develop a technology-based entrepreneurship environment, and stimulate emerging projects in this field, In addition to facilitating access by small and young enterprises to appropriate technology and innovation.

The Group remains unswerving in its commitment to support and develop Bahrain's SME sector and will continue to enhance its offerings and programs to achieve this. The Group brings a wealth of accumulated expertise, policies and programs that have been proven to be highly efficient in enhancing the performance of Small and Medium-sized enterprises and increasing their contribution to the national economic development process.

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

I would also like to express my deep appreciation to the members of the Board of Directors, the Group's employees and all partners. We look forward to further collaboration as we seek to achieve our common goal of actively and substantially contributing to the development of our national economy.

Khalid Al Rumaihi
Chairman

BD 39.3m

The financing portfolio.

3,699

Beneficiaries benefited from the development services.

Financial Services

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

The focused segments where BDB extends assistance are the small and medium enterprises, self employed professionals, agriculture, fisheries, education, specific employment oriented enterprises promoted by Bahraini youth & women and other segments as considered necessary with the main objective of value addition to the economy of the Kingdom of Bahrain.

BD 39,3m

Total value of loans provided


VALUE ADDITION TO THE ECONOMY OF THE KINGDOM OF BAHRAIN.

Executive Management

Sattam Sulaiman Algosaibi
Chief Executive Officer

Sh. Hesham Bin Mohammed Al Khalifa
Managing Director
Bahrain Business Incubator Centers

Adnan Mahmood Al Balooshi
Deputy General Manager
Head of Credit Division

Khaled Yousif Meshkhas
Deputy General Manager
Support Division

Hasan Khalil Al Binmohamed
Senior Vice President
Human Resources & Corporate Communications

Vijaya Kumar Teegalapally
Chief Risk Officer

Samuel Verghese
Chief Financial Officer

Areije Karim Alshakar
Senior Vice President
Development Division

Maitham A. Hameed Abbas
Senior Vice President
Business Development

Alok Misra
Vice President
Internal Audit

Isa Ahmed Al Doseri
Manager
Head of Investment Division

Sattam Sulaiman Algosaibi

Group Chief Executive Officer

Mr. Algosaibi has over 20 years of banking experience occupying senior posts across several roles and responsibilities. In his experience, spanning some of the most critical years for the banking sector in Bahrain, he witnessed changing economic environments and evolving regulatory mindsets. This allowed him to have an in-depth understanding and practical knowledge in Islamic Banking and Conventional Commercial Banking best practices. Before joining BDB, Mr. Algosaibi spent over 12 years in Kuwait Finance House Bahrain BSC as an Executive Manager and Head of Corporate Banking Group. He is the Chairman of The Arabian Taxi Company BSC, Board Member and Chairman of the Executive Committee of Seef Properties B.S.C. (c), Board Member of Binaa Al Bahrain BSC and a Board Member of Lama Real Estate WLL. He is also a Member of the Board of Trustees of Ibn Khuldoon National School.

Mr. Algosaibi holds a Bachelor degree in Accounting from King Fahad University of Petroleum and Minerals and an MBA degree from De Paul University.

Sh. Hesham Bin Mohammed Al-Khalifa

Managing Director, Bahrain Business Incubator Centers

Sh. Hesham is a leading industry specialist on entrepreneurship and economic development holding over twenty six years of experience. Throughout his career, he has contributed to the development of numerous economic and social strategies and programs, namely the development and institutionalization of Bahrain-Arab Model for Enterprise Development & Investment Promotion in coordination with Bahrain Development Bank (BDB) The United Nations Industrial Development Organization (Unido) and BDB's Rowad program, the development of Bahrain Business Incubator Centers, Riyadat (Women Incubator Center), Art Cluster and Farmers Market and various strategies in economic development and entrepreneurship.

Sh. Hesham serves as board member of various steering committees and societies in support of entrepreneurship such as MENA Inc, AIESEC, and KPMG Entrepreneurship.

Adnan Mahmood Al Balooshi

Deputy General Manager – Head of Credit Division

Board member of Asmak B.S.C. Closed. Attended programme for Financial Institutions for Private Enterprise Development and a programme for Strategic Management for Leaders: Non-Governmental Organization both at Harvard Kennedy School; also attended programme on Project Appraisal and Risk Management from Duke University. Has over 37 years of banking experience. He has worked with Bank of Bahrain & Kuwait, Al Ahli Commercial Bank, Gulf Riyadh Bank as Head of Credit Administration and Corporate Manager. He joined Bahrain Development Bank in 2005.

Khalid Yousif Meshkhas

Deputy General Manager - Head of Support Services

Board Member of Bahrain Specialist Hospital BSC (C) & Estate Company for Health Services WLL and Gulf Diabetes Specialist Centre. Holds an Associate Diploma in Accounting from University of Bahrain and Advanced Banking Diploma from Bahrain Institute of Banking and Finance (BIBF). Mr. Meshkhas has gained more than 27 years of combined banking experience from conventional & Islamic banks. During his career he has worked with National Bank of Bahrain and Al Salam Bank in various Operation Departments such as Loans, Time Deposit, Money Transfer, Commercial Services, Customer Services and Treasury back office.

He has also worked in the marketing field which includes Retail & Commercial Banking. He joined Bahrain Development Bank in 2011.

Hasan Khalil Al-Binmohamed

Senior Vice President - Head of Human Resources & Corporate Communications

Holds a B.A. in Government from Eastern Washington University, USA; and a Diploma from Spokane Falls Community College, USA. He has obtained his CIPD in 2012 and attended Harvard Business School's Executive Program in 2013. He has 16 years of banking experience, having worked with Kuwait Finance House as HR Supervisor. He joined Bahrain Development Bank in 2005.

Vijaya Kumar Teegalapally

Senior Vice President - Chief Risk Officer

Holds an MBA in Finance and has over 25 years of experience in banking and financial services industry and widely exposed to Financial Risk Management & Basel II/III implementation. His areas of expertise includes Enterprise Risk Management, Risk Management Policies & Procedures, IFRS 9 Expected Credit Loss models, Credit Portfolio Management, Operational Risk Management, Risk Analytics, Credit Scoring/ Rating models, Risk Appetite, Risk Strategy, Risk Architecture, Economic Capital, ICAAP and Stress Testing. Prior to joining BDB, Mr. Teegalapally was the Head of Risk Analytics for a commercial bank in UAE. He has conducted several training programs and key note speaker at Risk Management events. He joined Bahrain Development Bank in 2016.

Samuel Verghese

Vice President - Chief Financial Officer

Holds a B.Com, University of Calicut, India; and FCA, Institute of Chartered Accounts of India. Has experience of over 28 years of which 22 years has been in the Banking sector. Before joining BDB he has worked with Remya Plastics as Manager (F&A),Steel Authority of India Ltd (SAIL) as Junior Manager (Budget & MIS), The South Indian Bank Ltd, as Chief Manager (Corporate Financial Management), Kerala Financial Corporation as General Manager (Finance) and Oman Development Bank as Chief Accountant.

He joined Bahrain Development Bank in 2007 as Senior Manager (Financial Control) and was Head of Internal Audit from 2008 till April 2015. He was designated as BDB CFO in 2015.

Areije Karim AlShakar

Senior Vice President, Head of Development Division

At BDB, Ms. AlShakar role and involvement includes coaching, mentorship, and entrepreneur development. She has been involved in the development of several support services, namely her role in establishing BDB's Rowad Program, a holistic entrepreneur support platform and SeedFuel-Rowad, a GAN member accelerator program both managed and run out of the Development Services Division. Her role also involves the development of programs with supporting organizations to support entrepreneurship and develop the Bahrain startup & SME eco-system.

Ms. AlShakar has 15 years of experience in banking and entrepreneurship. She has worked in reputable organizations such as BNP Paribas and Lehman Brothers. She holds an MSc in Public Policy and Management, from the School of Oriental and African Studies (SOAS), University of London and is a Certified Business Coach and Mentor, from CMI, UK. She is an avid reader, writer, and an instructor of functional movement.

Maytham A.Hameed Abbas

Senior Vice President - Head of Business Development

Mr. Abbas is the head of business development and the board secretary in the Bahrain Development Bank. In his role he leads the formation and implementation of the Bank's strategy, product development and digitization initiatives. Before joining BDB Mr. Abbas held a number of roles in Kuwait Finance House in corporate banking and credit risk management, as well as having held previous posts working on investment promotion and entrepreneurship with UNIDO and strategy consulting with BDO. Maytham is a graduate of McGill University in economics and physics, and holds professional qualifications in finance and risk management.

Alok Misra

Vice President - Head of Internal Audit

A Chartered Accountant from India and a Certified Internal Auditor from the Institute of Internal Auditors, USA, Mr. Misra has over 29 years of banking, financial services and audit experience. He has worked in Internal Audit in banks in India, Oman and Bahrain for the last 14 years. Prior to joining BDB in 2015, Mr. Misra was the Head of Internal Audit for a retail commercial bank in Bahrain for over 4 years.

Isa Ahmed Al Doseri

Manager - Head of Investment Division

Mr. Al Doseri is a BSc honors graduate majoring in Accounting and Finance from Ahlia University, a Certified Public Accountant from the State of Colorado, USA and a Series 79 investment banking certificate holder accredited by the Central Bank of Bahrain. He is also a member of board of directors of Tenmou, Food Corp WLL., Rukn.me, Bahrain Business Incubator Center and Al Dar Wood Furniture Manufacturing WLL. Mr. Al Doseri collectively has 8 years of professional experience in venture capital, private equity, investments, retail, operations and financial control. He Joined BDB in 2011.

CEO Statement

Sattam Sulaiman Algosaibi
Chief Executive Officer

The year 2017 witnessed a slow recovery of the global economy. The recovery process was most of the year according to the Government initiatives programs implemented in different countries. The past year has been a challenging year for the BDB Group, but we have reflected many aspirations and expressed our usual optimism and conviction that the best opportunities are yet to come. We have made every effort to achieve our goals in financing and supporting entrepreneurship and the development of small and medium enterprises.

Bahrain Development Bank Economic Indicators Performance Report for 2017 showed that the total financing portfolio reached BD 39.3 million, with 917 financing.

BD 22m

An expected additional value added.

5,954

The total number of funding disbursed in cooperation with Tamkeen.

An expected additional value added of BD 22 million which will help in a creation of 3,619 jobs and an expected exports value of BD 6.2 million.

With regards to development services, 3,699 beneficiaries benefited from these services. These services included business consulting, training, orientation, induction lectures and specialized workshops in the field of entrepreneurship as well as incubation services.

Initiatives 2017

- The focus in 2017 was on several aspects, first of which is the application of IFRS 9, which was imposed by the Central Bank of Bahrain, and the second was the restructuring of the Bank and its subsidiaries.

- In line with the Bank's strategy to provide its services through integrated and comprehensive branches, the four branches that were not providing full range of services have been closed. These branches were located in Seef Mall, Muharraq, Bab Al Bahrain, Isa Town and Hamad Town.

- Bahrain Development Bank (BDB) has joined the world's first Islamic financial technology consortium to accelerate the development of innovative, Sharia-compliant banking solutions. The Bahrain-based ALCO Bahrain, consists of the largest bank in the financial sector, such as Albaraka Banking Group and Kuwait Finance House - Bahrain.

- The amount of funding disbursed in cooperation with Tamkeen since the launch of this program in 2008 until the end of January 2018 has reached to more than BD 216,180 million with a total number of 5,954 financing, which clearly demonstrates the effectiveness of this program and the importance of the continuous work on developing it to meet the different needs and aspirations.

- The Seed Fuel-Rowad investment program, which is provided by the Bahrain Development Bank Group (BDB) within Roward's services and programs, became a member of GAN Global Business Accelerator, a global gathering of the most advanced and professional business accelerators, Integrated to prepare and support entrepreneurs from emerging entrepreneurs around the world.

- The Group is developing and expanding the scope of incubators by preparing the launch of the farmers' market in Hawrat Aali in 2018.

- Develop strategic plans to invest in human capital, which are considered to be the most important assets for sustainable development and establish methodology that empowers all employees towards excellence, creativity and success.

- Along the same line, several specialized training programs were launched, including the launch of the "Nujoom Attanmiya" program, that aims to celebrate and award honorary and outstanding employees on quarterly basis based on evaluations of job performance set by the methodology put in place.

- To modernize the ways in which services are offered and executed and to reformulate policies and procedures accordingly to assist in the process. The bank has also cut down of assets that are currently not used in addition to looking into taking the right steps towards financial precautions.

In conclusion, I would like to express my thanks and appreciation towards the wise government for its continued support. I would also like to express my gratitude towards the Chairman and the members of the Board of Directors for their continuous guidance, in addition to all the local, regional and international institutions working with the bank, including our strategic partners Tamkeen Bahrain, the Supreme Council for Women, Agriculture Affairs, and the National Initiative for the Development of the Agricultural Sector.

I would also like to thank the Executive Management and all the employees of the Bahrain Development Bank Group at all levels and their efforts to achieve the development goals of our precious kingdom.

Sattam Sulaiman Algosaibi
Chief Executive Officer


UNIQUE SET OF PRODUCTS AND SERVICES
TAILORED TO MEET THE NEEDS OF ENTREPRENEURS IN VARIOUS INDUSTRIES AND SECTORS

Development Services

An entrepreneurial division reaching out to the public in an effort to foster an entrepreneurial, innovative, and enterprising society. The division hosts a unique set of products and services delivered through an innovative platform tailored to meet the needs of entrepreneurs in various industries and sectors.

Working in line with the National Economic Strategy and Bahrain Economic Vision 2030, the development Services Division provides a holistic eco-system for entrepreneurs through its sub-units and departments which include; Business Advisory and Rowad Subsidiaries.

3,699

Total number of beneficiaries

Management Review

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 2017 continued to support financing small and medium businesses and start-up business ventures and encouraging / motivating more of Bahraini youth and women to venture into the challenging careers of entrepreneurship.

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.

BD 37.9 m

Total value of loans under SME sector

During the year 2017, the Bank also introduced new product "Tamweel Plus Scheme" to assist SMEs in financing start-up projects / undertake expansion at competitive pricing. The product has been well received by the SME sector.

The Bank during 2017 made a total disbursement of 801 loans under SME sector with a total funding of BD 37.9 million. The financing made by the Bank is expected to create additional 3,303 jobs and contribute to incremental exports of BD 5.9 million, foreign currency of BD 6.6 million, import substitution of BD 1.08 million and value addition of BD 17.06 million over the next two years.

The Bank continued its financial assistance to other priority sectors like fisheries and agriculture and professional services such as doctors, training and consultancy firms, etc. 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 Bank during 2017 undertook re-organization and currently is operating with the network of four branches located at Main Corporate Office, Diplomatic Area, Hidd Industrial Area, Sitra and A'ali. The re-organization is expected to help the SME community with more focused approach and efficient services.

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

Development Services Division

The Development Services Division at BDB plays a key and effective role within the entrepreneurial ecosystem, reaching out to the public in an effort to inspire and grow entrepreneurship and innovation. The division highlights the importance of developing a national economy driven by the private sector through the organization's core objective and mandate of supporting entrepreneurs and enterprises in Bahrain. The product and service offered by the Development Services Division include the Rowad Program, SeedFuel-Rowad, and the Invested Platform.

Development Services Overview

Rowad is a comprehensive platform run out of the Development Services division of Bahrain Development Bank designed to assist and empower entrepreneurs in starting their business. The program aims to support entrepreneurs and startup eco-system by providing product and services at any stage of the business cycle starting as early as the idea stage. The program's objective is to foster the creation and development of enterprises and provide support to enhance the productivity and growth of enterprises and individuals by providing a holistic eco-system for entrepreneurs. The Rowad Program offers a variety of solutions supporting the needs of entrepreneurs to help start or grow their business through the Rowad Program, Seed-Fuel, and the Invested platform. www.rowad.co

Management Review (Continued)

ROWAD

1618* UNIQUE COMPANIES ENTERED THE ROWAD PROGRAM

* since program inception in 2015

ROWAD COACHING

515

Coaching sessions were provided through the Rawad Program

ROWAD TRAINING

1441

Beneficiaries attended Reaining. workshop and presentation sessions through the Rawad Program

ROWAD MENTORING

36

Active Mentors Joined the Rowad Mentoring Program

ROWAD PARTNERS

20

Partners joined the Rowad Partners Program

ROWAD NETWORK

3000

Member in the Rowad community network

ROWAD EVENTS

1834

Member attended event through the Rawad Program

Management Review (Continued)

BD 21 m

BDB holds investments in 26 companies with a total Fair value of BHD 21 million.

Rowad Program

The Rowad Program offers solutions supporting the needs of entrepreneurs to help start or grow their business through 8 pillars which include Coaching, Training, Mentoring, Funding, Partners, Networking Events, and Rowad Tools. The program is available to startups, SMEs, and entrepreneurs from as early as idea stage all the way to growth and beyond. The program offers its services through various packages that provide tools to startups and SMEs at any stage of the business cycle. The program acts as an eco-system builder working closely with the startup and SME eco-system in Bahrain.

Seed Fuel

Seed Fuel-Rowad is Bahrain's pioneer accelerator program developed by the Bahrain Development Bank, providing startups at seed and early stages with coaching, mentoring, training, access to investors and networks, special startup services and perks, and up to BHD 25,000 in equity investment funding. Seed Fuel-Rowad is part of the Global Accelerator Network (GAN) as a pioneer accelerator building startup communities. www.seedfuel.co

Invested™

Invested is an investor community platform established in 2016. The Invested Platform provides investors access to tools and knowledge to support them through their startup investment journeys. Invested has a growing investor population that includes angels, VCs, and corporates. Invested hosts educational events twice a year targeted to current angels and potential startup investors as part of the aim to further develop the startup eco-system pillars.

The investor community is brought together through an online platform www.rowad.co/invested which is currently owned and managed by the team at Bahrain Development Bank.

Rowad Events: Rowad Events was launched in 2015 to play an instrumental role in building and connecting the local and regional entrepreneur community. A suite of events are hosted throughout the year that include Rowad Majlis™, Rowad Talk™, Rowad Workshops™, The Speed™, Pitched™, and Invested™.

Human Resources

Recognizing that staff members are the key asset of any organization, the Bank continued to significantly invest in the staff welfare and the provision of the necessary training and development opportunities. During the year 2017, 98% of our employees (182 employees as of December 2017) attended several in-house training sessions and other courses run by external training institutions in Bahrain.

Staff members were trained on Leadership Development, Anti-Money Laundering, Islamic Financing, Risk Management & Control Framework, Risk and Control Self-Assessment (RCSA), Credit Analysis, FinTech, International Standards for the Professional Practice of Internal Auditing, Proficiency/Due Professional Care/ Quality Assessment, Cyber Security and Corporate Governance.

In addition to specialized courses, workshops and conferences were attended by the approved persons and key staff.

Investment Division

In line with The Economic Vision 2030 for Bahrain to promote economic diversification, Bahrain Development Bank, BSC (c) ("BDB") currently supports the private sector through a number of business support services, research, and financing.

As part of BDB's continued efforts to assist entrepreneurs and the private sector, the bank created a new dedicated division (Investment Division) to launch and manage a new set of direct equity investment products (new Venture Capital Funds and other products and services).

Investment Division is responsible for all direct equity investments that BDB makes in line with its overall mission, as well as new SPVs launched where BDB plays a significant role as sponsor and manager. The Investment Division invested and continues to invest in Startups, scale ups and SMEs, In addition to other strategical investments. Direct equity investments are investments made in exchange for shares in a specific company based on certain criteria depending on the investment product on hand. This equity investment's aim is to assist the entrepreneurs in achieving their goals.

BDB holds investments in 26 companies in order to create a robust and diversified private sector in The Kingdom of Bahrain, supporting industries as Food Security, Transportation and Services, Microfinance, Healthcare, Business Incubators and others, with a total Fair value that amounts to BHD 21 million.

During the year 2017, BDB's Investment Division has supported to create about 155 new jobs with a value added over BHD4.5 million.

Management Review (Continued)

The Investment Division is also working closely with the Economic Development Board in launching AL Waha Venture Capital Fund of Funds, a USD 100 million fund which will invest in Local and Regional Venture Capital Funds with the Ultimate goal to support SMEs in Bahrain in different sectors and Industries and cover major Capital Market Funding Gaps. The Fund will be managed by Bahrain Development Bank.

In Addition to that, the Investment Division is also working closely with Bahrain Bourse to support the launching of the new secondary market targeting private SMEs (Bahrain Investment Market), backed by Venture Partners and Private Investors, where those companies are looking for new shareholders and are under ambitious expansion projects.

Support Services Division

Support Services Division provides back end banking services to support ongoing business activities of Bahrain Development Bank Group, as well as supporting the Group's strategies and assist in achieving its goals through: Information Technology, Operations and Administration Department.

Year 2017 witnessed the achievement of many initiatives, that focus on the art of technology in order to build the business, improve the customer satisfaction, meet the statutory and regulatory compliance and management goals. Major upgrade to the core banking application was carried out by introducing charge off functionality, so as to keep the bad debt accounts off the balance sheet. As part of the BENEFIT compliance requirement, several mandatory fields for Loans were introduced. Efficiency of the loan approval work flow was improved by revisiting and enhancing the entire process flow in the ERP application.

Renovation of the HQ Data Center was also carried out with enhanced physical security and established effective server and rack management procedures. The CCTV solution also underwent major upgrades with the introduction of high-definition cameras, more storage space and higher retention period of recordings. Bank's infrastructure systems were also upgraded to newer version of Domain Controller, Microsoft Exchange and file servers with higher storage. New back up and replication solutions were introduced to safeguard the bank's data. Comprehensive centralized door access solution was also introduced as part of compliance and security measures.

Bank's internal IP Telephony System also underwent upgrade to a newer PBX and Devices. Introduced an information security awareness system to increase security awareness among the bank's employees. Additional mobile device management security features were also introduced in the year.

The bank achieved significant operational progress through strategic relocations of the branches network in order to strengthen its reach of contact.

Administration Department plays a key assisting role in the successful completion of significant projects, via providing exceptional swift support to BDB Group, which increased the overall efficiency. Besides, developing and executing Internal Purchasing Policy, to maintain smooth and risk free procurements, allowing Bahrain market service providers and vendors equal shares, in addition to reducing cost significantly by an ongoing market survey and finding other solutions and alternatives. Administration Department demonstrated excellent abilities in terms of assistance and maintaining data base.

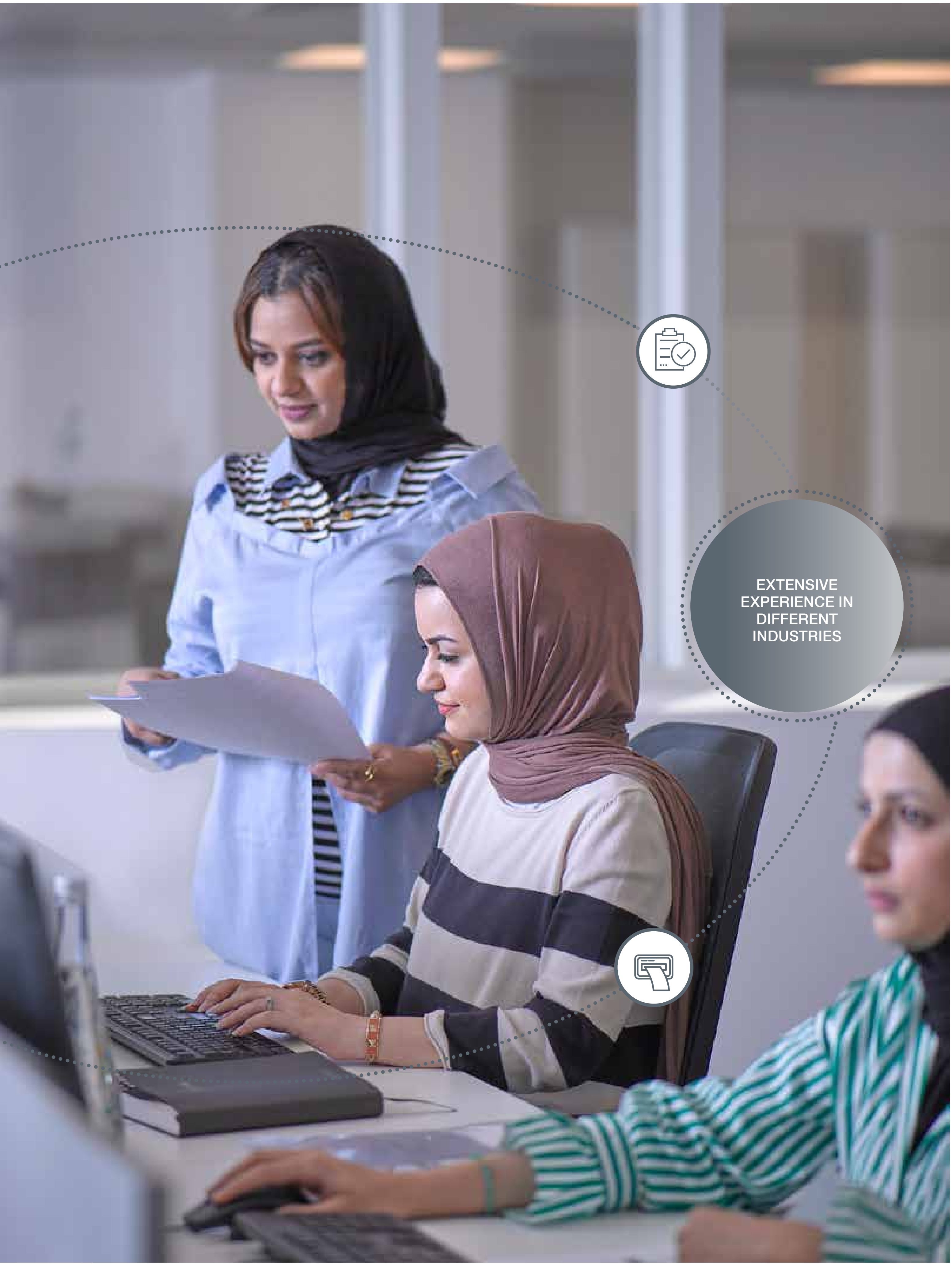
Investment Services

The Investment Division works closely with the Banking Division and the Development Division to identify opportunities and offer a complete platform for entrepreneurs consisting of a wide variety of products and services including Equity, Credit Facilities, Advisory Services and Incubation.

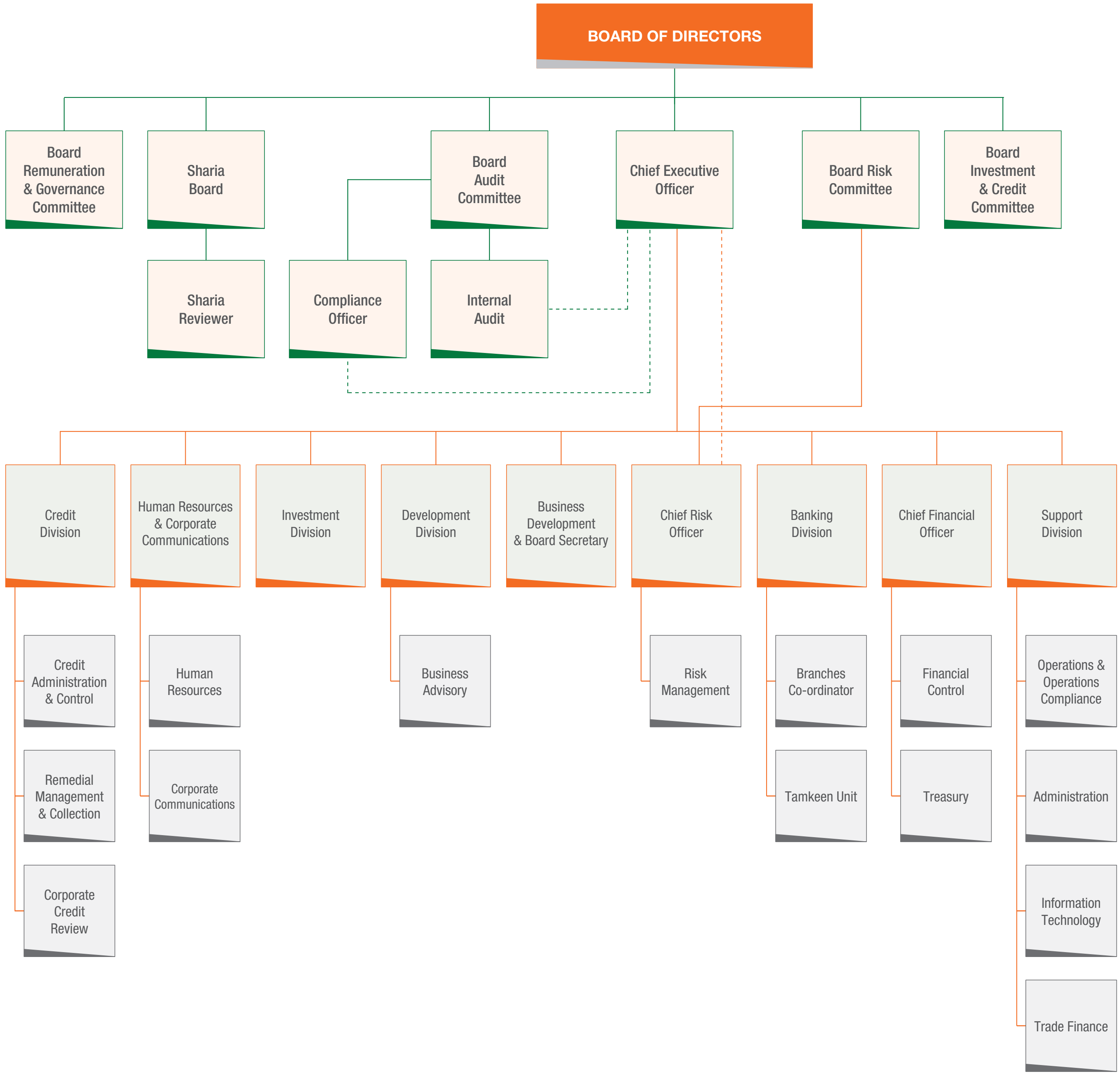
Investment Division provides minority interest equity participation as a shareholder into private companies as means of financing. Investments can be made at different levels of a firm's business cycle, including establishment and growth stage, focusing primarily on businesses with opportunity to be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

155

Investment Division has supported to create about 155 new jobs


EXTENSIVE EXPERIENCE IN DIFFERENT INDUSTRIES

Organization Chart



Corporate Governance

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

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

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

The Board of Directors is assisted by the following Board Committees: (1) Remuneration and Governance Committee, (2) Audit Committee, (3) Risk Committee, (4) Credit & Investment Committee, and (5) Sharia Supervisory Board. The members of Senior Management regularly attend Board & Committee meetings.

The responsibilities of these committees for oversight are governed by their respective Charters, terms of reference and functions under its supervision that are reviewed and updated periodically. While RGC is assisting the Board in strengthening the corporate governance standards and implementation of sound remuneration and HR practices, the Audit Committee assists the Board in carrying out its duties regarding the integrity of the Bank's financial reporting system; the adequacy of the Bank's internal control processes; the performance of independvent auditors and internal audit function; the independent auditor's qualifications & independence and the Bank's compliance with legal obligations.

The Board Risk Committee develops the Board's risk appetite statement and ensures an appropriate risk management and reporting framework is in place to allow implementation and monitoring of the Bank's risk profile and alignment of this to its risk appetite. The BRC is additionally responsible for the appointment and remuneration of the CRO and the development of the bank's business continuity and disaster recovery plans.

The BICC reviews credit and investment proposals, exercises oversight of credit and investment related activities, reviews and recommends the Bank's business strategy and operational plan, reviews and approves appropriate asset allocation strategy and evaluates the investment and credit portfolio of the bank. The Sharia Supervisory Board comprising three Islamic scholars provides guidance, reviews and supervises the Bank's Islamic financing activities to ensure that they are in compliance with Islamic Sharia's rules and principles.

In addition, the Remuneration & Governance Committee, Investment & Credit Committee and Audit & Risk Committee also assist the Board in conducting self-evaluation of the Board & Committees achieving a high level of involvement and understanding among Board members of its roles and responsibilities, with suggestions for further improvements.

Corporate Governance (Continued)

Board Meetings and Attendance

Details of meetings held during 2017 and attendance of directors are as follows:

Ref.	Name	Feb 22	Apr 30	Aug 9	Oct 23	Dec 19
1	Khalid Al Rumaihi	✓	✓	✓	✓	✓
2	Sabah Khalil Al-Moayed	✓	✓	✓	✓	✓
3	Saleh Hassan Ali Hussain	✓	×	✓	✓	✓
4	Tariq Jaleel Al Saffar	✓	✓	×	×	✓
5	Marwan Khalid Tabbara	✓	✓	×	✓	✓
6	Tala Abdulrahman Fakhro	✓	✓	✓	✓	✓
7	Ghassan Ghaleb Abdulaal	✓	✓	×	✓	✓
8	Maryam Adnan Al Ansari	✓	✓	✓	✓	✓

Board Audit Committee (BAC) Meetings and Attendance

SN	Name of the director	Feb 12	Apr 18	Jul 16	Aug 27	Oct 15
1.	Saleh Hassan Ali Hussain	✓	✓	✓	✓	✓
2.	Ghassan Ghaleb Abdulaal	×	✓	✓	✓	✓
3.	Maryam Adnan Al Ansari	✓	✓	✓	✓	✓

Board Investment and Credit Committee and Attendance

SN	Name of the Director	Feb 8	Apr 3	Apr 19	Jun 6	Jul 17	Oct 16	Dec 11	Dec 24
1.	Sabah Khalil Al-Moayed (Chairperson)	✓	✓	✓	✓	✓	✓	✓	✓
2.	Marwan Khalid Tabbara (Member)	✓	✓	✓	✓	✓	✓	✓	✓
3.	Tariq Jaleel Al Saffar (Member)	✓	✓	✓	✓	✓	✓	✓	✓
4.	Tala Abdulrahman Fakhro (Member)	✓	✓	✓	✓	✓	✓	✓	✓

Board Risk Committee

SN	Name of the director	May 29	Sep 26	Oct 16	Nov 16	Dec 10
1.	Marwan Khalid Tabbara (Chairman)	✓	✓	✓	✓	✓
2.	Ghassan Ghaleb Abdulaal (Member)	✓	✓	✓	×	✓
3.	Maryam Adnan Al Ansari (Member)	✓	✓	✓	✓	✓

Corporate Governance (Continued)

Board Remuneration & Governance Committee Meetings and Attendance

SN	Name of the director	Jan 11	Apr 3	Jun 15	Oct 22	Dec 19
1.	Khalid Al Rumaihi (Chairman)	✓	×	✓	✓	✓
2.	Tala Abdulrahman Fakhro (Member)	✓	✓	✓	✓	✓
3.	Tariq Jaleel Al Saffar (Member)	✓	✓	✓	×	✓

Shari'a Board and Attendance

Board Member	Jan 15	Apr 5	Jul 12	Oct 9
1. Sh. A. Nasser Omar Al Mahmood	✓	✓	✓	✓
2. Sh. Muhammed Burhan Arbouna	✓	✓	✓	✓
3. Sh. Omar Alani	✓	✓	✓	✓

Remuneration Report

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

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

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

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

Corporate Governance (Continued)

Details of Remuneration Paid for the Financial Year Ended 2017

Categories	No.	Fixed Remuneration			Variable Remuneration	Total
		Salaries & Wages	Other Benefits/ Allowances	Total	Performance Bonuses (in cash) *	
1. Members of the Board	8		33,750.000	33,750.000		33,750.000
2. Approved Persons (not incl in 1,3, to 7)	6	328,748.333	85,874.218	414,622.551	84,116.667	498,739.218
3. Approved Persons in Risk Management, Internal Audit, Operations, Financial Control, AML, Compliance Functions	6	210,838.000	96,982.818	307,820.818	47,000.000	354,820.818
4. Employees Engaged in Risk taking activities (Business Areas)	56	788,012.200	142,793.712	930,805.912	103,651.600	1,034,457.512
5. Employees other than approved persons engaged in functions under 3	23	274,827.972	54,906.896	329,734.868	49,687.434	379,422.302
6. Other Employees	90	1,052,392.268	220,799.153	1,273,191.421	187,265.073	1,460,456.494
Total	189	2,654,818.773	635,106.797	3,289,925.570	471,720.774	3,761,646.344

* Amounts are in Bahraini Dinars.

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

Deposit protection scheme:

Deposits held with the Bank's Bahrain operations are covered by the regulation protecting Deposits and Unrestricted Investment Accounts issued by the Central Bank of Bahrain in accordance with Resolution No (34) of 2010. The scheme applies to all eligible accounts held with the Bank subject to specific exclusions, maximum total amount entitled and other regulations concerning the establishment of a Deposit Protection Scheme and a Deposit Protection Board.

Financial Statements 2017

Contents

Corporate information

Commercial registration no.	26226 obtained on 20 January 1992
Directors	Mr. Khalid Al Rumaihi – Chairman Ms. Sabah Khalil Al Moayyed – Board Member Mr. Saleh Hassan Ali Hussain – Board Member Mr. Tariq Abduljalil Al Saffar – Board Member Mr. Marwan Khalid Tabbara – Board Member Ms. Tala Abdulrahman Fakhro – Board Member Mr. Ghassan Ghaleb Abdulaal – Board Member Ms. Maryam Adnan Al Ansari – Board Member
Registered office	Building 170 Road 1703 Diplomatic Area P.O. Box 20501 Manama Kingdom of Bahrain
Auditors	KPMG Fakhro 12th Floor, Fakhro Tower P.O. Box 710 Manama Kingdom of Bahrain

Independent Auditors' Report to the Shareholders

Bahrain Development Bank B.S.C(c)
Manama, Kingdom of Bahrain

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of Bahrain Development Bank B.S.C (c) (the "Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The board of directors is responsible for the other information. The other information obtained at the date of this auditors' report is the Chairman's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the board of directors for the consolidated financial statements

The board of directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, the board of directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit

Independent Auditors' Report to the Shareholders (Continued)

Bahrain Development Bank B.S.C(c)
Manama, Kingdom of Bahrain

evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other regulatory requirements

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

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;

b) the financial information contained in the directors's report is consistent with the consolidated financial statements;

c) we are not aware of any violations during the year of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1, applicable provisions of Volume 6 and CBB directives) or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and

d) satisfactory explanations and information have been provided to us by management in response to all our requests.

KPMG

KPMG Fakhro
Partner Registration No. 83

27 February 2018

Consolidated statement of financial position

31 December 2017

(Expressed in Thousand Bahraini Dinars)

	Note	2017	2016
ASSETS			
Cash and balances with Central Bank of Bahrain	5	2,873	4,095
Placement with banks and other financial institutions	6	27,011	37,106
Islamic financing and loans to customers	7	114,535	139,221
Investment securities	8	15,143	14,220
Investment in associates	9	419	419
Investment property	10	12,033	12,264
Property and equipment	11	1,216	1,242
Other assets	12	2,940	2,766
TOTAL ASSETS		176,170	211,333
LIABILITIES AND EQUITY			
Liabilities			
Term loans	13	51,674	56,150
Deposits	14	46,440	69,216
Other liabilities	15	5,371	5,606
Total liabilities		103,485	130,972
Equity			
Share capital	16	65,000	65,000
Statutory reserve	17	1,186	1,186
Other capital contribution	18	4,048	4,048
Retained earnings & other reserves		2,461	10,121
Equity attributable to owners of the Bank		72,695	80,355
Non-controlling interest		(10)	6
Total equity		72,685	80,361
TOTAL LIABILITIES AND EQUITY		176,170	211,333

These consolidated financial statements, set out on pages 37 to 71, were approved for issue by the Board of Directors on 27 Feb 2018 and signed on its behalf by:

Khalid Al Rumaihi
Chairman

Ghassan Ghaleb Abdulaal
Director

Consolidated statement of profit and loss

For the year ended 31 December 2017

(Expressed in Thousand Bahraini Dinars)

	Note	2017	2016
Income			
Islamic financing and interest income	19	**9,004**	10,271
Islamic financing and interest expense	20	**(2,303)**	(2,275)
Net islamic finance and interest income		**6,701**	7,996
Fee and commission income		**407**	421
Investment income	21	**177**	(222)
Share of loss in associates		**-**	(15)
Other income	22	**2,531**	2,017
Total income		**9,816**	10,197
Expenses			
Staff cost		**(4,626)**	(5,119)
Other operating expenses		**(4,709)**	(4,160)
Profit before impairment provision		**481**	918
Impairment provision on islamic financing and loans	7	**(8,152)**	(1,971)
Loss for the year		**(7,671)**	(1,053)
Loss attributable to:			
- Owners of the Bank		**(7,660)**	(1,035)
- Non-controlling interest		**(11)**	(18)
		(7,671)	(1,053)

These consolidated financial statements, set out on pages 37 to 71, were approved for issue by the Board of Directors on 27 Feb 2018 and signed on its behalf by:

Khalid Al Rumaihi
Chairman

Ghassan Ghaleb Abdulaal
Director

Consolidated statement of comprehensive income

For the year ended 31 December 2017

(Expressed in Thousand Bahraini Dinars)

	2017	2016
Loss for the year	(7,671)	(1,053)
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Share of revaluation reserve from associate	-	181
Total other comprehensive income for the year	-	181
Total comprehensive income for the year	(7,671)	(872)
Total comprehensive income attributable to:		
- Owners of the Bank	(7,660)	(854)
- Non-controlling interest	(11)	(18)
	(7,671)	(872)

The accompanying notes 1 to 29 form part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2017

(Expressed in Thousand Bahraini Dinars)

	Share capital	Statutory reserve	Investment fair value reserve	Other capital contribution	Retained earnings & other reserves	Total	Non - Controling Interest	Total Equity
As at 1 January 2017	**65,000**	**1,186**	**-**	**4,048**	**10,121**	**80,355**	**6**	**80,361**
Loss and other comprehensive income for the year:								
Loss for the year	-	-	-	-	(7,660)	(7,660)	(11)	(7,671)
Minority interest movement							(5)	(5)
Balance at 31 December 2017	**65,000**	**1,186**	**-**	**4,048**	**2,461**	**72,695**	**(10)**	**72,685**
As at 1 January 2016	65,000	1,186	-	4,048	6,959	77,193	24	77,217
Prior period adjustment	-	-	-	-	4,016	4,016	-	4,016
Restated balance at 1 January 2016	65,000	1,186	-	4,048	10,975	81,209	24	81,233
Loss and other comprehensive income for the year:								
Loss for the year	-	-	-	-	(1,035)	(1,035)	(18)	(1,053)
Other comprehensive income:								
Items that will not be reclassified to profit or loss:								
Share of revaluation reserve from associates	-	-	-	-	181	181	-	181
Total loss and comprehensive income for the year	-	-	-	-	(854)	(854)	(18)	(872)
Balance at 31 December 2016	65,000	1,186	-	4,048	10,121	80,355	6	80,361

The accompanying notes 1 to 29 form part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2017

(Expressed in Thousand Bahraini Dinars)

	Note	2017	2016
Operating activities			
Loss for the year		(7,671)	(1,053)
Adjustments for:			
Depreciation	10,11	919	765
Provision for impairment of islamic financing and loans to customers		8,152	1,971
Changes in fair value of FVTPL investments		(60)	326
Dividend income		(117)	(89)
Share of loss of associates		-	15
Gain on sale from investments		-	(15)
Loss on foreign currency translation		51	76
Operating profit before changes in operating assets and liabilities		1,274	1,996
Changes in operating assets and liabilities:			
Placement with banks and other financial institutions		2,811	539
Accounts receivable and other assets		(174)	(60)
Islamic financing and loans and to customers		16,534	3,116
Deposits		(22,776)	2,032
Accounts payable and other liabilities		(235)	1,206
Net cash (used in) / from operating activities		(2,566)	8,829
Investing activities			
Purchases for property and equipment (net of disposal)		(412)	(265)
Purchase of investments		(3,068)	(6,216)
Proceeds from maturity / sale of investments		2,200	2,279
Purchases in investment property		(250)	-
Dividend income received		117	89
Net cash used in investing activities		(1,413)	(4,113)
Financing activities			
(Payment)/Proceeds from term loan net		(4,476)	10,827
Net cash (used in) / generated from financing activities		(4,476)	10,827
Net (decrease) / Increase in cash and cash equivalents during the year		(8,455)	15,543
Cash and cash equivalents at 1 January		24,979	9,436
Cash and cash equivalents at 31 December	23	16,524	24,979

The accompanying notes 1 to 29 form part of these consolidated financial statements.

Notes to the consolidated financial statements

For the year ended 31 December 2016

(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 Business Incubator Centre S.P.C.	Bahrain	100%	31 December	Development and assistance to emerging Bahraini entrepreneurs.
BDB SME Fund Company BSC © (note a)	Bahrain	99%	31 December	Managing SME funds
Bahrain Export Development Center S.P.C	Bahrain	100%	31 December	Management consultancy activities
Middle East Corner Consultancy CO. WLL (note b)	Bahrain	28.6%	31 December	Consultancy to small and medium enterprises.
Al Waha Venture Capital Fund Company	Bahrain	99.0%	31 December	Trusts, Funds and similar financial entities Fund company

a) The shareholders of BDB SME Fund Company in their meeting dated 14 December 2016, decided to voluntarily liquidiate the Company. The Company does not have any operations.

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

2 BASIS OF PREPARATION

a) Statement of compliance

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

b) Functional and presentation currency

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

c) Basis of measurement

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

- investments in equity instruments are measured at fair value;
- other financial assets (debt instruments) not held in a business model whose objective is to hold assets to collect contractual cash flows or whose contractual terms do not give rise solely to payments of principal and interest are measured at fair value;

Notes to the consolidated financial statements

For the year ended 31 December 2017

(Expressed in Thousand Bahrain Dinars)

2. BASIS OF PREPARATION (CONTINUED)

d) New standards, amendments and interpretations effective from 1 January 2017

The following standards, amendments and interpretations, which became effective as of 1 January 2017, are relevant to the Group:

i) Disclosure Initiative (Amendments to IAS 7)

The amendments require disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

The amendments are effective for annual periods beginning on or after 1 January 2017 on prospective basis.

The new disclosure requirements have been included in these consolidated financial statements in note 13, where the Group has presented a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

ii) Annual Improvements to IFRSs 2012–2014 Cycle – various standards.

The annual improvements to IFRSs to 2014-2016 cycles include certain amendments to various IFRSs. earlier application is permitted (along with the special transitional requirement in each case), in which case the related consequential amendments to other IFRSs would also apply.

The following are the key amendments in brief:

- IFRS 12 Disclosure of Interests in Other Entities – The disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution. Effective retrospectively for annual periods beginning on or after 1 January 2017.
- IAS 28 Investments in Associates and Joint Ventures – A venture capital organisation, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss. This election can be made on an investment-by-investment basis.

A non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture. Effective retrospectively for annual periods beginning on or after 1 January 2018; early application is permitted.

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

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

a) IFRS 9 Financial Instruments

The Group will adopt IFRS 9 on 1 January 2018 and will not restate the comparative information. IFRS 9 will replace IAS 39 Financial Instruments: Recognition and Measurement and introduces new requirements for the classification and measurement of financial assets and financial liabilities, a new model based on expected credit losses for recognising loan loss provisions and provides for simplified hedge accounting by aligning hedge accounting more closely with an entity's risk management methodology.

The Group has assessed the estimated impact on initial application of IFRS 9 as at 1 January 2018 on its consolidated financial statements as below:

	Retained earnings	Fair value reserve
Closing balance under IAS 39/ IFRS 9 (2009) (31 December 2017)	2,280	-
Impact on reclassification and re-measurements (a)		
Investment securities (debt) from FVTPL to those measured at fair value through other comprehensive income (a.1)	20	(20)
	2,300	(20)
Impact on recognition of Expected Credit Losses (b)		
Expected credit losses under IFRS 9 for due from banks and other receivables	77	-
Expected credit losses under IFRS 9 for loan and advances at amortised cost including loan commitments and financial guarantees	3,667	
Expected credit losses under IFRS 9 for debt securities at fair value through other comprehensive income	-	-
	3,744	-
Estimated adjusted opening balance under IFRS 9 on date of initial application of 1 January 2018	(1,444)	(20)

Notes to the consolidated financial statements

For the year ended 31 December 2017

(Expressed in Thousand Bahrain Dinars)

2. BASIS OF PREPARATION (CONTINUED)

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

This assessment is preliminary because the Bank is in the process of finalizing the transition work. The actual impact of adopting IFRS 9 on 1 January 2018 may change because:

- IFRS 9 will require changes to the internal controls and these changes are in progress;
- The process of testing and assessment of controls over its IT systems and changes to its governance framework are in progress;
- Refining models for ECL calculations is in progress; and
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Bank presents its first financial statements that include the date of initial application.

(a.1) Classification and measurement

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which financial assets are managed and the underlying cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: (a) measured at Amortised Cost (AC), Fair Value through Other Comprehensive Income (FVTOCI) and Fair Value through Profit or Loss (FVTPL). Under IFRS 9, derivatives embedded in contracts where the host is a financial asset are no longer bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Based on the Group's assessment, the new IFRS 9 classification requirements is expected to have a material impact on its accounting for debt securities as follows;

At 31 December 2017, the Group had debt securities classified as fair value through profit or loss with a fair value of BD 6,012 thousands. Under IFRS 9 (2014), the Group has designated these investments as measured at fair value through other comprehensive income. Due to this reclassifcation, an increase of BD 20 thousands is estimated in the retained earnings along with a corresponding decrease in the fair value reserve due to reclassficiation of fair value loss.

(a.2) Expected credit losses

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. The new impairment model will apply to financial assets measured at amortised cost or FVTOCI, except for investments in equity instruments. A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk (SICR);
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing groups of similar financial assets for the purposes of measuring ECL; and
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL.

(a.3) Financial liabilities

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income. No significant changes are expected for financial liabilities in the consolidated financial statements.

(a.4) Disclosure

IFRS 9 also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of IFRS 9.

b) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group has assessed that implemenation of the standard will not have a significant impact on its consolidated financial statements.

Notes to the consolidated financial statements

For the year ended 31 December 2017

(Expressed in Thousand Bahrain Dinars)

2. BASIS OF PREPARATION (CONTINUED)

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

c) IFRS 16 Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standardi.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

The Group has started an initial assessment of the potential impact on its consolidated financial statements. The Group has not yet decided whether it will use the optional exemptions.

d) Long term interest in amounts and joint ventures

An amendment to IAS 28 Investments in Associates and Joint Ventures will affect companies that finance such entities with preference shares or with loans for which repayment is not expected in the foreseeable future (referred to as long-term interests or 'LTI'). The amendment, which addresses equity-accounted loss absorption by LTI, involves the dual application of IAS 28 and IFRS 9 Financial Instruments.

The amendment and accompanying example state that LTI are in the scope of both IFRS 9 and IAS 28 and explain the annual sequence in which both standards are to be applied.

In effect, this is a three-step annual process:

- Apply IFRS 9 independently
- True up past allocations
- Book current year equity share

The amendment applies for annual periods beginning on or after 1 January 2019. Early adoption is permitted. There are transitional reliefs. The Company does not expect to have a significant impact on its financial statements.

3 CRITICAL JUDGMENTS AND ESTIMATES

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

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

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

Economic useful lives of property and equipment and investment property

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

Impairment losses on loans and islamic financing to customers

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

Notes to the consolidated financial statements

For the year ended 31 December 2017

(Expressed in Thousand Bahrain Dinars)

3. CRITICAL JUDGMENTS AND ESTIMATES (CONTINUED)

Financial asset classification

Business model

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

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

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

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

Contractual cash flows of financial assets

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

4 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year.

a) Basis of consolidation

i) Subsidiaries

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

ii) Non-controlling interests

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

iii) Loss of control

When the Group loses control over a subsidiary, it 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.

iv) Transactions eliminated on consolidation

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

Notes to the consolidated financial statements

For the year ended 31 December 2017

(Expressed in Thousand Bahrain Dinars)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of consolidation (continued)

v) Investment in associates

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Interests in associates are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity accounted investees, until the date on which significant influence ceases. 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 Company has incurred legal or constructive obligations or made payments on behalf of an associate.

b) Foreign currencies

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

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

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

Foreign currency differences arising on translation are generally recognised in profit or loss.

c) Cash and cash equivalents

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

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

d) Financial assets and financial liabilities

i) Recognition and initial measurement

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

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

ii) Classification

Financial assets

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

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

Financial liabilities

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

iii) Derecognition

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

Notes to the consolidated financial statements

For the year ended 31 December 2017

(Expressed in Thousand Bahrain Dinars)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial assets and financial liabilities (continued)

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 the statement of financial position.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

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.

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.

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.

Notes to the consolidated financial statements

For the year ended 31 December 2017

(Expressed in Thousand Bahrain Dinars)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial assets and financial liabilities (continued)

vi) Identification and measurement of impairment (continued)

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.

vii) Loans and islamic financing to customers

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

viii) Investment securities

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

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

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

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

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

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

ix) Derivatives

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

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

e) Property and equipment

i) Recognition and measurement

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

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

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

ii) Subsequent costs

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

Notes to the consolidated financial statements

For the year ended 31 December 2017

(Expressed in Thousand Bahrain Dinars)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Property and equipment (continued)

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
Furniture, fixtures, vehicles, computers and office equipment	3 – 5 years

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

iv) Reclassification to investment property

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

f) Investment property

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

g) Accounts receivable

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

h) Term loans

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

i) Deposits

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

j) 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.

k) 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 19Employees 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.

l) Income recognition

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

Notes to the consolidated financial statements

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(Expressed in Thousand Bahrain Dinars)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Income recognition (continued)

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

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

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;

m) 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.

n) Fee and commission income

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

Other fees and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – are 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.

o) Rental income

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

p) Other capital contribution

This represents non-reciprocal contribution, has no interest and no repayment terms and will only be repaid on liquidation of the Bank and accordingly it has been classified as equity.

5 CASH AND BALANCES WITH CENTRAL BANK OF BAHRAIN

	2017	2016
Cash in hand	183	337
Balances with Central Bank of Bahrain (CBB)	2,690	3,758
	2,873	4,095

6 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2017	2016
Nostro balances	249	538
Placements with banks and other financial institutions	26,762	36,568
	27,011	37,106

Nostro balances includes BD 0.1 thousand with islamic banks (2016: BD 68 thousands).

Placements with banks and other financial institutions include placements of BD 13,081 thousands (2016: BD 16,539 thousands) with islamic financial institutions.

Notes to the consolidated financial statements

For the year ended 31 December 2017

(Expressed in Thousand Bahrain Dinars)

7 LOANS AND ISLAMIC FINANCING TO CUSTOMERS

	2017	2016
Project finance - conventional	11,268	15,309
Project finance - islamic	114,841	130,859
Fisheries and agriculture	4,596	4,850
Ijara	534	527
Other loans	2,332	2,671
	133,571	154,216
Less: Provision for impairment - Specific	(18,096)	(14,055)
Less: Provision for impairment - Collective	(940)	(940)
	114,535	139,221

Provision for impairment includes specific provision of BD 8,963 thousands (2016: 8,164 thousands) and collective provision of BD 812 thousands (2016: BD 801 thousands) against islamic financing to customers.

Gross Non performing loans as per regulatory requirements are BD 30,595 thousands (2016: BD 25,656 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 a percentage of the outstanding balance of loss islamic financing (depending on the agreement with tamkeen for respective loans) and 50% of the profit on islamic financing to customers in accordance with the agreement between the Bank and Tamkeen. Gross Non performing loans inculde BD13,560 thousands (2016: BD12,308 thousands) financed thorugh Tamkeen scheme.

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

	2017			2016		
	Specific provision	Collective provision	Total	Specific provision	Collective provision	Total
At 1 January	14,055	940	14,995	12,445	873	13,318
Charge for the year	8,152	-	8,152	1,904	67	1,971
Written off during the year	(4,111)	-	(4,111)	(294)	-	(294)
Balance at 31 December	18,096	940	19,036	14,055	940	14,995

	2017	2016
Gross amount of loans, individually assessed to be impaired before deducting any individually assessed impairment allowance (see note below)	30,595	25,656

Impaired non-performing loans includes BD 1,453 thousands (2016: BD 1,120 thousands) relating to agriculture and fishery loans which are considered as impaired but no provision has been made as these loans are secured through the reimbursement arrangement with the Government of Bahrain.

The fair value of collateral that the Bank holds relating to loans individually determined to be impaired at 31 December 2017 amounts to BD 9,695 thousands (2016: BD 1,843 thousands). For more detailed description see note 26 (c) collateral and other credit enhancements.

Notes to the consolidated financial statements

For the year ended 31 December 2017

(Expressed in Thousand Bahrain Dinars)

8 INVESTMENT SECURITIES

		2017	2016
Investment securities measured at fair value through profit or loss			
Conventional	- Equities	5,508	5,222
	- Debt	-	2,165
Islamic	- Equities	729	813
	- Sukuk	6,012	6,020
		12,249	14,220

	2017	2016
Investment securities measured at amortised cost		
Conventional - Debt	2,894	-
	2,894	-
	15,143	14,220

9 INVESTMENT IN ASSOCIATES

	2017	2016
EBDA Bank	238	238
Arabian Taxi Company	181	181
	419	419

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	21.13%	Providing microfinance and related advisory services

Associates are accounted for using the equity method in these consolidated financial statements.

Notes to the consolidated financial statements

For the year ended 31 December 2017

(Expressed in Thousand Bahrain Dinars)

10 INVESTMENT PROPERTY

	2017	2016
At 1 January	12,264	12,685
Additions during the year	250	-
Depreciation	(481)	(421)
At 31 December	12,033	12,264

	2017	2016
Cost:		
At 1 January	14,487	14,487
Additions during the year	250	-
At 31 December	14,737	14,487
Depreciation:		
At 1 January	2,223	1,802
Charge for the year	481	421
At 31 December	2,704	2,223
Net book values		
At 31 December	12,033	12,264

Investment properties includes two incubator buildings at a net book value of BD 8,840 thousands (Level 3: fair value BD 9,051 thousands).

During 2014, a majority shareholder transferred a commercial property to the Bank for fifty years at a nominal lease payment. This property is leased to third parties. The property has fair value of BD 5,281 thousands (2016: BD 5,977 thousands) as determined by an external, independent property valuer, having appropriate recognized professional qualifications and recent experience in the location and category of the property being valued.

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

Notes to the consolidated financial statements

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11 PROPERTY AND EQUIPMENT

2017	Freehold land	Freehold premises	Furniture, fixtures, vehicles computers and office equipment	Total
Cost:				
At 1January 2017	293	1,809	2,736	4,838
Additions	-	-	412	412
Disposals	-	-	(213)	(213)
At 31 December 2017	293	1,809	2,935	5,037
Depreciation:				
At 1January 2017	-	1,337	2,259	3,596
Charge for the year	-	55	383	438
Disposals	-	-	(213)	(213)
At 31 December 2017	-	1,392	2,429	3,821
Net book values				
At 31 December 2017	293	417	506	1,216

2016	Freehold land	Freehold premises	Furniture, fixtures, vehicles computers and office equipment	Total
Cost:				
At 1January 2016	293	1,809	2,476	4,578
Additions	-	-	269	269
Disposals	-	-	(9)	(9)
At 31 December 2016	293	1,809	2,736	4,838
Depreciation:				
At 1January 2016	-	1,282	1,974	3,256
Charge for the year	-	55	289	344
Disposals	-	-	(4)	(4)
At 31 December 2016	-	1,337	2,259	3,596
Net book values				
At 31 December 2016	293	472	477	1,242

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For the year ended 31 December 2017

(Expressed in Thousand Bahrain Dinars)

12 OTHER ASSETS

	2017	2016
Interest receivable	138	206
Receivable from Ministry of Finance	215	218
Receivable from Ministry of Municipalities	1,159	996
Rent and other account receivables (net of provision)	831	929
Prepayments and other assets	597	417
	2,940	2,766

13 TERM LOANS

	2017	2016
Kuwait Fund for Arab Economic Development	2,608	3,829
Saudi Fund for Development	9,029	9,531
Arab Fund for Economic and Social Development	40,037	42,790
	51,674	56,150

At 1 Jan 2017	56,150	
Loan drawn down	-	
Repayment of loans	(4,476)	
At 31 Dec 2017	51,674	

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% (2016: 1.5% and 0.5%) respectively. The Ministry of Finance is a guarantor to the loan.

The loan proceeds were utilised by the Bank to advance loans to customers. One of the covenants of KFAED's loan agreement requires the Bank to repay KFAED any margin earned in excess of a spread of 4% ("interest differentials") on such loans to customers. The interest differentials are deposited into KFAED's bank account maintained by the Bank in a fiduciary capacity. The balance at year end was BD 6 thousands (2016: BD 6 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 2017, no amount was utilised for such purposes (2016: nil).

Saudi Fund for Development

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

Arab Fund for Economic and Social Development

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

During 2016, the Bank had obtained a third loan of USD 50 million from Arab Fund for Economic and Social Development.The Bank recevied USD 37.5 million during 2016 and is repayable semiannually in 10 years (3 years grace period for principal) at an interest of 3.0%.

Notes to the consolidated financial statements

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14 DEPOSITS

	2017	2016
Deposits from banks	11,356	10,675
Deposits from customers	35,084	58,541
	46,440	69,216

Deposits from banks include BD 3,701 thousands (2016: BD 7,470 thousands) from islamic banks placed with BDB on a wakala basis.

Deposits from customer includes BD 1,729 thousands (2016: BD 1,486 thousands) kept as margin deposit.

15 OTHER LIABILITIES

	2017	2016
Staff related accruals	997	1,066
Employees saving scheme	1,836	2,143
Accounts payable	852	887
Interest payable	440	724
Accrued expenses	801	430
Others	445	356
	5,371	5,606

Accounts payable include charity account from the islamic financing deals of BD 18 thousands (2016: BD 16 thousands).

16 SHARE CAPITAL

	Authorised		Issued and fully paid	
	2017	2016	2017	2016
Ordinary shares of BD 1 each	100,000	100,000	65,000	65,000

The percentage of shareholding is as below:

Name of shareholder	Number of shares	Percentage of holding
Ministry of Finance (Parent)	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%

17 STATUTORY RESERVE AND RETAINED EARNINGS

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

18 OTHER CAPITAL CONTRIBUTION

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

Notes to the consolidated financial statements

For the year ended 31 December 2017

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19 INTEREST AND ISLAMIC FINANCING INCOME

	2017	2016
Interest on conventional loans	672	1,088
Profit on islamic financing	7,392	8,548
Profit and Interest on placements	618	389
Profit and Interest on securities	322	246
	9,004	10,271

Interest on placements and securities includes profit from placements and securities with islamic banks of BD 618 thousands (2016: BD 463 thousands).

20 INTEREST AND ISLAMIC FINANCING EXPENSE

	2017	2016
Interest on term loans	1,502	1,353
Interest on conventional deposits from customers	708	822
Interest on deposits from conventional banks	12	25
Wakala expense	81	75
	2,303	2,275

21 INVESTMENT INCOME

	2017	2016
Changes in fair value of FVTPL investments	60	(326)
Gain on sale of investments	-	15
Dividend income from equity securities	117	89
	177	(222)

22 OTHER INCOME

	2017	2016
Rental income	2,005	1,814
Miscellaneous income	526	203
	2,531	2,017

23 CASH AND CASH EQUIVALENTS

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

	2017	2016
Cash in hand	183	337
Balances with Central Bank of Bahrain (excluding reserves)	1,137	1,079
Due from banks and other financial institutions with original maturity of 90 days or less	15,204	23,563
	16,524	24,979

Notes to the consolidated financial statements

For the year ended 31 December 2017

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24 RELATED PARTY TRANSACTIONS

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

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

	Subsidiaries	Directors and senior management	Other related companies	Total
2017				
Deposits	589	24	7,577	8,190
Islamic financing and loans to customers	4,594	239	79	4,912
Other assets	2	-	215	217

	Subsidiaries	Directors and senior management	Other related companies	Total
2016				
Deposits	730	25	7,526	8,281
Islamic financing and loans to customers	4,796	392	784	5,972
Other assets	-	-	236	236

The Bank has provided an overdraft facility to its associate for meeting its operational expenses. The outstanding balance as at the reporting date is BD 599 thousands (2016: BD 443 thousands). The overdraft has been fully provided for.

Subsequent to the year end, the Group has written off BD 500 thousands of loan to an associate. There is no impact on the income statement as the loan was fully provided for.

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

	Subsidiaries	Directors and senior management	Other related companies	Total
2017				
Profit and interest income	95	16	5	116
Interest expense	-	-	58	58
Other expenses	65	-	108	173
Other income	6	-	-	6

	Subsidiaries	Directors and senior management	Other related companies	Total
2016				
Profit and interest income	99	22	33	154
Interest expense	-	-	51	51
Other expenses	65	5	217	287
Other income	7	-	1	8

Notes to the consolidated financial statements

For the year ended 31 December 2017

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24 RELATED PARTY TRANSACTIONS (CONTINUED)

Compensation of key management personnel is as follows:

	2017	2016
Board Remuneration	80	72
Salary & short term employee benefits	887	1,008
Termination benefits	113	222
	1,080	1,302

25 CONTINGENT LIABILITIES AND COMMITMENTS

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

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

Details of contingent liabilities and commitments are given below:

	2017	2016
Contingent liabilities:		
Letters of guarantee	3,487	4,595
Letters of credit	191	89
	3,678	4,684
Commitments:		
Irrevocable commitments to extend credit	6,223	6,793
Commitment to invest in equity	3,770	1,500
Lease rental commitments	435	518
	10,428	8,811
	14,106	13,495

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

	2017	2016
Future minimum lease payments:		
Within one year	79	88
Later than 1 year but not later than 5 years	238	247
Later than 5 years	118	183
	435	518

26 RISK MANAGEMENT STRUCTURE

Risk is inherent in the Bank's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. In the course of its regular business, the Bank gets exposed to multiple risks notably credit risk, liquidity risk, market risk, operational risk and other risks like compliance risk, strategic risks and reputational risks. A well-established risk governance and ownership structure ensures oversight and accountability of the effective management of risk at the Bank. 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.

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26 RISK MANAGEMENT STRUCTURE (CONTINUED)

Organizational structure

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

Board of directors

The Board of Directors ("BOD") is responsible for the overall direction, supervision and control of the Bank. Oversight of the day-to-day management of the Bank is conducted by the BOD committees, the Chairman and the Chief Executive Officer ("CEO"). The BOD has overall responsibility for the Bank including approving and overseeing the implementation of its strategic objectives, risk strategy, corporate governance and corporate values within the agreed framework in accordance with relevant statutory and regulatory structures. The BOD currently comprises eight members.

Audit Committee of the Board

The Audit Committee ("AC") comprises three members of the Board and the Head of Internal Audit is the committee's Secretary. This Committee is principally responsible for reviewing the internal audit program and assist the Board of Directors in carrying out its duties regarding the integrity of the Bank's financial reporting system, adequacy of the Bank's internal control and risk management processes, to oversee the external and internal audit functions, and the Bank's compliance with legal and regulatory requirements.

Remuneration & Governance Committee of the Board

The Remuneration & Governance Committee ("RGC") comprises three members of the BOD (including the Chairman) and the Head of Human Resources & Corporate Communications is the committee's Secretary. RGC has the overall responsibility of setting the criteria and processes for identification of candidates for the Board level committees and senior management. The Committee also assists the Board of Directors in establishing a fair and transparent process for the remuneration of directors, other Board Committees and the Chief Executive Officer and of the Executive Management. The Committee approves and oversees reward design and ensures that the reward is appropriate and consistent with the Bank's culture, business and risk strategy, performance as well as with any legal or regulatory requirements. RGC also overseas the Bank's HR policies and rewards policy framework, corporate governance practices.

Investment & Credit Committee of the Board

The Investment & Credit Committee ("ICC") comprises four members of the BOD. The Committee has overall responsibility of setting the criteria for managing credit and investment risks and oversee the investment and credit strategies and objectives of the Bank. The Committee assists the Board of Directors in managing credit risk and reviews internal credit policies, grants approvals for credit and investment facilities in addition to reviewing the quality and performance of the Bank's lending portfolio and investment in line with the agreed risk appetite and best credit risk management practices.

Risk Committee of the Board

The Risk Committee ("RC") comprises three members of the BOD. The Committee has overall responsibility of overseeing the Bank's enterprise risk management framework, approach and pertinent policies. The Committee recommends to the Board, guidelines in relation to the Bank's current and potential future risk exposures and risk strategy, determination of risk appetite including risk limits and tolerance levels as well as the Bank's capital and liquidity strategy.

Executive Management

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

Management Executive Committee

The Management Executive Committee ("MEC") is a senior management level committee that has been entrusted with the role of supporting the CEO to determine and implement the Bank's strategic plan as approved by the BOD. The responsibilities of MEC include approving and monitoring the Bank's various business activities in accordance with the strategic plan approved by the Board. In order to fulfill its responsibilities, the Committee has appointed other Sub-Committees and delegated specific tasks and adequate powers and authorities for effectively and efficiently carrying out the responsibilities assigned to them. The composition, guiding principles and detailed roles and responsibilities of MEC are covered in the MEC's charter.

Risk Executive Committee

The Risk Executive Committee ("REC") has the primary responsibility of overseeing the Bank's activities in managing credit risk, market risk, liquidity risk, operational risk, legal risk and other risks. REC has to ensure that the Bank has adequate risk management framework, policies, procedures and processes in place in order to identify, measure, monitor, mitigate and manage risks across all of its operations.

Asset and Liability Committee

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

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26 RISK MANAGEMENT STRUCTURE (CONTINUED)

Credit Committee

The Credit Committee ("CC") has the responsibility to grant / approve credit facilities as within their Delegated Authority and also makes decisions relating to the execution of investments in line with the Banks investment strategy and management of credit and concentration risks. Proposals exceeding their Delegated Authority are escalated to the ICC for consideration.

Risk management

Risk Management Department is an independent function responsible for the preparation, implementation and updating the policies and procedures within the framework of the Bank's strategy 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. The risk management department is overseen by the Chief Risk Officer.

Legal

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

Internal audit

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

Treasury

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

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 Board. The limits reflect the business strategy and the market environment in which the Bank operates as well as the level of risk that the Bank is willing to accept.

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

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

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

Risk Mitigation

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

(i) Credit Risk

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

Limits and concentrations

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

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

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

External credit assessment

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

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26 RISK MANAGEMENT STRUCTURE (CONTINUED)

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

	2017	2016
Balances with Central Bank of Bahrain	2,690	3,758
Placement with banks and other financial institutions	27,011	37,106
Islamic financing and loans to customers	114,535	139,221
Investment securities	8,906	8,185
Other assets	2,343	2,349
	155,485	190,619
Contingent liabilities	3,678	4,684
Commitments	9,993	8,293
	13,671	12,977
Maximum credit risk exposure	169,156	203,596

(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.

	2017	2016
Industry sector		
Banks and financial institutions	38,607	49,049
Trading and manufacturing	53,418	72,292
Education and health	9,308	8,840
Hospitality, media and transportation	4,156	11,814
Fisheries, agriculture & dairy	5,209	5,701
Food processing	4,937	6,961
Others	53,521	48,939
	169,156	203,596

(c) Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the facility structure and the associated credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are cash margin, bank guarantees and real estate title deeds.

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

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

(d) Credit quality per class of financial assets

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

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26 RISK MANAGEMENT STRUCTURE (CONTINUED)

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

	2017				
	Neither past due nor impaired				
	High grade	Standard grade	Past due but not impaired	Impaired	Total
Cash and balances with Central Bank of Bahrain	2,690	-	-	-	2,690
Placement with banks and other financial institutions	27,011	-	-	-	27,011
Islamic financing and loans to customers	-	87,031	17,731	9,773	114,535
Investment securities	8,906	-	-	-	8,906
Other assets	1,507	424	337	75	2,343
Total	40,114	87,455	18,068	9,848	155,485

	2016				
	Neither past due nor impaired				
	High grade	Standard grade	Past due but not impaired	Impaired	Total
Cash and balances with Central Bank of Bahrain	3,758	-	-	-	3,758
Placement with banks and other financial institutions	37,106	-	-	-	37,106
Islamic financing and loans to customers	-	100,958	28,505	9,758	139,221
Investment securities	8,185	-	-	-	8,185
Other assets	1,334	491	178	346	2,349
Total	50,383	101,449	28,683	10,104	190,619

The impaired loans does not include BD 1,272 thousand (2016: BD 723) with past dues of over 90 days, classified as non performing and interest/profit has been suspended, for which provision for impairment is not considered necessary on the basis of subsequent collections, level of collateral available and or stage of collections of amounts owed to the Bank; and BD 1,454 thousand (2016: BD 1,120) relating to agriculture and fisheries, which are guaranteed by the Government of Bahrain.

Of the total amount of gross past due but not impaired loans and islamic financing to customers, the fair value of collateral that the Bank held as at 31 December 2017 was BD 7,385 thousands (2016: BD 13,434 thousands).

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

In accordance with the Bank's policy and the Central Bank of Bahrain guidelines, loans on which payments of interest or repayments of principal are 90 days past due, are defined as non-performing. The following is the ageing schedule of past due but not impaired loans and other assets. The table shows the time period since the date of last repayment of principal or interest by the customer.

As at December	2017	2016
Up to 3 months	15,482	27,196
Over 3 months to 1 year	1,821	795
1 to 3 years	657	513
Over 3 years	108	179
	18,068	28,683

This includes BD 2,170 thousands (2016: BD 2,252 thousands) relating to agriculture and fishery loans which are non performing but no provision has been made as these loans are considered secured through the reimbursement arrangement with the Government of Bahrain.

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26 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

	2017	2016
Loans and islamic financing to customers	1,409	6,909

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 (BHD)		Change in basis points	Impact of change on Net interest Income (BHD)	
		2017	2016		2017	2016
Bahraini Dinars	+100	1,007	1,059	-100	(1,007)	(1,059)
Kuwaiti Dinars	+100	1	2	-100	(1)	(2)
Saudi Riyals	+100	1	1	-100	(1)	(1)
United States Dollars	+100	(52)	(3)	-100	52	3

(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 4 currencies, namely Bahraini Dinars, Kuwaiti Dinars, Saudi Riyals and United States Dollars.

The Bank views the Bahraini Dinar as its functional currency. In the opinion of the Bank's management, the currency risk for any position held in US dollar is insignificant since the Bahraini Dinar is pegged to the US dollar. The Bank had the following significant net open exposures denominated in foreign currencies as of 31 December 2017 and 31 December 2016:

	Equivalent long (short)	
	2017	2016
Kuwaiti Dinars	153	166
US Dollars	91	(137)
Euro	6	4
GBP	6	2
Saudi Riyals	26	58
UAE Dirhams	21	7

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26 RISK MANAGEMENT STRUCTURE (CONTINUED)

(ii) Market risk (continued)

(c) Maturity analysis of assets and liabilities

The table below summarises the maturity profile of the Group's assets and liabilities as at 31 December 2017 and 31 December 2016 based on expected maturities.

	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total	Carrying amount
2017								
Assets								
Cash and balances with Central Bank of Bahrain	2,873	-	-	-	-	-	2,873	2,873
Placements with banks and other financial institutions	16,310	3,630	7,071	-	-	-	27,011	27,011
Islamic financing and loans to customers	4,849	8,099	11,946	21,955	75,684	12,260	134,793	114,535
Investment securities	716	-	-	2,894	-	11,533	15,143	15,143
Investment in associates	-	-	-	-	-	419	419	419
Investment property	-	-	-	-	-	12,033	12,033	12,033
Property and equipment	-	-	-	-	-	1,216	1,216	1,216
Other assets	-	-	2,940	-	-	-	2,940	2,940
Total assets	24,748	11,729	21,957	24,849	75,684	37,461	196,428	176,170
Liabilities								
Term loans	-	251	2,635	2,886	15,307	30,595	51,674	51,674
Deposits	30,709	4,962	7,810	2,907	52	-	46,440	46,440
Other liabilities	-	-	5,371	-	-	-	5,371	5,371
Total liabilities	30,709	5,213	15,816	5,793	15,359	30,595	103,485	103,485
Net liquidity gap	(5,961)	6,516	6,141	19,056	60,325	6,866		
Cumulative liquidity gap	-	555	6,696	25,752	86,077	92,943		

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26 RISK MANAGEMENT STRUCTURE (CONTINUED)

(c) Maturity analysis of assets and liabilities (continued)

2016	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	Carrying amount
Assets								
Cash and balances with Central Bank of Bahrain	4,095	-	-	-	-	-	4,095	4,095
Placements with banks and other financial institutions	25,237	905	10,964	-	-	-	37,106	37,106
Islamic financing and loans to customers	2,887	955	1,615	3,618	35,000	95,146	139,221	139,221
Investment securities	8,185	-	-	-	-	6,035	14,220	14,220
Investment in associates	-	-	-	-	-	419	419	419
Investment property	-	-	-	-	-	12,264	12,264	12,264
Property, plant and equipment	-	-	-	-	-	1,242	1,242	1,242
Other assets	-	-	2,766	-	-	-	2,766	2,766
Total assets	40,404	1,860	15,345	3,618	35,000	115,106	211,333	211,333
Liabilities								
Term loans	-	251	1,391	2,899	14,091	37,518	56,150	56,150
Deposits	33,354	23,116	9,697	3,049	-	-	69,216	69,216
Accounts payable and other liabilities	-	-	5,606	-	-	-	5,606	5,606
Total liabilities	33,354	23,367	16,694	5,948	14,091	37,518	130,972	130,972
Net liquidity gap	7,050	(21,507)	(1,349)	(2,330)	20,909	77,588		
Cumulative liquidity gap	-	(14,457)	(15,806)	(18,136)	2,773	80,361		

In 2016, maturity for loans is computed based on the final contractual maturity of the loan and not based on the loan repayment schedule.

(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 2017 and 31 December 2016 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
2017								
Deposits	19,576	11,133	4,962	7,810	2,907	52	-	46,440
Other liabilities	-	-	5,371	-	-	-	-	5,371
Term loans	-	-	342	3,262	3,565	17,525	33,197	57,891
Total liabilities	19,576	11,133	10,675	11,072	6,472	17,577	33,197	109,702
2016								
Deposits	23,517	9,904	23,224	9,979	3,122	-	-	69,746
Other liabilities	-	-	5,606	-	-	-	-	5,606
Term loans	-	-	347	2,065	3,654	16,705	41,100	63,871
Total liabilities	23,517	9,904	29,177	12,044	6,776	16,705	41,100	139,223

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26 RISK MANAGEMENT STRUCTURE (CONTINUED)

(c) Maturity analysis of assets and liabilities (continued)

(iii) Liquidity risk (continued)

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
2017					
Contingent liabilities	402	120	2,364	792	3,678
Commitments	6,223	-	3,849	356	10,428
Total	6,625	120	6,213	1,148	14,106
2016					
Contingent liabilities	453	1,772	1,856	603	4,684
Commitments	8,293	-	88	430	8,811
Total	8,746	1,772	1,944	1,033	13,495

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

(iv) Legal risk and claims

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

27 DERIVATIVES

The Group has entered into forex forward contracts with Central Bank of Bahrain with nominal value of BD 34,284 thousands (2016: BD 35,944 thousands).

28 FAIR VALUE DISCLOSURES

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

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

The fair values of financial assets and financial liabilities carried at amortised cost approximate the carrying values as at the reporting date due to their short term nature.

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 deposits 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.

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28 FAIR VALUE DISCLOSURES (CONTINUED)

	Level 1	Level 2	Level 3	Total fair value	Total carrying value
2017					
Financial instruments measured at fair value					
Financial assets					
Equity securities	153	576	5,508	6,237	6,237
Debt securities	6,012	-	-	6,012	6,012
Forward Contracts	-	34,284	-	34,284	34,284
Financial instruments not measured at fair value					
Financial assets					
Cash and balances with Central Bank of Bahrain	-	2,873	-	2,873	2,873
Placement with banks and other financial institutions	-	27,011	-	27,011	27,011
Islamic financing and loans to customers	-	-	114,535	114,535	114,535
Debt Securities	-	2,894	-	-	-
Financial liabilities					
Term loans	-	-	51,674	51,674	51,674
Deposits	-	46,440	-	46,440	46,440

	Level 1	Level 2	Level 3	Total fair value	Total carrying value
2016					
Financial instruments measured at fair value					
Financial assets					
Equity securities	142	671	5,222	6,035	6,035
Debt securities	6,020	2,165	-	8,185	8,185
Forward Contracts	-	35,944	-	35,944	35,944
Financial instruments not measured at fair value					
Financial assets					
Cash and balances with Central Bank of Bahrain	-	4,095	-	4,095	4,095
Placement with banks and other financial institutions	-	37,106	-	37,106	37,106
Loans and islamic financing to customers	-	-	139,221	139,221	139,221
Financial liabilities					
Term loans	-	-	56,150	56,150	56,150
Deposits	-	69,216	-	69,216	69,216

Sensitivity Analysis

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

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28 FAIR VALUE DISCLOSURES (CONTINUED)

Sensitivity Analysis (continued)

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

Valuation technique used	Key unobservable inputs	Fair value at 31 December 2017	Reasonable possible shift +/-(in any input)	Reasonable possible shift +/-(in any input)
Discounted cash flow	Discount rate	3,103	+/- 0.5%	(51) / 56
	Growth rate		+/- 0.5%	62 / (57)
Adjusted Net Assets Value	NAV	2,271	+/- 5%	103 / (103)
Market multiples	P/E Multiple	576	+/- 5%	29 / (29)

Valuation technique used	Key unobservable inputs	Fair value at 31 December 2016	Reasonable possible shift +/-(in any input)	Reasonable possible shift +/-(in any input)
Discounted cash flow	Discount rate	4,412	+/- 0.5%	649 / (270)
	Growth rate		+/- 0.5%	224 / (449)
Adjusted Net Assets Value	NAV	810	+/- 5%	48 / (48)
Market multiples	P/E Multiple	671	+/- 5%	34 / (34)

29 CAPITAL ADEQUACY

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

	2017	2016
Capital base		
Tier 1 capital	72,695	80,355
Tier 2 capital	940	940
Total capital base (a)	73,635	81,295
Risk-weighted assets (b)	185,028	210,552
Capital adequacy ratio (a/b*100)	39.80%	38.61%
Minimum requirement	12.5%	12.5%

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

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

• Tier 1 capital, includes CET1 and AT1.

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

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29 CAPITAL ADEQUACY (CONTINUED)

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

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

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

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

Capital management

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

Basel III Pillar III Disclosures

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1 EXECUTIVE SUMMARY

This report has been prepared in accordance with Pillar III disclosure requirements prescribed by the Central Bank of Bahrain, herein referred to as “CBB”. The report has been designed to provide BDB Group’s stakeholders with detailed information on the Bank’s approach in managing capital and risk, having due regard to the operating environment.

The Bank applies the Basel framework in the measurement of its capital adequacy, and in its capital management strategy and risk management framework. CBB’s Basel III capital rules and guidelines became effective on 1st January 2015 as the common framework for the implementation of the Basel Committee on Banking Supervision’s (Basel Committee) Basel III capital adequacy framework for banks incorporated in the Kingdom of Bahrain.

BDB has adopted the Standardized Approach for Credit Risk, Market Risk and the Basic Indicator Approach for Operational Risk to determine the capital requirement.

The disclosures in this report are in addition to the disclosures set out in the consolidated financial statements for the year ended 31st December 2017 presented in accordance with the International Financial Reporting Standards (IFRS). Disclosures with respect to Corporate Governance and Remuneration are provided in relevant sections of the Annual Report.

2 INTRODUCTION TO THE BASEL III FRAMEWORK

The CBB’s Basel III capital framework is based on three pillars consistent with the Basel III framework developed by the Basel Committee, as follows:-

- Pillar I: calculation of the Risk Weighted Assets (RWAs) and capital requirement.
- Pillar II: the supervisory review process, including the Internal Capital Adequacy Assessment Process (ICAAP).
- Pillar III: rules for the disclosure of risk management and capital adequacy information.

Amongst the three pillars, it is Pillar I that has been affected most and largely amended with the introduction of Basel III. Additional disclosure requirements have also been introduced under Pillar III.

CBB CAPITAL ADEQUACY RULES:

CBB minimum required total capital adequacy ratio (including CCB) increased from 12 percent to 12.5 percent, compared to 10.5 percent recommended by the Basel Committee. Moreover, there are newly introduced limits and minima by the CBB under Basel III, such as minimum Common Equity Tier 1 Capital Ratio “CET1” of 9 percent (including CCB) and minimum T1 Capital Ratio of 10.5 percent (including CCB).

The table below summarizes the approaches available for calculating RWAs for each risk type in accordance with the CBB’s Basel III capital adequacy framework:

Credit Risk	Market Risk	Operational Risk
Standardised Approach	Standardised Approach	Basic Indicator Approach
	Internal Models Approach	Standardised Approach

For regulatory reporting purposes, BDB is using the Standardised Approach for credit risk and market risk, and Basic Indicator Approach for operational risk.

i) Credit Risk

Credit Risk represents the potential financial loss as a consequence of a customer’s inability to honour the terms and conditions of a credit facility. Such risk is measured with respect to counterparties for both on-balance sheet assets and off-balance sheet items. The bank has a robust credit risk management architecture which is explained in greater detail in Note 26 of the Annual Report.

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.

For regulatory reporting purposes, BDB is using the Standardised Approach for credit risk.

Basel III Pillar III Disclosures

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2 INTRODUCTION TO THE BASEL III FRAMEWORK (CONTINUED)

ii) Market Risk

Market Risk is the risk of potential losses arising from movements in market prices of financial instruments as a result of changes in market rates (such as interest rates and foreign exchange rates).

For the regulatory market risk capital requirement, BDB is using the Standardised Approach for the calculation of regulatory market risk capital.

iii) Operational Risk

Operational Risk is the risk of monetary loss on account of human error, fraud, systems failures or the failure to record transactions. In order to manage and mitigate such risks, the Bank ensures that proper systems and resources (financial and personnel) are available to support the Bank's operations. Proper segregation of duties and other controls (including reconciliation, monitoring and reporting) are implemented to support the various operations and activities.

For the regulatory market risk capital requirement, BDB is using the Standardised Approach for the calculation of regulatory market risk capital.

Regulatory Reforms

The Bank is operating as a retail bank with special waivers under a license issued by the Central Bank of Bahrain ("CBB"), with headquarters and branches in Bahrain. The Bank's capital adequacy requirements are computed on a consolidated basis.

The Bank is evaluating Expected Credit Loss as per the guidelines in IFRS 9.

3 GROUP STRUCTURE

The Group's financial statements are prepared and published on a full consolidation basis, with all subsidiaries being consolidated in accordance with IFRS. The Group consists of the Bank and its following subsidiaries:

Name	Country of incorporation	Ownership interest	Year end
Bahrain Business Incubator Centre (S.P.C.)	Kingdom of Bahrain	100%	31 December
BDB SME Fund Company BSC © *	Kingdom of Bahrain	99%	31 December
Bahrain Export Development Center S.P.C	Kingdom of Bahrain	100%	31 December
Al-Waha Venture Capital Fund Company	Kingdom of Bahrain	99%	31 December
Middle East Corner Consultancy CO. WLL**	Kingdom of Bahrain	28.6%	31 December

* The shareholders of BDB SME Fund Company in their meeting dated 14 December 2016, decided to voluntarily liquidate the Company. The Company does not have any operations.

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

Restrictions on capital and transfer of funds within the Group

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

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4 CAPITAL STRUCTURE AND CAPITAL ADEQUACY

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

Capital structure, minimum capital and capital adequacy

The Bank's paid up capital consists only of ordinary shares and does not have any other type of capital instruments.

The Bank's regulatory capital base is as detailed below:

	As at 31-12-2017
Common Equity Tier 1 (CET1)	
Issued and full paid ordinary shares	65,000
Legal / Statutory reserve	1,186
Retained earnings	10,121
Other reserves	4,048
Current year Loss	(7,660)
Total Common Equity Tier 1 (CET1) (A)	72,695
Additional Tier 1 (AT1)	-
Total Tier 1 (T1)	72,695
Tier 2 Capital (T2)	
General loan loss provisions	940
Total Tier 2 (T2) (B)	940
Total Capital Base (Tier 1 + Tier 2) (C=A+B)	73,635

	Credit Exposure before credit risk mitigant	Eligible credit Risk mitigant	Credit Exposure after credit risk mitigant	Risk weighted exposure	Capital Requirement at 12.5%
As at 31-12-2017					
Sovereigns	52,554	-	52,554	-	-
PSE	-		-	-	-
Banks	21,710		21,710	9,794	1,224
Corporates	106,960	1,092	105,868	104,529	13,066
Regulatory retail	-		-	-	-
Residential mortgages	-		-	-	-
Past due exposures	12,498	22	12,476	14,702	1,838
Investments in equities/funds	5,735		5,735	8,766	1,096
Holding of Real Estate	13,665		13,665	26,620	3,328
Others assets	2,266		2,266	2,266	283
Total Credit Risk Exposure	215,388	1,114	214,274	166,677	20,835
Market Risk				213	27
Operational Risk				18,138	2,267
Total Risk Weighted Assets (D)				185,028	23,129
Capital Adequacy Ratio (B)/(D)				39.80%	
CET1 Capital Adequacy Ratio (A)/(D)				39.29%	

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5 CREDIT RISK – PILLAR III DISCLOSURES

This section describes BDB's exposure to credit risk, and provides detailed disclosures on credit risk in accordance with the CBB's Basel III framework, in relation to Pillar III disclosure requirements.

Definition of exposure classes

The Bank has a diversified funded and unfunded credit exposure. These exposures are classified as standard portfolio per CBB's Basel III 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 favourable than the standard risk weighting are assigned to claims on foreign banks licensed in Bahrain of an original maturity of three months or less denominated and funded in the relevant domestic currency. Such preferential risk weight for short-term claims on banks licensed in other jurisdictions are allowed only if the relevant supervisor also allows this preferential risk weighting to short-term claims on its banks.

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

b. Claims on corporates:

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

c. Impairment of assets

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

d. 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.

e. Past due exposures

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

f. Equity Portfolio:

Investment in securities and financial entities are risk weighted at a minimum risk weight of 100% for listed entities or 150% for unlisted entities, unless such investments exceed 10% of the eligible capital of investee entity, in which case they are deducted from the Bank's capital.

g. Other exposures:

These are risk weighted at 100%.

h. Related party transactions and balances:

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

Amounts due from related parties are unsecured.

i. Highly leveraged counterparties

The Bank does not lend to highly leveraged and other high risk counterparties as defined in PD-1-3-24(e).

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6 GROSS CREDIT EXPOSURES SUBJECT TO CREDIT RISK MITIGANTS (CRM)

The following are gross credit risk exposures considered for Capital Adequacy Ratio calculations comprising of banking book exposures:

	As at 31-12-2017	2017 Average
Balances with Central Bank of Bahrain	2,690	3,047
Investment securities	8,906	8,090
Placement with banks and other financial institutions	27,011	27,224
Islamic financing and loans to customers	114,535	122,087
Interest Receivable	217	217
Other assets	2,126	2,463
TOTAL FUNDED EXPOSURES	155,485	163,127
Contingent liabilities	3,678	4,183
Other commitments	9,993	9,318
TOTAL UNFUNDED EXPOSURES	13,671	13,501
TOTAL CREDIT RISK EXPOSURE	169,156	176,628

The gross average credit risk exposure are based on quarterly reporting.

7 SECTORAL CLASSIFICATION OF GROSS CREDIT EXPOSURES

	2017		
	Funded	Unfunded	Total
Government	10,280	-	10,280
Banks and financial institutions	29,701	-	29,701
Trading and Manufacturing	53,418	4,060	57,478
Educational Institutions & Healthcare	9,308	109	9,417
Hospitality, media and transportation	4,156	345	4,501
Fisheries, agriculture & dairy	5,209	-	5,209
Food processing	4,937	229	5,166
Others	38,476	8,928	47,404
TOTAL	155,485	13,671	169,156

8 CREDIT CONCENTRATION GREATER THAN 15% INDIVIDUAL OBLIGOR LIMIT

	2017
Total credit exposures in excess of 15% individual obligor limit	-

9 COUNTERPARTY WISE BREAKDOWN OF NON PERFORMING LOANS AND IMPAIRMENT PROVISION

	Impaired & past due loans (net of provision)	Specific Provision	Charge for the year	Write off	Collective impairment
Project finance	25,334	18,096	8,152	4,111	940
Fisheries and Agriculture	2,170	-	-	-	-
	27,504	18,096	8,152	4,111	940

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10 RESIDUAL CONTRACTUAL MATURITY

Maturity analysis of assets

The table below summarises the residual contractual maturity profile of the Group's assets as at 31 December 2017

	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Above 20 years	Total
2017										
Assets										
Cash and balances with Central Bank of Bahrain	2,873	-	-	-	-	-	-	-	-	2,873
Due from banks and other financial institutions	16,310	3,630	7,071	-	-	-	-	-	-	27,011
Accounts receivable and other assets	-	-	2,940	-	-	-	-	-	-	2,940
Loans and advances to customers	4,849	8,099	11,946	21,955	55,129	10,387	2,619	491	-	115,475
Investment securities	716	-	-	2,894	-	2,173	9,360	-	-	15,143
Investment in associates	-	-	-	-	-	-	419	-	-	419
Investment property	-	-	-	-	-	-	-	-	12,033	12,033
Property, plant and equipment	-	-	-	-	-	-	-	-	1,216	1,216
Total assets	24,748	11,729	21,957	24,849	55,129	12,560	12,398	491	13,249	177,110
Lliabilities										
Deposits	30,709	4,962	7,810	2,907	52	-	-	-	-	46,440
Accounts payable and other liabilities	-	-	5,371	-	-	-	-	-	-	5,371
Long term loans	-	251	2,635	2,886	15,307	10,205	16,135	4,255	-	51,674
Total liabilities	30,709	5,213	15,816	5,793	15,359	10,205	16,135	4,255	-	103,485
	(5,961)	6,516	6,141	19,056	39,770	2,355	(3,737)	(3,764)	13,249	

* Gross of general provision of BD940K.

11 PAST DUE AND IMPAIRED LOANS - AGE ANALYSIS

	2017			
i) By Geographical area	Three months to one year	One to three years	Over three years	Total
Bahrain	22,730	3,685	1,248	27,663
TOTAL	22,730	3,685	1,248	27,663
ii) By Counterparty wise	Three months to one year	One to three years	Over three years	Total
Project finance	21,042	3,458	994	25,494
Fisheries and Agriculture	1,688	227	254	2,169
TOTAL	22,730	3,685	1,248	27,663

* Gross of general provision of BD159K.

12 GEOGRAPHICAL DISTRIBUTION OF IMPAIRMENT PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS

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

	2017
Bahrain	
Specific impairment provision	18,096
TOTAL	18,096

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13 MOVEMENT IN IMPAIRMENT PROVISION FOR LOANS AND ADVANCES TO CUSTOMERS

	2017						
	Project finance			Fisheries and agriculture			
	Specific	Collective	Total	Specific	Collective	Total	Total
Balance at 1 January 2017	14,055	940	14,995	-	-	-	14,995
Amounts written off during the period	(4,111)	-	(4,111)	-	-	-	(4,111)
Charge for the period	10,629	-	10,629	-	-	-	10,629
Recoveries during the period	(2,477)	-	(2,477)	-	-	-	(2,477)
At 31 December 2017	18,096	940	19,036	-	-	-	19,036

Restructured Credit Facilities

The Bank have BD 1,409 restructured credit facilities during the year ended 31 December 2017. Restructuring concessions mainly related to deferral of loan installments to assist customers overcome temporary cash crunch situations or to realign the repayment with the borrower's revised cash flow projections.

14 CREDIT RISK MITIGATION

The reduction of the capital requirement attributable to credit risk mitigation is calculated in different ways, depending on the type of credit risk mitigation. The main collaterals taken for risk mitigation on credit exposures are deposits held by customers, pledge of quoted shares, residential/commercial property mortgage, investment securities, counter-guarantees from other banks, etc. However, for purposes of capital adequacy computation, only eligible collateral recognized under Basel 3 is taken into consideration.

15 ELIGIBLE FINANCIAL COLLATERAL AND GUARANTEES

Eligible financial collateral, and guarantees, presented by standard portfolio are as under:

	Gross credit exposure	Financial collateral	Credit exposure after credit risk mitigant
As at 31-12-2017			
Sovereigns	52,554	-	52,554
PSE	-	-	-
Banks	21,710	-	21,710
Corporates	106,960	1,092	105,868
Regulatory retail	-	-	-
Residential mortgages	-	-	-
Past due exposures	12,498	22	12,476
Investments in equities/funds	5,735	-	5,735
Holding of Real Estate	13,665	-	13,665
Others assets	2,266	-	2,266
	215,388	1,114	214,274

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16 SENSITIVITY ANALYSIS - INTEREST RATE RISK (IRRBB)

Impact on net interest income for the year ended 31 December 2017

	2017
Bahraini Dinar	
Assets	186,395
Liabilities	152,415
(+) 200 basis points	**680**
(-) 200 basis points	**(680)**
US Dollar	
Assets	51,648
Liabilities	51,557
(+) 200 basis points	**2**
(-) 200 basis points	**(2)**
Kuwaiti Dinar	
Assets	2,767
Liabilities	2,615
(+) 200 basis points	**3**
(-) 200 basis points	**(3)**
Saudi Riyals	
Assets	9,131
Liabilities	9,105
(+) 200 basis points	**1**
(-) 200 basis points	**(1)**

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17 MARKET RISK, INTEREST RATE GAP

Market risk

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

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
- Commodity risk

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

	Capital requirements			
	2017	Maximum	Minimum	Average
Risk Type				
Equity risk capital	-	-	-	-
Foreign exchange risk capital	17	19	17	18
Interest rate risk capital	-	-	-	-
Commodity risk capital	-	-	-	-

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 on maturity of assets and liabilities. Positions are monitored periodically to ensure that this is maintained within the established limits. The Banks assets and liabilities reprice only on maturity.

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

	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Non-interest bearing	Total
2017								
Assets								
Cash and balances with Central Bank of Bahrain	-	-	-	-	-	-	2,873	2,873
Due from banks and other financial institutions	16,310	3,630	7,071	-	-	-	-	27,011
Accounts receivable and other assets	716	-	-	2,894	2,173	3,123	22,845	31,751
Loans and advances to customers *	4,849	8,099	11,946	21,955	65,516	3,110	-	115,475
Total assets	21,875	11,729	19,017	24,849	67,689	6,233	25,718	177,110
Liabilities								
Deposits	30,709	4,962	7,810	2,907	52	-	-	46,440
Accounts payable and other liabilities	-	-	-	-	-	-	5,371	5,371
Long term loans	-	251	2,635	2,886	25,512	20,390	-	51,674
Total liabilities	30,709	5,213	10,445	5,793	25,564	20,390	5,371	103,485
Net liquidity gap	(8,834)	6,516	8,572	19,056	42,125	(14,157)	20,347	

* Net of general provision of BD940K.

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18 EQUITY POSITION IN THE BANKING BOOK

	2017	
	Net exposure	Capital requirement
Publicly traded	153	19
Privately held	6,084	761
TOTAL	6,237	780

19 GAINS ON EQUITY INVESTMENTS

	2017
(i) Realised gains/ (losses) recognised in the statement of profit or loss on sale	-
(ii) Unrealised gains/ (losses) recognised in the statement of financial position but not through profit or loss	-
(iii) Unrealised losses relating to fair value changes of FVTPL investments in profit or loss	60

The Bank does not have any equity investments subject to supervisory transition or grandfathering provisions.

20 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 III framework for measuring and managing its operational 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. Specific limits are set up to mitigate and monitor the Bank's exposure.

Operational risk is managed by the Risk management department. The scope of the Internal Audit department encompasses audits and reviews of all business units, support services and branches. The internal audit process focuses primarily on assessing risks and controls and ensuring compliance with established policies, procedures and delegated authorities. Products and services are reviewed by the Internal Audit department and assessed for operational risks. The Internal Audit department is operationally independent and reports significant internal control deficiencies to the Audit Committee.

The Bank has a Business Continuity Plan (BCP) to ensure that the critical activities are supported in case of an emergency. The BCP is approved by the Board of Directors.

Bank's ICAAP limit of 16% has been fixed to absorb any unforseen event as compared to regulatory capital requirement of 12.5%.

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.

21 FINES & PENALTY

	Amount in BHD Actual 2017
Penalty paid to Central Bank of Bahrain	470

The penalties are related to the delays in the Fawri payments/ transfers processing within the stated real time sessions.

Composition of capital disclosure requirements

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Step 1: Balance sheet under the regulatory scope of consolidation

This step in not applicable to the Bank since the scope of regulatory consolidation and accounting consolidation is identical.

Composition of capital disclosure requirements

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Step 2: Reconcilation of published financial balance sheet to regulatory reporting as at 31 December 2017

	Balance sheet as in published financial statements	Consolidated PIR data
Assets		
Cash and balances at central banks	2,873	2,873
Placements with banks and other financial institutions	27,011	27,011
Investment securities	15,143	15,143
Investments in associates	419	419
Total Investment	**15,562**	**15,562**
of which:		
Significant investments in capital of financial institutions exceeds the 10% of CET1		
Amount in excess of 10% of CET1 to be deducted		
Amount in excess of 10% of CET1 to be deducted in year 1		
Investment property	12,033	12,033
Loans and advances	115,475	115,475
of which: General loan loss provision which qualify as capital	940	940
Prepayments, accrued income and other assets	2,940	2,940
Property, plant and equipment	1,216	1,216
Total assets	**176,170**	**177,110**
Liabilities		
Deposits from banks and other financial institutions	11,356	11,356
Customer accounts	35,084	35,084
Term Loans	51,674	51,674
Repurchase agreements and other similar secured borrowing		
Derivative financial instruments		
Accruals, deferred income and other liabilities	5,371	5,371
Total liabilities	**103,485**	**103,485**
Shareholders' Equity		
Paid-in share capital	65,000	65,000
Shares under employee share incentive scheme		
Total share capital	**65,000**	**65,000**
of which amount eligible for CET1	-	65,000
of which amount eligible for AT1	-	-
Retained earnings	2,461	2,461
Statutory reserve	1,186	1,186
Other Reserve	4,048	4,048
General reserve		
Share premium		
Donations and charity reserve		
General loan loss provision which qualify as capital		940
Available for sale revaluation reserve		
Share of Available for sale revaluation reserve relating to associates not considered for regulatory capital		
Minority interest in subsidiaries' share capital	(10)	(10)
Total shareholders' equity	**72,685**	**73,625**
Total liabilities & Shareholders' Equity	**176,170**	**177,110**

Composition of capital disclosure requirements

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Step 3: Composition of Capital Common Template (transition) as at 30 June 2017

No.	Composition of Capital and mapping to regulatory reports	Component of regulatory capital	Amounts subject to pre-2015 treatment	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2
Common Equity Tier 1 capital: instruments and reserves				
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	65,000		
2	Retained earnings	2,461		
3	Accumulated other comprehensive income (and other reserves)	5,234		
4	Not Applicable	-		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-		
6	**Common Equity Tier 1 capital before regulatory adjustments**	**72,695**		
Common Equity Tier 1 capital: regulatory adjustments				
7	Prudential valuation adjustments	-		
8	Goodwill (net of related tax liability)	-		
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-		
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-		
11	Cash-flow hedge reserve	-		
12	Shortfall of provisions to expected losses	-		
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	-		
14	Not applicable.	-		
15	Defined-benefit pension fund net assets	-		
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-		
17	Reciprocal cross-holdings in common equity	-		
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-		
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-		
20	Mortgage servicing rights (amount above 10% threshold)	-		
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-		
22	Amount exceeding the 15% threshold	-		
23	of which: significant investments in the common stock of financials	-		
24	of which: mortgage servicing rights	-		
25	of which: deferred tax assets arising from temporary differences	-		
26	National specific regulatory adjustments	-		
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	-		
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-		

Composition of capital disclosure requirements

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No.	Composition of Capital and mapping to regulatory reports	Component of regulatory capital	Amounts subject to pre-2015 treatment	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2
28	**Total regulatory adjustments to Common equity Tier 1**	**72,695**		
29	**Common Equity Tier 1 capital (CET1)**	**-**		
	Additional Tier 1 capital: instruments			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-		
31	of which: classified as equity under applicable accounting standards	-		
32	of which: classified as liabilities under applicable accounting standards	-		
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-		
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-		
35	of which: instruments issued by subsidiaries subject to phase out	-		
36	Additional Tier 1 capital before regulatory adjustments	-		
	Additional Tier 1 capital: regulatory adjustments			
37	Investments in own Additional Tier 1 instruments	-		
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-		
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-		
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-		
41	National specific regulatory adjustments	-		
	REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	-		
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-		
43	Total regulatory adjustments to Additional Tier 1 capital	-		
44	**Additional Tier 1 capital (AT1)**	**-**		
45	**Tier 1 capital (T1 = CET1 + AT1)**	**72,695**		
	Tier 2 capital: instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-		
47	Directly issued capital instruments subject to phase out from Tier 2	-		
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-		
49	of which: instruments issued by subsidiaries subject to phase out	-		
50	Provisions	940		
51	**Tier 2 capital before regulatory adjustments**	**940**		
	Tier 2 capital: regulatory adjustments			
52	Investments in own Tier 2 instruments	-		
53	Reciprocal cross-holdings in Tier 2 instruments	-		

Composition of capital disclosure requirements

For the year ended 31 December 2017

(Expressed in Thousand Bahrain Dinars)

No.	Composition of Capital and mapping to regulatory reports	Component of regulatory capital	Amounts subject to pre-2015 treatment	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2
54	Investments in the capital of banking, financial and insurance entities thatare outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-		
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-		
56	National specific regulatory adjustments	-		
	REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	-		
	OF WHICH: [INSERT NAME OF ADJUSTMENT]	-		
	OF WHICH: …	-		
57	**Total regulatory adjustments to Tier 2 capital**	**-**		
58	**Tier 2 capital (T2)**	**940**		
59	**Total capital (TC = T1 + T2)**	**73,635**		
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT			
60	**Total risk weighted assets**	**185,028**		
Capital ratios				
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	39.29%		
62	Tier 1 (as a percentage of risk weighted assets)	39.29%		
63	Total capital (as a percentage of risk weighted assets)	39.80%		
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement expressed as a percentage of risk weighted assets)	9.00%		
65	of which: capital conservation buffer requirement	2.50%		
66	of which: bank specific countercyclical buffer requirement (N/A)	0.00%		
67	of which: D-SIB buffer requirement (N/A)	0.00%		
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	39.29%		
National minima including CCB (if different from Basel 3)				
69	CBB Common Equity Tier 1 minimum ratio	9.00%		
70	CBB Tier 1 minimum ratio	10.50%		
71	CBB total capital minimum ratio	12.50%		
Amounts below the thresholds for deduction (before risk weighting)				
72	Non-significant investments in the capital of other financials	729		

Composition of capital disclosure requirements

For the year ended 31 December 2017

(Expressed in Thousand Bahrain Dinars)

No.	Composition of Capital and mapping to regulatory reports	Component of regulatory capital	Amounts subject to pre-2015 treatment	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2
73	Significant investments in the common stock of financials	239		
74	Mortgage servicing rights (net of related tax liability)	-		
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-		
Applicable caps on the inclusion of provisions in Tier 2				
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	940		
77	Cap on inclusion of provisions in Tier 2 under standardised approach (1.25% of Credit Risk weighted Assets)	2,083		
78	NA	-		
79	NA	-		
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2020 and 1 Jan 2024)				
80	Current cap on CET1 instruments subject to phase out arrangements	-		
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-		
82	Current cap on AT1 instruments subject to phase out arrangements	-		
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-		
84	Current cap on T2 instruments subject to phase out arrangements	-		
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-		

Composition of capital disclosure requirements

For the year ended 31 December 2017

(Expressed in Thousand Bahrain Dinars)

Disclosure template for main feature of regulatory capital instruments

1	Issuer	Bahrain Development Bank BSC
2	Unique identifier (Bahrain Bourse ticker)	BDB
3	Governing law of the instrument	All applicable laws and regulations of the Kingdom of Bahrain
Regulatory treatment		
4	Transitional CBB rules	Common Equity Tier 1
5	Post-transitional CBB rules	Common Equity Tier 1
6	Eligible at solo/group/group & solo	Group
7	Instrument Type	Common Equity shares
8	Amount recognized in regulatory capital (currency in Millions, as of most recent reporting date)	65,000.00
9	Par Value of instrument	BD1.00
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	Not Applicable
12	Perpetual or dated	Not Applicable
13	Original maturity date	Not Applicable
14	Issuer call subject to prior supervisory approval	Not Applicable
15	Optional call date, contingent call dates and redemption amount	Not Applicable
16	Subsequent call dates, if applicable	Not Applicable
	Coupons / dividends	Not Applicable
17	Fixed or floating dividend/coupon	Not Applicable
18	Coupon rate and any related index	Not Applicable
19	Existence of a dividend stopper	Not Applicable
20	Fully discretionary, partially discretionary or mandatory	Not Applicable
21	Existence of step up or other incentive to redeem	Not Applicable
22	Noncumulative or cumulative	Not Applicable
23	Convertible or non-convertible	Not Applicable
24	If convertible, conversion trigger (s)	Not Applicable
25	If convertible, fully or partially	Not Applicable
26	If convertible, conversion rate	Not Applicable
27	If convertible, mandatory or optional conversion	Not Applicable
28	If convertible, specify instrument type convertible into	Not Applicable
29	If convertible, specify issuer of instrument it converts into	Not Applicable
30	Write-down feature	Not Applicable
31	If write-down, write-down trigger(s)	Not Applicable
32	If write-down, full or partial	Not Applicable
33	If write-down, permanent or temporary	Not Applicable
34	If temporary write-down, description of write-up mechanism	Not Applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not Applicable
36	Non-compliant transitioned features	Not Applicable
37	If yes, specify non-compliant features	Not Applicable