بنك البحرين للتنمية ش.م.ب (م)

BAHRAIN DEVELOPMENT BANK B.S.C (C)

البحرين

BAHRAIN

Annual Report | 2016

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View our Annual Report and other information about Bahrain Development Bank
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His Royal Highness Prince Khalifa bin Salman Al Khalifa

The Prime Minister of the Kingdom of Bahrain

His Majesty King Hamad bin Isa Al Khalifa

The King of the Kingdom of Bahrain

His Royal Highness Prince Salman bin Hamad Al Khalifa

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

Overview

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

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

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

Profile

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

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

Vision

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

Mission

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

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.

Connect.

WE WANT TO INSPIRE AND HELP YOU FIND YOUR OWN WAY IN GOING AFTER WHAT YOU WANT, JUST AS WE HAVE. WE DO ALL WE CAN TO UNDERSTAND AND ANTICIPATE WHAT WILL HELP YOU ACHIEVE YOUR AMBITIONS.

BD 59m*	**BD 10.5m***	**BD 29.2m***
Projects Cost	Exports Cost	Foreign Currency

* Projected Figures

Financial Highlights

	2016	2015	2014	2013	2012
Income Statement Highlights (BD thousands)					
Net interest income	**7,996**	6,113	5,992	5,826	5,279
Other income	**2,201**	4,351	5,197	1,999	1,768
Operating expenses	**9,279**	8,954	7,204	6,312	5,881
Provision for Impairments	**1,971**	477	3,280	1,861	4,176
Net profit	**(1,053)**	1,033	705	(348)	(3,053)
Dividend (percent)	**0%**	0%	0%	0%	0%
Financial Statement Highlights (BD thousands)					
Total assets	**211,333**	198,140	174,306	157,814	157,646
Loans and Advances	**139,221**	144,308	110,048	101,367	95,059
Investments	**26,903**	23,533	19,290	10,266	8,985
Total deposits	**69,216**	67,184	57,137	53,677	63,440
Customers' deposits	**58,541**	49,098	38,321	40,283	45,949
Total Equity	**80,361**	81,233	75,822	71,196	70,893
Ratios (percent) Profitability					
Return on average equity	**-1.30%**	1.32%	0.96%	-0.49%	-4.71%
Return on average assets	**-0.51%**	0.55%	0.42%	-0.22%	-2.07%
Earnings per share (fils)	**-16**	16	11	-5	-47
Cost-to-income	**91%**	86%	64%	81%	83%
Capital					
Equity/total assets	**38%**	41%	43%	45%	45%
Total deposits/equity (times)	**0.86**	0.83	0.75	0.75	0.89
Capital adequacy	**38.61%**	37.98%	44%	48%	40%
Business indicators					
Loans and advances/total assets	**66%**	73%	63%	64%	60%
Investments/total assets	**13%**	12%	11%	7%	6%
Loans and advances/customer deposits	**2.38**	2.94	2.87	2.52	2.12
Number of employees	**188**	203	200	186	165

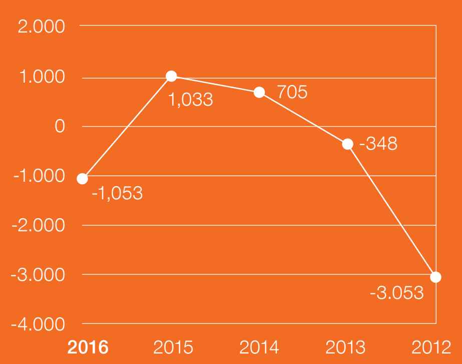
Operational Highlights

Net Interest Income
7.996
BD million

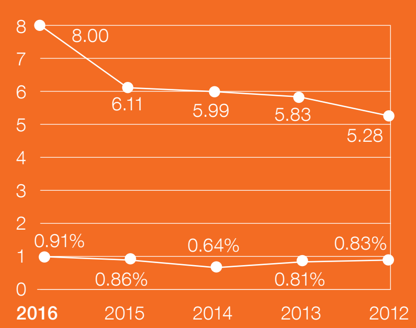
Total Assets
211.333
BD million

Total Equity
80.361
BD million

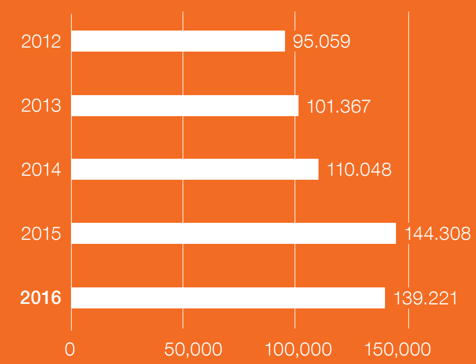
Net profit (loss) 000's



Net Interest Income (millions)
Cost to Income Ratio



Loans and Advances



Financial Review

Overview

The Bank reported a net loss for 2016 amounting to BD 1.05 million, compared to a net profit of BD 1.03 million reported last year. The Decline in FV gains on equity investments wiped out the entire gains from the improvement in net interest income and a there was a steep increase in the burden of Specific Provisions for loan losses.

At year-end 2016, the Bank's total balance sheet stood at BD 211.33 million, compared to BD 198.14 million at year-end 2015 with a growth of 7% mainly due to growth in government securities portfolio of 93% as net investment in liquid securities and placement of the funds received from the Arab Fund for Economic and Social Development.

Net Interest Income

Net interest income of BD 8.00 million reported a growth of 31% (2015: BD 6.11 million).

Other Income

Total other income generated during the year was BD 2.20 million (2015: 4.35 million).

Operating Expenses

Operating expenses of BD 9.28 million were marginally increased by 4%.

Net Provisions

The group has recognized impairment provisions amounting to BD 1.97 million on loans and Islamic financing for the year ended 31 December 2016, as compared to BD 477 thousands for year 2015.

Equity

The equity attributable to the Bank's shareholders, at BD 80.36 million, has decreased from BD 81.21 million at the end of 2015. The major reason for the decrease is the loss for the year.

Capital Adequacy Ratio

As against minimum capital adequacy ratio of 12% prescribed by the Central Bank of Bahrain (CBB), the Bank's ratio at year end 2016 was 38.61% (2015: 37.98%). 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.

A Successful History

2002
Educational Financing
The Launch of educational financing program for university students.

2003
Incubation
Opening of the Bahrain Business Incubator Center (BBIC).

92 | 20 **02 | 03** **05 | 06**

1992
Commencing of Operations
The start of the bank's operations and financing activities.

2000
Financing Programs
The launch the fisheries and agricultural financing program

2005
New Brand
The launch of the bank's new corporate identity.

2006
Islamic Financing
Completion of Islamic financing structure.

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Bahrain Development Bank b.s.c

2007
Capital Increase
Capital increase to 50 million Bahraini dinars.

2008
Partnership with Tamkeen
The launch of islamic financing facility for small and medium enterprises to the private sector in partnership with Tamkeen.

07 | 08 — 11 | 12 — 15 | 16

2011
Inauguration of Riyadat
Inauguration of The Business Women Incubator Center (Riyadat) in cooperation with the Supreme Council for Women.

2012
Capital Increase
Capital increase to 65 million Bahraini dinars.

2015
BDB Branches
Increased the number of branches to reach 8 located in different areas.

2016
Financing Portfolio
The launch of the Women Business Finance Scheme in cooperation with the Supreme Council for Women and Tamkeen.

Board of Directors

Mr. Khalid Al Rumaihi
Chairman

Appointed the Chairman of the Bahrain Development Bank in March 2016. Mr. 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.

Ms. 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 organization and is a regular speaker at various regional and international forums. Mrs. Al-Moayyed was the Chief Executive Officer at Eskan Bank Bahrain.

Mrs. Al-Moayyed holds a Bachelor of Science degree in Economics and Business Administration from the American University of Beirut, Lebanon, and a 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. President, Bahrain Banker's Association. She is the 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 Bayan of Bahrain School, Board Member Mumtalakat Holding Company, Member / Chair of the Finance & Administrative Committee Higher Education Council.

Mr. Saleh Hassan Ali Hussain
Member

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

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

Board Member of Saudi Solidarity Takaful Company, KSA

Audit Committee member of National Health Care Company, KSA.

Mr. 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).

Ms. Tala Abdulrahman Fakhro
Member

The Director of the Market Strategy & Intelligence unit 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.

Mr. Marwan Khalid Tabbara
Member

Co-founder and Managing Partner of Stratum, a management consultancy firm headquartered in the Kingdom of Bahrain, and 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.

Mr. Ghassan Ghaleb Abdulaal
Member

Heads the clients services function within the placement and relationship management team at Investcorp since 2012. This is Ghassan'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, Ghassan worked as an Investment Manager with Bahrain Mumtalakat Holding Company. Prior to joining Investcorp in 2003, Ghassan 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.

Ghassan 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.

Ms. Maryam Adnan Al Ansari
Member

Graduated from McGill University, in 2009 as a Bachelor of 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, Maryam 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.

Innovate.

WHILE INNOVATION LEADS TO OBSERVABLE IMPROVEMENT IN SERVICES, PRODUCTS AND WAYS OF DOING THINGS, CREATIVITY REFERS TO ABILITY OF COMING UP WITH ORIGINAL AND NEW IDEAS.

6,136*
New Jobs

BD 45m
Projects Loans, Indirect Financing & Equity

BD 32.6m*
Added Value

* Projected Figures

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

Chairman's Statement

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

It gives me great pleasure to present the annual report of the Bahrain Development Bank and its affiliates, "the Group", including the financial statements, activities and operations for the year 2016.

The report provides an overview of the activities related to the implementation of the Group's strategy, including the financing and development of Small and Medium enterprises (SME's) and other programs that are in line with the National Development Strategy (2015-2018) and the Bahrain Economic Vision 2030.

Given the state of flux of the global economy, in particular, fluctuations in oil prices and the resultant effects on the regional and global economy, diversification of the economy remain a top priority. It is vital that against this challenging economic and business landscape, that an unswerving focus is placed on the shaping and implementation of strategies that support economic diversification and enable the growth of non - oil sectors. This includes motivating entrepreneurship and facilitating small and medium enterprise sector growth, particularly in the manufacturing and services sectors, through the creation and nurturing of an entrepreneurial environment that is fully aligned with the local, regional and global economic reality, and leverages technology to spur future growth.

During 2016, Bahrain Development Bank worked to provide adequate funding for a number promising projects that are expected to generate jobs and bring substantial value to the economy. The total financing portfolio for all funding programs totaled 47 million Bahraini dinars, an investment that is expected to create 6,136 jobs, and inject 32.6 million dinars into the Kingdom's economy.

Aligned with our focus on economic diversity, the projects that were funded during the year spanned a myriad of diverse sectors and industry. These included petrochemicals, food, metallurgy, tourism, transportation, health, media and publishing, engineering and mechanical services among others.

Throughout the year the Group also implemented a number of development initiatives and programs that are designed to train entrepreneurs and provide advisory services and support programs for SME's, including technical support and business incubation.

Going forward, the Group will remain steadfastly focused on the continued successful implementation of its strategy. In 2017 further emphasis will be placed on achieving the sustainable growth of loans and advances to Small and Medium Enterprises, and to enhance the overall quality and growth potential of its portfolio of assets. A conducive entrepreneurial environment will remain top of mind, with a strong information technology infrastructure and risk management framework important elements of its successful development.

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

2016 marks 25 years since the Bahrain Development Bank's inception. I am proud to look back on the last quarter of a century at the achievements of the Bank and its role in our Kingdom's economic prosperity.

The Bahrain Development Bank team now look forward to the years ahead, as we work together with our partners in our shared mission to develop the national economy, and support a more prosperous future for the Kingdom of Bahrain and its beloved citizens.

Khalid Al Rumaihi
Chairman of Board of Directors

Management Executive Committee

Nedhal Saleh Al-Aujan
Chief Executive Officer
BDB Group

Joined in 1999 and was promoted by the Board as General Manager in 2001 and as CEO in 2007. He retired from the service of the bank on 08 January 2017.

Held senior managerial positions at Standard Chartered Bank and Al Ahli United Bank. Has over 33 years of experience in banks. He is the Chairman of Gulf Diabetes Specialist Centre BSC (C), Arabian Taxi Company BSC (C), Middle East Corner Consultancy Company WLL, Chairman of Executive Committee of Bahrain Business Incubator Centre SPC, and he was the Director and Chairman of the Audit Committee of Venture Capital Bank. He attended several external training programs including Citibank Credit Program in Athens (1986), the Gulf Executive Management of Strategic Leadership Program (1997), The Graduate School of Business of Columbia University, Harvard University Kennedy School of Government: (a) Financial Institutions program for Private Enterprise Development in (2008), and (b) the Program for Strategic Management for Leaders of Non-Governmental Organizations (2010).

Sh. Hesham Bin Mohamed Al-Khalifa
Deputy General Manager
Development Division

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

Adnan Mahmood Al Balooshi
Deputy General Manager
Banking Division

Board member of Asmak, Board Member of Gulf Diabetes Specialist Centre BSC (C), Attended the Harvard Kennedy School Financial Institutions Program for Private Enterprise Development.

Has over 34 years of banking experience. He has worked with Bank of Bahrain & Kuwait, Al Ahli Commercial Bank, Gulf Riyadh Bank in various areas as Head of Credit Administration and Corporate Manager.

He joined Bahrain Development Bank in 2005.

Khalid Yousif Meshkhas
Deputy General Manager
Support Division

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. Khalid has gained more than 26 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.

Anil R. Hattangdi
Executive Vice President

Holds B.A.in Economics (Bombay University) & C.A.I.I.B – Worked with Union Bank of India (1959-1980): Branch Manager, Head of SME Finance, Developed & implemented six District Development Plans- Agriculture, SME, Small Business and Export finance for six Districts in India, Zonal Manager Operations-Calcutta, & Executive-Manager-Central Advances Dept. Recruited in Mumbai-Al Ahli Commercial Bank, Bahrain (1980-1997), Head of Credit Administration and Senior Manager. Joined Bahrain Development Bank in 1997-Internal Business Consultant, & later as Executive Vice President, Board Secretary (2007-2016) and CEO Advisor.

He retired from the service of the bank on 09 February 2017.

Dalal Ismail Ahmed
Assistant General Manager
Banking Services Division

Board Member of Ebdaa Bank. Holds an Advanced & Executive Management Diploma, Bahrain University, an Advanced Diploma in Islamic Finance, and a Treasury/Capital Markets Diploma (TCMDP) from BIBF. Has over 35 years of banking experience mainly in the fields of Retail, Commercial & Project Finance in conventional and Islamic banking with specific expertise in Credit Control, Risk Management and Legal aspects. She has worked with Ahli United Bank and Standard Chartered Bank in various area including branches, treasury settlement and credit. She joined Bahrain Development Bank in 2003.

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

Holds a B.A. in Government from Eastern Washington University, USA; and a Diploma from Spokane Falls Community College, USA. He has also obtained his CIPD in 2012 and attended Harvard Business School's Executive Program in 2013. Al-Binmohamed has 15 years of banking experience.

He worked with Kuwait Finance House as HR Supervisor. He joined Bahrain Development Bank in 2005.

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 27 years of which 21 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.

Management Executive Cont'd

Emilio Escartin
Vice President
Investment Division

Board Member of Gulf Diabetes Specialist Hospital, BSC (c), BDB SME Fund Management Company, BSC (c) and Food Corp, WLL. Holds a B.Sc. in Business Administration from CUNEF (Universidad Complutense de Madrid, Spain), General Management Program from IESE Business School (Universidad de Navarra, Spain), FIPED Program of Microfinance from HARVARD Kennedy School of Government (Harvard University) and a Corporate Finance Program with a focus on Companies Valuation by IE Business School (Madrid, Spain). Holds 21+ years of experience in Private Equity, having managed 4 Private Equity Funds.

During his career he has worked as an Investment Director of Private Equity of EBN CAPITAL. He was member of the Board of Directors of EBN CAPITAL, Pescanova, Textura, Cadena Q and Nekicesa. He was Director of BDO Corporate Finance and Transaction Advisory Services (M&A,Due Diligence and Valuation) in Madrid (Spain). He also worked as an Investment Director of DIANA CAPITAL in Madrid (Spain), a Private Equity firm raising and managing DIANA CAPITAL FUND I; and Senior Associate of M&A of a subsidiary firm of CCF-Charterhouse (HSBC).

He joined Bahrain Development Bank in 2014.

Vijaya Kumar Teegalapally
Senior Vice President
Chief Risk Officer

Holds an MBA in Finance from Osmania University, India. Has over 20 years of experience in banking and financial services industry and widely exposed to Financial Risk Management & Basel II/III implementation. His areas of expertise include enterprise risk management, credit portfolio management, risk analytics, credit rating models, risk appetite, risk strategy, risk governance, risk architecture, economic capital and stress testing. He has held several senior positions in banks & consulting firms including United Arab Bank, Dun & Bradstreet, Oracle FSS and IndusInd Bank (India) in the area of risk management. Prior to joining BDB, Vijay was the Head of Risk Analytics & Portfolio Management for a commercial bank in UAE. He has conducted several training programs on financial risk management and key note speaker at risk management events. He joined Bahrain Development Bank in 2016.

Alok Misra
Vice President
Internal Audit

A Chartered Accountant from India and a Certified Internal Auditor from the Institute of Internal Auditors, USA, Alok has over 28 years of banking, financial services and audit experience. Alok has worked in Internal Audit in banks in India, Oman and Bahrain for the last 13 years. Prior to joining BDB in 2015, Alok was the Head of Internal Audit for a retail commercial bank in Bahrain for over 4 years.

RECOGNIZING THAT STAFF IS A KEY ASSET OF THE BANK, THE BANK CONTINUED TO SIGNIFICANTLY INVEST IN STAFF WELFARE AND THE PROVISION OF THE NECESSARY TRAINING AND DEVELOPMENT OPPORTUNITIES.

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).

Inspire

BDB HAS EXTENSIVE EXPERIENCE IN DIFFERENT INDUSTRIES. THE INVESTMENT TEAM HAS A DEEP UNDERSTANDING OF THE UNIQUE CHALLENGES AND OPPORTUNITIES FACING SMALL AND MEDIUM SIZE BUSINESSES IN BAHRAIN.

CEO's Statement

BD 32.6
million

The projects funded have injected BD 32.6 million into the economy. This included attracting an expected sum of BD 29.2 million In foreign currency, BD 10.5 million in export outcome and BD 15 million in foreign investments.

The Bahrain Development Bank is celebrating 25 years dedicated to the support and development of entrepreneurship in the Kingdom of Bahrain. Throughout this quarter of a century, the bank, in accordance with its strategy for the measured and sustainable development of the economy, has maintained an unswerving focus on the funding and facilitation of human development as the foundation for the Kingdom's entrepreneurial success.

This report is testament to the success of the group in 2016. Over the past year, the group has financed projects amounting to almost 59 million Bahraini dinars, while the total financing portfolio amounts to BD 47million dinars comprising 1,166 entrepreneurial initiatives.

The projects funded have injected BD32.6 million into the economy. This included attracting an expected sum of BD 29.2 million in foreign currency, an expected export outcome valued at BD 10.5 million, and foreign investments of BD 15 million.

52% of beneficiaries funded were new clients, with 49% of the total funded beneficiaries representing Small and Medium Enterprises (SME's). Recipients of consulting and advisory services numbered 4,651 and included existing business leaders, prospective entrepreneurs, and high school and university students.

Notable achievements of 2016 included:

- The launch of a USD100 million financial portfolio in cooperation with Tamkeen and the Supreme Council for Women for the development of Bahraini women in business.
- The development of a more efficient funding process. The new system has been designed to streamline funding processes to create a simple and easy process for customers.
- The SME funding portfolio, in collaboration with Tamkeen, grew to an impressive BD 222 million. The fund is designed to facilitate the growth and progress of small to medium enterprises through funding and developmental programs.
- The Group designed and implemented a fully integrated model for the development of an entrepreneurial environment in Bahrain. The "Entrepreneurial Environment System" is a fully integrated system consisting of finance and developmet.
- Four of the Bank 's clients were recognized for entrepreneurial excellence and awarded the "Bahrain Award for Entrepreneurship" at an annual ceremony held under the patronage of His Royal Highness Prince Salman bin Hamad Al Khalifa, Crown Prince and Deputy Supreme Commander and Head of the Economic Development Board. Awarded businesses included, in the micro enterprise class, Alia Al-Moayyed for nutrition consulting services. In the emerging enterprise class, Khalifa Al Mannai received an accolade for Mannai Technological Facilities, while Dr. Lamia Mahmoud received the award for Small to Medium Enterprises (SME's) for her business, the Dr. Lamia Specialist Center for Laser Dental treatments. In the Sustainable Business category, Hala Al-Moayyed received recognition for her pro-contracting enterprise.
- Four Bank clients were honoured by Her Royal Highness Princess Sabeeka bint Ibrahim Al Khalifa, Wife of the King of Bahrain and President of the Supreme Council for Women, for achievements in business. Recipients of the award were Nada Alawi Shaber, Noor Alawi Shaber, Ibrahim Hassan Al Ansari and Saha Hassan Sawan for The Mobile Spa & Beauty project.
- Arabian Taxi, an associate company of the bank, enhanced its fleet during the year with the purchase of twenty (20) new "Camry" cars. The new cars will substantially enhance the business of which the majority ownership is held by elderly retired drivers from the profession, widows and minors (orphans).

On behalf of the Bahrain Development Bank and its affiliates, I would like to express my deep gratitude to the wise leadership of the Kingdom of Bahrain whose continued support and confidence is invaluable. To His Excellency the Chairman of the Bahrain Development Bank and the distinguished members of the Board for their continued guidance and support, and to all institutions and agencies that work with the bank as our strategic partners, particularly the Ministry of Finance, the Economic Development Board, the Ministry of Industry and Trade, Tamkeen, and the Supreme Council for Women.

I would also like to express my sincere gratitude and appreciation to the Arab Fund for Economic and Social Development in the State of Kuwait, for their outstanding support and contribution to the development of the BDB Group.

I would also like to thank the executive management and all employees of the Bahrain Development Bank Group whose steadfast commitment and hard work are key element as we strive towards achieving our vision of a diverse and sustainable economy and a prosperous future for our beloved Kingdom of Bahrain.

Nedhal Saleh Al-Aujan
Chief Executive Officer

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 2016 continued to support financing small businesses and start-up business ventures and encouraging / motivating more of Bahraini youth and women to venture into the challenging careers of entrepreneurship. The year 2016 marked a notable achievement with the launch of Bahraini Women Development Portfolio Fund worth a total of USD 100 million in cooperation with Supreme Council of Women and Tamkeen. The Fund was allocated to boost women's business activities in SME sector and thus promote women entrepreneurship and development.

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

On account of overall economic slowdown in the global economy coupled with market conditions prevailing in the local market, many of the units in the SME sector are experiencing difficulties. As a development financial institution, the bank assisted such clients in overcoming their financial difficulties. During the year 2016, a total of 282 SME clients were assisted in the form of restructuring of their facilities involving outstanding of BD 7.353 million, to enable them to tide over their financial difficulties.

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 2016 had recorded disbursement of 979 loans under SME sector with a total funding of BD 45 million. The performance in the area of economic contribution through our financing activity has been satisfactory. The financing made by the bank is expected to create 5,799 jobs. Similarly, significant contributions have been made in other economic parameters namely facilitating an expected value addition of 26.75 million, exports of BD 9.9 million, foreign investment BD 14.2 million, foreign currency of BD 26.3 million and import substitution of BD 5.85 million.

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

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

Development Services

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

Development Services Division aims at providing a holistic ecosystem for entrepreneurs through Rowad Program run by Business Advisory and Rowad Incubator Centers

Development Services Overview

The Rowad Program is an entrepreneurial platform reaching out to the public in an effort to foster an entrepreneurial, innovative, and enterprising society highlighting the importance of developing a National Economy driven by the private sector through the organization's core objective and mandate of supporting entrepreneurs and SMEs in Bahrain which is run out of the Advisory Team within the Development Services Division. The program aims at providing a holistic eco-system for entrepreneurs.

The program focuses on innovative startups and growing companies through the Rowad Program Pillars to ensure a holistic environment for entrepreneurs.

The program's main pillars are coaching, training, incubation, funding, and mentoring, partners, network, and events. Rowad Incubator Centers are dedicated to supporting the successful development of pioneering entrepreneurial enterprises with a vision of providing an ideal environment to accelerate the growth of business enterprises. As a tenant of the Rowad Centers, entrepreneurs can benefit from subsidized rental fees, advisory services, training, coaching, access to finance, business linkages, marketing support, and other shared facilities.

Rowad is a subsidiary owned by the bank which hosts all the various incubator centers owned and operated by the bank itself through the Development Services division. Centers include: Bahrain Business Incubator Center, Riyadat, and Rukn.me

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

Rowad

7 Current Investment Portfolio	1890 Total event attendees for the year 2016
22 Total Current Active Mentors (local, Regional & International	2125 Total training beneficiaries (including specialized workshop presentation Jan - Dec 2016
18 Total matched mentees	1229 Total unique coaching beneficiaries since 2015

Investment Division

In line with The Economic Vision 2030 for Bahrain to promote economic diversification, Bahrain Development Bank, (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).

The 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 Department has started working on creating several investment products (investing in Equity in Startups and SMEs, Money Market Instruments and External Funding) that will assist private companies at different levels of their establishment, business cycle and maturity.

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 21 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 net book value of BHD 23.6 million

During the year 2016, BDB's Investment Division has supported to create about 134 new jobs with a value added over BHD 4.3 million.

Also the Investment Division identified companies (Startups and Medium Sized) demanding equity funds for over BHD20 million in order to open their ventures, and expanding their activities locally and internationally (GCC and abroad).

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. This new market (Bahrain Investment Market) will be hopefully up and running during mid-2017.

Management Review Cont'd

Support Services Division

Support Services Division provide back end banking services to support ongoing business activities of the group, as well as supporting the group's strategies and achievement of its goals through Information Technology, Operations and Administration Department.

Year 2016 witnessed the achievement of many initiatives that focuses on the art technology in order to build the business and improve customer satisfaction, which are mostly focused on streamlining the work flow to reduce the turn-around time to our customers through introducing paperless environment (ERP) to help assist all divisions speed up their process in a timely manner. Furthermore, the bank announced the SMS notification service whereby the clients will always be kept informed about the transactions in their account(s), and whenever a transaction is carried out, they will receive an SMS displaying the amount, type and the new balance, the greatest benefit is the investment in saving the time of our clients, who do not need to visit the bank in order to check the status and the movement of the transactions that are made in their account(s). Besides, enhancing the core banking systems functionality, upgrading IT Infrastructure to the latest version, enhancing the regular monitoring and updating of security appliances. In addition, significant resources and efforts are invested in ensuring compliance to regulatory requirements and improving control and monitoring capabilities.

In accordance with Central Bank of Bahrain mandate through BENEFIT, BDB completed the Electronic Funds Transfer System which is also termed as the "National Payment Gateway" project, that enable customers to perform their local bank transfers and as well as the new upload features for inward & outward salary through bulk payments. The bank has achieved the set deadlines and has successfully launched the system through its branches.

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

Also, BDB received the "Straight-Through-Processing" for USD Funds Transfer within the Service Quality Report from JPMorgan Chase Bank with 99.88% efficiency in the execution of electronic payments.

Administration Department plays a key assistance role in the successful completion of significant projects via providing exceptional swift support to BDB group which increased overall efficiency & provided back-up support to other departments. Developed and executed Internal Purchasing Policy to maintain smooth and risk free procurements allowing Bahrain market service providers and vendors equal shares. Reduced 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.
The bank has put in place Business Continuity Plans (BCP) to ensure that its systems, procedures and operation are resilient to ensure business continuity through potential situations of failure runs effectively in the event of most unexpected disasters or major operational disruption as required by the Central Bank of Bahrain Business Continuity Guidelines. The bank continuously strengthens and enhances its existing plans by implementing a robust business continuity framework to ensure that its systems and procedures are resilient and ready to meet 'emergency situations.' BDB's disaster recovery capabilities were pro-actively improved based on the periodic mock drills conducted to assess bank's readiness to switch over to the DR site and addressing on-going business continuity requirements. This continuous fine-tuning helped BDB to keep up with the technological development and customer expectation.

BDB is continuing enhancing its world-class systems to support the monitoring activities and proper due diligence is conducted to ensure that the financial activities of its customers are performed in accordance with the guidelines issued by the regulatory authorities. The bank adheres to the Financial Crimes Module of Central Bank of Bahrain's rulebook. The module contains Bahrain's current anti-money laundering legislation, developed under the directives of the Financial Action Task Force, which is the international organization responsible for developing global anti-money laundering policies. During the year, in line with the Central Bank of Bahrain guidelines, the bank successfully completed its registration under Foreign Account Tax Compliant Act ("FATCA").

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 2016, 96% of our staff (188 employees as of December 2016) attended several in-house training sessions, courses run by the Bahrain Institute of Banking and Finance (BIBF) and elsewhere in Bahrain and abroad.

Staff members were trained on Anti-Money Laundering & FATCA Procedures, Trade Finance, Information Security Awareness, Cyber Security Trends, Basel II/III, Enterprise Risk Management & Risk Control Self-Assessment, Corporate Governance & Value Creation, and Islamic Financing. In addition to other specialized training sessions, conferences and workshops which were attended by key staff as well from the bank.

Corporate Governance

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

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

BDB's Board of Directors, nominated by a Royal Decree, presently comprises of eight independent Non-Executive Directors, including the Chairman for a term of 3 years on 08 April 2016. The Board is guided by its Charter framed in accordance with applicable regulations. The Board establishes the objectives of the bank, provides guidance & approves the strategy, budgets for achievement of the Bank's objectives, adopts and reviews the systems and controls framework, monitors the implementation of strategy by the management, overall group & management performance, ensures accurate preparation along with disclosure of the financial statements, monitors conflicts of interest in preventing improper related party transactions. The Board also provides assistance in securing funding from government and semi-government institutions and continues to focus on long term strategic issues; growth and diversification of BDB group's activities, and the achievement of its vision and mission.

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

The responsibilities of these committees for oversight are governed by their respective Charters, terms of reference and functions under its supervision that are reviewed and updated periodically. While RGC is assisting the Board in strengthening the corporate governance standards and implementation of sound remuneration and HR practices, the Audit Committee assists the Board in carrying out its duties regarding the integrity of the Bank's financial reporting system; the adequacy of the Bank's internal control and risk management processes; the performance of independent auditors and internal audit function; the independent Auditor's qualifications & independence and the Bank's compliance with legal obligations. BICC review credit/ investment proposals, exercise oversight of Credit and Investment related activities, review and recommend Bank's business strategy and operational plan, review and approve appropriate asset allocation strategy and evaluate the investment and credit portfolio of the bank.

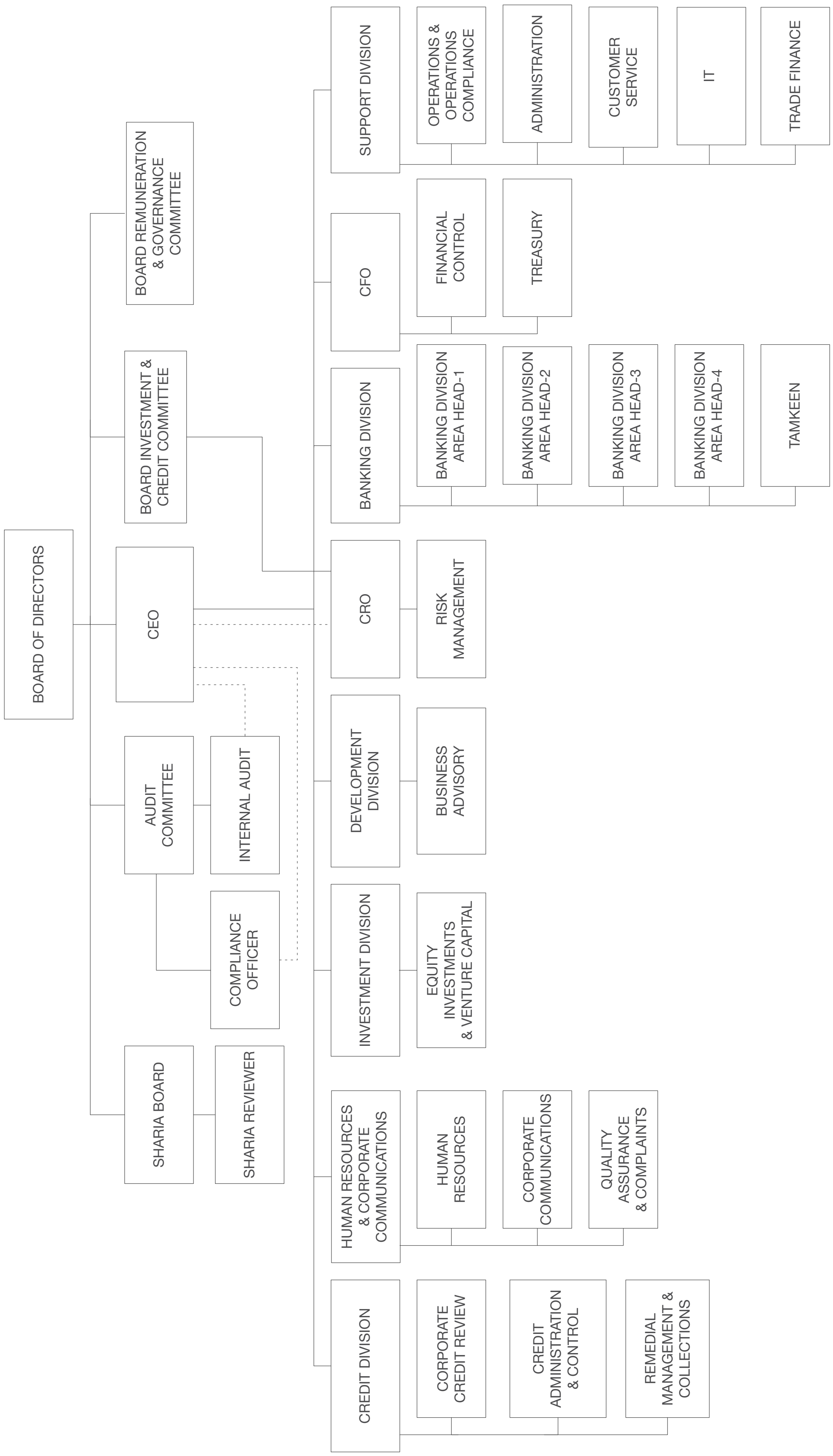
The Sharia Supervisory Board comprising three Islamic scholars provides guidance, reviews and supervises the Bank's Islamic financing activities to ensure that they are in compliance with Islamic Sharia's rules and principles.

Any decisions to enter into transactions, under which approved persons would have conflicts of interest that are material, are required to be formally and unanimously approved by the Board. Further, the concerned directors are required to abstain from decisions relating to transactions where they are deemed to be interested parties. Evaluation of all the Board committees based on the individual feedback received from the directors have been placed before the Board on an Annual Basis.

The Bank has adopted a comprehensive approach to Board of Directors development – improving the effectiveness of Directors and Board against clearly established standards of good practice. Board and Director development programmes often involve a combination of consultancy advice, executive coaching and facilitated Board retreats.

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

Organization Chart
Bahrain Development Bank



Corporate Governance (continued)

Board Meetings and Attendance

Details of meetings held during 2016 and attendance of directors are as follows:

S.No. Name of the Directors	Apr 17	Jun 21	Oct 3	Oct 16	Dec 14
1. Mr. Khalid Al Rumaihi	✓	✓	✓	✓	✓
2. Ms. Sabah Khalil Al Moayyed	✓	✓	✓	✓	✓
3. Mr. Saleh Hassan Ali Hussain	✓	✓	✓	✓	✓
4. Mr. Tariq Jaleel Al Saffar	✓	✓	✓	✓	×
5. Ms. Tala Abdulrahman Fakhro	✓	✓	×	✓	✓
6. Mr. Marwan Tabbara	✓	✓	✓	✓	✓
7. Mr. Ghassan Ghaleb Abdulaal	✓	✓	✓	✓	✓
8. Ms. Maryam Adnan Al Ansari	✓	✓	✓	✓	✓

Board Audit Committee (BAC) Meetings and Attendance

Details of the 6 meetings of BAC meetings held during 2016 and attendance of directors are as follows:

S.No. Name of the Directors	Feb 15	May 30	Jul 12	Oct 16	Dec 05	Dec 20
1. Mr. Saqer Shaheen Saqer	✓	Tenure over				
2. Mr Abdulellah Ebrahim Al Qassimi	✓					
3. Mr. Saleh Hassan Ali Hussain	✓	✓	✓	✓	✓	✓
4. Mr. Ghassan Ghaleb Abdulaal	✸	✓	✓	✓	×	✓
5. Ms. Maryam Adnan Al Ansari	✸	✓	✓	✓	✓	✓

✸ not a director as of the date of this meeting

Board Investment and Credit Committee and Attendance

Details of meetings held during 2016 and attendance of directors are as follows:

S.No. Board Member	20-Apr	11-May	30-May	13-Jun	14-Jul	30-Aug
1. Ms. Sabah Khalil Al-Moayyed	✓	✓	✓	✓	✓	✓
2. Mr. Tariq Jaleel Al Saffar	✓	✓	✓	✓	✓	✓
3. Ms. Tala Abdul Rahman Fakhro	✓	✓	✓	✓	✓	✓
4. Mr. Marwan Khalid Tabbara	✓	✓	×	✓	✓	✓

Board Investment and Credit Committee and Attendance

S.No. Board Member	7-Sep	13-Oct	25-Oct	10-Nov	1-Dec
1. Ms. Sabah Khalil Al-Moayyed	✓	✓	✓	✓	✓
2. Mr. Tariq Jaleel Al Saffar	✓	✓	✓	✓	✓
3. Ms. Tala Abdul Rahman Fakhro	✓	✓	✓	✓	✓
4. Mr. Marwan Khalid Tabbara	✓	✓	✓	✓	✓

Board Remuneration & Governance Committee Meetings and Attendance

Details of meetings held during 2016 and attendance of directors are as follows:

S.No. Board Member	05-May	11-June	13-Oct	22-Dec
1. Mr. Khalid Al Rumaihi	✓	✓	✓	✓
2. Ms. Tala Abdul Rahman Fakhro	✓	✓	✓	✓
3. Mr. Tariq Jaleel Al Saffar	×	✓	✓	✓

Shari'a Board and Attendance

Details of meetings held during 2016 and attendance of directors are as follows:

S.No. Board Member	9-Feb	27-Apr	31-Jul	30-Nov
1. Sh.A. Nasser Omar Al Mahmood	✓	✓	×	✓
2. Sh. Muhammed Burhan Arbouna	✓	✓	✓	✓
3. Sh. Omar Alani	✓	✓	✓	✓

Communication strategy

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

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

Corporate Governance (continued)

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.

Details of Remuneration Paid for the Financial Year Ended 2016

		Fixed Remuneration			Variable Remuneration	
Categories	No.	Salaries & Wages	Other Benefits/ Allowance	Total Amount in BD	Performance Bonuses (in cash)	Total Amount in BD
1. Members of the Board	8		93,500	93,500		93,500
2. Approved Persons (not incl in 1,3, to 7)	4	255,600	69,712	325,312	92,000	417,312
3. Approved Persons in Risk Management, Internal Audit, Operations, Financial Control, AML, Compliance Functions	6	185,110	75,222	260,332	51,710	312,042
4. Employees Engaged in Risk taking activities (Business Areas)	65	959,785	181,617	1,141,402	145,494	1,286,896
5. Employees other than approved persons engaged in functions under 3	68	750,075	162,123	912,198	110,027	1,022,225
6. Other Employees	48	657,602	136,553	794,155	105,347	899,502
7. Outsourced Empl./Service providers (engaged in risk taking activities)						
Total	**199**	**2,808,172**	**718,727**	**3,526,899**	**504,578**	**4,031,477**

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 2016

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 Jaleel 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 2016, 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 2016, 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.

Independent Auditors' Report to the Shareholders (continued)

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

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit 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

22 February 2017

Consolidated statement of financial position

31 December 2016

(Expressed in Thousand Bahraini Dinars)

	Note	2016	2015 (Restated)
Assets			
Cash and balances with Central Bank of Bahrain	5	**4,095**	2,443
Placement with banks and other financial institutions	6	**37,106**	23,829
Loans and islamic financing to customers	7	**139,221**	144,308
Investment securities	8	**14,220**	10,595
Investment in associates	9	**419**	253
Investment property	10	**12,264**	12,685
Property and equipment	11	**1,242**	1,321
Other assets	12	**2,766**	2,706
Total assets		**211,333**	198,140
Liabilities and equity			
Liabilities			
Term loans	13	**56,150**	45,323
Deposits	14	**69,216**	67,184
Other liabilities	15	**5,606**	4,400
Total liabilities		**130,972**	116,907
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		**10,121**	10,975
Equity attributable to owners of the Bank		**80,355**	81,209
Non-controlling interest		**6**	24
Total equity		**80,361**	81,233
Total liabilities and equity		**211,333**	198,140

These consolidated financial statements, set out on pages 39 to 72, were approved for issue by the Board of Directors on 22 February 2017 and signed on its behalf by:

Mr. Khalid Amro Al Rumaihi
Chairman

Mr. Saleh Hassan Ali Hussain
Director

Consolidated statement of profit and loss

For the year ended 31 December 2016

(Expressed in Thousand Bahraini Dinars)

	Note	2016	2015
Income			
Interest and islamic financing income	19	**10,271**	7,764
Interest and islamic financing expense	20	**(2,275)**	(1,651)
Net interest and islamic finance income		**7,996**	6,113
Fee and commission income		**421**	753
Investment income	21	**(222)**	1,822
Share of loss in associates		**(15)**	(19)
Other income	22	**2,017**	1,795
Total income		**10,197**	10,464
Expenses			
Staff cost		**(5,119)**	(4,823)
Other operating expenses		**(4,160)**	(4,131)
Profit before impairment provision		**918**	1,510
Impairment provision on loans and islamic financing	7	**(1,971)**	(477)
(Loss) / Profit for the year		**(1,053)**	1,033
(Loss) / Profit attributable to:			
- Owners of the Bank		**(1,035)**	1,051
- Non-controlling interest		**(18)**	(18)
		(1,053)	1,033

These consolidated financial statements, set out on pages 39 to 72, were approved for issue by the Board of Directors on 22 February 2017 and signed on its behalf by:

Mr. Khalid Amro Al Rumaihi
Chairman

Mr. Saleh Hassan Ali Hussain
Director

Consolidated statement of comprehensive income

For the year ended 31 December 2016

(Expressed in Thousand Bahraini Dinars)

	2016	2015
(Loss) / Profit for the year	**(1,053)**	1,033
Other comprehensive income		
Items that are or may be reclassified subsequently 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	**(872)**	1,033
Total comprehensive income attributable to:		
- Owners of the Bank	**(854)**	1,051
- Non-controlling interest	**(18)**	(18)
	(872)	1,033

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

Consolidated statement of changes in equity

For the year ended 31 December 2016

(Expressed in Thousand Bahraini Dinars)

	Share capital	Statutory reserve	Investment fair value reserve	Other capital contribu-tion	Retained earnings & other reserves	Total	Non - Controling Interest	Total Equity
As at 1 January 2016	**65,000**	**1,186**	**-**	**4,048**	**6,959**	**77,193**	**24**	**77,217**
Prior period adjustment (note 30)	**-**	**-**	**-**	**-**	**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**
Profit and Comprehensive income for the year:								
Loss for the year	**-**	**-**	**-**	**-**	**(1,035)**	**(1,035)**	**(18)**	**(1,053)**
Other comprehensive income:								
Items that may be reclassified								
subsequently to profit or loss:								
Share of revaluation reserve from associate	**-**	**-**	**-**	**-**	**181**	**181**	**-**	**181**
Total Profit 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**
As at 1 January 2015	65,000	1,081	547	4,048	5,146	75,822	-	75,822
Impact of adopting IFRS 9 (2009) at 1 January 2015	-	-	(547)	-	867	320	-	320
Restated balance at 1 January 2015	65,000	1,081	-	4,048	6,013	76,142	-	76,142
Net movements in non-controlling interest	-	-	-	-	-	-	42	42
Profit and Comprehensive income for the year	-	-	-	-	1,051	1,051	(18)	1,033
Transfer to statutory reserve	-	105	-	-	(105)	-	-	-
Balance at 31 December 2015	65,000	1,186	-	4,048	6,959	77,193	24	77,217

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

Consolidated statement of cash flows

For the year ended 31 December 2016

(Expressed in Thousand Bahraini Dinars)

	Note	2016	2015
Operating activities			
(Loss) / Profit for the year		(1,053)	1,033
Adjustments for:			
Depreciation	10,11	765	764
Provision for impairment Loans and islamic financing to customers			
		1,971	477
Changes in fair value of FVTPL investments		326	(1,554)
Dividend income		(89)	(104)
Share of loss of associates		15	19
Gain on sale from investments		(15)	(164)
Loss on foreign currency translation		76	14
Operating profit before changes in operating assets and liabilities		1,996	485
Changes in operating assets and liabilities:			
Placement with banks and other financial institutions		539	5,045
Accounts receivable and other assets		(60)	(1,453)
Loans and islamic financing to customers		3,116	(30,721)
Deposits		2,032	10,047
Accounts payable and other liabilities		1,206	451
Net cash from / (used in) operating activities		8,829	(16,146)
Investing activities			
Purchases for property and equipment (net of disposal)		(265)	(358)
Purchase of investments		(6,216)	(6,551)
Proceeds from sale of investments		2,279	13,432
Purchases in investment property		-	(29)
Dividend income received		89	104
Net cash (used in) / from investing activities		(4,113)	6,598
Financing activities			
Proceeds from term loan - net		10,827	7,925
Net cash generated from financing activities		10,827	7,925
Net Increase / (Decrease) in cash and cash equivalents during the year		15,543	(1,623)
Cash and cash equivalents at 1 January		9,436	11,059
Cash and cash equivalents at 31 December	23	24,979	9,436

The accompanying notes 1 to 30 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 incorp -oration	Ownership interest	Year end	Principal activity
Bahrain Business Incubator Centre S.P.C.	Bahrain	100%	31 December	Development and assistance to emerging Bahraini entrepreneurs.
BDB SME Fund Company BSC (c)	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	Bahrain	28.6%	31 December	Consultancy to small and medium enterprises.

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

2 Basis of preparation

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

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

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

- 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;

d) New standards, amendments and interpretations effective from 1 January 2016
The following standards, amendments and interpretations, which became effective as of 1 January 2016, and are relevant to the Group:

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

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

Notes to the consolidated financial statements

For the year ended 31 December 2016

(Expressed in Thousand Bahrain Dinars)

2 BASIS OF PREPARATION (Continued)

ii) Disclosure Initiative (Amendments to IAS 1)

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

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

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

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

i) a) 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, with early adoption permitted.

To satisfy the new disclosure requirements, the Company/ Group intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

The Group has not early adopted Disclosure Initiative (Amendments to IAS 7) in its consolidated financial statements for the year ended 31 December 2016.

ii) 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 is currently performing an initial assessment of the potential impact of the adoption of IFRS 15 on its consolidated financial statements.

iii) IFRS 9 - Financial Instruments

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

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

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

Notes to the consolidated financial statements

For the year ended 31 December 2016

(Expressed in Thousand Bahrain Dinars)

2 BASIS OF PREPARATION (Continued)

iv) 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 standard- i.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 does not expect to have a significant impact on its consolidated financial statements.

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

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

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

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

The effective date for these changes has now been postponed until the completion of a broader review – which the IASB hopes will result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

The Group does not expect to have a significant impact on its consolidated 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;
- impairment losses on loans and islamic financing to customers and investments; and
- Financial asset classification

Economic useful lives of property and equipment and investment property

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

Impairment losses on loans and islamic financing to customers and investments

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

Notes to the consolidated financial statements

For the year ended 31 December 2016

(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 frequently made to meet ongoing business needs. The Group determines that these securities are not held within a business model whose objective is to held assets in order to collect contractual cash flows.

Contractual cash flows of financial assets

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, except for accrual of finance income on Islamic financing contracts (refer note 30).

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 2016

(Expressed in Thousand Bahrain Dinars)

4 Significant accounting policies (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. However, foreign currencies arising from translation of available-for-sale equity investments are recognised in OCI.

c) Cash and cash equivalents

Cash and cash equivalents 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.

Notes to the consolidated financial statements

For the year ended 31 December 2016

(Expressed in Thousand Bahrain Dinars)

4 Significant accounting policies (Continued)

d) Financial assets and financial liabilities (Continued)

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.

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.

Notes to the consolidated financial statements

For the year ended 31 December 2016

(Expressed in Thousand Bahrain Dinars)

4 Significant accounting policies (Continued)

d) Financial assets and financial liabilities (Continued)

vi) Identification and measurement of impairment (Continued)

Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and islamic financing to customers that are not individually significant are collectively assessed for impairment by grouping together loans and islamic financing to customers with similar risk characteristics.

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

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

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 2016

(Expressed in Thousand Bahrain Dinars)

4 Significant accounting policies (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
Leasehold improvements	40 years
Machinery, equipment and electrical installations	5 - 15 years
Furniture, fixtures, vehicles, computers and office equipment	3 – 10 years

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

iv) Reclassification to investment property

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

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 19- Employees Benefits, has been made by calculating the notional liability had all employees left at the reporting date. The charge is recognised as an expense in the profit or loss.

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

For the year ended 31 December 2016

(Expressed in Thousand Bahrain Dinars)

4 Significant accounting policies (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

	2016	2015
Cash in hand	337	318
Balances with Central Bank of Bahrain (CBB)	3,758	2,125
	4,095	2,443

6 Placements with banks and other financial institutions

	2016	2015
Nostro balances	538	400
Placements with banks and other financial institutions	36,568	23,429
	37,106	23,829

Nostro balances include nostro balances with islamic banks of BD 68 thousands (2015: BD 69 thousands).

Placements with banks and other financial institutions include placements of BD 16,539 thousands (2015: BD 11,856 thousands) with islamic financial institutions.

Notes to the consolidated financial statements

For the year ended 31 December 2016

(Expressed in Thousand Bahrain Dinars)

7 Loans and islamic financing to customers

	2016	2015 (Restated)
Project finance - conventional	15,309	17,124
Project finance - islamic	130,859	133,290
Fisheries and agriculture	4,850	4,650
Ijara	527	731
Other loans	2,671	1,831
	154,216	157,626
Less: Provision for impairment - Specific	(14,055)	(12,445)
Less: Provision for impairment - Collective	(940)	(873)
	139,221	144,308

Provision for impairment includes specific provision of BD 8,164 thousands (2015: BD 7,069 thousands) and collective provision of BD 801 thousands (2015: BD 738 thousands) against islamic financing to customers.

Gross Non performing loans as per regulatory requirements are BD 25,656 thousands (2015: BD 24,020 thousands.) The Government of the Kingdom of Bahrain reimburses the Bank for any loan losses and costs in connection with fisheries and agricultural loans in the Kingdom of Bahrain.

Tamkeen guarantees 50% of the outstanding balance of loss islamic financing 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 BD12,308 thousands (2015: BD11,878 thousands) financed through Tamkeen scheme.

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

	2016		2015	
	Specific provision	Collective provision	Specific provision	Collective provision
At 1 January	12,445	873	13,490	700
Charge for the year	1,904	67	304	173
Written off during the year	(294)	-	(1,349)	-
Balance at 31 December	14,055	940	12,445	873

	2016	2015
Gross amount of loans, individually assessed to be impaired before deducting any individually assessed impairment allowance (see note below)	25,656	24,020

Impaired non-performing loans includes BD 1,120 thousands (2015: BD 1,400 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 2016 amounts to BD 1,843 thousands (2015: BD 7,262 thousands). For more detailed description see note 26 (c) collateral and other credit enhancements.

8 Investment securities

Investment securities measured at fair value through profit or loss

	2016	2015
Conventional - Equities	5,222	5,309
- Debt	2,165	-
Islamic - Equities	813	1,042
- Sukuk	6,020	4,244
	14,220	10,595

Notes to the consolidated financial statements

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(Expressed in Thousand Bahrain Dinars)

9 Investment in associates

	2016	2015
EBDA Bank	238	253
Arabian Taxi Company	181	-
	419	253

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

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

10 Investment property

	2016	2015
At 1 January	12,685	3,623
Additions during the year	-	29
Reclassification from property and equipment (refer note 11)	-	9,470
Depreciation	(421)	(437)
At 31 December	12,264	12,685

Cost:

	2016	2015
At 1 January	14,487	3,623
Reclassification from property and equipment	-	10,835
Additions during the year	-	29
At 31 December	14,487	14,487
Depreciation:		
At 1 January	1,802	-
Reclassification from property and equipment	-	1,365
Charge for the year	421	437
At 31 December	2,223	1,802
Net book values		
At 31 December	12,264	12,685

Effective 1 January 2015, two buildings were transferred to investment property at a net book value of BD 9,470 thousands (Level 3: fair value BD 9,374 thousands) due to change in use of the property.

During 2014, a majority shareholder transferred a commercial property to the Bank for fifty years at a nominal lease payment. This property is leased to third parties. The property has fair value of BD 5,977 thousands (2015: BD 6,089 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 property has been categorized as a level 3 fair value based on the inputs to the valuation technique used. The discounted cash flows model considers the present value of net cash flows to be generated from the property, taking into account the expected rental growth rate, void periods, occupancy rate, lease incentive costs such as rent-free periods and other costs not paid by tenants. The expected net cash flows are discounted using risk-adjusted discounted rates. Among other factors, the discount rate estimation considers quality of a building and its location, tenant credit quality and lease terms.

Notes to the consolidated financial statements

For the year ended 31 December 2016

(Expressed in Thousand Bahrain Dinars)

11 Property and equipment

2016	Freehold land	Freehold premises	Buildings on leasehold premises	Furniture, fixtures, vehicles computers and office equipment	Total
Cost:					
At 1January 2016	293	1,809	-	2,486	4,588
Additions	-	-	-	270	270
Disposals	-	-	-	(9)	(9)
At 31 December 2016	293	1,809	-	2,747	4,849
Depreciation:					
At 1January 2016	-	1,281	-	1,986	3,267
Charge for the year	-	55	-	289	344
Disposals	-	-	-	(4)	(4)
At 31 December 2016	-	1,336	-	2,271	3,607
Net book values					
At 31 December 2016	293	473	-	476	1,242

2015	Freehold land	Freehold premises	Buildings on leasehold premises	Furniture, fixtures, vehicles computers and office equipment	Total
Cost:					
At 1 January 2015	293	1,809	10,835	2,128	15,065
Additions	-	-	-	358	358
Disposals	-	-	-	-	-
Reclassfication to Investment property (refer note 10)	-	-	(10,835)	-	(10,835)
At 31 December 2015	293	1,809	-	2,486	4,588
Depreciation:					
At 1 January 2015	-	1,226	1,365	1,714	4,305
Charge for the year	-	55	-	272	327
Disposals	-	-	-	-	-
Reclassfication to Investment property (note 10)	-	-	(1,365)	-	(1,365)
At 31 December 2015	-	1,281	-	1,986	3,267
Net book values					
At 31 December 2015	293	528	-	500	1,321

Notes to the consolidated financial statements

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12 Other assets

	2016	2015
Interest receivable	206	165
Receivable from Ministry of Finance	218	225
Receivable from Ministry of Municipalities	996	680
Rent and other account receivables	929	748
Prepayments and other assets	417	888
	2,766	2,706

13 Term loans

	2016	2015
Kuwait Fund for Arab Economic Development	3,829	5,128
Saudi Fund for Development	9,531	10,035
Arab Fund for Economic and Social Development	42,790	30,160
	56,150	45,323

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% (2015: 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 (2015: 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 2016, no amount was utilised for such purposes (2015: 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 the year and is repayable semiannually in 10 years (3 years grace period for principal) at an interest of 3.0%.

14 Deposits

	2016	2015
Deposits from banks	10,675	18,086
Deposits from customers	58,541	49,098
	69,216	67,184

Deposits from banks include BD 7,470 thousands (2015: BD 14,401 thousands) from islamic banks placed with BDB on a wakala basis.

Deposits from customer includes BD 1,486 thousands (2015: BD 406 thousands) kept as margin deposit.

Notes to the consolidated financial statements

For the year ended 31 December 2016

(Expressed in Thousand Bahrain Dinars)

15 Other liabilities

	2016	2015
Staff related accruals	1,066	856
Employees saving scheme	2,143	1,845
Accounts payable	887	600
Interest payable	724	476
Others	786	623
	5,606	4,400

Accounts payables include charity account from the islamic financing deals of BD 16 thousands (2015: BD 3 thousands).

16 Share capital

	Authorised		Issued and fully paid	
	2016	2015	2016	2015
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.

19 Interest and islamic financing income

	2016	2015
Interest on conventional loans	1,088	1,048
Profit on islamic financing	8,548	6,190
Interest on placements	389	271
Interest on securities	246	255
	10,271	7,764

Interest on placements and securities includes profit from placements and securities with islamic banks of BD 463 thousands (2015: BD 398 thousands).

Notes to the consolidated financial statements

For the year ended 31 December 2016

(Expressed in Thousand Bahrain Dinars)

20 Interest and islamic financing expense

	2016	2015
Interest on term loans	1,353	1,136
Interest on conventional deposits from customers	822	423
Interest on deposits from conventional banks	25	17
Islamic financing expense	75	75
	2,275	1,651

21 Investment income

	2016	2015
Changes in fair value of FVTPL investments	(326)	1,554
Gain on sale of investments	15	164
Dividend income from equity securities	89	104
	(222)	1,822

22 Other income

	2016	2015
Rental income	1,814	1,561
Miscellaneous income	203	234
	2,017	1,795

23 Cash and cash equivalents

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

	2016	2015
Cash in hand	337	318
Balances with Central Bank of Bahrain (excluding reserves)	1,079	533
Due from banks and other financial institutions with original maturity of 90 days or less	23,563	8,585
	24,979	9,436

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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
2016				
Deposits	**730**	**25**	**7,526**	**8,281**
Loans and islamic financing to customers	**4,796**	**392**	**784**	**5,972**
Other assets	**-**	**-**	**236**	**236**
Other liabilities	**-**	**-**	**-**	**-**

	Subsidiaries	Directors and senior management	Other related companies	Total
2015				
Deposits	125	17	7,478	7,620
Loans and islamic financing to customers	4,916	111	709	5,736
Other assets	-	-	225	225
Other liabilities	8	-	-	8

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 443 thousands (2015: BD 158 thousands).

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
2016				
Interest income	**99**	**22**	**33**	**154**
Interest expense	**-**	**-**	**51**	**51**
Other expenses	**65**	**5**	**217**	**287**
Other income	**7**	**-**	**1**	**8**
2015				
Interest income	101	-	61	162
Interest expense	-	-	49	49
Other expenses	49	2	227	278
Other income	6	229	3	238

Compensation of key management personnel is as follows:

	2016	2015
Board Remuneration	**72**	64
Salary & short term employee benefits	**1,008**	856
Termination benefits	**222**	104
	1,302	1,024

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(Expressed in Thousand Bahrain Dinars)

25 Contingent liabilities and commitments

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

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

Details of contingent liabilities and commitments are given below:

	2016	2015
Contingent liabilities:		
Letters of guarantee	4,595	2,437
Letters of credit	89	64
	4,684	2,501
Commitments:		
Irrevocable commitments to extend credit	8,293	23,059
Lease rental commitments	518	606
	8,811	23,665
	13,495	26,166

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

	2016	2015
Future minimum lease payments:		
Within one year	88	57
Later than 1 year but not later than 5 years	247	247
Later than 5 years	183	302
	518	606

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.

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. 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.

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26 Risk management structure (Continued)

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 in line with the agreed risk appetite and best credit risk management practices.

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.

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.

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.

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.

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26 Risk management structure (Continued)

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 the asset book 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.

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.

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26 Risk management structure (Continued)

Classification (Continued)

(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

	2016	2015 (Restated)
Balances with Central Bank of Bahrain	3,758	2,125
Placement with banks and other financial institutions	37,106	23,829
Loans and islamic financing to customers	139,221	144,308
Investment securities	8,185	4,244
Other assets	2,349	1,818
	190,619	176,324
Contingent liabilities	4,684	2,501
Commitments	8,293	23,059
	12,977	25,560
Maximum credit risk exposure	203,596	201,884

(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.

	2016	2015
Industry sector		
Banks and financial institutions	49,049	30,198
Trading and manufacturing	72,292	67,863
Education and health	8,840	8,006
Hospitality, media and transportation	11,814	11,849
Fisheries, agriculture & dairy	5,701	5,377
Food processing	6,961	7,581
Others	48,939	71,010
	203,596	201,884

(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.

Notes to the consolidated financial statements

For the year ended 31 December 2016

(Expressed in Thousand Bahrain Dinars)

26 Risk management structure (Continued)

(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.

	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
Loans and islamic financing 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

	2015				
	Neither past due nor impaired				
	High grade	Standard grade	Past due but not impaired	Impaired	Total
Cash and balances with Central Bank of Bahrain	2,125	-	-	-	2,125
Placement with banks and other financial institutions	23,829	-	-	-	23,829
Loans and islamic financing to customers	-	109,368	25,634	9,306	144,308
Investment securities	4,244	-	-	-	4,244
Other assets	994	144	620	60	1,818
Total	31,192	109,512	26,254	9,366	176,324

The impaired loans does not include BD1,843 thousands (2015: BD2,269) with past dues of over 90 days, classified as non performing and interest/profit has been suspended, for which provision for impairment is not considered necessary on the basis of subsequent collections, level of collateral available and or stage of collections of amounts owed to the Bank.

Of the total amount of gross past due but not impaired loans and islamic financing to customers, the fair value of collateral that the Bank held as at 31 December 2016 was BD 13,434 thousands (2015: BD 6,147 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 asstes. The table shows the time period since the date of last repayment of principal or interest by the customer.

Notes to the consolidated financial statements

For the year ended 31 December 2016

(Expressed in Thousand Bahrain Dinars)

26 Risk management structure (Continued)

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

As at December	2016	2015
Up to 3 months	27,196	23,244
Over 3 months to 1 year	795	2,884
1 to 3 years	513	118
Over 3 years	179	8
	28,683	26,254

This includes BD 2,252 thousands (2015: BD 2,354 thousands) relating to agriculture and fishery loans which are non performing but no provision has been made as these loans are considered secured through the reimbursement arrangement with the Government of Bahrain.

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

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

	2016	2015
Loans and islamic financing to customers	6,909	8,150

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

(ii) Market risk

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

(a) Interest rate risk

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

Net interest income sensitivity

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

	Change in basis points	Impact of change on Net interest Income		Change in basis points	Impact of change on Net interest Income	
		2016	2015		2016	2015
Bahraini Dinars	+100	1,059	808	-100	(1,059)	(808)
Kuwaiti Dinars	+100	2	1	-100	(2)	(1)
Saudi Riyals	+100	1	(1)	-100	(1)	1
United States Dollars	+100	(3)	(257)	-100	3	257

(b) Currency risk

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

The Bank primarily deals with only 4 currencies, namely Bahraini Dinars, Kuwaiti Dinars, Saudi Riyals and United States Dollars.

Notes to the consolidated financial statements

For the year ended 31 December 2016

(Expressed in Thousand Bahrain Dinars)

26 Risk management structure (Continued)

(b) Currency risk (Continued)

The Bank views the Bahraini Dinar as its functional currency. In the opinion of the Bank's management, the currency risk for any position held in US dollar is insignificant since the Bahraini Dinar is pegged to the US dollar. The Bank had the following significant net open exposures denominated in foreign currencies as of 31 December 2016 and 31 December 2015:

	Equivalent long (short)	
	2016	2015
Kuwaiti Dinars	**205**	189
US Dollars	**22,164**	(12,501)
Euro	**2**	2
GBP	**1**	3
Saudi Riyals	**6**	(8)

The effect of a reasonably possible 5% change in the currency exchange rate for Kuwaiti Dinar, with all other variables constant, will result in an increase of BD 10 thousands (2015: an increase of BD 9 thousands) in the profit for the year.

(c) Maturity analysis of assets and liabilities

The table below summarises the maturity profile of the Group's assets and liabilities as at 31 December 2016 and 31 December 2015 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
2016							
Assets							
Cash and balances with Central Bank of Bahrain	4,095	-	-	-	-	-	4,095
Placements with banks and other financial institutions	25,237	905	10,964	-	-	-	37,106
Loans and islamic financing to customers	2,887	955	1,615	3,618	35,000	95,146	139,221
Investment securities	8,185	-	-	-	-	6,035	14,220
Investment in associates	-	-	-	-	-	419	419
Investment property	-	-	-	-	-	12,264	12,264
Property and equipment	-	-	-	-	-	1,242	1,242
Other assets	-	-	2,766	-	-	-	2,766
Total assets	40,404	1,860	15,345	3,618	35,000	115,106	211,333
Liabilities							
Term loans	-	251	1,391	2,899	14,091	37,518	56,150
Deposits	33,354	23,116	9,697	3,049	-	-	69,216
Other liabilities	-	-	5,606	-	-	-	5,606
Total liabilities	33,354	23,367	16,694	5,948	14,091	37,518	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	

Notes to the consolidated financial statements

For the year ended 31 December 2016

(Expressed in Thousand Bahrain Dinars)

26 Risk management structure (Continued)

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

	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
2015							
Assets							
Cash and balances with Central Bank of Bahrain	2,443	-	-	-	-	-	2,443
Placements with banks and other financial institutions	10,585	6,227	7,017	-	-	-	23,829
Loans and islamic financing to customers	4,129	697	1,319	3,016	23,630	111,517	144,308
Available for sale investments	4,408	-	-	-	-	6,187	10,595
Investment in associates	-	-	-	-	-	253	253
Investment property	-	-	-	-	-	12,685	12,685
Property, plant and equipment	-	-	-	-	-	1,321	1,321
Other assets	-	-	2,706	-	-	-	2,706
Total assets	21,565	6,924	11,042	3,016	23,630	131,963	198,140
Liabilities							
Term loans	-	251	1,387	1,638	9,569	32,478	45,323
Deposits	47,888	15,677	3,421	198	-	-	67,184
Accounts payable and other liabilities	-	-	4,400	-	-	-	4,400
Total liabilities	47,888	15,928	9,208	1,836	9,569	32,478	116,907
Net liquidity gap	(26,323)	(9,004)	1,834	1,180	14,061	99,485	
Cumulative liquidity gap	-	(35,327)	1,834	3,014	17,075	116,560	

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

Notes to the consolidated financial statements

For the year ended 31 December 2016

(Expressed in Thousand Bahrain Dinars)

26 Risk management structure (Continued)

(iii) Liquidity risk

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

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2016 and 31 December 2015 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
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
2015								
Deposits	13,574	34,612	15,787	3,514	201	-	-	67,688
Other liabilities	-	-	4,400	-	-	-	-	4,400
Term loans	-	-	352	2,240	1,874	12,402	29,529	46,397
Total liabilities	13,574	34,612	20,539	5,754	2,075	12,402	29,529	118,485

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
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
2015					
Contingent liabilities	812	75	848	766	2,501
Commitments	23,059	-	57	549	23,665
Total	23,871	75	905	1,315	26,166

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

(iv) Legal risk and claims

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

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

27 Derivatives

The Group has entered into forex forward contracts with Central Bank of Bahrain with nominal value of BD 35,944 thousands (2015: BD 16,960 thousands).

Notes to the consolidated financial statements

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(Expressed in Thousand Bahrain Dinars)

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 participatants 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 Ill 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.

	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

Notes to the consolidated financial statements

For the year ended 31 December 2016

(Expressed in Thousand Bahrain Dinars)

28 Fair value disclosures (Continued)

	Level 1	Level 2	Level 3	Total fair value	Tota carrying value
2015					
Financial instruments measured at fair value					
Financial assets					
Equity securities	164	652	5,535	6,351	6,351
Debt securities	4,244	-	-	4,244	4,244
Forward Contracts	-	16,960	-	16,960	16,960
Financial instruments not measured at fair value					
Financial assets					
Cash and balances with Central Bank of Bahrain	-	2,443	-	2,443	2,443
Placement with banks and other financial institutions	-	23,829	-	23,829	23,829
Loans and islamic financing to customers	-	-	144,308	144,308	144,308
Financial liabilities					
Term loans	-	-	45,323	45,323	45,323
Deposits	-	67,184	-	67,184	67,184

Sensitivity Analysis

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

The Potential effect of using reasonable possible alternative assumptions for fair valuing the investment at fair value through profit or less are summarised below:

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)

Valuation technique used	Key unobservable inputs	Fair value at 31 December 2015	Reasonable possible shift +/- (in any input)	Reasonable possible shift +/- (in any input)
Discounted cash flow	Discount rate	4,788	+/- 0.5%	208 / (30)
	Growth rate		+/- 0.5%	98 / (355)
Adjusted Net Assets Value	NAV	747	+/- 5%	48 / (48)
Market multiples	P/E Multiple	652	+/- 5%	33 / (33)

Notes to the consolidated financial statements

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(Expressed in Thousand Bahrain Dinars)

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:

	2016	2015
Capital base		
Tier 1 capital	80,355	81,209
Tier 2 capital	940	873
Total capital base (a)	81,295	82,082
Risk-weighted assets (b)	210,552	216,116
Capital adequacy ratio (a/b*100)	38.61%	37.98%
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.

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.

Notes to the consolidated financial statements

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(Expressed in Thousand Bahrain Dinars)

30 Prior period adjustment

During 2016, the Group has implemented changes to its IT systems resulting in changes to the way finance income on islamic financing contracts is recognised. Finance income is now accrued on an effective interest rate method. Previously, income on fixed rate Islamic financing contracts was proportionately allocated over term of the Islamic financing. Due to this, changes have been reflected to retrospectively restate the previously reported amounts.

The Group's IT systems and accounting records do not enable to determine the adjustments for all earlier periods being reported. Due to this impracticability, the Group has determined the increase in equity and loans and islamic financing to customers at the beginning of the current period (and the end of the previous period) as follows;

Statement of financial position as at 01 January 2016/31 December 2015	As previously reported	Impact of restatement	As restated
Equity			
Equity attributable to owners of the Bank	6,959	4,016	10,975
Assets			
Loans and islamic financing to customers	140,292	4,016	144,308

Basel III Pillar III Disclosures

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

As at 31 December 2016, the Group consists of the Bank and its following subsidiaries:

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

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

Basis of consolidation

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

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

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

Restrictions on capital and transfer of funds within the Group

Since 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.

Basel III Pillar III Disclosures

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(Expressed in Thousand Bahrain Dinars)

Table 1 - Capital Structure

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

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

	2016	
A. NET AVAILABLE CAPITAL	**CET 1**	**Tier 2**
Paid-up share capital	65,000	-
Legal / Statutory reserve	1,186	-
Retained earnings	11,174	-
Other reserves	4,048	-
Current year (Loss) / Profit	(1,053)	-
General loan loss provisions	-	940
TOTAL CAPITAL BEFORE REGULATORY DEDUCTIONS	80,355	940
Less : Regulatory deductions	-	-
NET AVAILABLE CAPITAL	80,355	940
TOTAL ELIGIBLE CAPITAL BASE (CET 1 + Tier 2)		81,295
B. CAPITAL ADEQUACY RATIO	2016	
Total eligible capital base		81,295
Credit risk weighted exposures		193,501
Market risk weighted exposures		213
Operational risk weighted exposures		16,838
Total risk weighted exposures		210,552

	CET 1 capital ratio	Total capital ratio
Capital Adequacy Ratio	38.16%	38.61%

Risk weighted assets profile and capital requirement for credit, market and operational risk

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

Credit Risk

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

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

Basel III Pillar III Disclosures

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

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

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

e) Other exposures:
These are risk weighted at 100%.

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

Amounts due from related parties are unsecured.

Table 2 - Regulatory Capital Requirement for Credit Risk

	2016 Capital requirement
Claims on sovereign	-
Claims on public sector entities	-
Claims on banks	1,035
Claims on corporate	18,171
Regulatory retail exposures	-
Residential retail exposures	-
Equity	1,079
Other exposures	3,647
TOTAL CREDIT RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)	23,932

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Table 3 - Regulatory Capital Requirement for Market Risk

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

- Equity exposure risk
- Interest rate exposure risk
- Foreign currency exposure risk
- 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 2016 was as follows:

	Capital requirements		
	2016	Maximum	Minimum
Equity risk capital	-	-	-
Foreign exchange risk capital	17	18	17
Interest rate risk capital	-	-	-
Commodity risk capital	-	-	-

	2016
Total Market Risk Capital Requirement (Standardised Approach)	**27**

Table 4 - Regulatory capital requirement for operational risk

The Bank follows the Basic Indicator Approach for assessing the capital requirement for Operational Risk. The capital requirement of BD 2,105 thousands is based on the gross operating income (excluding profit/loss on Investments and any exceptional items of income) for the last 3 years multiplied by 12.5 (the reciprocal of the 8 percent minimum capital ratio) to arrive at the operational risk-weighted exposure.

Table 5 - Gross credit exposures subject to credit risk mitigants (crm)

	2016	2016 Average
Balances with Central Bank of Bahrain	3,758	2,888
Investment securities	8,185	5,859
Placement with banks and other financial institutions	37,106	25,654
Loans and advances to customers	139,221	144,867
Interest Receivable	206	168
Other assets	2,143	1,860
Total Funded Exposures	**190,619**	**181,296**
Contingent liabilities	4,684	3,637
Other commitments	8,293	9,939
Total Unfunded Exposures	**12,977**	**13,576**
Total Credit Risk Exposure	**203,596**	**194,872**

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

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Table 6 - Sectoral classification of gross credit exposures

			2016
	Funded	Unfunded	Total
Banks and financial institutions	40,864	-	40,864
Trading and Manufacturing	72,292	-	72,292
Education and Health	8,840	-	8,840
Hospitality, media and transportation	11,814	-	11,814
Fisheries and Agriculture	5,701	-	5,701
Food Processing	6,961	-	6,961
Government	9,399	-	9,399
Others	34,748	12,977	47,725
Total	**190,619**	**12,977**	**203,596**

Table 7 - Credit concentration greater than 15% individual obligor limit

	2016
Total credit exposures in excess of 15% individual obligor limit	-

Impairment of assets

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

Restructured Credit Facilities

The Bank have BD 6,909 restructured credit facilities during the year period ended 31 December 2016. Restructuring concessions mainly related to defferal of loan installments to assist customers overcome temporary cash crunch situations or to realign the repayment with the borrower's revised cash flow projections.

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.

Highly leveraged counterparties

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

Table 8 - Counterparty wise breakdown of non performing loans and impairment provision

	2016 Impaired and past due loans (after provision)	Specific provision	Charge for the year	Write off	Collective impairment
Project finance	36,011	14,055	1,904	294	940
Fisheries and Agriculture	2,252	-	-	-	-
TOTAL	38,263	14,055	1,904	294	940

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Table 9 - Residual contractual maturity

Maturity analysis of assets and liabilities

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

2016	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
Assets										
Cash and balances with Central Bank of Bahrain	4,095	-	-	-	-	-	-	-	-	4,095
Due from banks and other financial institutions	25,237	905	10,964	-	-	-	-	-	-	37,106
Accounts receivable and other assets	-	-	2,766	-	-	-	-	-	-	2,766
Loans and advances to customers	2,887	955	1,615	3,618	35,000	66,525	27,182	1,439	-	139,221
Investment securities	8,327	-	-	-	-	-	5,893	-	-	14,220
Investment in associates	-	-	-	-	-	-	419	-	-	419
Investment property	-	-	-	-	-	-	-	-	12,264	12,264
Property, plant and equipment	-	-	-	-	-	-	-	-	1,242	1,242
Total assets	40,546	1,860	15,345	3,618	35,000	66,525	33,494	1,439	13,506	211,333
Liabilities										
Deposits	33,354	23,116	9,697	3,049	-	-	-	-	-	69,216
Accounts payable and other liabilities	-	-	5,606	-	-	-	-	-	-	5,606
Long term loans	-	251	1,391	2,899	14,091	14,024	18,988	4,506	-	56,150
Total liabilities	33,354	23,367	16,694	5,948	14,091	14,024	18,988	4,506	-	130,972
Net liquidity gap	7,192	(21,507)	(1,349)	(2,330)	20,909	52,501	14,506	(3,067)	13,506	

Table 10 - Geographical distribution of impairment provisions for loans and advances to customers

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

	2016
Bahrain	
Specific impairment provision	14,055
TOTAL	14,055

Table 11 - Movement in impairment provision for loans and advances to customers

	2016						
	Project finance			Fisheries and agriculture			
	Specific	Collective	Total	Specific	Collective	Total	Total
Balance at 1 January 2016	12,445	873	13,318	-	-	-	13,318
Amounts written off during the period	(294)	-	(294)	-	-	-	(294)
Charge for the period	4,477	67	4,544	-	-	-	4,544
Recoveries during the period	(2,573)	-	(2,573)	-	-	-	(2,573)
At 31 December 2016	14,055	940	14,995	-	-	-	14,995

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Table 12 - Past due loans and other assets - age analysis

	2016 Three months to one year	One to three years	Over three years	Total
i) By Geographical area				
Bahrain	27,991	513	179	28,683
TOTAL	27,991	513	179	28,683
ii) By Counterparty wise				
Project finance	25,739	513	-	26,252
Fisheries and Agriculture	2,252	-	-	2,252
Other Assets	-	-	179	179
TOTAL	27,991	513	179	28,683

Table 13 - Credit risk exposure post credit risk mitigation and credit conversion

	2016
Claims on sovereign	-
Claims on public sector entities	-
Claims on banks	8,280
Claims on corporate	131,532
Past due exposures	13,837
Equity	8,633
Other exposures	29,174
TOTAL	191,456

Table 14 - Eligible financial collateral and guarantees

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

	2016	
	Gross exposure	Eligible CRM
Claims on sovereign	-	-
Claims on public sector entities	-	-
Claims on MDBs	-	-
Claims on banks	8,280	-
Claims on corporate	145,369	1,045
Equity	8,633	-
Other exposures	29,174	-
TOTAL	191,456	1,045

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Table 15 - Sensitivity analysis - interest rate risk (irrbb)

Impact on net interest income for the year ended 31 December 2016

	2016
Bahraini Dinar	
Assets	213,618
Liabilities	177,774
(+) 200 basis points	**717**
(-) 200 basis points	**(717)**
US Dollar	
Assets	77,754
Liabilities	55,590
(+) 200 basis points	**443**
(-) 200 basis points	**(443)**
Kuwaiti Dinar	
Assets	4,043
Liabilities	3,839
(+) 200 basis points	**4**
(-) 200 basis points	**(4)**
Saudi Riyals	
Assets	9,618
Liabilities	9,612
(+) 200 basis points	**0**
(-) 200 basis points	**(0)**

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Table 16 - Market risk, interest rate gap

Market risk

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

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

2016	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
Assets								
Cash and balances with Central Bank of Bahrain	-	-	-	-	-	-	4,095	4,095
Due vfrom banks and other financial institutions	25,237	905	10,964	-	-	-	-	37,106
Accounts receivable and other assets	8,185	-	-	-	-	-	22,726	30,911
Loans and advances to customers	2,887	955	1,615	3,618	101,525	28,621	-	139,221
Total assets	36,309	1,860	12,579	3,618	101,525	28,621	26,821	211,333
Liabilities								
Deposits	33,354	23,116	9,697	3,049	-	-	-	69,216
Accounts payable and other liabilities	-	-	-	-	-	-	5,606	5,606
Long term loans	-	251	1,391	2,899	28,115	23,494	-	56,150
Total liabilities	33,354	23,367	11,088	5,948	28,115	23,494	5,606	130,972
Net liquidity gap	2,955	(21,507)	1,491	(2,330)	73,410	5,127	21,215	

Table 17 - Equity position in the banking book

	2016	
	Net exposure	Capital requirement
Publicly traded	6,162	770
Privately held	8,058	1,007
TOTAL	14,220	1,778

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Table 18 - Gains on equity investments

	2016
(i) Realised gains/ (losses) recognised in the statement of profit or loss on sale	**15**
(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	**(326)**

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

Table 19 - Operational and legal risks

Operational risk is the risk of loss arising from errors that can be made in instructing payments or settling transactions, breakdown in technology and internal control systems. The Bank uses the Basic Indicator Approach under the Basel III framework for measuring and managing its operatinonal 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 25% 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.

Table 20 - Fines and penalty

	Amount in BHD Actual 2016
Penalty paid to Central Bank of Bahrain	**340**

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

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Step 2: Reconcilation of published financial balance sheet to regulatory reporting as at 31 December 2016

BD 000's	Balance sheet as in published financial statements	Consolidated PIR data
Assets		
Cash and balances at central banks	4,095	4,095
Placements with banks and other financial institutions	37,106	37,106
Investment securities	14,220	14,220
Investments in associates	419	419
Total Investment	**14,639**	**14,639**
of which:		
Significant investments in capital of financils insitutions exceeds the 10% of CET1		
Amount in excess of 10% of CET1 to be deducted		238
Amount in excess of 10% of CET1 to be deducted in year 1		
Investment property	12,264	12,264
Loans and advances	140,161	140,161
of which: General loan loss provision which qualify as capital	940	
Prepayments, accrued income and other assets	2,766	2,766
Property, plant and equipment	1,242	1,242
Total assets	**211,333**	**212,273**
Liabilities		
Deposits from banks and other financial institutions	10,675	10,675
Customer accounts	58,541	58,541
Term Loans	56,150	56,150
Repurchase agreements and other similar secured borrowing		
Derivative financial instruments		
Accruals, deferred income and other liabilities	5,606	5,606
Total liabilities	**130,972**	**130,972**
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	10,121	10,121
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	6	6
Total shareholders' equity	**80,361**	**81,301**
Total liabilities & Shareholders' Equity	**211,333**	**212,273**

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(Expressed in Thousand Bahrain Dinars)

Step 3: Composition of Capital Common Template (transition) as at 31 December 2016

	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	10,121		
3	Accumulated other comprehensive income (and other reserves)	5,240		
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**	**80,361**		
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)	238		
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			

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	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
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			
28	**Total regulatory adjustments to Common equity Tier 1**	**80,361**		
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)**	**80,361**		

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	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
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**			
Tier 2 capital: regulatory adjustments				
52	Investments in own Tier 2 instruments			
53	Reciprocal cross-holdings in Tier 2 instruments			
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)**			
59	**Total capital (TC = T1 + T2)**			
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	208,507		
60	**Total risk weighted assets**	**208,507**		
Capital ratios				
61	Common Equity Tier 1 (as a percentage of risk weighted assets)			
62	Tier 1 (as a percentage of risk weighted assets)			
63	Total capital (as a percentage of risk weighted assets)			

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	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
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)			
65	of which: capital conservation buffer requirement			
66	of which: bank specific countercyclical buffer requirement (N/A)			
67	of which: D-SIB buffer requirement (N/A)			
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)			
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			
73	Significant investments in the common stock of financials			
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)			
77	Cap on inclusion of provisions in Tier 2 under standardised approach (1.25% of Credit Risk weighted Assets)	(940)		
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			

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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