BAHRAIN DEVELOPMENT BANK B.S.C. (c)

Basel II Pillar III Disclosures
For the six months ended

30-Jun-14

Commercial registration no.	26226 obtained on 20 January 1992
Registered office	Building 170 Road 1703 Diplomatic Area PO Box 20501 Manama Kingdom of Bahrain

1 REPORTING ENTITY

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

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

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

As at 30 June 2014, the Group consists of the Bank and its following subsidiary:

Name	***Country of incorporation***	***Ownership interest***	***Year end***
Bahrain Business Incubator Centre (S.P.C.)	Kingdom of Bahrain	100%	31 December

During the period, the Group disposed its shareholding in Bahrain Institute of Entrepreneurship & Technology S.P.C. at a gain of BD 372 thousands included in investment income in the condensed consolidated interim financial information.

Basis of consolidation

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

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

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

Restrictions on capital and transfer of funds within the Group

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

(Expressed in Thousands Bahrain Dinars)

TABLE 1 - Capital structure, minimum capital and capital adequacy

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

The Bank's regulatory capital base of BD 72,408 is as detailed below:

	2014	
A. NET AVAILABLE CAPITAL	***Tier 1***	***Tier 2***
Paid-up share capital	**65,000**	
Reserve:		
Statutory reserve	**1,010**	
Others	**425**	
Retained earnings brought forward	**4,512**	
Current interim profits		**457**
45% of unrealized gains arising from fair valuing equities	**-**	**400**
Collective impairment provisions		**604**
TOTAL CAPITAL BEFORE REGULATORY DEDUCTIONS	**70,947**	**1,461**
Less : Regulatory deductions	**-**	**-**
NET AVAILABLE CAPITAL	**70,947**	**1,461**
TOTAL ELIGIBLE CAPITAL BASE (Tier 1 + Tier 2)		**72,408**

B. CAPITAL ADEQUACY RATIO	**2014**
Total eligible capital base	**72,408**
Credit risk weighted exposures	**142,954**
Market risk weighted exposures	**218**
Operational risk weighted exposures	**13,808**
Total risk weighted exposures	**156,980**
Capital Adequacy Ratio	**46.13%**

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

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

Credit Risk

The Bank has a diversifiedon and off balance sheet credit portfolio which are divided into counter party exposure classes in line with
the CBB's Basel 2 capital adequacy framework for the standardised approach for credit risk.

Brief description of applicable standard portfolio are as follows:

a. Claims on banks:

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

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

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

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

b. Claims on corporates:

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

c. Loans restructured:

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

d. Equity Portfolio:

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

e. Other exposures:

These are risk weighted at 100%.

f. Related party transactions and balances:

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Bank exercises significant influence, major shareholders, directors and executive management of the Bank. such related parties in the ordinary course of business at commercial interest and commission rates. All the loans and advances to related parties are performing and are free of any specific impairment provision (Refer note 14 in interim financial information).

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

(Expressed in Thousands Bahrain Dinars)

TABLE 2 - REGULARATY CAPITAL REQUIREMENT FOR CREDIT RISK

	2014 *Capital requirement*
Claims on sovereign	**-**
Claims on public sector entities	**-**
Claims on banks	**1,112**
Claims on corporate	**13,749**
Equity	**820**
Other exposures	**1,473**
TOTAL CREDIT RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)	**17,154**

TABLE 3 - REGULARATY CAPITAL REQUIREMENT FOR MARKET RISK

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

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

The Bank's market risk capital charge is largely composed of foreign currency risk arising from the Bank's foreign exchange exposure on private equity investments denominated mainly in sterling and euros, interest rate risk arising on the bond portfolio and currency futures. The capital requirement for market risk using the Standardised Approach as at 30 June 2014 was as follows:

		Capital requirements	
	2014	**Maximum**	**Minimum**
Equity risk capital	**-**	**-**	**-**
Foreign exchange risk capital	**17**	**24**	**17**
Interest rate risk capital	**-**	**-**	**-**

	2014
TOTAL MARKET RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)	**26**

TABLE 4 - REGULARATY CAPITAL REQUIREMENT FOR OPERATIONAL RISK

The capital requirement for operational risk using the Basic Indicator Approach as at 30 June 2014 amounted to	**1,657**

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

	2014	**2014 Average**
Cash and Balances with Central Bank of Bahrain	**2,276**	**2,321**
Treasury bills and bonds	**7,093**	**6,203**
Due from banks and other financial institutions	**30,818**	**28,503**
Loans and advances to customers	**108,551**	**104,959**
Interest Receivable	**226**	**275**
Other assets	**3,749**	**4,995**
TOTAL FUNDED EXPOSURES	**152,713**	**147,256**
Contingent liabilities	**2,704**	**2,736**
Other commitments	**8,380**	**8,343**
TOTAL UNFUNDED EXPOSURES	**11,084**	**11,079**
TOTAL CREDIT RISK EXPOSURE	**163,797**	**158,335**

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

(Expressed in Thousands Bahrain Dinars)

TABLE 6 - SECTORAL CLASSIFICATION OF GROSS CREDIT EXPOSURES

	2014		
	Funded	*Unfunded*	*Total*
Banks and financial institutions	**40,187**	**-**	**40,187**
Trading and Manufacturing	**57,183**	**-**	**57,183**
Education and Health	**2,763**	**-**	**2,763**
Hospitality, media and transportation	**9,419**	**-**	**9,419**
Fisheries and Agriculture	**4,773**	**-**	**4,773**
Food Processing	**4,149**	**-**	**4,149**
Others	**34,239**	**11,084**	**45,323**
TOTAL	**152,713**	**11,084**	**163,797**

(Expressed in Thousands Bahrain Dinars)

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

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

Impairment of assets

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

Restructured Credit Facilities

During the six months 2014, credit facilities amounting to BD4,878 million were restructured. Restructuring concessions mainly related to deferral of loan installments to assist customers overcome temporary cash crunch situations or to realign the repayment with the borrowers'/projects' revised cash flow projections.

Due to the minor nature of concessions, there was no significant impact on the Bank's provisions for loans and advances impairment and present and future earnings.

Past due exposures

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

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

	2014				
	Impaired and past due loans	*Specific provision*	*Charge (recoveries)*	*Write off*	*Collective impairment*
Project finance	**12,395**	**12,882**	**218**	**-**	**604**
Fisheries and Agriculture	**1,413**	**-**	**-**	**-**	**-**
TOTAL	**13,808**	**12,882**	**218**	**-**	**604**

(Expressed in Thousands Bahrain Dinars)

TABLE 9 - RESIDUAL CONTRACTUAL MATURITY

Maturity analysis of assets and liabilities

The table below summarises the maturity profile of the Group's assets and liabilities as at 30 June 2014.

2014	*Up to 1 month*	*2 to 3 months*	*4 to 6 months*	*7 months to 1 year*	*2 to 3 years*	*4 to 5 years*	*6 to 10 years*	*11 to 20 years*	*Total*
Assets									
Cash and balances with Central Bank of Bahrain	**2,621**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,621**
Due from banks and other financial institutions	**12,706**	**2,962**	**14,805**	**-**	**-**	**-**	**-**	**-**	**30,473**
Accounts receivable and other assets	**29**	**270**	**65**	**3,611**	**-**	**-**	**-**	**-**	**3,975**
Loans and advances to customers	**3,413**	**724**	**1,863**	**3,945**	**22,288**	**54,365**	**20,458**	**1,495**	**108,551**
Available for sale investments	**8,788**	**-**	**-**	**-**	**-**	**-**	**3,427**	**-**	**12,215**
Property, plant and equipment								**10,736**	**10,736**
Total assets	**27,557**	**3,956**	**16,733**	**7,556**	**22,288**	**54,365**	**23,885**	**12,231**	**168,571**
Liabilities									
Deposits	**46,285**	**20**	**15,674**	**1,861**	**-**	**-**	**-**	**-**	**63,840**
Accounts payable and other liabilities	**-**	**3,524**	**-**	**-**	**-**	**-**	**-**	**-**	**3,524**
Long term loans	**-**	**-**	**682**	**682**	**2,728**	**24,822**	**-**	**-**	**28,914**
Total liabilities	**46,285**	**3,544**	**16,356**	**2,543**	**2,728**	**24,822**	**-**	**-**	**96,278**
Net liquidity gap	**(18,728)**	**412**	**377**	**5,013**	**19,560**	**29,543**	**23,885**	**12,231**	

(Expressed in Thousands Bahrain Dinars)

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

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

	2014
Bahrain	
Specific impairment provision	**12,882**
TOTAL	**12,882**

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

	2014						
	Project finance			Fisheries and agriculture			
	Specific	*Collective*	*Total*	*Specific*	*Collective*	*Total*	*Total*
Balance at 1 January 2014	**12,618**	**650**	**13,268**	**-**	**-**	**-**	**13,268**
Amounts written off during the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Charge for the period	**1,402**	**-**	**1,402**	**-**	**-**	**-**	**1,402**
Recoveries during the period	**(1,138)**	**(46)**	**(1,184)**	**-**	**-**	**-**	**(1,184)**
At 30 June 2014	**12,882**	**604**	**13,486**	**-**	**-**	**-**	**13,486**

(Expressed in Thousands Bahrain Dinars)

TABLE 12 - PAST DUE LOANS - AGE ANALYSIS

i) By Geographical area

	2014			
	Three months to one year	***One to three years***	***Over three years***	***Total***
Bahrain	**9,662**	**2,586**	**1,560**	**13,808**
TOTAL	**9,662**	**2,586**	**1,560**	**13,808**

ii) By Counterparty wise

	Three months to one year	***One to three years***	***Over three years***	***Total***
Project finance	**8,669**	**2,363**	**1,363**	**12,395**
Fisheries and Agriculture	**993**	**223**	**197**	**1,413**
TOTAL	**9,662**	**2,586**	**1,560**	**13,808**

(Expressed in Thousands Bahrain Dinars)

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

	2014
Claims on sovereign	**-**
Claims on public sector entities	**-**
Claims on banks	**9,265**
Claims on corporate	**97,417**
Past due exposures	**17,158**
Equity	**6,836**
Other exposures	**12,278**
TOTAL	**142,954**

TABLE 14 - ELIGIBLE FINANCIAL COLLATERAL AND GUARANTEES

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

	2014	
	Gross exposure	***Eligible CRM***
Claims on sovereign	**-**	**-**
Claims on banks	**9,265**	**-**
Claims on corporate	**114,575**	**326**
Equity	**6,836**	**-**
Other exposures	**12,278**	**-**
TOTAL	**142,954**	**326**

(Expressed in Thousands Bahrain Dinars)

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

Impact on net interest income for the year ended 30 June 2014

	2014
Bahraini Dinar	
Assets	115,084
Liabilities	52,275
(+) 200 basis points	**1,256**
(-) 200 basis points	**(1,256)**
US Dollar	
Assets	5,655
Liabilities	22,876
(+) 200 basis points	**(344)**
(-) 200 basis points	**344**
Kuwaiti Dinar	
Assets	7,779
Liabilities	7,570
(+) 200 basis points	**4**
(-) 200 basis points	**(4)**
Saudi Riyals	
Assets	9,994
Liabilities	10,034
(+) 200 basis points	**(1)**
(-) 200 basis points	**1**

(Expressed in Thousands Bahrain Dinars)

TABLE 16 - MARKET RISK, INTEREST RATE GAP

Market risk
Market risk is defined as potential adverse changes in the fair value or future cash flows of 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 II.

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

The Bank's interest rate sensitivity position is based on the contractual repricing or maturity dates, whichever dates are earlier, as follows

2014	*Up to 1 month*	*2 to 3 months*	*4 to 6 months*	*7 months to 1 year*	*2 to 5 years*	*Over 5 years*	*Non-interest bearing*	*Total*
Assets								
Cash and balances with Central Bank of Bahrain	-	-	-	-	-	-	2,621	2,621
Due from banks and other financial institutions	12,706	2,962	14,805	-	-	-	-	30,473
Accounts receivable and other assets	-	-	-	-	-	-	26,926	26,926
Loans and advances to customers	3,413	724	1,863	3,945	76,653	21,953	-	108,551
Total assets	16,119	3,686	16,668	3,945	76,653	21,953	29,547	168,571
Liabilities								
Deposits	46,285	20	15,674	1,861	-	-	-	63,840
Accounts payable and other liabilities	-	-	-	-	-	-	3,524	3,524
Long term loans	-	-	682	682	2,728	24,822	-	28,914
Total liabilities	46,285	20	16,356	2,543	2,728	24,822	3,524	96,278
Net liquidity gap	(30,166)	3,666	312	1,402	73,925	(2,869)	26,023	

(Expressed in Thousands Bahrain Dinars)

TABLE 17 - EQUITY POSITION IN THE BANKING BOOK

	2014	
	Gross exposure	***Capital requirement***
Publicly traded	**1,695**	**203**
Privately held	**3,216**	**386**
TOTAL	**4,911**	**589**

TABLE 18 - GAINS ON EQUITY INVESTMENTS

	2014
Realised gains recognised in the income statement	**582**
Unrealised gain recognised in the balance sheet:	
- Tier One	
- Tier Two	**400**
Total unrelaised gain in the balance sheet	**889**

TABLE 19 - OPERATIONAL AND LEGAL RISKS

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

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

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