

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

**Basel III Pillar III Disclosures  
For the half year ended**

**30 June 2016**

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

Basel III Pillar III Disclosures

For the half year ended 30 June 2016

(Expressed in Thousands Bahrain Dinars)

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**Bahrain Development Bank B.S.C. (c)**  
**Corporate information**

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**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 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 30 June 2016, the Group consists of the Bank and its following subsidiaries:

<b>Name</b>	<b>Country of incorporation</b>	<b>Ownership interest</b>	<b>Year end</b>
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

**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 a regulated financial institution, there is no regulatory impediment to the transfer of retained earnings to the Bank. However, as a separate legally incorporated entity, the transfer of paid in capital and mandatory reserves would require shareholder action. As the sole shareholder (either direct or indirect) in the entity, the Bank has the power to undertake the legal processes for the transfer of such capital. The Bank's subsidiaries are registered and domiciled in Bahrain and there are no exchange controls or other restrictions on the transfer of funds.

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**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.

There is no difference in the Bank's regulatory consolidation and accounting consolidation.

The Bank's regulatory capital base of BD 82,852 is as detailed below:

	<b>2016</b>	
	<u><i>CET 1</i></u>	<u><i>Tier 2</i></u>
<b>A. NET AVAILABLE CAPITAL</b>		
Paid-up share capital	65,000	-
Legal / Statutory reserve	1,186	-
Retained earnings	10,975	-
Other reserves	4,229	-
Current interim cumulative net income	522	-
Unrealized gains and losses on available for sale financial instruments	-	-
Unrealized gains arising from fair valuing equities	-	-
General loan loss provisions		940
<b>TOTAL CAPITAL BEFORE REGULATORY DEDUCTIONS</b>	<u>81,912</u>	<u>940</u>
Less : Regulatory deductions	-	-
<b>NET AVAILABLE CAPITAL</b>	<u>81,912</u>	<u>940</u>
<b>TOTAL ELIGIBLE CAPITAL BASE ( CET 1 + Tier 2)</b>		<u><u>82,852</u></u>
<b>B. CAPITAL ADEQUACY RATIO</b>		<b>2016</b>
<b>Total eligible capital base</b>		<b>82,852</b>
Credit risk weighted exposures		199,392
Market risk weighted exposures		225
Operational risk weighted exposures		15,161
<b>Total risk weighted exposures</b>		<u>214,779</u>
	<u><i>CET 1</i></u> <u><i>capital</i></u> <u><i>ratio</i></u>	<u><i>Total</i></u> <u><i>capital ratio</i></u>
<b>Capital Adequacy Ratio</b>	38.14%	38.58%

**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.

**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.

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**TABLE 2 - REGULATORY CAPITAL REQUIREMENT FOR CREDIT RISK**

	<b>2016 Capital requirement</b>
Claims on sovereign	-
Claims on public sector entities	-
Claims on banks	<b>804</b>
Claims on corporate	<b>18,807</b>
Regulatory retail exposures	-
Residential retail exposures	-
Equity	<b>1,162</b>
Other exposures	<b>3,823</b>
<b>TOTAL CREDIT RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)</b>	<b>24,596</b>

**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 30 June 2016 was as follows:

	<b>Capital requirements</b>		
	<b>2016</b>	<b>Maximum</b>	<b>Minimum</b>
Equity risk capital	-	-	-
Foreign exchange risk capital	<b>18</b>	<b>18</b>	<b>18</b>
Interest rate risk capital	-	-	-
Commodity risk capital	-	-	-
<b>TOTAL MARKET RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)</b>			<b>28</b>

**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 1,895 thousands is based on the gross operating income (excluding profit/loss on Investments held under Available for Sale, Held to Maturity categories 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 BEFORE SUBJECT TO CREDIT RISK MITIGANTS (CRM)**

	<b>2016</b>	<b>2016 Average</b>
Balances with Central Bank of Bahrain	<b>2,605</b>	<b>2,365</b>
Treasury bills and bonds	<b>5,082</b>	<b>4,663</b>
Due from banks and other financial institutions	<b>22,705</b>	<b>23,267</b>
Loans and advances to customers	<b>149,591</b>	<b>144,942</b>
Interest Receivable	<b>112</b>	<b>139</b>
Other assets	<b>2,884</b>	<b>2,713</b>
<b>TOTAL FUNDED EXPOSURES</b>	<b>182,979</b>	<b>178,089</b>
Contingent liabilities	<b>3,185</b>	<b>2,843</b>
Other commitments	<b>4,974</b>	<b>14,017</b>
<b>TOTAL UNFUNDED EXPOSURES</b>	<b>8,159</b>	<b>16,860</b>
<b>TOTAL CREDIT RISK EXPOSURE</b>	<b>191,138</b>	<b>194,949</b>

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

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**TABLE 6 - SECTORAL CLASSIFICATION OF GROSS CREDIT EXPOSURES**

	2016		<i>Total</i>
	<i>Funded</i>	<i>Unfunded</i>	
Banks and financial institutions	25,310	-	25,310
Trading and Manufacturing	76,779	-	76,779
Education and Health	15,387	-	15,387
Hospitality, media and transportation	12,922	-	12,922
Fisheries and Agriculture	5,458	-	5,458
Food Processing	7,640	-	7,640
Government	5,082	-	5,082
Others	34,401	8,159	42,560
<b>TOTAL</b>	<b>182,979</b>	<b>8,159</b>	<b>191,138</b>

The changes relating to restatement of loans and advances have been included in “others”.

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

	2016	2015
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 4,034 restructured credit facilities during the half year period ended 30 June 2016. Restructuring concessions mainly related to deferral of loan installments to assist customers overcome temporary cash crunch situations or to realign the repayment with the borrower's revised cash flow projections.

**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 IMPAIRED LOANS AND IMPAIRMENT PROVISION**

	2016				
	<i>Impaired and past due loans (after provision)</i>	<i>Specific provision</i>	<i>Charge for the year</i>	<i>Write off</i>	<i>Collective impairment</i>
Project finance	29,780	12,804	455	96	940
Fisheries and Agriculture	2,351	-	-	-	-
<b>TOTAL</b>	<b>32,131</b>	<b>12,804</b>	<b>455</b>	<b>96</b>	<b>940</b>



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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 30 June 2016.

	<i>Up to 1 month</i>	<i>1 to 3 months</i>	<i>3 to 6 months</i>	<i>6 months to 1 year</i>	<i>1 to 3 years</i>	<i>3 to 5 years</i>	<i>5 to 10 years</i>	<i>10 to 20 years</i>	<i>Above 20 years</i>	<i>Total</i>
<b>2016</b>										
<b>Assets</b>										
Cash and balances with Central Bank of Bahrain	2,952	-	-	-	-	-	-	-	-	2,952
Due from banks and other financial institutions	10,163	905	11,637	-	-	-	-	-	-	22,705
Accounts receivable and other assets	-	-	2,996	-	-	-	-	-	-	2,996
Loans and advances to customers	3,290	616	1,536	4,374	31,061	75,658	31,597	1,459	-	149,591
Investment securities	5,212	-	-	-	-	-	6,312	-	-	11,524
Investment in associates	-	-	-	-	-	-	-	-	419	419
Investment property	-	-	-	-	-	-	-	-	12,475	12,475
Property, plant and equipment	-	-	-	-	-	-	-	-	1,200	1,200
<b>Total assets</b>	<b>21,617</b>	<b>1,521</b>	<b>16,169</b>	<b>4,374</b>	<b>31,061</b>	<b>75,658</b>	<b>37,909</b>	<b>1,459</b>	<b>14,094</b>	<b>203,862</b>
<b>Liabilities</b>										
Deposits	43,267	15,362	137	10,549	23	-	-	-	-	69,338
Accounts payable and other liabilities	-	-	4,179	-	-	-	-	-	-	4,179
Long term loans	-	251	1,391	1,642	16,308	9,745	14,326	4,757	-	48,420
<b>Total liabilities</b>	<b>43,267</b>	<b>15,613</b>	<b>5,707</b>	<b>12,191</b>	<b>16,331</b>	<b>9,745</b>	<b>14,326</b>	<b>4,757</b>	<b>-</b>	<b>121,937</b>
<b>Net liquidity gap</b>	<b>(21,650)</b>	<b>(14,092)</b>	<b>10,462</b>	<b>(7,817)</b>	<b>14,730</b>	<b>65,913</b>	<b>23,583</b>	<b>(3,298)</b>	<b>14,094</b>	

Residual contractual maturity of loans and advances is based on the final maturity of the loan and not based on the payment schedule of the loan. The changes relating to restatement of loans and advances have been included in "1 to 3 years" in the maturity profile.

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**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.

	<b>2016</b>
<b>Bahrain</b>	
Specific impairment provision	<b>12,804</b>
<b>TOTAL</b>	<b>12,804</b>

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

	<b>2016</b>						<i>Total</i>
	<b>Project finance</b>			<b>Fisheries and agriculture</b>			
	<i>Specific</i>	<i>Collective</i>	<i>Total</i>	<i>Specific</i>	<i>Collective</i>	<i>Total</i>	
Balance at 1 January 2016	12,445	873	13,318	-	-	-	13,318
Amounts written off during the period	(96)	-	(96)	-	-	-	(96)
Charge for the period	1,919	67	1,986	-	-	-	1,986
Recoveries during the period	(1,464)	-	(1,464)	-	-	-	(1,464)
<b>At 30 June 2016</b>	<b>12,804</b>	<b>940</b>	<b>13,744</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,744</b>

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

**i) By Geographical area**

	2016			<i>Total</i>
	<i>Three months to one year</i>	<i>One to three years</i>	<i>Over three years</i>	
Bahrain	19,420	99	8	19,527
<b>TOTAL</b>	<b>19,420</b>	<b>99</b>	<b>8</b>	<b>19,527</b>

**ii) By Counterparty wise**

	<i>Three months to one year</i>	<i>One to three years</i>	<i>Over three years</i>	<i>Total</i>
Project finance	18,146	-	-	18,146
Fisheries and Agriculture	782	-	-	782
Other Assets	492	99	8	599
<b>TOTAL</b>	<b>19,420</b>	<b>99</b>	<b>8</b>	<b>19,527</b>

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

	2016
Claims on sovereign	-
Claims on public sector entities	-
Claims on banks	6,428
Claims on corporate	141,352
Past due exposures	11,733
Equity	9,298
Other exposures	30,581
<b>TOTAL</b>	<b>199,392</b>

**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	
	<i>Gross exposure</i>	<i>Eligible CRM</i>
Claims on sovereign	-	-
Claims on public sector entities	-	-
Claims on MDBs	-	-
Claims on banks	6,428	-
Claims on corporate	153,085	1,073
Equity	9,298	-
Other exposures	30,581	-
<b>TOTAL</b>	<b>199,392</b>	<b>1,073</b>

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

Impact on net interest income for the year ended 30 June 2016

	<b>2016</b>
<b>Bahraini Dinar</b>	
Assets	208,739
Liabilities	176,197
	<hr/>
(+) 200 basis points	<b>651</b>
(-) 200 basis points	<b>(651)</b>
<b>US Dollar</b>	
Assets	32,925
Liabilities	44,715
	<hr/>
(+) 200 basis points	<b>(236)</b>
(-) 200 basis points	<b>236</b>
<b>Kuwaiti Dinar</b>	
Assets	4,731
Liabilities	4,530
	<hr/>
(+) 200 basis points	<b>4</b>
(-) 200 basis points	<b>(4)</b>
<b>Saudi Riyals</b>	
Assets	9,881
Liabilities	9,864
	<hr/>
(+) 200 basis points	<b>0</b>
(-) 200 basis points	<b>(0)</b>

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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

	<i>Up to 1 month</i>	<i>1 to 3 months</i>	<i>3 to 6 months</i>	<i>6 months to 1 year</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Non- interest bearing</i>	<i>Total</i>
<b>2016</b>								
<b>Assets</b>								
Cash and balances with Central Bank of Bahrain	-	-	-	-	-	-	2,952	2,952
Due from banks and other financial institutions	10,163	905	11,637	-	-	-	-	22,705
Accounts receivable and other assets	5,212	-	-	-	-	-	23,402	28,614
Loans and advances to customers	3,290	616	1,536	4,374	106,719	33,056	-	149,591
<b>Total assets</b>	<b>18,665</b>	<b>1,521</b>	<b>13,173</b>	<b>4,374</b>	<b>106,719</b>	<b>33,056</b>	<b>26,354</b>	<b>203,862</b>
<b>Liabilities</b>								
Deposits	43,267	15,362	137	10,549	23	-	-	69,338
Accounts payable and other liabilities	-	-	-	-	-	-	4,179	4,179
Long term loans	-	251	1,391	1,642	26,053	19,083	-	48,420
<b>Total liabilities</b>	<b>43,267</b>	<b>15,613</b>	<b>1,528</b>	<b>12,191</b>	<b>26,076</b>	<b>19,083</b>	<b>4,179</b>	<b>121,937</b>
<b>Net liquidity gap</b>	<b>(24,602)</b>	<b>(14,092)</b>	<b>11,645</b>	<b>(7,817)</b>	<b>80,643</b>	<b>13,973</b>	<b>22,175</b>	

The changes relating to restatement of loans and advances have been included in "1 to 5 years" in the maturity profile.

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**TABLE 17 - EQUITY POSITION IN THE BANKING BOOK**

	2016	
	<i>Net exposure</i>	<i>Capital requirement</i>
Publicly traded	5,212	625
Privately held	6,312	757
<b>TOTAL</b>	<b>11,524</b>	<b>1,383</b>

**TABLE 18 - GAINS ON EQUITY INVESTMENTS**

	2016
Realised gains recognised in the statement of profit or loss on sale	13
Unrealised gain recognised in the statement of financial position:	
- CET 1	73
- Tier Two	-

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 operational risk. Currently, the Bank conducts its business from a single location. BDB is a retail bank with some restrictions and accordingly, the number of client relationships and volume of transactions at BDB are moderate on average.

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

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

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

Bank's ICAAP limit of 25% has been fixed to absorb any unforeseen 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 & PENALTY**

	2016
Penalty paid to Central Bank of Bahrain ( Amount in BHD Actual)	170