

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

**Basel III Pillar III Disclosures
For the year ended
31 December 2015**

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

Basel II Pillar III Disclosures

For the year ended 31 December 2015

(Expressed in Thousands Bahrain Dinars)

Table 1	Capital structure	3
Table 2	Capital requirement for credit risk	5
Table 3	Capital requirement for market risk	5
Table 4	Capital requirement for operational risk	5
Table 5	Gross credit exposures before subject to credit risk mitigants (CRM)	5
Table 6	Sectoral classification of gross credit exposures	6
Table 7	Credit concentration greater than 15% individual obligor limit	7
Table 8	Counterparty wise breakdown of impaired loans and impairment provision	7
Table 9	Residual contract maturity	8
Table 10	Geographical distribution of impairment provisions for loans and advances to customers	9
Table 11	Movement in impairment provision for loans and advances to customers and interest in suspense	9
Table 12	Past due loans - age analysis	10
Table 13	Credit risk exposure post credit risk mitigation and credit conversion	11
Table 14	Eligible financial collateral and guarantees	11
Table 15	Sensitivity analysis - interest rate risk	12
Table 16	Market risk, Interest rate GAP	13
Table 17	Equity position in the banking book	14
Table 18	Gain on Equity Investments	14
Table 19	Operational & legal risks	14
Table 20	Fines and Penalty	14

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

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 31 December 2015, 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
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 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.

BAHRAIN DEVELOPMENT BANK B.S.C. (c)
 Basel II Pillar III Disclosures
 For the year ended 31 December 2015
 (Expressed in Thousands 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 of BD 78,066 is as detailed below:

	2015		2014	
	<u>CET 1</u>	<u>Tier 2</u>	<u>Tier 1</u>	<u>Tier 2</u>
A. NET AVAILABLE CAPITAL				
Paid-up share capital	65,000	-	65,000	
Legal / Statutory reserve	1,186	-	1,081	
Retained earnings	5,908	-	4,441	
Other reserves	4,048	-	4,048	
Current year profit	1,051	-	705	
Unrealized gains and losses on available for sale financial instruments	-	-		
Unrealized gains arising from fair valuing equities	-	-	-	246
General loan loss provisions		873		700
TOTAL CAPITAL BEFORE REGULATORY DEDUCTIONS	77,193	873	75,275	946
Less : Regulatory deductions	-	-	-	-
NET AVAILABLE CAPITAL	77,193	873	75,275	946
TOTAL ELIGIBLE CAPITAL BASE (CET 1 + Tier 2)		78,066		76,221
B. CAPITAL ADEQUACY RATIO		2015		2014
Total eligible capital base		78,066		76,221
Credit risk weighted exposures		198,779		158,767
Market risk weighted exposures		200		263
Operational risk weighted exposures		15,161		14,099
Total risk weighted exposures		214,140		173,129
	<u>CET 1</u>	<u>Total</u>	<u>Tier 1</u>	<u>Total capital</u>
	<u>capital</u>	<u>capital ratio</u>	<u>capital ratio</u>	<u>ratio</u>
	<u>ratio</u>			
Capital Adequacy Ratio	36.05%	36.46%	43.48%	44.03%

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 II requirements.

Brief description of applicable standard portfolio are as follows:

a. Claims on banks:

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

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

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

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.

BAHRAIN DEVELOPMENT BANK B.S.C. (c)
 Basel II Pillar III Disclosures
 For the year ended 31 December 2015
 (Expressed in Thousands Bahrain Dinars)

TABLE 2 - REGULATORY CAPITAL REQUIREMENT FOR CREDIT RISK

	2015 Capital requirement	2014 Capital requirement
Claims on sovereign	-	-
Claims on public sector entities	-	-
Claims on banks	1,010	2,120
Claims on corporate	18,615	13,880
Regulatory retail exposures	-	-
Residential retail exposures	-	-
Equity	1,120	762
Other exposures	3,848	2,289
TOTAL CREDIT RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)	24,592	19,052

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

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 2015 was as follows:

	Capital requirements			2014
	2015	Maximum	Minimum	
Equity risk capital	-	-	-	-
Foreign exchange risk capital	16	18	16	21
Interest rate risk capital	-	-	-	-
			2015	2014
TOTAL MARKET RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)			25	32

TABLE 4 - REGULATORY CAPITAL REQUIREMENT FOR OPERATIONAL RISK

The capital requirement for operational risk using the Basic Indicator Approach as at 31 December 2015 amounted to

1,895 1,692

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

	2015	2015 Average	2014	2014 Average
Balances with Central Bank of Bahrain	2,125	2,187	1,999	2,138
Treasury bills and bonds	4,244	5,974	10,883	8,988
Due from banks and other financial institutions	23,829	28,024	30,719	30,769
Loans and advances to customers	140,292	132,426	110,048	109,300
Interest Receivable	165	157	78	152
Other assets	2,541	2,490	1,175	2,462
TOTAL FUNDED EXPOSURES	173,196	171,258	154,902	153,809
Contingent liabilities	2,501	2,550	2,416	2,560
Other commitments	23,059	19,496	6,996	7,688
TOTAL UNFUNDED EXPOSURES	25,560	22,046	9,412	10,248
TOTAL CREDIT RISK EXPOSURE	198,756	193,304	164,314	164,057

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

BAHRAIN DEVELOPMENT BANK B.S.C. (c)
 Basel II Pillar III Disclosures
 For the year ended 31 December 2015
 (Expressed in Thousands Bahrain Dinars)

TABLE 6 - SECTORAL CLASSIFICATION OF GROSS CREDIT EXPOSURES

	2015		
	<i>Funded</i>	<i>Unfunded</i>	<i>Total</i>
Banks and financial institutions	25,954	-	25,954
Trading and Manufacturing	67,863	-	67,863
Education and Health	8,006	-	8,006
Hospitality, media and transportation	11,849	-	11,849
Fisheries and Agriculture	5,377	-	5,377
Food Processing	7,581	-	7,581
Government	4,244	-	4,244
Others	42,322	25,560	67,882
TOTAL	173,196	25,560	198,756
	2014		
	<i>Funded</i>	<i>Unfunded</i>	<i>Total</i>
Banks and financial institutions	43,601	-	43,601
Trading and Manufacturing	54,644	-	54,644
Education and Health	10,380	-	10,380
Hospitality, media and transportation	8,702	-	8,702
Fisheries and Agriculture	4,437	-	4,437
Food Processing	2,940	-	2,940
Others	30,198	9,412	39,610
TOTAL	154,902	9,412	164,314

BAHRAIN DEVELOPMENT BANK B.S.C. (c)
 Basel II Pillar III Disclosures
 For the year ended 31 December 2015
 (Expressed in Thousands Bahrain Dinars)

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

	2015	2014
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 8,150 restructured credit facilities during the year period ended 31 December 2015.

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.

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

	2015				
	<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	32,586	12,445	304	1,349	873
Fisheries and Agriculture	2,354	-	-	-	-
TOTAL	34,940	12,445	304	1,349	873
	2014				
	<i>Impaired and past due loans</i>	<i>Specific provision</i>	<i>Charge (recoveries)</i>	<i>Write off</i>	<i>Collective impairment</i>
Project finance	21,759	13,490	2,881	2,009	700
Fisheries and Agriculture	1,980	-	-	-	-
TOTAL	23,739	13,490	2,881	2,009	700

BAHRAIN DEVELOPMENT BANK B.S.C. (c)
 Basel II Pillar III Disclosures
 For the year ended 31 December 2015
 (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 31 December 2015.

	<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>Total</i>
2015									
Assets									
Cash and balances with Central Bank of Bahrain	2,443	-	-	-	-	-	-	-	2,443
Due from banks and other financial institutions	10,585	6,227	7,017	-	-	-	-	-	23,829
Accounts receivable and other assets	-	-	2,706	-	-	-	-	-	2,706
Loans and advances to customers	4,129	697	1,319	3,016	23,630	75,507	30,512	1,482	140,292
Investment securities	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
Total assets	21,565	6,924	11,042	3,016	23,630	75,507	36,952	15,488	194,124
Liabilities									
Deposits	47,888	15,677	3,421	198	-	-	-	-	67,184
Accounts payable and other liabilities	-	-	4,400	-	-	-	-	-	4,400
Long term loans	-	251	1,387	1,638	9,569	8,368	19,101	5,009	45,323
Total liabilities	47,888	15,928	9,208	1,836	9,569	8,368	19,101	5,009	116,907
Net liquidity gap	(26,323)	(9,004)	1,834	1,180	14,061	67,139	17,851	10,479	

The table below summarises the maturity profile of the Group's assets and liabilities as at 31 December 2014

	<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>Total</i>
2014									
Assets									
Cash and balances with Central Bank of Bahrain	2,236	-	-	-	-	-	-	-	2,236
Due from banks and other financial institutions	10,951	3,933	13,835	2,000	-	-	-	-	30,719
Accounts receivable and other assets	-	-	1,253	-	-	-	-	-	1,253
Loans and advances to customers	4,111	727	1,763	3,597	21,275	58,484	17,823	2,268	110,048
Available for sale investments	2,014	3,328	300	3,000	-	2,242	4,783	-	15,667
Investment property	-	-	-	-	-	-	-	3,623	3,623
Property, plant and equipment	-	-	-	-	-	-	-	10,760	10,760
Total assets	19,312	7,988	17,151	8,597	21,275	60,726	22,606	16,651	174,306
Liabilities									
Deposits	40,269	2,087	13,024	232	1,525	-	-	-	57,137
Accounts payable and other liabilities	313	3,636	-	-	-	-	-	-	3,949
Long term loans	-	657	-	657	7,364	8,976	11,866	7,878	37,398
Total liabilities	40,582	6,380	13,024	889	8,889	8,976	11,866	7,878	98,484
Net liquidity gap	(21,270)	1,608	4,127	7,708	12,386	51,750	10,740	8,773	

BAHRAIN DEVELOPMENT BANK B.S.C. (c)
 Basel II Pillar III Disclosures
 For the year ended 31 December 2015
 (Expressed in Thousands Bahrain Dinars)

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.

	2015	2014
Bahrain		
Specific impairment provision	12,445	13,490
TOTAL	<u>12,445</u>	<u>13,490</u>

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

	2015						
	Project finance			Fisheries and agriculture			
	<i>Specific</i>	<i>Collective</i>	<i>Total</i>	<i>Specific</i>	<i>Collective</i>	<i>Total</i>	<i>Total</i>
Balance at 1 January 2015	13,490	700	14,190	-	-	-	14,190
Amounts written off during the period	(1,349)	-	(1,349)	-	-	-	(1,349)
Charge for the period	2,510	173	2,683	-	-	-	2,683
Recoveries during the period	(2,206)	-	(2,206)	-	-	-	(2,206)
At 31 December 2015	<u>12,445</u>	<u>873</u>	<u>13,318</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,318</u>
	2014						
	Project finance			Fisheries and agriculture			
	<i>Specific</i>	<i>Collective</i>	<i>Total</i>	<i>Specific</i>	<i>Collective</i>	<i>Total</i>	<i>Total</i>
Balance at 1 January 2013	12,618	650	13,268	-	-	-	13,268
Amounts written off during the year	(2,009)	-	(2,009)	-	-	-	(2,009)
Charge for the year	4,940	118	5,058	-	-	-	5,058
Recoveries during the year	(2,059)	(68)	(2,127)	-	-	-	(2,127)
At 31 December 2013	<u>13,490</u>	<u>700</u>	<u>14,190</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,190</u>

BAHRAIN DEVELOPMENT BANK B.S.C. (c)
 Basel II Pillar III Disclosures
 For the year ended 31 December 2015
 (Expressed in Thousands Bahrain Dinars)

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

i) By Geographical area

	2015			<i>Total</i>
	<i>Three months to one year</i>	<i>One to three years</i>	<i>Over three years</i>	
Bahrain	26,128	118	8	26,254
TOTAL	26,128	118	8	26,254

ii) By Counterparty wise

	2015			<i>Total</i>
	<i>Three months to one year</i>	<i>One to three years</i>	<i>Over three years</i>	
Project finance	24,475	100	-	24,575
Fisheries and Agriculture	1,060	-	-	1,060
Other Assets	593	18	8	619
TOTAL	26,128	118	8	26,254

i) By Geographical area

	2014			<i>Total</i>
	<i>Three months to one year</i>	<i>One to three years</i>	<i>Over three years</i>	
Bahrain	18,115	-	8	18,123
TOTAL	18,115	-	8	18,123

ii) By Counterparty wise

	2014			<i>Total</i>
	<i>Three months to one year</i>	<i>One to three years</i>	<i>Over three years</i>	
Project finance	17,051	-	-	17,051
Fisheries and Agriculture	1,060	-	-	1,060
Other Assets	4	-	8	12
TOTAL	18,115	-	8	18,123

BAHRAIN DEVELOPMENT BANK B.S.C. (c)
 Basel II Pillar III Disclosures
 For the year ended 31 December 2015
 (Expressed in Thousands Bahrain Dinars)

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

	2015	2014
Claims on sovereign	-	-
Claims on public sector entities	-	-
Claims on banks	8,079	17,669
Claims on corporate	134,081	101,159
Past due exposures	14,836	14,509
Equity	8,957	6,354
Other exposures	32,826	19,076
TOTAL	198,779	158,767

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.

	2015		2014	
	<i>Gross exposure</i>	<i>Eligible CRM</i>	<i>Gross exposure</i>	<i>Eligible CRM</i>
Claims on sovereign	-	-	-	-
Claims on public sector entities	-	-	-	-
Claims on MDBs	-	-	-	-
Claims on banks	8,079	-	17,669	-
Claims on corporate	148,917	329	115,668	293
Equity	8,957	-	6,354	-
Other exposures	32,826	-	19,076	-
TOTAL	198,779	329	158,767	293

BAHRAIN DEVELOPMENT BANK B.S.C. (c)
 Basel II Pillar III Disclosures
 For the year ended 31 December 2015
 (Expressed in Thousands Bahrain Dinars)

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

Impact on net interest income for the year ended 31 December 2015

	2015
Bahraini Dinar	
Assets	149,675
Liabilities	51,899
	<hr/>
(+) 200 basis points	1,956
(-) 200 basis points	(1,956)
US Dollar	
Assets	12,157
Liabilities	45,348
	<hr/>
(+) 200 basis points	(664)
(-) 200 basis points	664
Kuwaiti Dinar	
Assets	5,292
Liabilities	5,141
	<hr/>
(+) 200 basis points	3
(-) 200 basis points	(3)
Saudi Riyals	
Assets	10,035
Liabilities	10,119
	<hr/>
(+) 200 basis points	(2)
(-) 200 basis points	2

BAHRAIN DEVELOPMENT BANK B.S.C. (c)
 Basel II Pillar III Disclosures
 For the year ended 31 December 2015
 (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 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>
2015								
Assets								
Cash and balances with Central Bank of Bahrain	-	-	-	-	-	-	2,443	2,443
Due from banks and other financial institutions	10,585	6,227	7,017	-	-	-	-	23,829
Accounts receivable and other assets	4,408	-	-	-	-	-	21,831	26,239
Loans and advances to customers	4,129	697	1,319	3,016	99,137	31,994	-	140,292
Total assets	19,122	6,924	8,336	3,016	99,137	31,994	24,274	192,803
Liabilities								
Deposits	47,888	15,677	3,421	198	-	-	-	67,184
Accounts payable and other liabilities	-	-	-	-	-	-	4,400	4,400
Long term loans	-	251	1,387	1,638	17,937	24,110	-	45,323
Total liabilities	47,888	15,928	4,808	1,836	17,937	24,110	4,400	116,907
Net liquidity gap	(28,766)	(9,004)	3,528	1,180	81,200	7,884	19,874	
	<i>Up to 1 month</i>	<i>2 to 3 months</i>	<i>4 to 6 months</i>	<i>7 months to 1 year</i>	<i>2 to 5 years</i>	<i>Over 5 years</i>	<i>Non- interest bearing</i>	<i>Total</i>
2014								
Assets								
Cash and balances with Central Bank of Bahrain	-	-	-	-	-	-	2,236	2,236
Due from banks and other financial institutions	10,951	3,933	13,835	2,000	-	-	-	30,719
Accounts receivable and other assets	2,014	3,328	300	3,000	-	2,241	9,660	20,543
Loans and advances to customers	4,111	727	1,763	3,597	21,275	78,575	-	110,048
Total assets	17,076	7,988	15,898	8,597	21,275	80,816	11,896	163,546
Liabilities								
Deposits	40,269	2,087	13,024	232	1,525	-	-	57,137
Accounts payable and other liabilities	-	-	-	-	-	-	3,949	3,949
Long term loans	-	657	-	657	16,340	19,744	-	37,398
Total liabilities	40,269	2,744	13,024	889	17,865	19,744	3,949	98,484
Net liquidity gap	(23,193)	5,244	2,874	7,708	3,410	61,072	7,947	

BAHRAIN DEVELOPMENT BANK B.S.C. (c)
 Basel II Pillar III Disclosures
 For the year ended 31 December 2015
 (Expressed in Thousands Bahrain Dinars)

TABLE 17 - EQUITY POSITION IN THE BANKING BOOK

	2015		2014	
	<i>Net exposure</i>	<i>Capital requirement</i>	<i>Net exposure</i>	<i>Capital requirement</i>
Publicly traded	4,408	529	3,831	460
Privately held	6,187	742	11,564	1,388
TOTAL	10,595	1,271	15,395	1,847

TABLE 18 - GAINS ON EQUITY INVESTMENTS

	2015	2014
Realised gains recognised in the statement of profit or loss	1,718	3,500
Unrealised gain recognised in the statement of financial position:		
- CET 1	-	547
- Tier Two	-	-

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.

TABLE 20 - FINES & PENALTY

	2015	2014
Penalty paid to Central Bank of Bahrain (Amount in BHD Actual)	50	-