

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

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

31-Dec-14

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

Basel II Pillar III Disclosures

For the year ended 31 December 2014

(Expressed in Thousands Bahrain Dinars)

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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 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 2014.

As at 31 December 2014, the Group consists of the Bank and its following subsidiaries:

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

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.

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TABLE 1 - CAPITAL STRUCTURE

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

The Bank's regulatory capital base of BD 76,221 is as detailed below:

	<u>2014</u>		<u>2013</u>	
	<u>Tier 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	
Reserve:				
Statutory reserve	1,081		1,010	
Others	4,048		425	
Retained earnings brought forward	4,441		4,860	
Current year Profit (loss)	705		(348)	
Asset revaluation reserves-Property, plant and equipment (45% only)				
Unrealized gains arising from fair valuing equities (45% only)	-	246	-	112
Excess of total eligible provisions over total expected loss		700		650
TOTAL CAPITAL BEFORE REGULATORY DEDUCTIONS	<u>75,275</u>	<u>946</u>	<u>70,947</u>	<u>762</u>
Less : Regulatory deductions	-	-	-	-
NET AVAILABLE CAPITAL	<u>75,275</u>	<u>946</u>	<u>70,947</u>	<u>762</u>
TOTAL ELIGIBLE CAPITAL BASE (Tier 1 + Tier 2)		<u>76,221</u>		<u>71,709</u>
B. CAPITAL ADEQUACY RATIO				
		<u>2014</u>		<u>2013</u>
Total eligible capital base		76,221		71,709
Credit risk weighted exposures		158,767		133,891
Market risk weighted exposures		263		317
Operational risk weighted exposures		14,099		13,781
Total risk weighted exposures		<u>173,129</u>		<u>147,989</u>
		<u>Tier 1</u>		<u>Tier 2</u>
Capital Adequacy Ratio		43.48%		0.55%
				<u>Tier 1</u>
				47.94%
				<u>Tier 2</u>
				0.51%

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 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.

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 24 in interim financial information).

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

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TABLE 2 - REGULARATY CAPITAL REQUIREMENT FOR CREDIT RISK

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

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, currency and bond futures. The capital requirement for market risk using the Standardised Approach as at 31 December 2014 was as follows:

	Capital requirements		
	2014	Maximum	Minimum
Equity risk capital	-	-	-
Foreign exchange risk capital	21	113	17
Interest rate risk capital	-	-	-
TOTAL MARKET RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)			32

TABLE 4 - REGULAROTY CAPITAL REQUIREMENT FOR OPERATIONAL RISK

The capital requirement for operational risk using the Basic Indicator Approach as at 31 December 2014 amounted to **1,692**

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

	2014	2014 Average
Balances with Central Bank of Bahrain	1,999	2,138
Treasury bills and bonds	10,883	8,988
Due from banks and other financial institutions	30,719	30,769
Loans and advances to customers	110,048	109,300
Interest Receivable	78	152
Other assets	1,175	2,462
TOTAL FUNDED EXPOSURES	154,902	153,809
Contingent liabilities	2,416	2,560
Other commitments	6,996	7,688
TOTAL UNFUNDED EXPOSURES	9,412	10,248
TOTAL CREDIT RISK EXPOSURE	164,314	164,057

The gross average credit risk exposure are based on year to year end prudential return reporting.

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TABLE 6 - SECTORAL CLASSIFICATION OF GROSS CREDIT EXPOSURES

	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

	2013		
	<i>Funded</i>	<i>Unfunded</i>	<i>Total</i>
Banks and financial institutions	28,775	-	28,775
Trading and Manufacturing	49,493	-	49,493
Education and Health	2,465	-	2,465
Hospitality, media and transportation	10,212	-	10,212
Fisheries and Agriculture	4,854	-	4,854
Food Processing	3,141	-	3,141
Others	42,856	11,072	53,928
TOTAL	141,796	11,072	152,868

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

	2014	2013
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

The bank have BD 9,569 restructured credit facilities during the year period ended 31 December 2014.

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

	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	9,742	13,490	2,881	2,009	700
Fisheries and Agriculture	1,257	-	-	-	-
TOTAL	10,999	13,490	2,881	2,009	700
	2013				
	<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	14,539	12,618	1,788	52	650
Fisheries and Agriculture	1,356	-	-	-	-
TOTAL	15,895	12,618	1,788	52	650

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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 2014.

	<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 3 years</i>	<i>4 to 5 years</i>	<i>6 to 10 years</i>	<i>11 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	

The table below summarises the maturity profile of the Group's assets and liabilities as at 31 December 2013

	<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>
2013									
Assets									
Cash and balances with Central Bank of Bahrain	2,588	-	-	-	-	-	-	-	2,588
Due from banks and other financial institutions	14,804	8,669	2,714	-	-	-	-	-	26,187
Accounts receivable and other assets	1,014	10	48	5,492	-	-	-	-	6,564
Loans and advances to customers	4,338	515	1,095	1,819	34,614	38,926	20,060	-	101,367
Available for sale investments	-	-	-	6,814	-	-	3,452	-	10,266
Property, plant and equipment	-	-	-	-	-	-	-	10,842	10,842
Total assets	22,744	9,194	3,857	14,125	34,614	38,926	23,512	10,842	157,814
Liabilities									
Deposits	30,293	11,000	704	11,680	-	-	-	-	53,677
Accounts payable and other liabilities	-	3,359	-	-	-	-	-	-	3,359
Long term loans	-	-	694	694	4,164	24,030	-	-	29,582
Total liabilities	30,293	14,359	1,398	12,374	4,164	24,030	-	-	86,618
Net liquidity gap	(7,549)	(5,165)	2,459	1,751	30,450	14,896	23,512	10,842	

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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	2013
Bahrain		
Specific impairment provision	13,490	12,618
TOTAL	<u>13,490</u>	<u>12,618</u>

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

	2014						Total
	Project finance			Fisheries and agriculture			
	Specific	Collective	Total	Specific	Collective	Total	
Balance at 1 January 2014	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 2014	<u>13,490</u>	<u>700</u>	<u>14,190</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,190</u>

	2013						Total
	Project finance			Fisheries and agriculture			
	Specific	Collective	Total	Specific	Collective	Total	
Balance at 1 January 2013	10,882	750	11,632	-	-	-	11,632
Amounts written off during the year	(52)	-	(52)	-	-	-	(52)
Charge for the year	3,258	-	3,258	-	-	-	3,258
Recoveries during the year	(1,470)	(100)	(1,570)	-	-	-	(1,570)
At 31 December 2013	<u>12,618</u>	<u>650</u>	<u>13,268</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,268</u>

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TABLE 12 - PAST DUE LOANS - AGE ANALYSIS

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	2,394	2,879	5,726	10,999
TOTAL	2,394	2,879	5,726	10,999

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	2,156	2,620	4,965	9,741
Fisheries and Agriculture	238	259	761	1,258
TOTAL	2,394	2,879	5,726	10,999

i) By Geographical area

	2013			<i>Total</i>
	<i>Three months to one year</i>	<i>One to three years</i>	<i>Over three years</i>	
Bahrain	7,745	3,612	4,538	15,895
TOTAL	7,745	3,612	4,538	15,895

ii) By Counterparty wise

	2013			<i>Total</i>
	<i>Three months to one year</i>	<i>One to three years</i>	<i>Over three years</i>	
Project finance	6,881	3,341	4,317	14,539
Fisheries and Agriculture	864	271	221	1,356
TOTAL	7,745	3,612	4,538	15,895

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

	2014	2013
Claims on sovereign	-	-
Claims on public sector entities	-	-
Claims on banks	17,669	9,672
Claims on corporate	101,159	88,550
Past due exposures	14,509	17,019
Equity	6,354	6,679
Other exposures	19,076	11,971
TOTAL	158,767	133,891

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		2013	
	<i>Gross exposure</i>	<i>Eligible CRM</i>	<i>Gross exposure</i>	<i>Eligible CRM</i>
Claims on sovereign	-	-	-	-
Claims on banks	17,669	-	9,672	-
Claims on corporate	115,668	293	105,569	16,583
Equity	6,354	-	6,679	-
Other exposures	19,076	-	11,971	-
TOTAL	158,767	293	133,891	16,583

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

Impact on net interest income for the year ended 31 December 2014

	2014
Bahraini Dinar	
Assets	48,768
Liabilities	38,023
	<hr/>
(+) 200 basis points	215
(-) 200 basis points	(215)
US Dollar	
Assets	29,256
Liabilities	8,633
	<hr/>
(+) 200 basis points	412
(-) 200 basis points	(412)
Kuwaiti Dinar	
Assets	6,646
Liabilities	6,829
	<hr/>
(+) 200 basis points	(4)
(-) 200 basis points	4
Saudi Riyals	
Assets	10,119
Liabilities	9,999
	<hr/>
(+) 200 basis points	2
(-) 200 basis points	(2)

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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 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

	<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	
	<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>
2013								
Assets								
Cash and balances with Central Bank of Bahrain	-	-	-	-	-	-	2,588	2,588
Due from banks and other financial institutions	14,804	8,669	2,714	-	-	-	-	26,187
Accounts receivable and other assets	-	-	-	-	-	-	16,830	16,830
Loans and advances to customers	4,338	515	1,095	1,819	34,614	58,986	-	101,367
Total assets	19,142	9,184	3,809	1,819	34,614	58,986	19,418	146,972
Liabilities								
Deposits	30,293	11,000	704	11,680	-	-	-	53,677
Accounts payable and other liabilities	-	-	-	-	-	-	3,359	3,359
Long term loans	-	-	694	694	4,164	24,030	-	29,582
Total liabilities	30,293	11,000	1,398	12,374	4,164	24,030	3,359	86,618
Net liquidity gap	(11,151)	(1,816)	2,411	(10,555)	30,450	34,956	16,059	

BAHRAIN DEVELOPMENT BANK B.S.C. (c)
 Basel II Pillar III Disclosures
 For the year ended 31 December 2014
 (Expressed in Thousands Bahrain Dinars)

TABLE 17 - EQUITY POSITION IN THE BANKING BOOK

	2014	
	<i>Net exposure</i>	<i>Capital requirement</i>
Publicly traded	3,831	460
Privately held	11,564	1,388
TOTAL	15,395	1,847

TABLE 18 - GAINS ON EQUITY INVESTMENTS

	2014	2013
Realised gains recognised in the income statement	3,500	-
Unrealised gain recognised in the balance sheet:		
- Tier One	-	-
- Tier Two	246	112

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.