

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

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

31-Dec-13

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

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For the year ended 31 December 2013

(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 2013.

As at 31 December 2013, 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 Institute of Entrepreneurship & Technology W.L.L.	Kingdom of Bahrain	100%	31 December
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 71,709 is as detailed below:

	<u>2013</u>		<u>2012</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		53,750	
Reserve:				
Statutory reserve	1,010		1,010	
Others	425			
Retained earnings brought forward	4,860		7,913	
Current year (loss)	(348)		(3,053)	
Asset revaluation reserves-Property, plant and equipment (45% only)				
Unrealized gains arising from fair valuing equities (45% only)	-	112	-	23
Excess of total eligible provisions over total expected loss		650		
TOTAL CAPITAL BEFORE REGULATORY DEDUCTIONS	70,947	762	59,620	23
Less : Regulatory deductions	-	-	-	-
NET AVAILABLE CAPITAL	70,947	762	59,620	23
TOTAL ELIGIBLE CAPITAL BASE (Tier 1 + Tier 2)		71,709		59,643
B. CAPITAL ADEQUACY RATIO		2013		2012
Total eligible capital base		71,709		59,643
Credit risk weighted exposures		133,891		132,987
Market risk weighted exposures		317		1,370
Operational risk weighted exposures		13,781		13,015
Total risk weighted exposures		147,989		147,372
Capital Adequacy Ratio		48.46%		40.47%

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 11 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

	2013	2012
	Capital	Capital
	requirement	requirement
Claims on sovereign	-	-
Claims on public sector entities	-	-
Claims on banks	1,161	1,344
Claims on corporate	12,668	11,808
Regulatory retail exposures	-	-
Residential retail exposures	-	-
Equity	801	1,052
Other exposures	1,437	1,755
TOTAL CREDIT RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)	16,067	15,959

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 2013 was as follows:

	Capital requirements			2012
	2013	Maximum	Minimum	
Equity risk capital	-	-	-	-
Foreign exchange risk capital	25	113	26	110
Interest rate risk capital	-	-	-	-
		2013		2012
TOTAL MARKET RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)		38		164

TABLE 4 - REGULARATY CAPITAL REQUIREMENT FOR OPERATIONAL RISK

The capital requirement for operational risk using the Basic Indicator Approach as at 31 December 2013 amounted to

1,654 1,562

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

	2013	2013	2012
		Average	
Balances with Central Bank of Bahrain	2,365	2,246	2,127
Treasury bills and bonds	5,313	4,281	3,248
Due from banks and other financial institutions	26,187	27,088	27,989
Loans and advances to customers	101,367	98,213	95,059
Interest Receivable	323	278	232
Other assets	6,241	9,167	12,093
TOTAL FUNDED EXPOSURES	141,796	141,273	140,748
Contingent liabilities	2,767	2,671	2,574
Other commitments	8,305	8,906	9,506
TOTAL UNFUNDED EXPOSURES	11,072	11,577	12,080
TOTAL CREDIT RISK EXPOSURE	152,868	152,850	152,828

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

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TABLE 6 - SECTORAL CLASSIFICATION OF GROSS CREDIT EXPOSURES

	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	47,624	11,072	58,696
TOTAL	146,564	11,072	157,636

	2012		
	<i>Funded</i>	<i>Unfunded</i>	<i>Total</i>
Banks and financial institutions	30,116	-	30,116
Trading and Manufacturing	41,170	2,574	43,744
Education and Health	2,618	-	2,618
Hospitality, media and transportation	9,089	-	9,089
Fisheries and Agriculture	4,550	-	4,550
Food Processing	2,338	-	2,338
Others	49,778	9,506	59,284
TOTAL	139,659	12,080	151,739

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

	2013	2012
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 BD18,391 restructured credit facilities during the year period ended 31 December 2013.

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

	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	15,745	2,304	52	650
Fisheries and Agriculture	1,356	-	-	-	-
TOTAL	15,895	15,745	2,304	52	650
	2012				
	<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	16,725	13,393	4,701	18	750
Fisheries and Agriculture	849	-	-	-	-
TOTAL	17,574	13,393	4,701	18	750

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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 2013.

	<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>
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	

The table below summarises the maturity profile of the Group's assets and liabilities as at 31 December 2012.

	<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>
2012									
Assets									
Cash and balances with Central Bank of Bahrain	2,262	-	-	-	-	-	-	-	2,262
Due from banks and other financial institutions	6,978	14,210	6,801	-	-	-	-	-	27,989
Accounts receivable and other assets	12,075	30	30	190	-	-	-	-	12,325
Loans and advances to customers	4,338	515	1,095	1,819	34,614	43,359	11,578	9	95,059
Available for sale investments	-	1,131	-	-	-	-	5,815	-	6,946
Investment in associates	-	-	-	-	-	-	-	2,039	2,039
Property, plant and equipment	-	-	-	-	-	-	-	11,026	11,026
Total assets	25,653	15,886	7,926	2,009	34,614	43,359	17,393	13,074	159,914
Liabilities									
Deposits	35,294	15,762	704	11,680	-	-	-	-	63,440
Accounts payable and other liabilities	-	5,920	-	-	-	-	-	-	3,652
Long term loans	-	-	694	694	4,164	14,109	-	-	19,661
Total liabilities	35,294	21,682	1,398	12,374	4,164	14,109	-	-	89,021
Net liquidity gap	(9,641)	(5,796)	6,528	(10,365)	30,450	29,250	17,393	13,074	

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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.

	2013	2012
Bahrain		
Specific impairment provision	15,745	13,393
TOTAL	<u>15,745</u>	<u>13,393</u>

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

	2013						Total
	Project finance			Fisheries and agriculture			
	Specific	Collective	Total	Specific	Collective	Total	
Balance at 1 January 2013	13,393	750	14,143	-	-	-	14,143
Amounts written off during the year	(52)	-	(52)	-	-	-	(52)
Charge for the year	3,225	-	3,225	-	-	-	3,225
Recoveries during the year	(1,437)	(100)	(1,537)	-	-	-	(1,537)
Interest suspended during the year (net)	616	-	616	-	-	-	616
At 31 December 2013	<u>15,745</u>	<u>650</u>	<u>16,395</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,395</u>

	2012						Total
	Project finance			Fisheries and agriculture			
	Specific	Collective	Total	Specific	Collective	Total	
Balance at 1 January 2012	9,135	325	9,460	-	-	-	9,460
Amounts written off during the year	(18)	-	(18)	-	-	-	(18)
Charge for the year	5,073	425	5,498	-	-	-	5,498
Recoveries during the year	(1,393)	-	(1,393)	-	-	-	(1,393)
Interest suspended during the year (net)	596	-	596	-	-	-	596
At 31 December 2012	<u>13,393</u>	<u>750</u>	<u>14,143</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,143</u>

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TABLE 12 - PAST DUE LOANS - AGE ANALYSIS

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

i) By Geographical area

	2012			<i>Total</i>
	<i>Three months to one year</i>	<i>One to three years</i>	<i>Over three years</i>	
Bahrain	6,212	4,744	2,266	13,222
TOTAL	6,212	4,744	2,266	13,222

ii) By Counterparty wise

	2012			<i>Total</i>
	<i>Three months to one year</i>	<i>One to three years</i>	<i>Over three years</i>	
Project finance	5,845	4,466	2,062	12,373
Fisheries and Agriculture	367	278	204	849
TOTAL	6,212	4,744	2,266	13,222

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

	2013	2012
Claims on sovereign	-	-
Claims on public sector entities	-	
Claims on banks	9,672	11,202
Claims on corporate	88,550	83,160
Past due exposures	17,019	15,239
Equity	6,679	11,285
Other exposures	11,971	12,101
TOTAL	133,891	132,987

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.

	2013		2012	
	<i>Gross exposure</i>	<i>Eligible CRM</i>	<i>Gross exposure</i>	<i>Eligible CRM</i>
Claims on sovereign	-	-	-	-
Claims on banks	9,672	-	11,202	-
Claims on corporate	105,569	16,583	98,399	12,953
Equity	6,679	-	11,285	-
Other exposures	11,971	-	12,101	-
TOTAL	133,891	16,583	132,987	12,953

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

Impact on net interest income for the year ended 31 December 2013

	2013
Bahraini Dinar	
Assets	41,812
Liabilities	42,071
	<hr/>
(+) 200 basis points	(5)
(-) 200 basis points	5
US Dollar	
Assets	7,766
Liabilities	24,944
	<hr/>
(+) 200 basis points	(344)
(-) 200 basis points	344
Kuwaiti Dinar	
Assets	8,495
Liabilities	8,259
	<hr/>
(+) 200 basis points	5
(-) 200 basis points	(5)
Saudi Riyals	
Assets	9,346
Liabilities	10,034
	<hr/>
(+) 200 basis points	(14)
(-) 200 basis points	14

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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>
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	
	<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>
2012								
Assets								
Cash and balances with Central Bank of Bahrain	-	-	-	-	-	-	2,262	2,262
Due from banks and other financial institutions	6,978	14,210	6,801	-	-	-	-	27,989
Accounts receivable and other assets	-	-	-	-	-	-	21,310	21,310
Loans and advances to customers	2,169	515	1,095	1,819	34,614	54,847	-	95,059
Total assets	9,147	14,725	7,896	1,819	34,614	54,847	23,572	146,620
Liabilities								
Deposits	35,294	15,762	704	11,680	-	-	-	63,440
Accounts payable and other liabilities	-	-	-	-	-	-	3,652	3,652
Long term loans	-	-	694	694	4,164	14,109	-	19,661
Total liabilities	35,294	15,762	1,398	12,374	4,164	14,109	3,652	86,753
Net liquidity gap	(26,147)	(1,037)	6,498	(10,555)	30,450	40,738	19,920	

BAHRAIN DEVELOPMENT BANK B.S.C. (c)
 Basel II Pillar III Disclosures
 For the year ended 31 December 2013
 (Expressed in Thousands Bahrain Dinars)

TABLE 17 - EQUITY POSITION IN THE BANKING BOOK

	2013	
	<i>Gross exposure</i>	<i>Capital requirement</i>
Publicly traded	1,501	180
Privately held	8,546	1,026
TOTAL	10,047	1,206

TABLE 18 - GAINS ON EQUITY INVESTMENTS

	2013	2012
Realised gains recognised in the income statement	-	-
Unrealised gain recognised in the balance sheet:		
- Tier One	-	-
- Tier Two	112	10

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.