

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

Basel III Pillar III Disclosures For six months ended 30 June 2017

These disclosures have been prepared in accordance with the Public Disclosure Module (“PD”), CBB Rule Book, Volume I for Conventional banks.

These disclosures should be read in conjunction with the Notes, in particular the Significant Accounting Policies and Financial Risk Management, in the Bank’s Financial Statements for the year ended 31 December 2016. These disclosures have been reviewed by the Bank’s external auditors KPMG based upon agreed-upon procedures as required under Para PD-A.2.4 of the PD Module

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

Basel III Pillar III Disclosures

For six months ended 30 June 2017

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 Bank is operating as a retail bank with special waivers under a license issued by the Central Bank of Bahrain ("CBB").

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.

As at 30 June 2017, 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
Bahrain Export Development Center S.P.C	Kingdom of Bahrain	100%	31 December
Al-Waha Venture Capital Fund Company	Kingdom of Bahrain	99%	31 December
Middle East Corner Consultancy CO. WLL	Kingdom of Bahrain	28.6%	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 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 major 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 III Pillar III Disclosures
 For six months ended 30 June 2017
 (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 is as detailed below:

	<u>2017</u>	
	<u>CET 1</u>	<u>Tier 2</u>
A. NET AVAILABLE CAPITAL		
Paid-up share capital	65,000	-
Legal / Statutory reserve	1,186	-
Retained earnings	10,121	-
Other reserves	4,048	-
Current period (Loss) / Profit	(633)	-
General loan loss provisions	-	940
TOTAL CAPITAL BEFORE REGULATORY DEDUCTIONS	<u>79,722</u>	<u>940</u>
Less : Regulatory deductions	-	-
NET AVAILABLE CAPITAL	<u>79,722</u>	<u>940</u>
TOTAL ELIGIBLE CAPITAL BASE (CET 1 + Tier 2)		<u><u>80,662</u></u>
B. CAPITAL ADEQUACY RATIO		<u>2017</u>
Total eligible capital base		80,662
Credit risk weighted exposures		182,907
Market risk weighted exposures		225
Operational risk weighted exposures		16,838
Total risk weighted exposures		<u>199,970</u>
	<u>CET 1</u>	<u>Total</u>
	<u>capital</u>	<u>capital ratio</u>
	<u>ratio</u>	
Capital Adequacy Ratio	39.87%	40.34%

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 favourable 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 14 in the interim financial information).

Amounts due from related parties are unsecured.

BAHRAIN DEVELOPMENT BANK B.S.C. (c)
 Basel III Pillar III Disclosures
 For six months ended 30 June 2017
 (Expressed in Thousands Bahrain Dinars)

TABLE 2 - REGULATORY CAPITAL REQUIREMENT FOR CREDIT RISK

	2017 Capital requirement
Claims on sovereign	-
Claims on public sector entities	-
Claims on banks	1,149
Claims on corporate	15,161
Regulatory retail exposures	-
Residential retail exposures	-
Investments	1,093
Other exposures	3,638
TOTAL CREDIT RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)	21,042

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 2017 was as follows:

	Capital requirements		
	2017	Maximum	Minimum
Equity risk capital	-	-	-
Foreign exchange risk capital	18	18	17
Interest rate risk capital	-	-	-
Commodity risk capital	-	-	-
			<u>2017</u>
TOTAL MARKET RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)			28

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 2,105 thousands is based on the gross operating income (excluding profit/loss on Investments 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 SUBJECT TO CREDIT RISK MITIGANTS (CRM)

	2017	2017 Average
Balances with Central Bank of Bahrain	3,404	3,331
Investment securities	7,274	7,776
Placement with banks and other financial institutions	27,437	31,045
Loans and advances to customers	129,638	131,559
Interest Receivable	217	232
Other assets	2,799	2,813
TOTAL FUNDED EXPOSURES	<u>170,769</u>	<u>176,755</u>
Contingent liabilities	4,687	4,601
Other commitments	8,643	8,311
TOTAL UNFUNDED EXPOSURES	<u>13,330</u>	<u>12,912</u>
TOTAL CREDIT RISK EXPOSURE	<u>184,099</u>	<u>189,667</u>

The gross average credit risk exposure are based on quarterly reporting.

BAHRAIN DEVELOPMENT BANK B.S.C. (c)
 Basel III Pillar III Disclosures
 For six months ended 30 June 2017
 (Expressed in Thousands Bahrain Dinars)

TABLE 6 - SECTORAL CLASSIFICATION OF GROSS CREDIT EXPOSURES

	2017		<i>Total</i>
	<i>Funded</i>	<i>Unfunded</i>	
Banks and financial institutions	30,841	-	30,841
Trading and Manufacturing	72,944	-	72,944
Government	8,600	-	8,600
Construction & Contracting	8,477	-	8,477
Educational Institutions & Healthcare	8,374	-	8,374
Agriculture, Dairy & Fishing	5,467	-	5,467
Media & Telecommunications & Transport	5,006	-	5,006
Personal Loans	4,905	-	4,905
Others	26,155	13,330	39,485
TOTAL	170,769	13,330	184,099

BAHRAIN DEVELOPMENT BANK B.S.C. (c)
 Basel III Pillar III Disclosures
 For six months ended 30 June 2017
 (Expressed in Thousands Bahrain Dinars)

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

	2017
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 1,387 restructured credit facilities during the period ended 30 June 2017. 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 NON PERFORMING LOANS AND IMPAIRMENT PROVISION

	2017				
	<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	26,413	11,091	1,028	3,992	940
Fisheries and Agriculture	2,139	-	-	-	-
TOTAL	28,552	11,091	1,028	3,992	940

BAHRAIN DEVELOPMENT BANK B.S.C. (c)
 Basel III Pillar III Disclosures
 For six months ended 30 June 2017
 (Expressed in Thousands Bahrain Dinars)

TABLE 9 - RESIDUAL CONTRACTUAL MATURITY

Maturity analysis of assets and liabilities

The table below summarises the maturity profile of the Group's assets and liabilities as at 30 June 2017

	<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>
2017										
Assets										
Cash and balances with Central Bank of Bahrain	3,684	-	-	-	-	-	-	-	-	3,684
Due from banks and other financial institutions	13,676	6,775	6,986	-	-	-	-	-	-	27,437
Accounts receivable and other assets	-	-	3,366	-	-	-	-	-	-	3,366
Loans and advances to customers	2,862	852	1,785	3,023	38,847	57,781	23,124	1,364	-	129,638
Investment securities	7,438	-	-	-	-	-	5,976	-	-	13,414
Investment in associates	-	-	-	-	-	-	419	-	-	419
Investment property	-	-	-	-	-	-	-	-	12,053	12,053
Property, plant and equipment	-	-	-	-	-	-	-	-	1,128	1,128
Total assets	27,660	7,627	12,137	3,023	38,847	57,781	29,519	1,364	13,181	191,139
Liabilities										
Deposits	47,617	-	417	3,608	-	-	-	-	-	51,642
Accounts payable and other liabilities	-	-	5,221	-	-	-	-	-	-	5,221
Long term loans	-	251	2,632	2,882	14,693	13,973	15,861	4,255	-	54,547
Total liabilities	47,617	251	8,270	6,490	14,693	13,973	15,861	4,255	-	111,410
Net liquidity gap	(19,957)	7,376	3,867	(3,467)	24,154	43,808	13,658	(2,891)	13,181	

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.

BAHRAIN DEVELOPMENT BANK B.S.C. (c)
 Basel III Pillar III Disclosures
 For six months ended 30 June 2017
 (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.

	2017
Bahrain	
Specific impairment provision	11,091
TOTAL	11,091

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

	2017						<i>Total</i>
	Project finance			Fisheries and agriculture			
	<i>Specific</i>	<i>Collective</i>	<i>Total</i>	<i>Specific</i>	<i>Collective</i>	<i>Total</i>	
Balance at 1 January 2016	14,055	940	14,995	-	-	-	14,995
Amounts written off during the period	(3,992)	-	(3,992)	-	-	-	(3,992)
Charge for the period	2,623	-	2,623	-	-	-	2,623
Recoveries during the period	(1,595)	-	(1,595)	-	-	-	(1,595)
At 31 December 2016	11,091	940	12,031	-	-	-	12,031

BAHRAIN DEVELOPMENT BANK B.S.C. (c)
 Basel III Pillar III Disclosures
 For six months ended 30 June 2017
 (Expressed in Thousands Bahrain Dinars)

TABLE 12 - PAST DUE LOANS - AGE ANALYSIS

i) By Geographical area

	2017			<i>Total</i>
	<i>Three months to one year</i>	<i>One to three years</i>	<i>Over three years</i>	
Bahrain	23,964	3,392	1,196	28,552
TOTAL	23,964	3,392	1,196	28,552

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	22,294	3,156	963
Fisheries and Agriculture	1,671	236	232	2,139
TOTAL	23,965	3,392	1,195	28,552

BAHRAIN DEVELOPMENT BANK B.S.C. (c)
 Basel III Pillar III Disclosures
 For six months ended 30 June 2017
 (Expressed in Thousands Bahrain Dinars)

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

	2017
Claims on sovereign	-
Claims on public sector entities	-
Claims on banks	9,193
Claims on corporate	121,291
Past due exposures	14,571
Equity	8,745
Other exposures	29,107
TOTAL	182,907

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.

	2017	
	<i>Gross exposure</i>	<i>Eligible CRM</i>
Claims on sovereign	-	-
Claims on public sector entities	-	-
Claims on MDBs	-	-
Claims on banks	9,193	-
Claims on corporate	135,862	1,273
Equity	8,745	-
Other exposures	29,107	-
TOTAL	182,907	1,273

BAHRAIN DEVELOPMENT BANK B.S.C. (c)
 Basel III Pillar III Disclosures
 For six months ended 30 June 2017
 (Expressed in Thousands Bahrain Dinars)

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

Impact on net interest income for the year ended 30 June 2017

	2017
Bahraini Dinar	
Assets	148,714
Liabilities	43,199
	<hr/>
(+) 200 basis points	2,110
(-) 200 basis points	(2,110)
US Dollar	
Assets	49,750
Liabilities	50,479
	<hr/>
(+) 200 basis points	(15)
(-) 200 basis points	15
Kuwaiti Dinar	
Assets	3,388
Liabilities	3,231
	<hr/>
(+) 200 basis points	3
(-) 200 basis points	(3)
Saudi Riyals	
Assets	9,302
Liabilities	9,280
	<hr/>
(+) 200 basis points	0
(-) 200 basis points	(0)

BAHRAIN DEVELOPMENT BANK B.S.C. (c)
 Basel III Pillar III Disclosures
 For six months ended 30 June 2017
 (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 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>
2017								
Assets								
Cash and balances with Central Bank of Bahrain	-	-	-	-	-	-	3,684	3,684
Due from banks and other financial institutions	13,676	6,775	6,986	-	-	-	-	27,437
Accounts receivable and other assets	7,438	-	-	-	-	-	22,942	30,380
Loans and advances to customers	2,862	852	1,785	3,023	96,628	24,488	-	129,638
Total assets	23,976	7,627	8,771	3,023	96,628	24,488	26,626	191,139
Liabilities								
Deposits	47,617	-	417	3,608	-	-	-	51,642
Accounts payable and other liabilities	-	-	-	-	-	-	5,221	5,221
Long term loans	-	251	2,632	2,882	28,666	20,116	-	54,547
Total liabilities	47,617	251	3,049	6,490	28,666	20,116	5,221	111,410
Net liquidity gap	(23,641)	7,376	5,722	(3,467)	67,962	4,372	21,405	

BAHRAIN DEVELOPMENT BANK B.S.C. (c)
 Basel III Pillar III Disclosures
 For six months ended 30 June 2017
 (Expressed in Thousands Bahrain Dinars)

TABLE 17 - EQUITY POSITION IN THE BANKING BOOK

	2017	
	<i>Net exposure</i>	<i>Capital requirement</i>
Publicly traded	164	21
Privately held	5,976	747
TOTAL	6,140	768

TABLE 18 - GAINS ON EQUITY INVESTMENTS

	2017
(i) Realised gains/ (losses) recognised in the statement of profit or loss on sale	-
(ii) Unrealised gains/ (losses) recognised in the statement of financial position but not through profit or loss	-
(iii) Unrealised losses relating to fair value changes of FVTPL investments in profit or loss	33

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.

The Group had contracted Poullaides Construction Co. WLL for construction of the Incubator centre. The final completion certificate was issued on 29 December 2011. Due to delay in construction and variation on the initial estimate by the contractor, the Group has declined the final claim of BD 249,700 by the contractor. No provision has been made for this amount. As at the reporting date, the case is under arbitration proceedings.

TABLE 20 - FINES & PENALTY

	Amount in BHD Actual 2017
Penalty paid to Central Bank of Bahrain	110

The majority of the penalties are related to the delays in the Fawri payments/ transfers processing within the stated real time sessions