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

Basel II Pillar III Disclosures
For the half year ended

30-Jun-13

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 reviewed condensed consolidated interim financial information of Bahrain Development Bank BSC (c) (the "Bank") and its subsidiaries (the "Group") for the six month period ended
30 June 2013.

As at 30 June 2013, the Group consists of the Bank and its following subsidiaries:

Name	***Country of incorporation***	***Ownership interest***	***Year end***
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.

(Expressed in Thousands Bahrain Dinars)

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 71,870 is as detailed below:

	2013	
A. NET AVAILABLE CAPITAL	***Tier 1***	***Tier 2***
Paid-up share capital	**65,000**	
Reserve:		
Statutory reserve	**1,010**	
Others	**830**	
Retained earnings brought forward	**4,860**	
Current year (loss) profit		**307**
Asset revaluation reserves-Property, plant and equipment (45% only)		
Unrealized gains arising from fair valuing equities (45% only)	**-**	**7**
TOTAL CAPITAL BEFORE REGULATORY DEDUCTIONS	**71,700**	**314**
Less : Regulatory deductions	**144**	**-**
NET AVAILABLE CAPITAL	**71,556**	**314**
TOTAL ELIGIBLE CAPITAL BASE (Tier 1 + Tier 2)		**71,870**

B. CAPITAL ADEQUACY RATIO	**2013**
Total eligible capital base	**71,870**
Credit risk weighted exposures	**145,213**
Market risk weighted exposures	**1,411**
Operational risk weighted exposures	**13,015**
Total risk weighted exposures	**159,639**
Capital Adequacy Ratio	**45.02%**

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.

(Expressed in Thousands Bahrain Dinars)

TABLE 2 - REGULARATY CAPITAL REQUIREMENT FOR CREDIT RISK

	2013 *Capital requirement*
Claims on sovereign	-
Claims on public sector entities	-
Claims on banks	778
Claims on corporate	14,391
Regulatory retail exposures	-
Residential retail exposures	-
Equity	775
Other exposures	1,482
TOTAL CREDIT RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)	**17,426**

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 30 June 2013 was as follows:

	Capital requirements			
	2013	**Maximum**	**Minimum**	**Average**
Equity risk capital	-	-	-	-
Foreign exchange risk capital	113	113	110	168
Interest rate risk capital	-	-	-	-

TOTAL MARKET RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)	**169**

TABLE 4 - REGULARATY CAPITAL REQUIREMENT FOR OPERATIONAL RISK

The capital requirement for operational risk using the Basic Indicator Approach as at 30 June 2013 amounted to	**1,562**

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

	30-Jun-13	**2013 Average**
Balances with Central Bank of Bahrain	1,987	2,041
Due from banks and other financial institutions	24,651	24,972
Loans and advances to customers	100,879	51,487
Other assets	12,753	54,863
TOTAL FUNDED EXPOSURES	**140,270**	**137,553**
Contingent liabilities	2,889	2,868
Other commitments	12,547	11,645
TOTAL UNFUNDED EXPOSURES	**15,436**	**14,513**
TOTAL CREDIT RISK EXPOSURE	**155,706**	**152,066**

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

(Expressed in Thousands Bahrain Dinars)

TABLE 6 - SECTORAL CLASSIFICATION OF GROSS CREDIT EXPOSURES

	2013		
	Funded	***Unfunded***	***Total***
Banks and financial institutions	26,638	-	26,638
Trading and Manufacturing	45,631	-	45,631
Education and Health	2,424	-	2,424
Hospitality, media and transportation	10,064	-	10,064
Fisheries and Agriculture	5,009	-	5,009
Food Processing	2,966	-	2,966
Others	47,538	15,436	62,974
TOTAL	**140,270**	**15,436**	**155,706**

(Expressed in Thousands Bahrain Dinars)

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

	2013
Total credit exposures in excess of 15% individual obligor limit	**9,116**

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 does not have any restructured credit facilities during the six months period ended 30 June 2013.

Pastdue exposures

This includes claims, for which the repayment is overedue 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				
	Impaired and past due loans	***Specific provision***	***Charge (recoveries)***	***Write off***	***Collective impairment***
Project finance	9,895	13,823	602	92	830
Fisheries and Agriculture	953	-	-	-	-
TOTAL	**10,848**	**13,823**	**602**	**92**	**830**

(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 2013.

2013	*Up to 1 month*	*2 to 3 months*	*4 to 6 months*	*7 months to 1 year*	*2 to 3 years*	*4 to 5 years*	*6 to 10 years*	*11 to 20 years*	*Total*
Assets									
Cash and balances with Central Bank of Bahrain	1,987	-	-	-	-	-	-	-	**1,987**
Due from banks and other financial institutions	4,945	14,154	5,552	-	-	-	-	-	**24,651**
Accounts receivable and other assets	-	12,753	-	-	-	-	-	-	**12,753**
Loans and advances to customers	3,375	386	1,613	3,758	30,054	47,759	13,934	-	**100,879**
Available for sale investments	-	-	-	6,877	-	-	-	-	**6,877**
Total assets	**10,307**	**27,293**	**7,165**	**10,635**	**30,054**	**47,759**	**13,934**	**-**	**147,147**
Liabilities									
Deposits	47,286	7,969	6,202	219	-	-	-	-	**61,676**
Accounts payable and other liabilities	-	3,601	-	-	-	-	-	-	**3,601**
Long term loans	-	-	673	673	4,038	16,296	-	-	**21,680**
Total liabilities	**47,286**	**11,570**	**6,875**	**892**	**4,038**	**16,296**	**-**	**-**	**86,957**
Net liquidity gap	**(36,979)**	**15,723**	**290**	**9,743**	**26,016**	**31,463**	**13,934**	**-**	

Available for sale investments are included above based on expected maturity as per management estimate

(Expressed in Thousands Bahrain Dinars)

TABLE 10 - GEOGRAPHICAL DISTRIBUTION OF IMPAIRMENT PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS

Bank and its subsidaries are operated locally and Loans granted to Bahrainis only.

	2013
Bahrain	
Specific impairment provision	13,823
TOTAL	**13,823**

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

	2013						
	Project finance			Fisheries and agriculture			
	Specific	*Collective*	*Total*	*Specific*	*Collective*	*Total*	*Total*
Balance at 1 January 2013	13,393	750	14,143	-	-	-	**14,143**
Amounts written off during the year	(92)	-	(92)	-	-	-	**(92)**
Charge for the year	1,256	80	1,336	-	-	-	**1,336**
Recoveries during the year	(858)	-	(858)	-	-	-	**(858)**
Interest suspended during the year (net)	124	-	124	-	-	-	**124**
At 30 June 2013	**13,823**	**830**	**14,653**	**-**	**-**	**-**	**14,653**

(Expressed in Thousands Bahrain Dinars)

TABLE 12 - PAST DUE LOANS - AGE ANALYSIS

i) By Geographical area

	2013			
	Three months to one year	***One to three years***	***Over three years***	***Total***
Bahrain	6,225	3,660	963	**10,848**
TOTAL	**6,225**	**3,660**	**963**	**10,848**

ii) By Counterparty wise

	Three months to one year	***One to three years***	***Over three years***	***Total***
Project finance	5,751	3,410	734	**9,895**
Fisheries and Agriculture	474	250	229	**953**
TOTAL	**6,225**	**3,660**	**963**	**10,848**

(Expressed in Thousands Bahrain Dinars)

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

	2013
Claims on sovereign	15,742
Claims on banks	24,101
Claims on corporate	117,719
Equity	4,760
Other exposures	12,347
TOTAL	**174,669**

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	
	Gross exposure	***Eligible CRM***
Claims on sovereign	15,742	-
Claims on banks	24,101	-
Claims on corporate	117,719	743
Equity	4,760	-
Other exposures	12,347	-
TOTAL	**174,669**	**743**

(Expressed in Thousands Bahrain Dinars)

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

Impact on net interest income for the year ended 30 June 2013

	2013
Bahraini Dinar	
Assets	45,736
Liabilities	42,071
(+) 200 basis points	**73**
(-) 200 basis points	**(73)**
US Dollar	
Assets	5,655
Liabilities	19,753
(+) 200 basis points	**(282)**
(-) 200 basis points	**282**
Kuwaiti Dinar	
Assets	9,116
Liabilities	8,819
(+) 200 basis points	**6**
(-) 200 basis points	**(6)**
Saudi Riyals	
Assets	8,676
Liabilities	10,034
(+) 200 basis points	**(27)**
(-) 200 basis points	**27**

(Expressed in Thousands Bahrain Dinars)

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

TABLE 16 - MARKET RISK, INTEREST RATE GAP

2013	*Up to 1 month*	*2 to 3 months*	*4 to 6 months*	*7 months to 1 year*	*2 to 5 years*	*Over 5 years*	*Non-interest bearing*	*Total*
Assets								
Cash and balances with Central Bank of Bahrain	-	-	-	-	-	-	1,987	**1,987**
Due from banks and other financial institutions	4,945	14,154	5,552	-	-	-	-	**24,651**
Accounts receivable and other assets	-	-	-	-	-	-	12,753	**12,753**
Loans and advances to customers	3,375	386	1,613	3,758	77,813	13,934	-	**100,879**
Total assets	**8,320**	**14,540**	**7,165**	**3,758**	**77,813**	**13,934**	**14,740**	**140,270**
Liabilities								
Deposits	47,286	7,969	6,202	219	-	-	-	**61,676**
Accounts payable and other liabilities	-	-	-	-	-	-	3,601	**3,601**
Long term loans	-	-	673	673	4,038	16,296	-	**21,680**
Total liabilities	**47,286**	**7,969**	**6,875**	**892**	**4,038**	**16,296**	**3,601**	**86,957**
Net liquidity gap	**(38,966)**	**6,571**	**290**	**2,866**	**73,775**	**(2,362)**	**11,139**	

(Expressed in Thousands Bahrain Dinars)

TABLE 17 - EQUITY POSITION IN THE BANKING BOOK

	2013	
	Gross exposure	***Capital requirement***
Publicly traded	1,362	163
Privately held	5,098	612
TOTAL	**6,460**	**775**

TABLE 18 - GAINS ON EQUITY INVESTMENTS

	2013
Realised gains recognised in the income statement	**7**
Unrealised gain recognised in the balance sheet:	
- Tier One	**-**
- Tier Two	**7**

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.