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

Risk and Capital Management Disclosures

For the year ended 31 December 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 2017.

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.

1 EXECUTIVE SUMMARY

This report has been prepared in accordance with Pillar III disclosure requirements prescribed by the Central Bank of Bahrain, herein referred to as "CBB". The report has been designed to provide BDB Group's stakeholders with detailed information on the Bank's approach in managing capital and risk, having due regard to the operating environment.

The Bank applies the Basel framework in the measurement of its capital adequacy, and in its capital management strategy and risk management framework. CBB's Basel III capital rules and guidelines became effective on 1st January 2015 as the common framework for the implementation of the Basel Committee on Banking Supervision's (Basel Committee) Basel III capital adequacy framework for banks incorporated in the Kingdom of Bahrain.

BDB has adopted the Standardized Approach for Credit Risk, Market Risk and the Basic Indicator Approach for Operational Risk to determine the capital requirement.

The disclosures in this report are in addition to the disclosures set out in the consolidated financial statements for the year ended 31st December 2017 presented in accordance with the International Financial Reporting Standards (IFRS). Disclosures with respect to Corporate Governance and Remuneration are provided in relevant sections of the Annual Report.

2 INTRODUCTION TO THE BASEL III FRAMEWORK

The CBB's Basel III capital framework is based on three pillars consistent with the Basel III framework developed by the Basel Committee, as follows:-

- Pillar I: calculation of the Risk Weighted Assets (RWAs) and capital requirement.
- Pillar II: the supervisory review process, including the Internal Capital Adequacy Assessment Process (ICAAP).
- Pillar III: rules for the disclosure of risk management and capital adequacy information.

Amongst the three pillars, it is Pillar I that has been affected most and largely amended with the introduction of Basel III. Additional disclosure requirements have also been introduced under Pillar III.

CBB CAPITAL ADEQUACY RULES:

CBB minimum required total capital adequacy ratio (including CCB) increased from 12 percent to 12.5 percent, compared to 10.5 percent recommended by the Basel Committee. Moreover, there are newly introduced limits and minima by the CBB under Basel III, such as minimum Common Equity Tier 1 Capital Ratio "CET1" of 9 percent (including CCB) and minimum T1 Capital Ratio of 10.5 percent (including CCB).

The table below summarizes the approaches available for calculating RWAs for each risk type in accordance with the CBB's Basel III capital adequacy framework:

Credit Risk	**Market Risk**	**Operational Risk**
Standardised Approach	Standardised Approach Internal Models Approach	Basic Indicator Approach Standardised Approach

For regulatory reporting purposes, BDB is using the Standardised Approach for credit risk and market risk, and Basic Indicator Approach for operational risk.

i) Credit Risk

Credit Risk represents the potential financial loss as a consequence of a customer's inability to honour the terms and conditions of a credit facility. Such risk is measured with respect to counterparties for both on-balance sheet assets and off-balance sheet items. The bank has a robust credit risk management architecture which is explained in greater detail in Note 26 of the Annual Report.

The Bank does not use any external credit assessment institutions and the risk rating for the exposures are based on the internal credit framework and policy guidelines of the Bank.

For regulatory reporting purposes, BDB is using the Standardised Approach for credit risk.

ii) Market Risk

Market Risk is the risk of potential losses arising from movements in market prices of financial instruments as a result of changes in market rates (such as interest rates and foreign exchange rates).

For the regulatory market risk capital requirement, BDB is using the Standardised Approach for the calculation of regulatory market risk capital.

iii) Operational Risk

Operational Risk is the risk of monetary loss on account of human error, fraud, systems failures or the failure to record transactions. In order to manage and mitigate such risks, the Bank ensures that proper systems and resources (financial and personnel) are available to support the Bank's operations. Proper segregation of duties and other controls (including reconciliation, monitoring and reporting) are implemented to support the various operations and activities.

For the regulatory market risk capital requirement, BDB is using the Standardised Approach for the calculation of regulatory market risk capital.

Regulatory Reforms

The Bank is operating as a retail bank with special waivers under a license issued by the Central Bank of Bahrain ("CBB"), with headquarters and branches in Bahrain. The Bank's capital adequacy requirements are computed on a consolidated basis.

The Bank is evaluating Expected Credit Loss as per the guidelines in IFRS 9.

3 GROUP STRUCTURE

The Group's financial statements are prepared and published on a full consolidation basis, with all subsidiaries being consolidated in accordance with IFRS. 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 © *	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

* The shareholders of BDB SME Fund Company in their meeting dated 14 December 2016, decided to voluntarily liquidate the Company. The Company does not have any operations.

** The Bank is exposed, or has rights, to variable returns from its involvement with Middle East Corner Consultancy Co. WLL; and has the ability to affect those returns through its power over Middle East Corner Consultancy Co. WLL and thus is deemed as subsidiary of the Bank.

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.

(Expressed in Thousands Bahrain Dinars)

4 CAPITAL STRUCTURE AND CAPITAL ADEQUACY

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.

Capital structure, minimum capital and capital adequacy

The Bank's paid up capital consists only of ordinary shares and does not have any other type of capital instruments.

The Bank's regulatory capital base is as detailed below:

	As at 31-12-2017
Common Equity Tier 1 (CET1)	
Issued and full paid ordinary shares	65,000
Legal / Statutory reserve	1,186
Retained earnings	10,121
Other reserves	4,048
Current year Loss	(7,660)
Total Common Equity Tier 1 (CET1) (A)	72,695
Additional Tier 1 (AT1)	-
Total Tier 1 (T1)	72,695
Tier 2 Capital (T2)	
General loan loss provisions	940
Total Tier 2 (T2) (B)	940
Total Capital Base (Tier 1 + Tier 2) (C=A+B)	73,635

	Credit Exposure before credit risk mitigant	Eligible credit Risk mitigant	Credit Exposure after credit risk mitigant	Risk weighted exposure	Capital Requirement at 12.5%
As at 31-12-2017					
Sovereigns	52,554	-	52,554	-	-
PSE	-		-	-	-
Banks	21,710		21,710	9,794	1,224
Corporates	106,960	1,092	105,868	104,529	13,066
Regulatory retail	-		-	-	-
Residential mortgages	-		-	-	-
Past due exposures	12,498	22	12,476	14,702	1,838
Investments in equities/funds	5,735		5,735	8,766	1,096
Holding of Real Estate	13,665		13,665	26,620	3,328
Others assets	2,266		2,266	2,266	283
Total Credit Risk Exposure	215,388	1,114	214,274	166,677	20,835
Market Risk				213	27
Operational Risk				18,138	2,267
Total Risk Weighted Assets (D)				185,028	23,129
Capital Adequacy Ratio (B)/(D)				39.80%	
CET1 Capital Adequacy Ratio (A)/(D)				39.29%	

5 CREDIT RISK – PILLAR III DISCLOSURES

This section describes BDB's exposure to credit risk, and provides detailed disclosures on credit risk in accordance with the CBB's Basel III framework, in relation to Pillar III disclosure requirements.

Definition of exposure classes

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. 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.

d. 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.

e. 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.

f. 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.

g. Other exposures:

These are risk weighted at 100%.

h. Related party transactions and balances:

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Bank exercises significant influence, major shareholders, directors and executive management of the Bank. Such related parties in the ordinary course of business at commercial interest and commission rates (Refer note 24 in the audited financial statements).

Amounts due from related parties are unsecured.

i. Highly leveraged counterparties

The Bank does not lend to highly leveraged and other high risk counterparties as defined in PD-1-3-24(e).

6 GROSS CREDIT EXPOSURES SUBJECT TO CREDIT RISK MITIGANTS (CRM)

The following are gross credit risk exposures considered for Capital Adequacy Ratio calculations comprising of banking book exposures:

	As at 31-12-2017	2017 Average
Balances with Central Bank of Bahrain	2,690	3,047
Investment securities	8,906	8,090
Placement with banks and other financial institutions	27,011	27,224
Islamic financing and loans to customers	114,535	122,087
Interest Receivable	217	217
Other assets	2,126	2,463
TOTAL FUNDED EXPOSURES	155,485	163,127
Contingent liabilities	3,678	4,183
Other commitments	9,993	9,318
TOTAL UNFUNDED EXPOSURES	13,671	13,501
TOTAL CREDIT RISK EXPOSURE	169,156	176,628

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

(Expressed in Thousands Bahrain Dinars)

7 SECTORAL CLASSIFICATION OF GROSS CREDIT EXPOSURES

	2017		
	Funded	**Unfunded**	**Total**
Government	**10,280**	**-**	**10,280**
Banks and financial institutions	**29,701**	**-**	**29,701**
Trading and Manufacturing	**53,418**	**4,060**	**57,478**
Educational Institutions & Healthcare	**9,308**	**109**	**9,417**
Hospitality, media and transportation	**4,156**	**345**	**4,501**
Fisheries, agriculture & dairy	**5,209**	**-**	**5,209**
Food processing	**4,937**	**229**	**5,166**
Others	**38,476**	**8,928**	**47,404**
TOTAL	**155,485**	**13,671**	**169,156**

8 CREDIT CONCENTRATION GREATER THAN 15% INDIVIDUAL OBLIGOR LIMIT

	2017
Total credit exposures in excess of 15% individual obligor limit	**-**

9 COUNTERPARTY WISE BREAKDOWN OF NON PERFORMING LOANS AND IMPAIRMENT PROVISION

	Impaired & past due loans (net of provision)	**Specific Provision**	**Charge for the year**	**Write off**	**Collective impairment**
Project finance	**25,334**	**18,096**	**8,152**	**4,111**	**940**
Fisheries and Agriculture	**2,170**	**-**	**-**	**-**	**-**
	27,504	**18,096**	**8,152**	**4,111**	**940**

(Expressed in Thousands Bahrain Dinars)

10 RESIDUAL CONTRACTUAL MATURITY

Maturity analysis of assets

The table below summarises the residual contractual maturity profile of the Group's assets as at 31 December 2017

2017	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Above 20 years	Total
Assets										
Cash and balances with Central Bank of Bahrain	2,873	-	-	-	-	-	-	-	-	2,873
Due from banks and other financial institutions	16,310	3,630	7,071	-	-	-	-	-	-	27,011
Accounts receivable and other assets	-	-	2,940	-	-	-	-	-	-	2,940
Loans and advances to customers	4,849	8,099	11,946	21,955	55,129	10,387	2,619	491	-	115,475
Investment securities	716	-	-	2,894	-	2,173	9,360	-	-	15,143
Investment in associates	-	-	-	-	-	-	419	-	-	419
Investment property	-	-	-	-	-	-	-	-	12,033	12,033
Property, plant and equipment	-	-	-	-	-	-	-	-	1,216	1,216
Total assets	24,748	11,729	21,957	24,849	55,129	12,560	12,398	491	13,249	177,110
Liabilities										
Deposits	30,709	4,962	7,810	2,907	52	-	-	-	-	46,440
Accounts payable and other liabilities	-	-	5,371	-	-	-	-	-	-	5,371
Long term loans	-	251	2,635	2,886	15,307	10,205	16,135	4,255	-	51,674
Total liabilities	30,709	5,213	15,816	5,793	15,359	10,205	16,135	4,255	-	103,485
Net liquidity gap	(5,961)	6,516	6,141	19,056	39,770	2,355	(3,737)	(3,764)	13,249	

* Gross of general provision of BD940K.

(Expressed in Thousands Bahrain Dinars)

11 PAST DUE AND IMPAIRED LOANS - AGE ANALYSIS

i) By Geographical area

	2017			
	Three months to one year	**One to three years**	**Over three years**	**Total**
Bahrain	**22,730**	**3,685**	**1,248**	**27,663**
TOTAL	**22,730**	**3,685**	**1,248**	**27,663**

ii) By Counterparty wise

	Three months to one year	**One to three years**	**Over three years**	**Total**
Project finance	**21,042**	**3,458**	**994**	**25,494**
Fisheries and Agriculture	**1,688**	**227**	**254**	**2,169**
TOTAL	**22,730**	**3,685**	**1,248**	**27,663**

* Gross of general provision of BD159K.

12 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	**18,096**
TOTAL	**18,096**

13 MOVEMENT IN IMPAIRMENT PROVISION FOR LOANS AND ADVANCES TO CUSTOMERS

	2017						
	Project finance			**Fisheries and agriculture**			
	Specific	**Collective**	**Total**	**Specific**	**Collective**	**Total**	**Total**
Balance at 1 January 2017	**14,055**	**940**	**14,995**	**-**	**-**	**-**	**14,995**
Amounts written off during the period	**(4,111)**	**-**	**(4,111)**	**-**	**-**	**-**	**(4,111)**
Charge for the period	**10,629**	**-**	**10,629**	**-**	**-**	**-**	**10,629**
Recoveries during the period	**(2,477)**	**-**	**(2,477)**	**-**	**-**	**-**	**(2,477)**
At 31 December 2017	**18,096**	**940**	**19,036**	**-**	**-**	**-**	**19,036**

Restructured Credit Facilities

The Bank have BD 1,409 restructured credit facilities during the year ended 31 December 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.

(Expressed in Thousands Bahrain Dinars)

14 CREDIT RISK MITIGATION

The reduction of the capital requirement attributable to credit risk mitigation is calculated in different ways, depending on the type of credit risk mitigation. The main collaterals taken for risk mitigation on credit exposures are deposits held by customers, pledge of quoted shares, residential/commercial property mortgage, investment securities, counter-guarantees from other banks, etc. However, for purposes of capital adequacy computation, only eligible collateral recognized under Basel 3 is taken into consideration.

15 ELIGIBLE FINANCIAL COLLATERAL AND GUARANTEES

Eligible financial collateral, and guarantees, presented by standard portfolio are as under:

	Gross credit exposure	Financial collateral	Credit exposure after credit risk mitigant
As at 31-12-2017			
Sovereigns	**52,554**	**-**	**52,554**
PSE	**-**	**-**	**-**
Banks	**21,710**	**-**	**21,710**
Corporates	**106,960**	**1,092**	**105,868**
Regulatory retail	**-**	**-**	**-**
Residential mortgages	**-**	**-**	**-**
Past due exposures	**12,498**	**22**	**12,476**
Investments in equities/funds	**5,735**	**-**	**5,735**
Holding of Real Estate	**13,665**	**-**	**13,665**
Others assets	**2,266**	**-**	**2,266**
	215,388	**1,114**	**214,274**

(Expressed in Thousands Bahrain Dinars)

16 SENSITIVITY ANALYSIS - INTEREST RATE RISK (IRRBB)

Impact on net interest income for the year ended 31 December 2017

	2017
Bahraini Dinar	
Assets	186,395
Liabilities	152,415
(+) 200 basis points	**680**
(-) 200 basis points	**(680)**
US Dollar	
Assets	51,648
Liabilities	51,557
(+) 200 basis points	**2**
(-) 200 basis points	**(2)**
Kuwaiti Dinar	
Assets	2,767
Liabilities	2,615
(+) 200 basis points	**3**
(-) 200 basis points	**(3)**
Saudi Riyals	
Assets	9,131
Liabilities	9,105
(+) 200 basis points	**1**
(-) 200 basis points	**(1)**

(Expressed in Thousands Bahrain Dinars)

17 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.

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 31 December was as follows:

	Capital requirements			
	2017	Maximum	Minimum	Average
Risk Type				
Equity risk capital	-	-	-	-
Foreign exchange risk capital	17	19	17	18
Interest rate risk capital	-	-	-	-
Commodity risk capital	-	-	-	-

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

2017	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets								
Cash and balances with Central Bank of Bahrain	-	-	-	-	-	-	2,873	2,873
Due from banks and other financial institutions	16,310	3,630	7,071	-	-	-	-	27,011
Accounts receivable and other assets	716	-	-	2,894	2,173	3,123	22,845	31,751
Loans and advances to customers *	4,849	8,099	11,946	21,955	65,516	3,110	-	115,475
Total assets	21,875	11,729	19,017	24,849	67,689	6,233	25,718	177,110
Liabilities								
Deposits	30,709	4,962	7,810	2,907	52	-	-	46,440
Accounts payable and other liabilities	-	-	-	-	-	-	5,371	5,371
Long term loans	-	251	2,635	2,886	25,512	20,390	-	51,674
Total liabilities	30,709	5,213	10,445	5,793	25,564	20,390	5,371	103,485
Net liquidity gap	(8,834)	6,516	8,572	19,056	42,125	(14,157)	20,347	

* Net of general provision of BD940K.

(Expressed in Thousands Bahrain Dinars)

18 EQUITY POSITION IN THE BANKING BOOK

	2017	
	Net exposure	**Capital requirement**
Publicly traded	**153**	**19**
Privately held	**6,084**	**761**
TOTAL	**6,237**	**780**

19 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	**60**

The Bank does not have any equity investments subject to supervisory transition or grandfathering provisions.

20 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 unforseen 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.

21 FINES & PENALTY

	Amount in BHD Actual 2017
Penalty paid to Central Bank of Bahrain	**470**

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

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

Composition of capital disclosure requirements

For the year ended 31 December 2017

Step 1: Balance sheet under the regulatory scope of consolidation

This step in not applicable to the Bank since the scope of regulatory consolidation and accounting consolidation is identical.

Step 2: Reconcilation of published financial balance sheet to regulatory reporting as at 31 December 2017

	Balance sheet as in published financial statements	Consolidated PIR data
Assets		
Cash and balances at central banks	2,873	2,873
Placements with banks and other financial institutions	27,011	27,011
Investment securities	15,143	15,143
Investments in associates	419	419
Total Investment	**15,562**	**15,562**
of which:		
Significant investments in capital of financials insitutions exceeds the 10% of CET1		
Amount in excess of 10% of CET1 to be deducted		
Amount in excess of 10% of CET1 to be deducted in year 1		
Investment property	12,033	12,033
Loans and advances	115,475	115,475
of which: General loan loss provision which qualify as capital	940	940
Prepayments, accrued income and other assets	2,940	2,940
Property, plant and equipment	1,216	1,216
Total assets	**176,170**	**177,110**
Liabilities		
Deposits from banks and other financial institutions	11,356	11,356
Customer accounts	35,084	35,084
Term Loans	51,674	51,674
Repurchase agreements and other similar secured borrowing		
Derivative financial instruments		
Accruals, deferred income and other liabilities	5,371	5,371
Total liabilities	**103,485**	**103,485**
Shareholders' Equity		
Paid-in share capital	65,000	65,000
Shares under employee share incentive scheme		
Total share capital	**65,000**	**65,000**
of which amount eligible for CET1	-	65,000
of which amount eligible for AT1	-	-
Retained earnings	2,461	2,461
Statutory reserve	1,186	1,186
Other Reserve	4,048	4,048
General reserve		
Share premium		
Donations and charity reserve		
General loan loss provision which qualify as capital		940
Available for sale revaluation reserve		
Share of Available for sale revaluation reserve relating to associates not considered for regulatory capital		
Minority interest in subsidiaries' share capital	(10)	(10)
Total shareholders' equity	**72,685**	**73,625**
Total liabilities & Shareholders' Equity	**176,170**	**177,110**

Step 3: Composition of Capital Common Template (transition) as at 30 June 2017

	Composition of Capital and mapping to regulatory reports	Component of regulatory capital	Amounts subject to pre-2015 treatment	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2
	Common Equity Tier 1 capital: instruments and reserves			
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	65,000		
2	Retained earnings	2,461		
3	Accumulated other comprehensive income (and other reserves)	5,234		
4	Not Applicable	-		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-		
6	**Common Equity Tier 1 capital before regulatory adjustments**	**72,695**		
	Common Equity Tier 1 capital: regulatory adjustments			
7	Prudential valuation adjustments	-		
8	Goodwill (net of related tax liability)	-		
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-		
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-		
11	Cash-flow hedge reserve	-		
12	Shortfall of provisions to expected losses	-		
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	-		
14	Not applicable.	-		
15	Defined-benefit pension fund net assets	-		
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-		
17	Reciprocal cross-holdings in common equity	-		
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-		
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-		
20	Mortgage servicing rights (amount above 10% threshold)	-		
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-		
22	Amount exceeding the 15% threshold	-		
23	of which: significant investments in the common stock of financials	-		
24	of which: mortgage servicing rights	-		
25	of which: deferred tax assets arising from temporary differences	-		
26	National specific regulatory adjustments	-		
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	-		
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-		
28	**Total regulatory adjustments to Common equity Tier 1**	**72,695**		
29	**Common Equity Tier 1 capital (CET1)**	**-**		
	Additional Tier 1 capital: instruments	-		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-		
31	of which: classified as equity under applicable accounting standards	-		
32	of which: classified as liabilities under applicable accounting standards	-		
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-		

34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-		
35	of which: instruments issued by subsidiaries subject to phase out	-		
36	Additional Tier 1 capital before regulatory adjustments	-		
	Additional Tier 1 capital: regulatory adjustments	**-**		
37	Investments in own Additional Tier 1 instruments	-		
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-		
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-		
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-		
41	National specific regulatory adjustments	-		
	REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	-		
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-		
43	Total regulatory adjustments to Additional Tier 1 capital	-		
44	**Additional Tier 1 capital (AT1)**	**-**		
45	**Tier 1 capital (T1 = CET1 + AT1)**	**72,695**		
	Tier 2 capital: instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-		
47	Directly issued capital instruments subject to phase out from Tier 2	-		
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-		
49	of which: instruments issued by subsidiaries subject to phase out	-		
50	Provisions	940		
51	**Tier 2 capital before regulatory adjustments**	**940**		
	Tier 2 capital: regulatory adjustments			
52	Investments in own Tier 2 instruments	-		
53	Reciprocal cross-holdings in Tier 2 instruments	-		
54	Investments in the capital of banking, financial and insurance entities thatare outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-		
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-		
56	National specific regulatory adjustments	-		
	REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	-		
57	**Total regulatory adjustments to Tier 2 capital**	**-**		
58	**Tier 2 capital (T2)**	**940**		
59	**Total capital (TC = T1 + T2)**	**73,635**		
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT			
60	**Total risk weighted assets**	**185,028**		
	Capital ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	39.29%		
62	Tier 1 (as a percentage of risk weighted assets)	39.29%		
63	Total capital (as a percentage of risk weighted assets)	39.80%		
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement expressed as a percentage of risk weighted assets)	9.00%		
65	of which: capital conservation buffer requirement	2.50%		
66	of which: bank specific countercyclical buffer requirement (N/A)	0.00%		
67	of which: D-SIB buffer requirement (N/A)	0.00%		
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	39.29%		
	National minima including CCB (if different from Basel 3)			
69	CBB Common Equity Tier 1 minimum ratio	9.00%		
70	CBB Tier 1 minimum ratio	10.50%		
71	CBB total capital minimum ratio	12.50%		

	Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital of other financials	729		
73	Significant investments in the common stock of financials	239		
74	Mortgage servicing rights (net of related tax liability)	-		
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-		
	Applicable caps on the inclusion of provisions in Tier 2			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	940		
77	Cap on inclusion of provisions in Tier 2 under standardised approach (1.25% of Credit Risk weighted Assets)	2,083		
78	NA	-		
79	NA	-		
	Capital instruments subject to phase-out arrangements			
	(only applicable between 1 Jan 2020 and 1 Jan 2024)			
80	Current cap on CET1 instruments subject to phase out arrangements	-		
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-		
82	Current cap on AT1 instruments subject to phase out arrangements	-		
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-		
84	Current cap on T2 instruments subject to phase out arrangements	-		
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities	-		

Disclosure template for main feature of regulatory capital instruments

1	Issuer	Bahrain Development Bank BSC
2	Unique identifier (Bahrain Bourse ticker)	BDB
3	Governing law of the instrument	All applicable laws and regulations of the Kingdom of Bahrain
	Regulatory treatment	
4	Transitional CBB rules	Common Equity Tier 1
5	Post-transitional CBB rules	Common Equity Tier 1
6	Eligible at solo/group/group & solo	Group
7	Instrument Type	Common Equity shares
8	Amount recognized in regulatory capital (currency in Millions, as of most recent reporting date)	65,000
9	Par Value of instrument	BD1.00
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	Not Applicable
12	Perpetual or dated	Not Applicable
13	Original maturity date	Not Applicable
14	Issuer call subject to prior supervisory approval	Not Applicable
15	Optional call date, contingent call dates and redemption amount	Not Applicable
16	Subsequent call dates, if applicable	Not Applicable
	Coupons / dividends	Not Applicable
17	Fixed or floating dividend/coupon	Not Applicable
18	Coupon rate and any related index	Not Applicable
19	Existence of a dividend stopper	Not Applicable
20	Fully discretionary, partially discretionary or mandatory	Not Applicable
21	Existence of step up or other incentive to redeem	Not Applicable
22	Noncumulative or cumulative	Not Applicable
23	Convertible or non-convertible	Not Applicable
24	If convertible, conversion trigger (s)	Not Applicable
25	If convertible, fully or partially	Not Applicable
26	If convertible, conversion rate	Not Applicable
27	If convertible, mandatory or optional conversion	Not Applicable
28	If convertible, specify instrument type convertible into	Not Applicable
29	If convertible, specify issuer of instrument it converts into	Not Applicable
30	Write-down feature	Not Applicable
31	If write-down, write-down trigger(s)	Not Applicable
32	If write-down, full or partial	Not Applicable
33	If write-down, permanent or temporary	Not Applicable
34	If temporary write-down, description of write-up mechanism	Not Applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not Applicable
36	Non-compliant transitioned features	Not Applicable
37	If yes, specify non-compliant features	Not Applicable