

Basel II Pillar III Disclosure

(For the six months ended 30 June 2013)

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1. Capital Components - Consolidated

	BD'000
Tier 1 capital	
Share capital	89,926
General reserves	43,700
Statutory reserves	42,568
Share premium	39,919
Retained earnings and others	45,800
Non-controlling interest	591
Unrealized losses arising from fair valuing equities	(1,038)
Deductions from tier 1 capital	(40,351)
Total tier 1 capital	221,115
Tier 2 capital	
Current year profit	25,216
45% of unrealized gains arising from fair valuing equities	4,745
Collective impairment provisions	20,197
Subordinated term debt	5,105
Deductions from tier 2 capital	(40,351)
Total tier 2 capital	14,912
Total available capital (tier 1 + tier 2)	236,027
Aggregation	77,879
Total eligible capital	313,906

2. Capital Adequacy**Capital ratios - consolidated and subsidiaries above 5% of group capital**

	<u>Total capital ratio</u>	<u>Tier 1 capital ratio</u>
BBK - GROUP	14.62%	13.93%
CrediMax	59.37%	48.06%
Capinnova Investment Bank	41.82%	41.82%

3. Capital Requirement for Risk Weighted Exposure
BD '000

	Gross credit exposures (before risk mitigation)	Eligible financial collateral	Credit risk after risk mitigation	Risk weighted asset	Regulatory capital required 12%
Sovereign	826,195	-	42,864	25,461	3,055
Public Sector Entities	171,062	-	44,158	19,360	2,323
Banks	750,608	96	750,511	304,816	36,578
Corporates	1,221,524	34,616	1,129,268	1,138,921	136,670
Regulatory retail	198,002	18,181	179,820	134,865	16,184
Mortgage	80,753	1,802	78,951	59,293	7,115
Equity	70,064	-	-	73,481	8,818
Investment in Funds	2,951	-	2,951	4,426	531
Past Due	15,257	-	15,257	18,485	2,218
Real Estate	27,209	-	-	44,030	5,284
Securitisation	-	-	-	-	-
Other assets	55,675	-	55,675	55,675	6,681
Cash Items	16,774	-	-	65	8
Total	3,436,074	54,695	2,299,455	1,878,878	225,465
Aggregation	77,294	-	77,294	77,294	9,275
Total Credit Risk	3,513,368	54,695	2,376,749	1,956,172	234,740
Market Risk	-	-	-	11,244	1,349
Operational Risk	-	-	-	179,728	21,567
Total Risk Weighted Exposure	3,513,368	54,695	2,376,749	2,147,144	257,656

Included in the equity category investment in insurance entity that is risk weighted rather than deducted from eligible capital, this if deducted will reduce the eligible capital to BD 310,626 thousands:

Entity	Nationality	Ownership %	Risk weighted asset	Impact on regulatory capital
Bahrain and Kuwait Insurance Company B.S.C.	Bahrain	7%	2,611	313

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4. Funded and Unfunded Total Credit Exposure*BD '000*

Total gross credit exposures	Total funded credit exposure	Total un-funded credit exposure
Sovereign	816,610	9,585
Public sector entities	15,297	13,765
Banks	675,156	75,451
Corporates	1,020,886	200,638
Regulatory retail	193,154	4,849
Mortgage	80,753	-
Equity	70,064	-
Investment in funds	2,753	198
Past due	15,257	-
Real estate	27,209	-
Securitisation	-	-
Other assets	55,675	-
Cash items	16,774	-
Total	3,131,588	304,486
Aggregation	77,294	-
Total credit risk	3,208,882	304,486

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5. Average credit exposure

The following are the average quarterly balances for the six months ended 30 June 2013:

	<i>BD'000</i>
Sovereign	928,283
Public sector entities	176,702
Banks	645,228
Corporates	1,240,712
Regulatory retail	197,077
Mortgage	77,869
Equity	67,154
Investment in funds	3,042
Past Due	15,421
Real estate	28,273
Securitisation	-
Other assets	56,428
Cash items	16,326
Total	3,452,515
Aggregation	76,337
Total credit risk	3,528,852

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6. Concentration of credit risk by region*BD'000*

	GCC	North America	Europe	Asia	Others	Total
Cash and balances with central banks	185,358	-	-	2,321	-	187,679
Treasury bills	246,833	-	-	7,818	-	254,651
Financial assets at fair value through statement of income	-	-	-	669	-	669
Deposits in banks & other financial institutions	297,792	14,371	21,892	14,951	4	343,010
Loans & advances to customers	1,334,809	464	2,989	202,536	8,889	1,549,687
Investment securities	495,676	31,100	61,643	107,146	28,263	723,828
Other assets	63,794	-	-	2,270	-	66,064
Total funded exposure	2,624,262	45,935	86,524	337,711	37,156	3,125,588
Unfunded commitments & contingencies	229,450	1,081	18,933	41,388	13,634	304,486
Aggregation	77,294	-	-	-	-	77,294
Total credit risk	2,931,006	47,016	105,457	379,099	50,790	3,507,368

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7 . Concentration of credit risk by industry*BD '000*

	Trading and manufacturing	Banks & other financial institutions	Construction & real estate	Government & public sector	Individuals	Others	Total
Cash and balances with central banks	-	22,681	-	164,998	-	-	187,679
Treasury bills	-	-	-	254,651	-	-	254,651
Financial assets at fair value through statement of income	-	-	-	669	-	-	669
Deposits in banks & other financial institutions	-	349,010	-	-	-	-	349,010
Loans & advances to customers	459,888	228,405	485,245	65,096	151,066	159,987	1,549,687
Investment securities	19,010	250,737	16,820	430,914	-	6,347	723,828
Other assets	-	-	-	-	-	66,064	66,064
Total funded exposure	478,898	850,833	502,065	916,328	151,066	232,398	3,131,588
Unfunded commitments & contingencies	81,560	85,998	76,016	6,847	16,671	37,394	304,486
Aggregation		77,294					77,294
Total credit risk	560,458	1,014,125	578,081	923,175	167,737	269,792	3,513,368

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8 . Concentration of credit risk by maturity*BD '000*

	Within 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	10 to 20 years	Above 20 years	Total
Cash and balances with central banks	123,644	-	-	-	-	-	-	64,035	187,679
Treasury bills	46,766	91,567	96,494	19,824	-	-	-	-	254,651
Financial assets at fair value through statement of income	-	-	669	-	-	-	-	-	669
Deposits in banks & other financial institutions	336,696	12,314	-	-	-	-	-	-	349,010
Loans & advances to customers	65,694	143,714	96,510	92,033	644,928	240,807	49,651	216,350	1,549,687
Investment securities	281,108	15,443	45,706	67,735	147,819	112,231	1,645	52,141	723,828
Other assets	37,366	103	103	67	1,513	-	-	26,912	66,064
Total funded exposure	891,274	263,141	239,482	167,619	794,260	353,038	51,296	359,438	3,131,588
Unfunded commitments & contingencies	43,608	40,983	7,221	5,330	36,473	47,707	72,007	51,157	304,486
Aggregation	-	-	-	-	-	-	-	77,294	77,294
Total credit risk	934,882	304,124	246,703	172,949	830,733	400,745	123,303	487,889	3,613,368

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*BD '000***9 . Impaired loans and provisions**

	Principle & interest outstanding	Impaired loans	Specific provisions
Manufacturing	258,978	20,994	17,139
Mining and quarrying	17,767	-	-
Agriculture, fishing and forestry	2,830	26	26
Construction	234,201	15,738	3,769
Financial	268,848	46,666	39,759
Trade	216,809	15,332	3,843
Personal / Consumer finance	167,846	12,470	16,228
Commercial real estate financing	186,777	33,761	12,736
Residential mortgage	84,644	5,720	1,572
Government	65,471	-	-
Technology, media and telecommunications	75,963	385	427
Transport	31,063	-	-
Other sectors	54,708	1,412	521
Total	1,665,905	152,504	96,020

10 . Reconciliation of changes in impaired loans and provisions*BD'000*

	Specific impairment provisions	Collective impairment provisions
At beginning of the year	94,215	16,739
Amounts written off	(2,005)	-
Write backs/cancellation due to improvement	(2,416)	(26)
Additional provisions made	7,658	4,146
Exchange adjustment and other movements	(306)	(662)
Notional interest on impaired loans	(1,126)	-
Balance at reporting date	96,020	20,197

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11 . Impaired and past due loans by region*BD '000*

	GCC	North America	Europe	Asia	Others	Total
Past Due loans	7,007	-	-	5,822	-	12,829
Impaired loans	146,995	-	-	5,508	-	152,503
Specific impairment provisions including interest in suspense	93,478	-	-	2,542	-	96,020
Collective impairment provisions	19,911	-	-	286	-	20,197

12 . Ageing of impaired past due loans*BD '000*

	3 months up to 1 year	1 to 3 years	Over 3 years	Total
Impaired past due loans	21,526	41,224	89,753	152,503
Less: specific provisions	1,867	11,552	54,724	68,143
Less: Interest in suspense	419	4,264	23,194	27,877
Net outstanding	19,240	25,408	11,835	56,483
Market value of collateral	30,092	47,592	29,068	106,752

13 . Restructured Loans*BD'000*

Loans restructured during the period	51,511
Impact of restructured facilities and loans on provisions	2,484

The above restructuring did not have any significant impact on present and future earnings and were primarily extensions of the loan tenor, revisions in interest rate, and additional collateral received.

14 . Market Risk Disclosures for banks using the Internal Models Approach (IMA) for trading portfolios

The “Market Risk Internal Model” is being used to measure Value-at-Risk (VaR) for calculating Capital Charge arising from Market Risk exposures (mainly Foreign Exchange and Interest Rate Risk positions) of the Trading book. The VaR model quantifies the maximum potential loss that could occur in the Trading book risk positions under normal market conditions, at 99% confidence level, on a 10-day horizon.

BBK maintains a prudent approach to handle Market Risk exposures guided by Market Risk Policy and Procedure. The Position, Stoploss and VaR limits are monitored by Middle Office (reporting to Risk Management Department and Independent of Business unit) and a daily risk report is circulated to the Senior Management.

In addition to the above, the Middle Office also carries out valuation of the Investment Portfolio independently as per the internal policies and procedures. Furthermore BBK also conducts Stress Testing and Back Testing of Market Risk positions.

The summary of VaR of the trading book for the period January 2013 to June 2013 is as follows:

**VaR Results for the January 2013 to June 2013 (10 day 99%)
Global (BAHRAIN & KUWAIT)
1 January 2013 to 30 June 2013**

Asset class	Limit	VaR			<i>BD '000</i>
		30 June 2013	High VaR	Low VaR	Average VaR
Foreign exchange	641	79	240	11	55
Interest rate	151	0	1	0	0
Total	792	79	240	11	55

The Bank conducts Backtesting of VaR on a daily basis in compliance with CBB regulations to validate the internal VaR model and to check whether or not the model can predict potential losses with a fair degree of accuracy. Under Backtesting, the daily VaR numbers are compared with the mark-to-market profit or loss figures (on actual average Profit & Loss basis and also hypothetical Profit & Loss basis). If this comparison is close enough, the Backtest raises no issues regarding quality of the risk

The Backtesting results for the period January- June 2013 confirmed that there was no occasion on which a daily trading loss exceeded VaR figure.

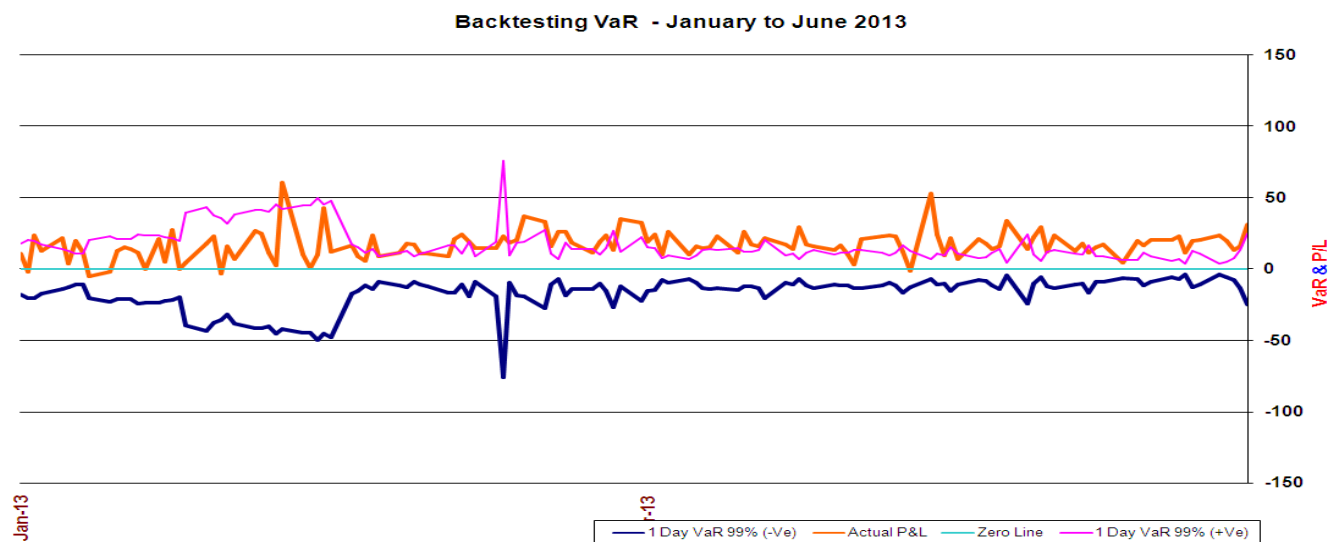
14 . Market Risk Disclosures for banks using the Internal Models Approach (IMA) for trading portfolios (continued)

Month end VaR (10 day 99%)

Month	VaR in BD'000
January 2013	100
February 2013	35
March 2013	38
April 2013	36
May 2013	43
June 2013	79

The following graph shows that the daily average Profit & Loss (Actual Average P & L basis) vis-à-vis one day VaR, for the review period.

Value- at-Risk Backtesting January – June 2013



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15 . Currency Risk

The functional currency of the Group is the Bahraini Dinar.

The Group has the following significant non - strategic net exposures denominated in foreign currencies as of 30 June 2013:

	<u><i>BD '000</i></u>
USD Dollars	1,885
EURO	102
G.C.C. Currencies	27,877
Kuwaiti Dinars	(723)
Others	(276)
Total	28,865

16 . Concentration risk to individuals where the total exposure is in excess of single obligor limit of 15%

	<u><i>BD '000</i></u>
Sovereign	602,923
Total	602,923

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17 . Derivatives

	<i>BD '000</i>		
Derivatives	Positive fair value	Negative fair value	Notional Amount
<i>Derivatives held for Trading</i>			
Interest rate swap	-	-	-
Forward foreign exchange contracts	85	65	3,251
Options	64	27	5,707
<i>Derivatives held as fair value hedges</i>			
Interest rate swap	6,840	7,479	438,228
Forward foreign exchange contracts	839	293	205,017
Total	7,828	7,864	652,203

18 . Credit Derivatives Exposure

	<i>BD '000</i>
First to Default	0
Credit default swap and credit debt obligations	17,770
Credit Derivatives Products sold	17,770

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19 . Related Party Transactions

				<i>BD '000</i>
	Major shareholders	Associated & others	Directors and key management	
Loans and advances to customers	-	11,025	1,146	12,171
Customer Current, Saving and other deposits	340,291	3,838	2,405	346,534

No provision is required in respect of loans given to related parties*The income and expenses in respect of related parties included in the consolidated income statement are as follows:*

Interest and similar income	-	188	7	195
Interest and similar expense	1,839	33	5	1,877

20 . Compensation of the key management personnel including directors

	<i>BD '000</i>
Salaries and other short term benefits	3,749
Post employment benefits	13
Share based payments	333
Total compensation paid to key management personnel	4,095

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21 . Equity positions in the banking book

	<i>BD '000</i>
Publicly traded equity shares	63,232
Privately held equity shares	23,197
Total	86,429
Capital required	10,371

22 . Gains on equity instruments

	<i>BD '000</i>
Realised Gains/ Losses in statement of income	911
Unrealised Gains/ Losses in tier 1 Capital (eligible portion)	(1,038)
Unrealised Gains/ Losses in tier 2 Capital (eligible portion)	4,745

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23 . Legal risk and claims

Legal risk is the risk relating to losses due to legal or regulatory action that invalidates or otherwise precludes performance by the end user or its counterparty under the terms of the contract or related netting agreements.

The Group has developed sufficient preventive controls and formalised procedures to identify legal risks so that potential losses arising from non-adherence to laws and regulations, negative publicity, etc. are avoided. The Group also has well established legal procedures to scrutinize product offerings and manage risks arising out of its transactions.

As at 30 June 2013, there were legal suits pending against the Group aggregating BD 0.824million. Based on the opinion of the Group's legal advisors, the management believes that no liability is likely to arise from these suits and does not consider it necessary to carry any provisions in this regard.

24 . Interest rate risk in the banking book (IRRBB)

A increase of 100 basis point in interest rates, with all other variables held constant, will result in a negative impact on equity of approximately 2.23%.

Similarly, a decrease of 100 basis point in interest rates, with all other variables held constant, will result in a positive impact on equity of approximately 2.23%.