



# **Basel II Pillar III Disclosure**

*(For the six month ended 30 June 2012)*

**Basel II Pillar III Disclosure**

(For the six months ended 30 June 12)

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**1 . Capital Components - Consolidated**

	<b>Jun-12 BD'000</b>	<b>Jun-11 BD'000</b>
<b>Tier 1 capital</b>		
Share capital	81,424	80,903
General reserves	39,500	36,000
Statutory reserves	42,568	42,568
Share premium	39,919	39,919
Retained earnings and others	27,763	25,668
Minority interest	439	306
Unrealized losses arising from fair valuing equities	(1,867)	(7,419)
Deductions from tier 1 capital	(39,865)	(40,382)
<b>Total tier 1 capital</b>	<b>189,881</b>	<b>177,563</b>
<b>Tier 2 capital</b>		
Current year profit	23,307	23,084
45% of unrealized gains arising from fair valuing equities	2,606	1,877
Collective impairment provisions	15,850	13,717
Subordinated term debt	6,807	59,238
Deductions from tier 2 capital	(39,865)	(40,382)
<b>Total tier 2 capital</b>	<b>8,705</b>	<b>57,534</b>
<b>Total available capital (tier 1 + tier 2)</b>	<b>198,586</b>	<b>235,097</b>
Aggregation	75,542	72,151
<b>Total eligible capital</b>	<b>274,128</b>	<b>307,248</b>

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(For the six months ended 30 June 2012)

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

	<b>Jun-12</b>		<b>Jun-11</b>	
	<b>Total capital ratio</b>	<b>Tier 1 capital ratio</b>	<b>Total capital ratio</b>	<b>Tier 1 capital ratio</b>
BBK - GROUP	13.91%	13.47%	18.49%	15.03%
CrediMax	79.40%	68.52%	82.32%	73.86%
Capinnova Investment Bank	91.02%	91.02%	118.04%	118.04%

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3 . Capital Requirement for Risk Weighted Exposure

BHD '000

Jun-12	Gross credit exposures (before risk mitigation)	Eligible financial collateral	Credit risk after risk mitigation	Risk weighted asset	Regulatory capital required 12%
Sovereign	810,725	-	37,125	23,000	2,760
Public Sector Entities	197,613	-	37,591	15,469	1,856
Banks	621,086	235	619,694	276,735	33,208
Corporates	1,154,852	57,165	1,036,498	1,036,261	124,351
Regulatory retail	182,060	17,175	164,885	123,664	14,840
Mortgage	72,258	3,008	69,251	52,254	6,270
Equity #	52,009	-	-	55,235	6,628
Investment in Funds	3,681	-	3,681	5,521	663
Past Due	19,121	-	19,121	23,477	2,817
Real Estate	29,800	-	-	48,777	5,853
Securitisation	3,298	-	3,298	3,298	396
Other assets	47,808	-	47,807	47,807	5,737
Cash Items	14,249	-	-	37	4
<b>Total</b>	<b>3,208,560</b>	<b>77,583</b>	<b>2,038,951</b>	<b>1,711,535</b>	<b>205,384</b>
Aggregation	68,287	-	68,287	68,287	8,194
<b>Total Credit Risk</b>	<b>3,276,847</b>	<b>77,583</b>	<b>2,107,238</b>	<b>1,779,822</b>	<b>213,578</b>
<b>Market Risk</b>	-	-	-	24,017	2,882
<b>Operational Risk</b>	-	-	-	166,879	20,025
<b>Total Risk Weighted Exposure</b>	<b>3,276,847</b>	<b>77,583</b>	<b>2,107,238</b>	<b>1,970,718</b>	<b>236,485</b>

Jun-11	Gross credit exposures (before risk mitigation)	Eligible financial collateral	Credit risk after risk mitigation	Risk weighted asset	Regulatory capital required 12%
Sovereign	773,817	-	15,895	10,359	1,243
Public Sector Entities	172,971	-	23,548	9,010	1,081
Banks	477,603	1,221	475,269	219,743	26,369
Corporates	976,664	51,182	857,454	855,779	102,693
Regulatory retail	166,378	19,882	146,497	109,872	13,185
Mortgage	69,905	3,534	66,371	50,135	6,016
Equity	45,438	-	-	46,886	5,626
Investment in Funds	3,979	-	3,979	5,968	716
Past Due	24,242	1.0	24,241	34,443	4,133
Real Estate	32,116	-	-	53,279	6,393
Securitisation	3,939	-	3,939	3,939	473
Other assets	37,817	-	37,817	37,817	4,538
Cash Items	10,911	-	-	31	4
<b>Total</b>	<b>2,795,780</b>	<b>75,820</b>	<b>1,655,010</b>	<b>1,437,261</b>	<b>172,470</b>
Aggregation	56,843	-	56,843	56,843	6,821
<b>Total Credit Risk</b>	<b>2,852,623</b>	<b>75,820</b>	<b>1,711,853</b>	<b>1,494,104</b>	<b>179,291</b>
<b>Market Risk</b>	-	-	-	3,946	474
<b>Operational Risk</b>	-	-	-	163,610	19,633
<b>Total Risk Weighted Exposure</b>	<b>2,852,623</b>	<b>75,820</b>	<b>1,711,853</b>	<b>1,661,660</b>	<b>199,398</b>

# 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 273,005 thousands:

Entity	Nationality	Ownership%	Risk weighted asset	Impact on regulatory capital
Bahrain and Kuwait Insurance Company	Bahrain	23%	1,123	135

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

<b>Total gross credit exposures</b>	<b>Total funded credit exposure June 2012</b>	<b>Total un-funded credit exposure June 2012</b>	<b>Total funded credit exposure June 2011</b>	<b>Total un-funded credit exposure June 2011</b>
Sovereign	788,818	21,907	773,643	174
Public sector entities	170,867	26,746	149,105	23,865
Banks	469,100	151,986	345,189	132,413
Corporates	976,986	177,867	832,159	144,505
Regulatory retail	179,410	2,650	163,459	2,919
Mortgage	72,258	-	69,905	-
Equity	52,009	-	45,438	-
Investment in funds	3,483	198	3,781	198
Past due	19,121	-	24,242	-
Real estate	29,800	-	32,116	-
Securitisation	3,298	-	3,939	-
Other assets	47,807	-	37,817	-
Cash items	14,249	-	10,911	-
<b>Total</b>	<b>2,827,206</b>	<b>381,354</b>	<b>2,491,704</b>	<b>304,074</b>
Aggregation	68,287	-	56,843	-
<b>Total credit risk</b>	<b>2,895,493</b>	<b>381,354</b>	<b>2,548,547</b>	<b>304,074</b>

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(For the six months ended 30 June 2012)

**5 . Average credit exposure*****BHD '000***

The following are the average quarterly balances for the six months ended 30th June 20

	<b>Jun-12</b>	<b>Jun-11</b>
Sovereign	742,197	722,084
Public sector entities	191,411	173,074
Banks	623,576	453,119
Corporates	1,158,782	993,622
Regulatory retail	181,767	166,180
Mortgage	71,690	70,165
Equity	49,863	44,333
Investment in funds	3,700	3,998
Past Due	20,205	30,354
Real estate	29,981	33,708
Securitisation	3,401	3,885
Other assets	45,746	38,338
Cash items	15,117	12,729
<b>Total</b>	<b>3,137,436</b>	<b>2,745,589</b>
Aggregation	68,798	57,300
<b>Total credit risk</b>	<b>3,206,234</b>	<b>2,802,889</b>

**BBK B.S.C.****Basel II Pillar III Disclosure**

(For the six months ended 30 June 2012)

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

	<b>GCC</b>	<b>North America</b>	<b>Europe</b>	<b>Asia</b>	<b>Others</b>	<b>Total</b>
Cash and balances with central banks	255,593	-	-	2,642	-	<b>258,235</b>
Treasury bills	154,146	-	-	4,975	-	<b>159,121</b>
Deposits in banks & other financial institutions	164,460	4,157	21,367	6,266	44	<b>196,294</b>
Loans & advances to customers	1,286,442	472	8,944	153,752	10,152	<b>1,459,762</b>
Investment securities	516,130	27,209	57,765	82,075	11,983	<b>695,162</b>
Other assets	56,561	-	-	2,071	-	<b>58,632</b>
<b>Total funded exposure</b>	<b>2,433,332</b>	<b>31,838</b>	<b>88,076</b>	<b>251,781</b>	<b>22,179</b>	<b>2,827,206</b>
Unfunded commitments & contingents	272,393	6,653	13,969	78,076	10,263	<b>381,354</b>
Aggregation	68,287	-	-	-	-	<b>68,287</b>
<b>Total credit risk at 30 June 2012</b>	<b>2,774,012</b>	<b>38,491</b>	<b>102,045</b>	<b>329,857</b>	<b>32,442</b>	<b>3,276,847</b>

	<b>GCC</b>	<b>North America</b>	<b>Europe</b>	<b>Asia</b>	<b>Others</b>	<b>Total</b>
Cash and balances with central banks	347,305	-	-	3,631	-	<b>350,936</b>
Treasury bills	193,877	-	-	414	-	<b>194,291</b>
Deposits in banks & other financial institutions	115,545	7,840	19,761	6,358	217	<b>149,721</b>
Loans & advances to customers	1,175,009	297	10,172	83,685	11,858	<b>1,281,021</b>
Investment securities	363,111	20,004	41,369	29,209	12,777	<b>466,470</b>
Other assets	47,255	-	-	2,012	-	<b>49,267</b>
<b>Total funded exposure</b>	<b>2,242,102</b>	<b>28,141</b>	<b>71,302</b>	<b>125,309</b>	<b>24,852</b>	<b>2,491,706</b>
Unfunded commitments & contingents	217,195	6,612	21,749	52,642	5,876	<b>304,074</b>
Aggregation	56,843	-	-	-	-	<b>56,843</b>
<b>Total Credit Risk at 30 June 2011</b>	<b>2,516,140</b>	<b>34,753</b>	<b>93,051</b>	<b>177,951</b>	<b>30,728</b>	<b>2,852,623</b>



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(For the six months ended 30 June 2012)

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

	<b>Trading and manufacturing</b>	<b>Banks &amp; other financial institutions</b>	<b>Construction &amp; real estate</b>	<b>Government &amp; public sector</b>	<b>Individuals</b>	<b>Others</b>	<b>Total</b>
Cash and balances with central banks	-	258,235	-	-	-	-	<b>258,235</b>
Treasury bills	-	-	-	159,121	-	-	<b>159,121</b>
Deposits in banks & other financial institutions	-	196,294	-	-	-	-	<b>196,294</b>
Loans & advances to customers	476,132	128,214	500,395	46,112	142,182	166,727	<b>1,459,762</b>
Investment securities	34,752	224,849	18,976	400,163	-	16,422	<b>695,162</b>
Other assets	-	-	-	-	-	58,632	<b>58,632</b>
<b>Total funded exposure</b>	<b>510,884</b>	<b>807,592</b>	<b>519,371</b>	<b>605,396</b>	<b>142,182</b>	<b>241,781</b>	<b>2,827,206</b>
Unfunded commitments & contingents	91,483	156,845	63,591	8,181	12,085	49,169	<b>381,354</b>
Aggregation	-	67,849	-	-	-	438	<b>68,287</b>
<b>Total credit risk at 30 June 2012</b>	<b>602,367</b>	<b>1,032,286</b>	<b>582,962</b>	<b>613,577</b>	<b>154,267</b>	<b>291,388</b>	<b>3,276,847</b>

	<b>Trading and manufacturing</b>	<b>Banks &amp; other financial institutions</b>	<b>Construction &amp; real estate</b>	<b>Government &amp; public sector</b>	<b>Individuals</b>	<b>Others</b>	<b>Total</b>
Cash and balances with central banks	-	350,936	-	-	-	-	<b>350,936</b>
Treasury bills	-	-	-	194,291	-	-	<b>194,291</b>
Deposits in banks & other financial institutions	-	149,721	-	-	-	-	<b>149,721</b>
Loans & advances to customers	347,489	120,895	497,299	45,593	117,318	152,427	<b>1,281,021</b>
Investment securities	37,921	203,990	21,163	201,001	-	2,395	<b>466,470</b>
Other assets	-	172	-	-	106	48,989	<b>49,267</b>
<b>Total funded exposure</b>	<b>385,410</b>	<b>825,715</b>	<b>518,462</b>	<b>440,885</b>	<b>117,424</b>	<b>203,811</b>	<b>2,491,706</b>
Unfunded commitments & contingents	82,118	119,513	58,173	5,795	1,296	37,179	<b>304,074</b>
Aggregation	-	56,449	-	-	-	394	<b>56,843</b>
<b>Total credit risk at 30 June 2011</b>	<b>467,528</b>	<b>1,001,677</b>	<b>576,635</b>	<b>446,680</b>	<b>118,720</b>	<b>241,384</b>	<b>2,852,623</b>

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(For the six months ended 30 June 2012)

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

	<b>Within 1 month</b>	<b>1 to 3 months</b>	<b>3 to 6 months</b>	<b>6 to 12 months</b>	<b>1 to 5 years</b>	<b>5 to 10 years</b>	<b>10 to 20 years</b>	<b>Above 20 years</b>	<b>Total</b>
Cash and balances with central banks	196,731	-	-	-	-	-	-	61,504	258,235
Treasury bills	26,992	46,598	39,122	46,409	-	-	-	-	159,121
Deposits in banks & other financial	160,409	34,574	983	328	-	-	-	-	196,294
Loans & advances to customers	106,058	122,058	86,888	97,778	603,377	234,622	43,508	165,473	1,459,762
Investment securities	77,072	58,657	39,594	51,898	249,200	143,202	4,254	71,285	695,162
Other assets	28,375	100	135	23	842	27	-	29,130	58,632
<b>Total funded exposure</b>	<b>595,637</b>	<b>261,987</b>	<b>166,722</b>	<b>196,436</b>	<b>853,419</b>	<b>377,851</b>	<b>47,762</b>	<b>327,392</b>	<b>2,827,206</b>
Unfunded commitments & contingents	157,463	71,859	62,422	81,669	6,049	1,827	26	39	381,354
Aggregation	-	-	-	-	-	-	-	68,287	68,287
<b>Total credit risk at 30 June 2012</b>	<b>753,100</b>	<b>333,846</b>	<b>229,144</b>	<b>278,105</b>	<b>859,468</b>	<b>379,678</b>	<b>47,788</b>	<b>395,718</b>	<b>3,276,847</b>

	<b>Within 1 month</b>	<b>1 to 3 months</b>	<b>3 to 6 months</b>	<b>6 to 12 months</b>	<b>1 to 5 years</b>	<b>5 to 10 years</b>	<b>10 to 20 years</b>	<b>Above 20 years</b>	<b>Total</b>
Cash and balances with central banks	293,316	-	-	-	-	-	-	57,620	350,936
Treasury bills	26,866	147,651	-	19,774	-	-	-	-	194,291
Deposits in banks & other financial	121,702	19,519	6,875	-	1,625	-	-	-	149,721
Loans & advances to customers	103,955	112,774	84,794	63,666	459,421	299,488	53,096	103,827	1,281,021
Investment securities	26,504	12,642	32,154	36,489	203,898	95,036	1,614	58,133	466,469
Other assets	18,383	140	116	5	783	17	35	29,788	49,267
<b>Total funded exposure</b>	<b>590,725</b>	<b>292,726</b>	<b>123,938</b>	<b>119,935</b>	<b>665,727</b>	<b>394,540</b>	<b>54,745</b>	<b>249,368</b>	<b>2,491,705</b>
Unfunded commitments & contingents	64,994	66,189	45,046	119,710	7,238	517	29	351	304,074
Aggregation	-	-	-	-	-	-	-	56,843	56,843
<b>Total credit risk at 30 June 2011</b>	<b>655,719</b>	<b>358,915</b>	<b>168,984</b>	<b>239,645</b>	<b>672,965</b>	<b>395,057</b>	<b>54,774</b>	<b>306,562</b>	<b>2,852,622</b>

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## 9 . Impaired loans and provisions

BHD '000

	Jun-12			Jun-11		
	Principle & interest outstanding	Impaired loans	Specific provisions	Principle & interest outstanding	Impaired loans	Specific provisions
Manufacturing	259,173	16,831	14,749	204,734	22,349	14,516
Mining and quarrying	27,079	-	-	10,638	-	-
Agriculture, fishing and forestry	3,595	25	25	4,156	25	25
Construction	228,904	7,848	7,508	217,139	19,922	4,985
Financial	168,444	41,087	36,823	155,570	39,540	28,582
Trade	211,468	7,561	3,872	150,431	7,837	3,717
Personal / Consumer finance	155,315	20,835	12,232	134,496	20,490	16,278
Commercial real estate financing	216,564	38,365	9,799	217,173	1,325	605
Residential mortgage	76,598	4,076	1,138	71,944	5,131	1,246
Government	46,237	-	-	45,681	-	-
Technology, media and telecommunications	78,618	382	372	55,939	363	274
Transport	37,369	-	-	39,881	-	-
Other sectors	52,768	2	1	57,304	119	120
<b>Total at 31 December</b>	<b>1,562,132</b>	<b>137,012</b>	<b>86,519</b>	<b>1,365,086</b>	<b>117,101</b>	<b>70,348</b>

## 10 . Reconciliation of changes in impaired loans and provisions

	Jun-12		Jun-11	
	Specific impairment provisions	Collective impairment provisions	Specific impairment provisions	Collective impairment provisions
At beginning of the year	82,849	15,556	68,955	13,733
Amounts written off	(432)	-	(2,311)	-
Write backs/cancellation due to improvement	(1,966)	(14)	(994)	30
Additional provisions made	6,963	417	4,364	-
Exchange adjustment and other movements	(275)	(109)	992	(46)
Notional interest on impaired loans	(621)	-	(658)	-
<b>Balance at reporting date</b>	<b>86,519</b>	<b>15,850</b>	<b>70,348</b>	<b>13,717</b>

**Basel II Pillar III Disclosure**

(For the six months ended 30 June 2012)

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

	<b>GCC</b>	<b>North America</b>	<b>Europe</b>	<b>Asia</b>	<b>Others</b>	<b>Total Jun 2012</b>
Past Due loans	9,957	-	-	15,928	-	<b>25,885</b>
Impaired loans	134,766	-	-	2,246	-	<b>137,012</b>
Specific impairment provisions including interest in suspense	85,577	-	-	942	-	<b>86,519</b>
Collective impairment provisions	15,511	-	-	339	-	<b>15,850</b>

	<b>GCC</b>	<b>North America</b>	<b>Europe</b>	<b>Asia</b>	<b>Others</b>	<b>Total Jun 2011</b>
Impaired loans	114,448	-	-	2,653	-	117,101
Specific impairment provisions including interest in suspense	69,233	-	-	1,115	-	70,348
Collective impairment provisions	13,403	-	-	314	-	13,717

**12 . Aging of impaired loans**
*BHD '000*

	<b>3 months up to 1 year</b>	<b>1 to 3 years</b>	<b>Over 3 years</b>	<b>Total Jun 2012</b>
Impaired loans	35,483	21,992	79,537	<b>137,012</b>
Less: specific provisions	5,879	8,538	48,723	<b>63,141</b>
Less: Interest in suspense	2,345	1,381	19,653	<b>23,379</b>
<b>Net outstanding</b>	<b>27,259</b>	<b>12,073</b>	<b>11,161</b>	<b>50,493</b>
<b>Market value of collateral</b>	52,053	11,118	20,792	<b>83,963</b>

	<b>3 months up to 1 year</b>	<b>1 to 3 years</b>	<b>Over 3 years</b>	<b>Total Jun 2011</b>
Impaired loans	26,902	39,969	50,230	117,101
Less: specific provisions	1,938	24,974	25,919	52,831
Less: Interest in suspense	376	3,657	13,484	17,517
<b>Net outstanding</b>	<b>24,588</b>	<b>11,338</b>	<b>10,827</b>	<b>46,753</b>
Market value of collateral	11,306	18,136	21,984	51,426

**13 . Restructured Loans**
*BD'000*

	<b>Jun-12</b>	<b>Jun-11</b>
Loans restructured during the period	<b>29,100</b>	<b>33,419</b>
Impact of restructured facilities and loans on present and future earnings	-	-
Impact of restructured facilities and loans on provisions	<b>29</b>	-

The above restructurings 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 during 2012 is as follows:

<b>VaR Results for the six months ended 30th June 2012 (10 day 99%)</b>						<b>VaR Results for the six months ended 30th June 2011 (10 day 99%)</b>					
<b>Global (BAHRAIN &amp; KUWAIT)</b>						<b>Global (BAHRAIN &amp; KUWAIT)</b>					
<b>January 1, -June 30, 2012</b>						<b>January 1, - June 30, 2011</b>					
<b>Asset class</b>	<b>Limit</b>	<b>VaR</b>		<b>Average</b>		<b>Asset class</b>	<b>Limit</b>	<b>VaR</b>		<b>Average</b>	
		<b>30/06/2012</b>	<b>High VaR</b>	<b>Low VaR</b>	<b>VaR</b>			<b>30/06/2011</b>	<b>High VaR</b>	<b>Low VaR</b>	<b>VaR</b>
<b>Foreign exchange</b>	641	30	360	21	<b>131</b>	Foreign exchange	641	77	165	25	66
<b>Interest rate</b>	151	0	4	0	<b>0</b>	Interest rate	151	1	3	0	1
<b>Total</b>	<b>792</b>	<b>30</b>	<b>360</b>	<b>21</b>	<b>131</b>	<b>Total</b>	<b>792</b>	<b>78</b>	<b>165</b>	<b>26</b>	<b>67</b>

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 measurement model.

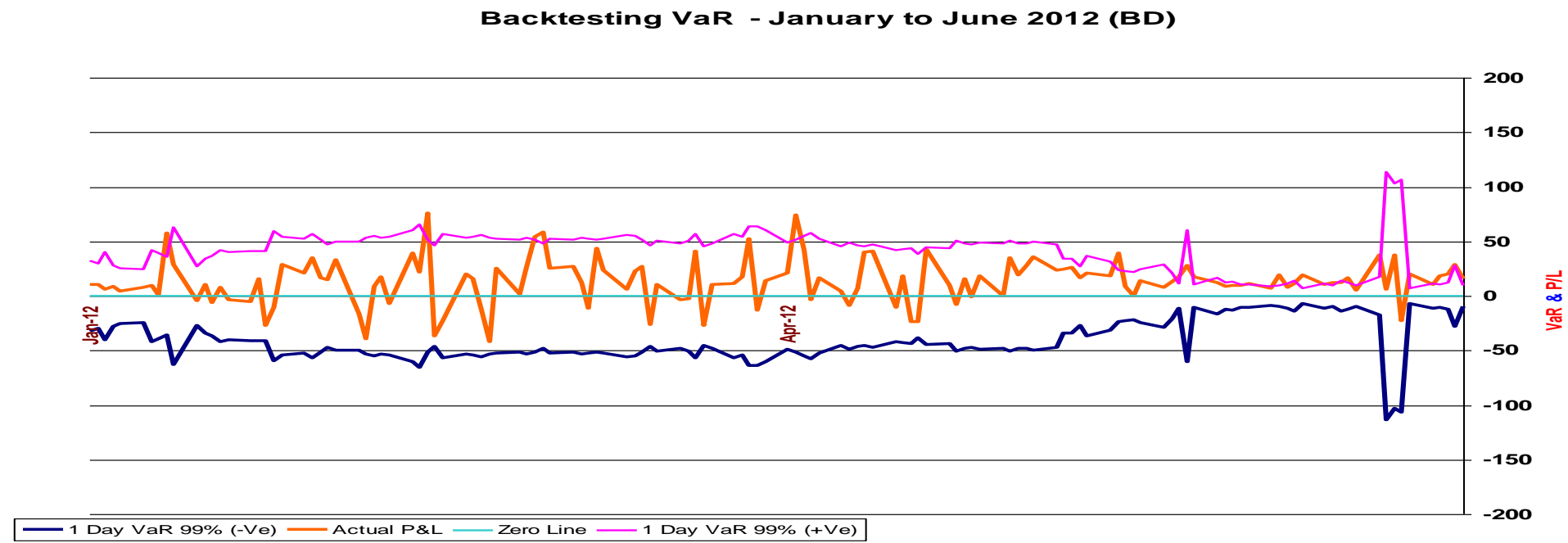
The Backtesting results for the period January- December 2011 confirmed that there was no occasion on which a daily trading loss exceeded VaR figure.

**Month end VaR (10 day 99%)**

<b>Month</b>	<b>Var in</b>
	<b>BD'000</b>
31/01/2012	181
29/02/2012	163
30/03/2012	190
30/04/2012	153
31/05/2012	33
30/06/2012	30

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 2012**



**Basel II Pillar III Disclosure**

(For the six months ended 30 June 2012)

**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 30th June 2012:

	BHD '000	
	<i>Jun-12</i>	<i>Jun-11</i>
USD Dollars	(8,097)	(6,727)
EURO	186	(113)
G.C.C. Currencies	19,738	29,706
Kuwaiti Dinars	135	(838)
Others	387	692
<b>Total</b>	<b>12,349</b>	<b>22,720</b>

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

	<b>Jun-12</b>	<b>Jun-11</b>
Sovereign	731,586	585,547
<b>Total</b>	<b>731,586</b>	<b>585,547</b>

**BBK B.S.C.****Basel II Pillar III Disclosure**

(For the six months ended 30 June 2012)

**17 . Derivatives**

<b>Derivatives</b>	<b>Jun-12</b>			<b>Jun-11</b>			<i>BHD '000</i>
	<b>Positive fair value</b>	<b>Negative fair value</b>	<b>Notional Amount</b>	<b>Positive fair value</b>	<b>Negative fair value</b>	<b>Notional Amount</b>	
<i>Derivatives held for Trading</i>							
Forward foreign exchange contracts	990	549	54,682	392	158	19,758	
Options	16	-	592	13	9	6,691	
<i>Derivatives held as fair value hedges</i>							
Interest rate swap	12	14,817	325,029	120	6,538	235,471	
Forward foreign exchange contracts	453	866	231,387	430	492	152,730	
<b>Total</b>	<b>1,471</b>	<b>16,232</b>	<b>611,690</b>	<b>955</b>	<b>7,197</b>	<b>414,650</b>	

**18 . Credit Derivatives Exposure**

	<i>BHD '000</i>	
	<b>Jun-12</b>	<b>Jun-11</b>
Credit default seap and credit debt obligations	107,521	119,335
<b>Credit Derivatives Products sold</b>	<b>107,521</b>	<b>119,335</b>



**BBK B.S.C.****Basel II Pillar III Disclosure**

(For the six months ended 30 June 2012)

**19 . Related Party Transactions**

				<i>BD '000</i>
	Major shareholders	Associated & others	Directors and key management	June 2012
Loans and advances to customers	-	4,480	1,512	5,992
Customer Current, Saving and other deposits	335,485	1,717	2,091	339,293

**No provision is required in respect of loans given to related parties (2011: nil)**

*The income and expenses in respect of related parties included in the consolidated income statement are as follows:*

Interest and similar income	-	27	1	28
Interest and similar expense	1,964	-	1	1,965

	Major shareholders	Associated & others	Directors and key management	June 2011
Loans and advances to customers	-	7,092	1,447	8,539
Customer Current, Saving and other deposits	321,135	664	1,987	323,786

**No provision is required in respect of loans given to related parties (2009: nil)**

*The income and expenses in respect of related parties included in the consolidated income statement are as follows:*

Interest and similar income	-	29	2	31
Interest and similar expense	2,104	(0)	2	2,106

**20 . Compensation of the key management personnel including directors**

	<i>June 2012 BD '000</i>	<i>June 2011 BD '000</i>
Salaries and other short term benefits	4,196	3,778
Post employment benefits	9	33
Share based payments	306	7
<b>Total compensation paid to key management personnel</b>	<b>4,511</b>	<b>3,818</b>

**Basel II Pillar III Disclosure**

(For the six months ended 30 June 2012)

**21 . Equity positions in the banking book**

	<b>BHD '000</b>	<b>BHD '000</b>
	<b>Jun 2012</b>	<b>June 2011</b>
Publicly traded equity shares	45,558	42,664
Privately held equity shares	22,814	19,260
<b>Total</b>	<b>68,372</b>	<b>61,924</b>
<b>Capital required</b>	<b>8,205</b>	<b>7,431</b>

**22 . Gains on equity instruments**

	<i>BHD '000</i>	<i>BHD '000</i>
	<i>June 2012</i>	<i>June 2011</i>
<b>Realised Gains/ Losses in statement of income</b>	<b>34</b>	<b>131</b>
<b>Unrealised Gains/ Losses in tier 1 Capital (eligible portion)</b>	<b>(1,867)</b>	<b>(3,249)</b>
<b>Unrealised Gains/ Losses in tier 2 Capital (eligible portion)</b>	<b>2,606</b>	<b>1,877</b>

## **BBK B.S.C.**

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### **Basel II Pillar III Disclosure**

(For the six months ended 30 June 2012)

#### **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 2012, there were legal suits pending against the Group aggregating BD 0.841million (Jun 2011: 0.872million). 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 4.79%. (Jun 2011: 2.79%)

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 4.79%.(Jun 2011: 2.79%)