

## BASLE 2 PILLAR 3 DISCLOSURES

30 June 2008

## 1 CAPITAL STRUCTURE

1.1 CAPITAL COMPONENTS - CONSOLIDATED	Tier 1	Tier 2	Tier 3	TOTAL
Issued and fully paid ordinary shares and perpetual non-cumulative preference shares	79,725			79,725
Less: Employee stock incentive program funded by the bank (outstanding)				(34)
				(34)
General reserves	20,000			20,000
Legal / statutory reserves	32,792			32,792
Share premium	39,919			39,919
Others	4,247			4,247
Disclosed reserves	96,958	-	-	96,958
Retained profit brought forward	14,839			14,839
Minority interest in consolidated subsidiaries	128			128
<b>Tier 1 Capital before PCD deductions</b>	<b>191,615</b>	<b>-</b>	<b>-</b>	<b>191,615</b>
Current interim profits (reviewed by external auditors)		24,174		24,174
Unrealized gains arising from fair valuing equities (45% only)		11,477		11,477
Excess of total eligible provisions over total expected loss		2,758		2,758
Subordinated term debt		95,824		95,824
<b>Tier 2 Capital before PCD deductions</b>	<b>-</b>	<b>134,234</b>	<b>-</b>	<b>134,234</b>
<b>Total Available Capital</b>	<b>191,615</b>	<b>134,234</b>	<b>-</b>	<b>325,848</b>
<b>Total Deductions</b>	<b>22,841</b>	<b>22,841</b>	<b>-</b>	<b>45,683</b>
<b>Net Available Capital (Tier 2 up to 100% of Tier 1)</b>	<b>168,773</b>	<b>111,392</b>	<b>-</b>	<b>280,166</b>
<b>AGGREGATION</b>	<b>22,101</b>			<b>22,101</b>
<b>TOTAL ELIGIBLE CAPITAL</b>	<b>190,874</b>	<b>111,392</b>	<b>-</b>	<b>302,267</b>

## 2 CAPITAL ADEQUACY

2.1 CAPITAL REQUIREMENTS FOR CREDIT RISK	REGULATORY				TOTAL FUNDED CREDIT EXPOSURE	TOTAL NON FUNDED CREDIT EXPOSURE
	GROSS CREDIT EXPOSURES (BEFORE RISK MITIGATION)	Credit Risk Weighted Asset	CAPITAL REQUIRED	ELIGIBLE FINANCIAL COLLATERAL		
A) Sovereign portfolio (including claims on international organisations and claims on multilateral development banks (MDBs).	532,427	24,411	2,929	-	461,426	71,001
B) Public Sector Entities (PSEs) Portfolio.	272,248	1,733	208	-	235,735	36,513
C) Banks Portfolio	538,294	168,967	20,276	1,002	402,282	136,012
D) Corporate Portfolio.	816,199	657,174	78,861	75,715	653,464	162,736
E) Regulatory retail portfolio (including claims on small business eligible for 75% risk weight).	201,708	124,893	14,987	30,537	199,746	1,962
F) Commercial Mortgage eligible for 100% RW	4,297	1,187	142	3,110	4,297	-
G) Equity portfolio (contains all equities held in the banking book.	33,779	38,862	4,663	-	33,779	-
H) Investment in Funds portfolio	6,672	10,008	1,201	-	6,339	333
I) Past Due Portfolio.	11,566	11,536	1,384	-	9,400	2,166
J) All other holdings of Real Estate	7,825	15,650	1,878	-	7,825	-
K) Holdings of securitisation Tranches	29,038	5,757	691	-	29,038	-
L) Other assets	161,729	155,783	18,694	5,946	155,692	6,036
M) Cash Items	12,491	682	82	-	12,491	-
<b>TOTAL</b>	<b>2,628,273</b>	<b>1,216,643</b>	<b>145,997</b>	<b>116,310</b>	<b>2,211,514</b>	<b>416,759</b>
<b>AGGREGATION</b>	<b>41,725</b>	<b>41,725</b>	<b>5,007</b>			
<b>TOTAL CREDIT RISK</b>	<b>2,669,998</b>	<b>1,258,367</b>	<b>151,004</b>			

The period end position is representative of the risk positions of the bank during the period, hence average gross exposures have not been disclosed.

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2.2	CAPITAL REQUIREMENTS FOR MARKET RISK	Market Risk Weighted Exposure	CAPITAL REQUIRED
	Market Risk Weighted Exposures	12,106	1,453

2.3	CAPITAL REQUIREMENTS FOR OPERATIONAL RISK - BASIC INDICATOR APPROACH	Operational Risk Weighted Exposure	CAPITAL REQUIRED
	Operational Risk Weighted Exposures	124,383	14,926

2.4	CAPITAL RATIOS - CONSOLIDATED & SUBSIDIARIES ABOVE 5% OF GROUP CAPITAL	TOTAL RISK WEIGHTED ASSETS	TOTAL CAPITAL	Tier One Capital	Total Capital Ratio	Tier One Capital Ratio
	BBK - GROUP	1,394,855	302,301	190,908	21.67%	13.69%
	CREDIMAX	25,496	31,785	26,778	124.67%	105.03%

2.5	GEOGRAPHICAL CONCENTRATION OF CREDIT RISK	GROSS CREDIT EXPOSURES (BEFORE RISK MITIGATION)	Gulf Co-operation Council Countries	North America	European Union Country	Asia	Others
	A) Sovereign portfolio (including claims on international organisations and claims on multilateral development banks (MDBs)).	532,427	474,187	3,732	-	38,486	16,023
	B) Public Sector Entities (PSEs) Portfolio.	272,248	272,248	-	-	-	-
	C) Banks Portfolio	538,294	297,668	22,942	113,259	96,584	7,841
	D) Corporate Portfolio.	816,199	786,645	-	6,409	23,146	-
	E) Regulatory retail portfolio (including claims on small business eligible for 75% risk weight).	201,708	198,693	-	-	3,015	-
	F) Commercial Mortgage eligible for 100% RW	4,297	4,297	-	-	-	-
	G) Equity portfolio (contains all equities held in the banking book.	33,779	28,179	420	5,179	-	-
	H) Investment in Funds portfolio	6,672	-	-	6,672	-	-
	I) Past Due Portfolio.	11,566	11,175	-	-	391	-
	J) All other holdings of Real Estate	7,825	-	5,092	2,733	-	-
	K) Holdings of securitisation Tranches	29,038	-	-	29,038	-	-
	L) Other assets	161,729	161,729	-	-	-	-
	M) Cash Items	12,491	12,423	-	-	68	-
	<b>TOTAL</b>	<b>2,628,273</b>	<b>2,247,243</b>	<b>32,186</b>	<b>163,291</b>	<b>161,690</b>	<b>23,864</b>

2.6	INDUSTRY SECTOR CONCENTRATION OF CREDIT RISK	GROSS CREDIT EXPOSURES (BEFORE RISK MITIGATION)	TRADING AND MANUFACTURING	BANKS AND OTHER FINANCIAL INSTITUTIONS	CONSTRUCTION AND REAL ESTATE	GOVERNMENT AND PUBLIC SECTOR	INDIVIDUALS	OTHERS
	A) Sovereign portfolio (including claims on international organisations and claims on multilateral development banks (MDBs)).	532,427	-	-	-	532,427	-	-
	B) Public Sector Entities (PSEs) Portfolio.	272,248	-	-	-	272,248	-	-
	C) Banks Portfolio	538,294	-	538,294	-	-	-	-
	D) Corporate Portfolio.	816,199	393,228	-	403,741	-	-	19,230
	E) Regulatory retail portfolio (including claims on small business eligible for 75% risk weight).	201,708	-	-	-	-	201,708	-
	F) Commercial Mortgage eligible for 100% RW	4,297	-	-	4,297	-	-	-
	G) Equity portfolio (contains all equities held in the banking book.	33,779	-	10,626	443	19,986	-	2,724
	H) Investment in Funds portfolio	6,672	-	6,672	-	-	-	-
	I) Past Due Portfolio.	11,566	2,185	322	8,594	-	171	294
	J) All other holdings of Real Estate	7,825	-	-	7,825	-	-	-
	K) Holdings of securitisation Tranches	29,038	-	29,038	-	-	-	-
	L) Other assets	161,729	-	-	-	-	122,189	39,539
	M) Cash Items	12,491	-	-	-	-	-	12,491
	<b>TOTAL</b>	<b>2,628,273</b>	<b>395,413</b>	<b>584,953</b>	<b>424,900</b>	<b>824,661</b>	<b>324,068</b>	<b>74,278</b>

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2.7	Residual contractual maturity breakdown of the whole credit portfolio, broken down by standard portfolio.	GROSS CREDIT EXPOSURES (BEFORE RISK MITIGATION)								
		LESS THAN 1 MONTH	1 MONTH TO 3 MONTHS	3 MONTHS TO 6 MONTHS	6 MONTHS TO 1 YEAR	1 TO 5 YEARS	5 TO 10 YEARS	10 TO 20 YEARS	MORE THAN 20 YEARS	
	A) Sovereign portfolio (including claims on international organisations and claims on multilateral development banks (MDBs).	532,427	212,459	93,898	16,203	52,889	71,356	40,113	-	45,510
	B) Public Sector Entities (PSEs) Portfolio.	272,248	29,778	37,700	15,080	38,271	28,936	122,482	-	-
	C) Banks Portfolio	538,294	159,011	107,628	24,711	57,264	101,028	87,644	-	1,009
	D) Corporate Portfolio.	816,199	65,219	79,813	51,595	48,116	420,544	69,829	74,451	6,632
	E) Regulatory retail portfolio (including claims on small business eligible for 75% risk weight).	201,708	14,750	48,064	6,624	11,784	79,142	28,591	11,618	1,134
	F) Commercial Mortgage eligible for 100% RW	4,297	689	3,608	-	-	-	-	-	-
	G) Equity portfolio (contains all equities held in the banking book.	33,779	-	-	-	-	-	-	-	33,779
	H) Investment in Funds portfolio	6,672	-	-	-	-	4,729	1,943	-	-
	I) Past Due Portfolio.	11,566	-	-	-	1,832	1,623	8,111	-	-
	J) All other holdings of Real Estate	7,825	-	-	-	-	7,825	-	-	-
	K) Holdings of securitisation Tranches	29,038	-	-	-	-	-	29,038	-	-
	L) Other assets	161,729	129,127	6,715	12,338	9,068	1,265	-	-	3,216
	M) Cash Items	12,491	12,491	-	-	-	-	-	-	-
	<b>TOTAL</b>	<b>2,628,273</b>	<b>623,524</b>	<b>377,425</b>	<b>126,551</b>	<b>219,224</b>	<b>716,449</b>	<b>387,750</b>	<b>86,069</b>	<b>91,281</b>

2.8	IMPAIRED LOANS, PROVISIONS - SPECIFIC & COLLECTIVE, BALANCES AND CHARGES TO PROFIT & LOSS	IMPAIRED AND PAST DUE LOANS / FACILITIES	SPECIFIC IMPAIRMENT PROVISIONS	COLLECTIVE IMPAIRMENT PROVISIONS	SPECIFIC IMPAIRMENT CHARGES	SPECIFIC IMPAIRMENT RECOVERIES/WRITE BACK	WRITE OFFS
			A) Sovereign portfolio (including claims on international organisations and claims on multilateral development banks (MDBs).	-	-	-	-
	B) Public Sector Entities (PSEs) Portfolio.	-	-	-	-	-	-
	C) Banks Portfolio	-	-	-	-	-	-
	D) Corporate Portfolio.	28,243	21,841	-	349	(178)	(671)
	E) Regulatory retail portfolio (including claims on small business eligible for 75% risk weight).	9,536	8,506	2,758	2,047	(1,452)	(1,948)
	F) Commercial Mortgage eligible for 100% RW	3,897	1,197	-	-	-	-
	G) Equity portfolio (contains all equities held in the banking book.	-	-	-	-	-	-
	H) Investment in Funds portfolio	-	-	-	-	-	-
	I) Past Due Portfolio.	-	-	-	-	-	-
	J) All other holdings of Real Estate	-	-	-	-	-	-
	K) Holdings of securitisation Tranches	-	-	-	-	-	-
	L) Other assets	17,305	14,364	-	-	-	-
	M) Cash Items	-	-	-	-	-	-
	<b>TOTAL</b>	<b>58,981</b>	<b>45,907</b>	<b>2,758</b>	<b>2,396</b>	<b>(1,630)</b>	<b>(2,619)</b>

RECONCILIATION OF CHANGES IN PROVISIONS FOR LOAN IMPAIRMENT	SPECIFIC IMPAIRMENT PROVISIONS	COLLECTIVE IMPAIRMENT PROVISIONS
At beginning of the year	47,760	2,535
Amounts written off	(2,619)	-
Write backs / cancellation due to improvement	(1,630)	-
Additional provisions made	2,245	127
Exchange adjustment and other movements	957	96
Notional interest on impaired assets	(806)	-
<b>Balance at reporting date</b>	<b>45,906</b>	<b>2,758</b>

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2.9 PAST DUE LOANS	TOTAL	Gulf Co-operation Council Countries				
		North America	European Union Country	Asia	Others	
PAST DUE LOANS	58,981	53,490	-	-	5,491	-
SPECIFIC IMPAIRMENT PROVISIONS	45,907	40,804	-	-	5,103	-
COLLECTIVE IMPAIRMENT PROVISIONS	2,758	2,441	-	-	317	-
<b>PAST DUE LOANS: AGEING SCHEDULE</b>	<b>TOTAL</b>	<b>3 months up to 1 year</b>	<b>1 up to 3 years</b>	<b>Over 3 years</b>		
PAST DUE LOANS	58,981	3,006	5,737	50,238		

2.10 RESTRUCTURED FACILITIES	BALANCE OF RESTRUCTURED CREDIT FACILITIES	MAGNITUDE OF RESTRUCTURED CREDIT FACILITIES	THE IMPACT ON PROVISIONS	THE IMPACT ON PRESENT EARNINGS	THE IMPACT ON FUTURE EARNINGS	THE BASIC NATURE OF CONCESSIONS
A) Sovereign portfolio (including claims on international organisations and claims on multilateral development banks (MDBs).	-	-	-	-	-	-
B) Public Sector Entities (PSEs) Portfolio.	-	-	-	-	-	-
C) Banks Portfolio	-	-	-	-	-	-
D) Corporate Portfolio.	-	-	-	-	-	-
E) Regulatory retail portfolio (including claims on small business eligible for 75% risk weight).	180	180	-	-	-	increase of monthly instalment, decrease in tenor of loan
F) Commercial Mortgage eligible for 100% RW	248	248	-	-	-	restructure of OD and Other facilities into Term loans
G) Equity portfolio (contains all equities held in the banking book.	-	-	-	-	-	-
H) Investment in Funds portfolio	-	-	-	-	-	-
I) Past Due Portfolio.	-	-	-	-	-	-
J) All other holdings of Real Estate	-	-	-	-	-	-
K) Holdings of securitisation Tranches	-	-	-	-	-	-
L) Other assets	-	-	-	-	-	-
M) Cash Items	-	-	-	-	-	-
<b>TOTAL</b>	<b>428</b>	<b>428</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**3 RELATED PARTY EXPOSURE**

Certain related parties (principally the major shareholders, associated company, directors and key management of the Group, their families and companies of which they are principal owners) were customers of the Group in the ordinary course of business. The transactions with these parties were made on substantially the same terms, including interest rates, as those prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk.

Amounts outstanding as of the balance sheet date in respect of transactions entered into with related parties were as follows:	Major Shareholders	Associated & Others	Directors and key Management	Total
Placment Loans and advances to customers	-	16,136	1,154	17,290
Investment securities	-	-	-	-
Non-trading investment securities	-	4,054	-	4,054
Borrowing & Deposits	153,237	1,095	3,328	157,660
Contingent liabilities	-	-	-	-
<b>The income and expenses in respect of related parties included in the consolidated income statement are as follows:</b>				
Interest income on loans and advances to customers	16	383	4	403
Interest income on Investment	-	-	-	-
Gain on non-trading investment securities	-	90	-	90
Interest expense on deposits	3,466	3	34	3,504

**Key management interest in an employee share incentive scheme**

Options granted to executive directors and key management	Options Granted	Grant Price	Options Forfeited	Options Exercised	Options outstanding
2007	608	0.645	(117)	-	492
2008	730	0.727	-	-	730
	<b>1,338</b>		<b>(117)</b>	<b>-</b>	<b>1,222</b>

**Compensation of the key management personnel including directors is as follows:**

Short term employee benefits	3,500
Post employment benefits	1
Other long term benefits	30
Termination benefits	15
Share based payments	89
<b>Total compensation paid to key management personnel</b>	<b>3,636</b>

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No provision is required in respect of loans given to related parties.

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4 CONCENTRATION RISK TO INDIVIDUALS WHERE THE EXPOSURE IS IN EXCESS OF SINGLE OBLIGOR LIMIT OF 15%.

	A) Sovereign portfolio (including claims on international organisations and claims on multilateral development banks (MDBs).	B) Public Sector Entities (PSEs) Portfolio.	C) Banks Portfolio	D) Corporate Portfolio.
<b>TOTAL</b>				
<b>CONCENTRATION RISK TO INDIVIDUAL COUNTERPARTIES</b>	<b>631</b>	<b>240</b>	<b>180</b>	<b>211</b>

5 DERIVATIVES

5.1 Gross positive fair value of contracts, net derivatives credit exposure, the notional value of credit derivative hedges, and the distribution of current credit exposure by type of credit exposure (e.g. interest rate contracts, FX contracts, equity contracts, commodity contracts, etc.).

DERIVATIVES	POSITIVE FAIR VALUE	NEGATIVE FAIR VALUE	NOTIONAL AMOUNT
<b>DERIVATIVES HELD FOR TRADING</b>			
INTEREST RATE SWAPS	1,215	(1,249)	24,505
FORWARD FOREIGN EXCHANGE CONTRACTS	8	(3)	3,759
<b>DERIVATIVES HELD AS FAIR VALUE HEDGES</b>			
INTEREST RATE SWAPS	2,874	(2,716)	21,277
FORWARD FOREIGN EXCHANGE CONTRACTS	283	(265)	100,653
<b>DERIVATIVES HELD AS CASH VALUE HEDGES</b>			
INTEREST RATE SWAPS	1,656	(2,111)	45,919
	<u>6,036</u>	<u>(6,344)</u>	<u>196,113</u>
<b>NET DERIVATIVES CREDIT EXPOSURE</b>	<u><u>2,001</u></u>		

5.2 Credit derivative transactions which create exposures to CCR (notional value), including the distribution of the credit derivative products used, broken down further by protection bought and sold within each product group.

	BD'000
FTD	13,195
CDS	186,427
<b>CREDIT DERIVATIVES PRODUCTS SOLD</b>	<u><u>199,622</u></u>

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

6.1 VaR Results for the First Half of Year 2008 (10 day 99%)

Asset Class	Limit	VaR 30/06/2008			
		High VaR	Low VaR	Average VaR	
January 1, - June 30, 2008					
<b>GLOBAL (BAHRAIN &amp; KUWAIT)</b>					
Foreign Exchange	641	198	381	124	210
Interest Rate	75	42	61	18	39
<b>Total</b>	<b>716</b>	<b>240</b>	<b>418</b>	<b>162</b>	<b>249</b>

6.2 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 balance sheet date:

USD DOLLARS	(27,484)
EURO	(506)
G.C.C CURRENCIES	13,844
KUWAITI DINARS	(59)
OTHERS	(3,196)
	<u><u>(17,401)</u></u>

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## 7 Operational Risk Disclosures

## 7.1 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 2008, there were legal suits pending against the Group aggregating BD 1.5 million. 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.

## 8 Equity Positions in the Banking Book

	FAIR VALUE	PUBLICLY TRADED EQUITY SHARES	PRIVATELY HELD EQUITY SHARES	CUMULATIVE REALISED GAINS/ LOSSES 2008	UNREALISED GAINS/ LOSSES IN EQUITY	INCLUDED IN Tier Two Capital	CAPITAL REQUIRED
<b>EQUITY INVESTMENTS</b>	52,612	32,836	19,776	10,254	25,333	11,400	5,411

## 9 Interest rate risk in the banking book (IRRBB)

A increase of 100 basis point in interest rates will result in a increase in the net interest income by BD 2.01 million. Similarly a decrease of 100 basis point in interest rates will result in a decrease in the net interest income by BD 2.01 million.

A increase of 100 basis point in interest rates will result in a negative impact on equity of BD 1.02 million. Similarly a decrease of 100 basis point in interest rates will result in a positive impact on equity of BD 1.02 million.