



Brighter Banking

Annual Report 2007

www.bbkonline.com





H.M. King Hamad bin Isa Al Khalifa
King of Bahrain



H.H. Sheikh Sabah Al Ahmed Al Sabah
The Amir of the State of Kuwait

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Our Vision

BBK will be the premier regional financial services enterprise in providing superior products and services of high quality through innovation, technology and life-long client relationships.

The Bank will expand its overseas presence in more locations in which it chooses to operate in order to satisfy the diversified needs of clients. We believe clients are the driving force in everything we do. We will not compromise on our absolute commitment to providing the very best in client service.

We believe our people are our number one asset with the highest degree of competence, integrity and professionalism. We instill in our people the principles of entrepreneurship, decision-making and ownership through our commitment to training, development, delegation and performance based reward systems.

We are determined to utilise cutting-edge technology which we recognise as most critical in supporting our short, medium and long-term business objectives.

Our shareholders are the source of our financial strength and can expect continued growth and profitability. They are supportive and are confident of our vision of the future.

Net Operating Income

BD millions

2003	25.5
2004	29.9
2005	32.1
2006	37.7
2007	56.9

Cost / Income

Per cent

2003	46.3
2004	43.7
2005	42.6
2006	41.4
2007	35.0

Financial Highlights

	2003	2004	2005	2006	2007
Income Statement Highlights (BD millions)					
Net interest income	26.1	29.5	35.7	42.2	50.6
Other income	21.4	23.6	20.2	22.2	37.0
Operating expenses	22.0	23.2	23.8	26.7	30.6
Net profit for the year	23.3	25.7	29.3	32.8	30.0
Dividend	30%	35%	35%	40%	27%
Financial Statement Highlights (BD millions)					
Total assets	1,314	1,421	1,499	1,694	2,093
Net loans	659	765	795	938	1,128
Investments	415	407	491	495	494
Deposits	823	890	917	1,018	1,269
Term loans	38	-	-	-	-
Term borrowings	47	94	94	236	339
Equity	142	158	173	188	237

Total Assets

BD millions

2003	1,314
2004	1,421
2005	1,499
2006	1,694
2007	2,093

Equity

BD millions

2003	142
2004	158
2005	173
2006	188
2007	237

	2003	2004	2005	2006	2007
Profitability					
Earnings per share – fils	41	45	46	47	43
Cost / Income	46.30%	43.70%	42.57%	41.41%	34.97%
Return on average assets	1.83%	1.83%	1.86%	1.86%	1.51%
Return on average equity	17.80%	17.80%	18.15%	19.13%	16.02%
Profit per employee (BD)	32,725	36,610	41,797	43,115	34,405
Capital					
Capital adequacy	16.73%	18.82%	19.57%	16.20%	23.29%
Equity / Total assets	10.80%	11.11%	11.55%	11.08%	11.33%
Debt / equity	59.63%	59.73%	56.46%	125.54%	143.09%
Liquidity & Business Indicators					
Loans & advances / Total assets	50.20%	53.82%	53.04%	55.38%	53.89%
Investments excluding T bills / Total assets	25.70%	26.47%	31.14%	26.87%	22.41%
Liquid assets / Total assets	32.40%	29.42%	33.84%	30.58%	35.46%
Non inter-bank deposits / Loans & investments	86.04%	82.29%	76.46%	86.69%	92.04%
Net yield ratio	2.30%	2.29%	2.48%	2.58%	2.60%
Number of employees	712	702	701	761	873

Dear shareholders

On behalf of the Board of Directors, I am honoured to present BBK's 36th annual report, covering the year ended 31 December 2007. Strong revenue growth was achieved, although the Bank's net profit was adversely affected by global economic turbulence in the second half of the year arising from the sub-prime mortgage crisis in the US.

Chairman's Statement

In a regional context, positive economic conditions created a favourable operating environment that helped to offset the prevailing international difficulties. This has contributed significantly to the year's results, together with continued improvement in operational efficiency, sustained emphasis on client service enhancement, and the beneficial effects now becoming evident from our three-year growth strategy.

Despite circumstances in the global banking sector, we ended the year in a strong position operationally and structurally, and can look to the future with confidence.

Financial performance

In 2007, BBK recorded a net profit of BD 30.0 million, down 8.4 per cent on last year as a result of the severe downturn in international markets. Total income was BD 87.6 million (2006: BD 64.4 million), while operating expenses increased by BD 3.9 million (14.7 per cent) over 2006 as the Bank continued to invest in business development. Net provisions for the year increased from BD 4.9 million to BD 27.4 million, in line with the Bank's strategy of providing conservatively against impaired assets.

Total assets grew by 23.5 per cent to BD 2,093 million, while shareholders' equity rose by 26.3 per cent to BD 237 million. BBK's consolidated profits have resulted in return on average equity of 16.0 per cent in 2007, compared with 19.1 per cent in 2006. The Bank's market capitalisation stood at BD 497 million (or 649 fils per share) at the close of business on 31 December 2007.

During 2007, the Bank successfully listed the second tranche of its Euro Medium Term Note (EMTN) on the London Stock Exchange.

Despite market volatility, the \$275 million of Lower Tier II issue was 2.4 times oversubscribed at highly attractive margins within 36 hours of listing. Good investor diversification was also achieved, with placement evenly spread between Asia (29 per cent), Europe (32 per cent), and the Middle East (39 per cent), strengthening BBK's balance sheet and contributing to an improved rating from Baa1 to A1.

Furthermore, a BD 50 million rights issue was equally well received, raising shareholder equity from BD 188 million to BD 237 million and taking market capitalisation to BD 497 million. On behalf of the Board, I thank our shareholders for their continued support as demonstrated by their prompt and enthusiastic response to the rights issue. The proceeds will contribute to the Bank's strategy of growth through expansion and diversification, while reinforcing its position in relation to Basel II requirements for institutions to strengthen their operational capital structures.



Economic and market background

Market conditions during 2007 were very positive for Bahrain and the whole Gulf region. The continued rise in oil prices, coupled with the stimulus of government spending on infrastructural projects, prompted very clear growth patterns across the broad spectrum of the economy.

This is expected to continue over the coming year, although there are still elements of uncertainty arising from the global effects of the sub-prime mortgage crisis originating in the US. The impact has already been felt in many quarters, most noticeably in the substantial provisions that so many banks have had to make, as well as an acute shortage of liquidity, but the full implications for banking and investment markets across the world will only become apparent as the extent of the problem emerges in time.

In the circumstances, we can be reasonably confident that there will be no upward movement in interest rates – if anything, they may even go lower – so strategy and planning can safely proceed on this assumption.

The emergence of China and India as economic powerhouses will also help to counter the negative effects arising from the sub-prime problem, and – taking a long view – the cyclical nature of markets is such that recurring highs and lows are inevitable. History shows that no matter how painful the immediate repercussions, they are seldom quite so critical in retrospect.

In Bahrain, the impact of continued government spending and economic activities in various sectors of the economy, sustained by the high level of oil prices, will ensure no adverse changes to the current buoyancy of economic conditions.

Although the real estate sector may appear to be over-heated to some extent, demand remains very strong – driven by natural growth and developers' enthusiasm to catch up on years of relative inactivity. Although BBK plays an important role in the real estate sector, this is proportionately balanced with its involvement across many diverse sectors of commerce and industry, where oil revenues continue to sustain the economic momentum.

Strategic developments

Two years into BBK's three-year growth strategy for 2006–08, the platform is being established for expansion and diversification, and the benefits are already becoming evident. The Bank is entrenching its position as market leader in the retail sector, staying ahead by achieving a growth rate that outperforms the overall market.

Funds generated from the rights issue and subordinate-debt listing are enabling subsidiaries to expand and diversify. Plans to reactivate Al Khaleej Islamic Investment Bank are now well advanced, with capitalisation to be increased substantially from its present \$12.5 million. The business plan for Al Khaleej is now being finalised, based on the core principle of providing Sharia'a-compliant finance using approved Islamic instruments.

BBK has always placed strong emphasis on the importance of skilled and motivated people as the key to continued success.

Chairman's Statement *continued*

Sakana – the 50-50 joint venture with Shamil Bank of Bahrain – is also progressing well. Sakana will meet the rising demand for Islamic finance in the real estate sector, particularly residential property development and home ownership but also extending into commercial projects. The company's capital was increased during 2007 from BD 5.0 million to BD 12.5 million.

The 'Financial Mall' concept, launched in 2005 and rapidly expanding, is proving very successful. Investment in technology is also yielding dividends by providing innovative new services that offer round-the-clock banking.

New products across the range of client segments are contributing significantly to improved revenues and net profit.

Corporate activities have been restructured, resulting in substantial growth in loans and deposits.

During 2007 both Kuwait Branch and the fully owned subsidiary CrediMax increased their contribution to the revenues and the net profit of the Bank. These two platforms will continue to be important sources of growth and revenue generation.

BBK's presence in India has also been strengthened, with mortgages and consumer loans now being offered as well as services to large corporates. As a result, our Indian operations are making a much better contribution to net profits.

Despite such continued expansion, during 2007 the Bank was still able to reduce its cost-income ratio, which now stands at 35.2 per cent.

Corporate governance

The Bank has established a compliance unit, in keeping with Basel and Central Bank of Bahrain (CBB) guidelines. It acts as a focal point for all regulatory compliance and for adopting other best practice compliance principles.

Money-laundering counter-measures form an important part of this function along with corporate governance, disclosure standards, insider trading, conflict of interest, and adherence to best practices.

Documented policies and procedures to combat money-laundering and terrorist financing include sound Customer Due Diligence measures, identifying and reporting suspicious transactions, staff awareness training, record keeping, and a designated money-laundering reporting officer.

The Bank's Anti Money-Laundering (AML) measures are regularly audited internally and by independent external auditors, whose report is submitted to the Central Bank of Bahrain. Overseas branches in India and Kuwait, as well as the Bank's subsidiary, Credimax, have designated compliance and Money-Laundering Reporting Officer (MLRO) functions to ensure local regulations are implemented, and to meet the applicable requirements of the CBB.



Operational achievements

Our primary operational focus for 2007 was on creating the capability to service the business requirements of the three-year growth strategy. Administrative efficiencies, system modifications, and process improvement continue to be at the core of our commitment to enhancing client services.

Organisational developments

BBK has always placed strong emphasis on the importance of skilled and motivated people as the key to continued success. During 2007, this became even more important as market demand intensified for experienced personnel. Consequently, the recruitment, training, and retention of high-calibre staff remained a top priority. A talent management process has been introduced, along with stock options incentives for senior employees. The Bank's very successful Management Trainee Programme, now in its fourth year, has grown to about 50 members – with more than 20 appointments in the past year alone.

Corporate social responsibility

BBK has a long-standing tradition of contributing to the well-being of the communities in which we operate. This commitment was maintained during 2007, when extensive financial support was made available to a diverse number of organisations involved in humanitarian, medical, social and educational initiatives. Most notably, the Board approved the donation of a health centre to the Ministry of Health. This will be built in Hidd at a cost of more than BD 3 million. Work will begin in 2008, with completion scheduled for the latter part of 2009.

Appreciations

On behalf of the Board, I would like to extend our appreciation and gratitude to His Majesty King Hamad bin Isa Al Khalifa, the King of Bahrain, and His Highness Sheikh Sabah Al Ahmed Al Jaber Al Sabah, the Amir of the State of Kuwait. I also thank their respective governments and regulatory authorities for their guidance and support during the year.

I also extend the best wishes of the Board to Dr Farid Ahmed Al Mulla, formerly our General Manager Chief Executive Officer. Dr Al Mulla has served the Bank with dedication for the past 17 years and we wish him every success in his new endeavours. The Board appointed a selection and nomination committee from its members to appoint his replacement.

Finally, I would like to take this opportunity to express sincere thanks to our shareholders for their continued confidence, to our loyal clients for their patronage, and to BBK's management and employees for their dedication and hard work throughout 2007.

Murad Ali Murad
Chairman



Board of Directors

First row, from left

Murad Ali Murad
Chairman

Jassem Hasan Ali Zainal
Deputy Chairman

Yacoub Yousef Al Fulaij

Mohammed Salahuddin Ahmed

Hamad Ahmed Al Busairi

Abdulla Mohammed Al Sumait

Second row, from left

Sh Mohammed bin Isa Al Khalifa

Aref Saleh Khamis

Jamal Ali Al Hazeem

Abdul Majeed Haji Al Shatti

Ali Hassan Meshari Al Bader

Sh Khalifa bin Daij Al Khalifa



The year has been marked by significant progress on all fronts. BBK's core business and underlying operations have been strengthened; new business segments have been developed; and we are making very satisfactory progress in repositioning our retail and corporate business.



Management Review

Our people continue to be the lifeblood of our success, so their training, development, and motivation remain a top priority – especially in a very competitive market environment where skilled personnel are in intense demand.

During 2007, we achieved substantial growth in a number of key indicators – notably in balance sheet strength and the volume of net loans and advances, deposits, interest income, and other income. Although operating expenses rose considerably, the ratio of costs to income was contained at below 40 per cent.

A strong platform has been built for BBK to continue its growth as a people-driven organisation, with unremitting focus on enhanced client service creating very positive prospects for the future.

Our people

Retaining talent has become a major challenge for all regional banks at a time of favourable market conditions and high demand for qualified and experienced individuals. BBK has responded by developing a Talent Management Process that defines the talent inventory and potential successors for all key positions.

During the year, all salaries were comprehensively reviewed and adjusted, and a stock options programme for senior management was also put in place.

As well as developing senior executives from internal recruitment, our very successful Management Trainee Programme is expanding further, with the induction of its fourth batch of entrants. This programme takes graduate recruits from entry-level skills to top management and now numbers almost 50 members, up from 30 a year ago. The success of the programme – and the calibre of recruits – is evident from the fact that on average only one applicant in fifteen is accepted.



The 'Balanced Scorecard' concept has also now been integrated with employee performance, giving all concerned a fair and accurate assessment of their personal contribution to our business objectives. These measures, together with an ongoing commitment to training and development at all levels, will contribute to maintaining a low turnover of personnel and protecting the investment made in enhancing the professional capabilities of our valued staff.

Our clients

Virtually all areas of the Bank's client-facing operations have been upgraded during the year under review. A total of three Financial Malls are now in operation, with a fourth ready to open and a further four at the planning stage. By creating Financial Malls as a one-stop banking concept in a friendly environment where purchasing and finance are conveniently available side-by-side, we are able to satisfy client needs more effectively and, in turn, generate valuable new business.

Retail Banking has made significant progress in enhancing its service, particularly in the areas of internet and telephone banking, creating round-the-clock service and bringing us closer to the client. We now have 43 ATMs with bill payment facilities, as well as four cash deposit machines that accept cash and cheques, so that credit card and utility bills can be paid.

New retail products such as competitive mortgages, vehicle finance, and Travel Secure have contributed to an 18 per cent growth in consumer lending, while Al-Hayrat saving deposits have risen by 46 per cent. Our Priority Banking client base has grown from 140 to 444.

Another important factor is our new client feedback system that enables us to monitor client satisfaction in real-time and respond very quickly.

On the investment side, we have introduced six new products that meet client demand for linkages to real estate and equities.

Where necessary we partner with financial institutions around the world to ensure we give clients access to the best-performing opportunities. We are now able to offer a comprehensive suite of options to suit the expectations and risk appetite of each client.

BBK successfully won the bid to provide an electronic payment system to service the new levy requirements of the Bahrain Labour Market Regulatory Authority (LMRA). The Bank's solution enables it to receive payments from employers, on behalf of the LMRA, by telephone banking, internet transfer, or at cash and cheque deposit machines, maximising the convenience and efficiency of the process.

Our leadership in electronic banking technology has again been recognised at a high level. We received Datamix's country award for e-Banking excellence – Bahrain was one of the few Gulf states where the award was granted – and also the e-content award for the banking sector from the Bahrain Ministry of Industry and Commerce.

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Management Review *continued*

BBK's wholly-owned subsidiary **Credimax** reached new levels of cardholder usage and its highest totals of monthly receivables. It has also led the regional market in the introduction of EMV – the international standard for the inter-operation of 'smart cards' with point-of-sale terminals and ATMs. The name derives from the initial letters of Europay, MasterCard, and VISA, the three companies that originally cooperated to develop the standard. In keeping with the security inherent in the EMV standard, the Bank was also the first in the market to introduce SMS confirmation of transactions to protect against fraud.

Sakana, the 50-50 joint venture with Shamil Bank of Bahrain, is now fully operational and very active in meeting the growing demand for Islamic finance in the real estate sector. Although at this stage Sakana is primarily involved in providing funds for residential property development and individual home ownership, plans are in hand to extend its reach to the full spectrum of real estate financing, including commercial and industrial projects.

Sakana's services cover property financing, development, brokerage, and management, and respond to the increasing popularity of Islamic finance as the preferred medium for funding real estate projects.

Invita, the call centre operation that was restructured during 2006 as a wholly-owned independent company, continues to play a vital role in maintaining close contact and understanding with clients through its new e-Banking Help Desk. Invita has also been involved in new product sales – particularly in retail and the Secura range of insurance products – following extensive product knowledge training coordinated by the Retail Banking division.

2007 saw the formation of the new **Transactional Banking** division to align certain functions and provide improved service at all points of contact. Transactional Banking's activities encompass three clearly demarcated business lines: Cash Management, Trade Finance, and Enterprise Banking.





Management Review continued

A Business Intelligence unit has also been created within the new division, to provide a dedicated resource for identifying and responding to client needs.

Corporate Banking saw lending grow by 20 per cent to BD 400 million during the year, and corporate deposits by 17 per cent to BD 544 million. To improve the service offered to each sector, the department was restructured to cover four focused areas: real estate; manufacturing and trade; contractors and building materials; and Government, Islamic, and remedial operations.

Close contact with clients has been a critical factor in the rapid growth of Corporate Banking over the past few years, making BBK one of the leading players in this area. Maintaining this momentum, the Relationship Management structure has been revised, now with 25 relationship managers in the field – each specialising in one of the four core areas of activity.

During 2007, **International Banking** concentrated on sound growth, based on good rates of net interest income and contribution to balance sheet resilience. The division led the successful offer of \$275 million subordinated debt, which was 2.4 times oversubscribed in a highly volatile market.

This followed last year's successful listing of the \$500 million first tranche of the Bank's Euro Medium Term Note (EMTN) on the London Stock Exchange, recognised in 2007 with the award of 'Best Deal of the Year' by Banker magazine.

Indian business was reactivated, concentrating on the mid-market corporate sector and also extending market reach by providing consumer loans to corporate employees based in select centres. This has significantly extended the Bank's market reach, previously confined mainly to large corporate clients and a few cities. As a result, our Indian operations are now making a valuable contribution to the international performance, which is so important to the Bank's overall success.

Close contact with clients has been a critical factor in the rapid growth of Corporate Banking over the past few years, making BBK one of the leading players in this area.

Restructuring the entire International Banking division has achieved the objective of focusing more closely on non-GCC countries and this will further add to revenue-generating competency during 2008.

Treasury and Investment saw good progress in the management of interest rate risk and the sale of foreign exchange products. Although earnings have been impacted by the market turmoil arising from the US sub-prime crisis, client relationships have been strengthened – particularly through the formation of the Investment Advisory Group. This has introduced new leadership in providing a focus on client relations, enhanced understanding of client requirements, and investment reporting.

In the **Investment** department, consolidating proprietary portfolios under a unified management responsibility will result in greater efficiency and more optimal allocation across asset classes.

Internal processes

The Bank has completed the second period of its 2006-08 growth strategy, with clear improvements in operational procedures and the benefits they deliver to clients. The drive to greater efficiency is always a work in progress, and BBK's continued success depends on constantly re-evaluating our internal processes and their impact on client service.

We have revised our systems to meet the major regulatory changes required to implement Basel II, and to comply with International Financial Reporting Standards that take effect from 2008. Risk monitoring has been a priority, particularly with reference to money-laundering counter measures, with the result that our new risk monitoring model is the first of its kind to be developed and implemented in the region.

We have paid close attention to credit risk, developing management report systems that provide improved analysis of risk exposure and key risk indicators, resulting in cost savings and better decisions on credit issues.

Efficiencies have also resulted by further improving the accuracy of costing for products and processes, leading to better internal cost allocation and measurement of each business segment's profitability.

From a client perspective, new policies and procedures for trade finance, car loans, and consumer loans and mortgages are more user-friendly, and consequently contribute to increased market penetration. Corporate clients are benefiting from improved procedures for letters of credit, such as e-mail approval and issuance without insurance. Our new focus on SME business is backed with appropriate systems and procedures, and the results are evident in the volumes of business now being generated from this sector.

Our IT systems continue to be industry-leading, with regular, consistent improvements being made in branch functions, transaction processing, and allied factors that contribute to client satisfaction, such as shorter queues and faster service at every point of contact.

We are always conscious of our wider responsibilities to society, and our obligations to the diverse charitable, welfare, and environmental organisations that offer invaluable services.

Management Review continued

The Bank established a dedicated Project Management Office in May. BBK invests significant resources in strategic projects and these contribute greatly to its long-term success. The unit's objective is to ensure that optimal value is gained, and that project investments are made at an affordable cost and acceptable level of risk.

Technology

The Bank's status as an innovator in deploying technology is clearly demonstrated by the awards bestowed by authoritative independent organisations. Our success in being the only bank to satisfy the requirements of the LMRA for an electronic payments system further endorses our credentials in this area.

Our community

Supporting the communities we serve is a cornerstone of the Bank's guiding philosophy. We are always conscious of our wider responsibilities to society, and our obligations to the diverse charitable, welfare, and environmental organisations that offer invaluable services.

During 2007, a wide range of humanitarian, medical, scientific, sporting, and cultural bodies were supported by the Bank's donations programme. Noteworthy among these contributions is our BD 3 million funding for a new community health centre in Hidd.

In summary, 2007 has been a challenging period for all banks and BBK's accomplishments are a credit to the dedication and hard work of our employees – it is my pleasant duty to acknowledge our appreciation for all they have achieved. We go forward with confidence that BBK's future success will be based on a corporate culture where employee motivation and client satisfaction work harmoniously to achieve our goals and enhance shareholder value.

Abdul Karim Ahmed Bucheery
Acting General Manager

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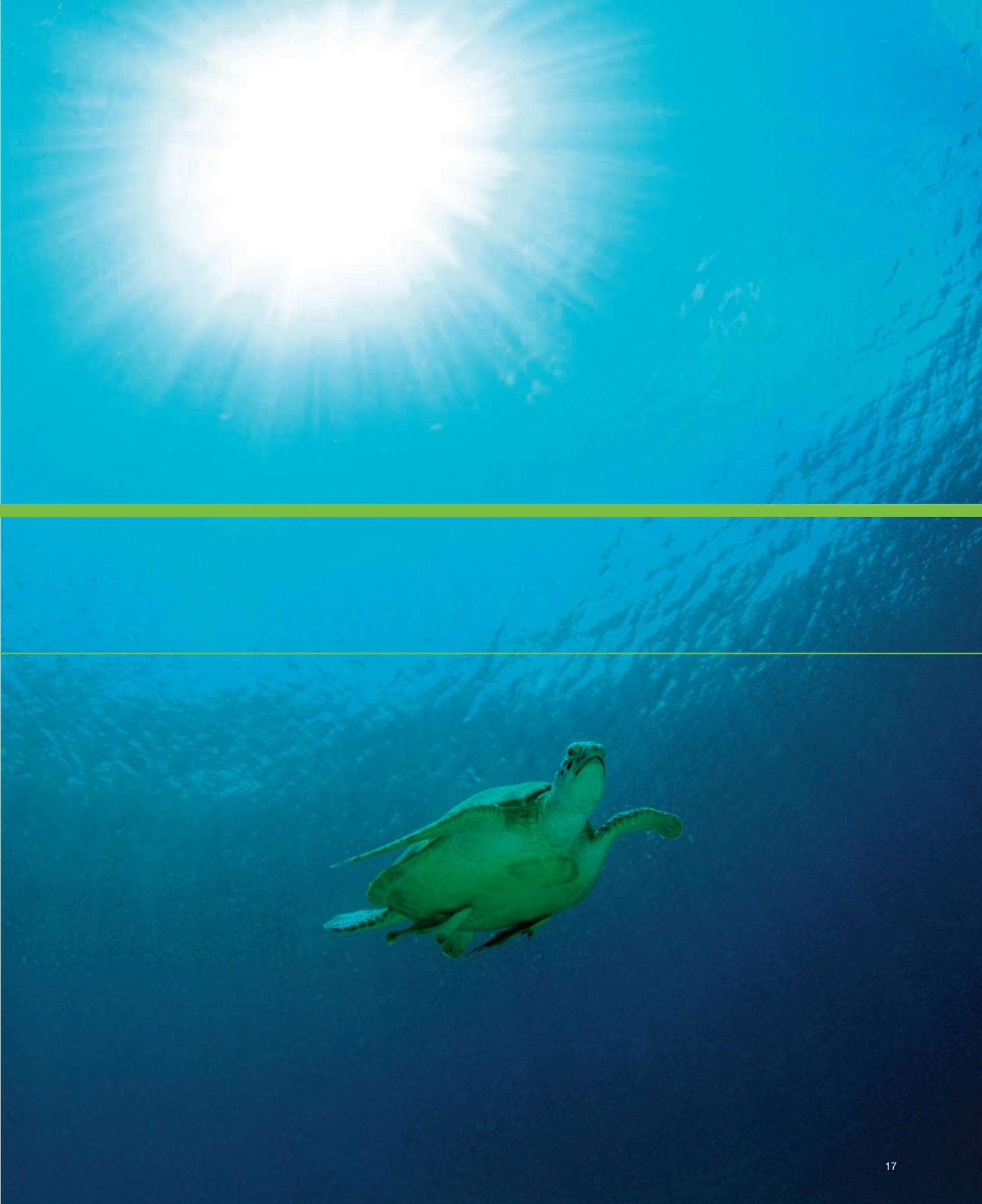
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Abdul Karim Ahmed Bucheery
Acting General Manager



First row, from left

Abdul Karim Ahmed Bucheery
Acting General Manager
(from 25 November 2007)

Dr Farid Ahmed Al Mulla
General Manager Chief Executive Officer
(up to 30 November 2007)

Second row, from left

Reyadh Yousif Sater
DGM, Support Services Group

Mahmood Abdul Aziz
AGM, Operations

Adnan A. Wahab Al Arayyed
Head of Credit Management

Abdul Hussain Bustani
AGM, Human Resources and Administration

Khalil Al Meer
AGM, Corporate Banking

Amit Kumar
Head of Risk Management

Third row, from left

Ashish K. Sarkar
AGM, International Banking

Vinit Kohli
AGM, Financial Control and Planning

Abdulla Abdulrahman Hussain
AGM, Information Technology

Ian Mackay
AGM, Treasury and Investment

Rodger Dunn
AGM, Retail Banking

Hugo Perez
AGM, Transactional Banking

Management Committee

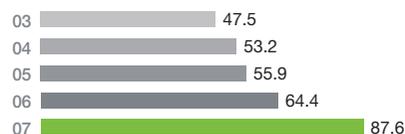






Financial Review

Total Income BD millions



This review incorporates the consolidated operating results and the consolidated balance sheet of BBK with its overseas branches, its principle subsidiaries, Credimax, Al-Khaleej Islamic Investment Bank (AKIIB) and Invita, and the joint venture Sakana Holistic Housing Solutions. The consolidated financial statements have been prepared and presented in accordance with International Financial Reporting Standards, and are in conformity with Bahrain Commercial Companies Law and Central Bank of Bahrain and Financial Institutions law.

Operating results

The bank made a net profit, attributable to the shareholders of the parent, of BD 30.04 million for the year ended 31 December 2007, which was 8.4 per cent lower than the previous year. While the core operating performance of the bank improved significantly during the year, the net results were impacted by exceptional provisions of BD 23.2 made against certain financial assets which were impacted by turmoil in the global financial markets caused by US sub-prime housing loan crisis. This high provision charged was offset to a certain extent by extraordinary income of BD 6.5 million on sale of acquired property as approved by the Board a year ago. Excluding these, the core net profit for the year at BD 46.7 million was higher by BD 13.9 million, or 42 per cent when compared to the previous year. Strong revenue growth across all major business activities including overseas branches contributed to the significantly improved performance.

Operating income

Total core operating income, excluding profit on sale of property, increased to BD 81.1 million from BD 64.4 million, representing an increase of BD 16.7 million or 26 per cent over 2006. The improvement in total income was driven by growth in all core business income streams, such as net interest income, investment income, fees & commission and foreign exchange income.

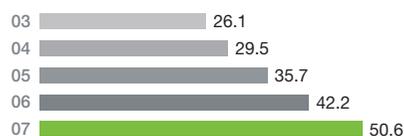
Net interest income

Net interest income for the year showed an impress growth of 19.8 per cent and increased from BD 42.2 million to BD 50.6 million as the underlying volumes increased. The net interest margins improved marginally to 2.60 per cent from 2.58 per cent in 2006, despite competitive pressure and bank's prudent policies on credit, interest and liquidity risk.

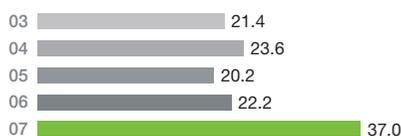
Summary Income Statement

BD millions	2007	2006	Variance BD millions	Change Per cent
Net interest income	50.6	42.2	8.4	19.84%
Other income	37.0	22.2	14.8	66.60%
Total income	87.6	64.4	23.2	35.96%
Operating expenses	30.6	26.7	3.9	14.68%
Provisions	27.4	4.9	22.5	458.61%
Profit before taxation	29.6	32.8	-3.2	-9.86%
Taxation	0.4	0.0	0.4	-
Net profit for the year	30.0	32.8	-2.7	-8.35%

Net Interest Income BD millions



Other Income BD millions



Cost / Income Per cent



Other income

Other operating income consists of non-interest income, which is earned from business activities such as dealing in foreign currencies, investment in funds (other than fixed-income funds), the sale of corporate banking and retail banking services, investment trading and share of profit / loss in associated companies and joint venture. The total income generated during the year from these core activities was BD 30.5 million, a sharp increase of BD 8.3 million, or 37.5 per cent compared to the previous year.

Income from foreign exchange dealings was up sharply by 57 per cent, while fees and commission grew by BD 2.4 million, or 18 per cent, mainly due to higher income from the Bank's credit card business, commercial services fees, and corporate and retail banking fees.

Operating expenses

The operating expenses, which include staff, premises, equipment depreciation and other administrative costs, increased by BD 4.0 (14.7 per cent), mainly on account of investments being made under the strategic plan in building capabilities, developing new businesses and on development of Bank's human resources. However, the underlying cost to income ratio, adjusted for income on sale of property, improved sharply to 38 per cent from 41.4 per cent as the results of the corporate strategy initiatives have begun to flow through.

Net provisions

The Bank follows the International Accounting Standard (IAS) 39 with regard to accounting for impairment of financial assets. The provisions for impairment of the Bank's loans and advances and assets carried at cost or amortised cost is arrived at after calculating the net present value of the anticipated future cash flows from these financial assets, discounted at original effective interest rates. For assets carried at fair value, impairment is the difference between carrying cost and the fair value. This approach to provisioning for impairment of the Bank's financial assets is aimed at providing more realistic estimates of the impairment in the values of the assets.

The net provision for the year for impairment on loans and advances to clients came down sharply to BD 3.4 million from BD 5.3 million in 2006. However, the net provision charge for impairment of non-trading investment securities was high at BD 23.9 million, mainly on account of exceptional provisions made against securities impacted by US sub-prime mortgage crisis. Given the adverse conditions in the global financial markets, the Bank has provided prudently against such assets using conservative assumptions for fair value calculations.



Financial Review continued

Total Assets BD millions



Financial position

The balance sheet of the Bank at the year end increased sharply to BD 2,093 million from BD 1,694 million, reflecting an increase of 23.5 per cent over year end 2006. The growth was mainly driven by impressive rise in client deposits and loans, term borrowing through issue of subordinated debt and increase in share capital through rights issue. At the year end, 11.3 per cent of the balance sheet was funded by equity, with the rest coming from client and medium-term deposits.

Assets

The year end loans and advances to clients, at BD 1,128 million, were 20 per cent higher than the previous year. The growth in loans and advances was mainly in Bahrain, both in corporate and retail lending, as well as in Kuwait branch.

The investments portfolio of the bank is classified into the following three categories: "Financial assets at fair value through profit or loss" (FVTPL), "Available for sale" and "Investments stated at amortised costs". The FVTPL category consists of investments held for trading and structured notes having embedded derivatives.

The other two categories consist of quoted bonds and equities and unquoted securities that are mainly acquired with the intention of being retained for the long term. At the end of 2007, 42.68 per cent of these investments were in the form of quoted bonds and equities (38.12 per cent at the end of 2006).

Non-trading investment securities increased marginally by 2.16 per cent (2006: marginal decrease by 2.59 per cent), as the Bank reviewed its investment policy given the turmoil in the global financial markets.

Investment in associate company and joint venture represents the Bank's 20.25 per cent interest in the equity of Bahrain Commercial Facilities Company, a public shareholding company, and its investment in Sakana Holistic Housing Solutions. The carrying value of these investments represent the Bank's share in the total shareholders' equity of both these companies.

Treasury bills and inter-bank deposits are money market instruments held essentially for managing liquidity. Other assets mainly include accrued interest receivable, fixed assets net of accumulated depreciation and prepaid expenses.

Liabilities

Current, saving and other deposits include balance of interest-bearing and non interest-bearing accounts due to clients on demand, and term deposits taken with different maturity dates, in various currencies and at varying rates of interest. As at year end, customer deposits increased to BD 1,118 million from BD 964 million at the end of 2006, showing growth of 16 per cent.

During the year, the Bank successfully concluded the issuance of subordinated debt amounting to US\$ 275 million as part of its US\$ 1 Billion Euro Medium Term Notes (EMTN) programme launched in 2006. These notes are issued for 10 years with a call option which can only be exercised after 5 years, and carry a coupon of 3 months LIBOR plus 75 bps. At the year end, the Bank also had US\$ 125 million of medium-term deposits from banks and US\$ 500 million of floating rate deposit notes issued in 2006 under the US\$ 1 Billion EMTN programme.

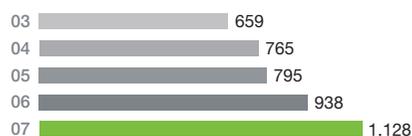
During the year, the Bank also raised new share capital of BD 50 million through rights issue. The purpose of raising share capital and issuing subordinated debt was to strengthen the capital base of the Bank to support further business growth.

Interest payable and other liabilities consist of accrued interest payable on interest-bearing deposits, accrued expenses, and provisions.

Capital adequacy

Equity before appropriations increased to BD 237.3 million at the end of 2007 from BD 187.7 million at end of the previous year, further strengthening the financial position of the Bank. While there was aggressive growth in client advances and other risk weighted assets, the Bank augmented its capital base through issue of new share capital and tier II capital. As a result, the Bank's capital adequacy ratio at end of 2007 increased sharply to 23.3 per cent, which is well above the 12 per cent minimum requirement set by the Central Bank of Bahrain.

Loans and Advances BD millions



Customer Deposits BD millions



Consolidated Balance Sheet

BD millions	2007	2006	Variance BD millions	Change Per cent
Assets				
Cash and balances with central banks	256.9	55.4	201.5	363.76%
Treasury bills	25.2	39.8	(14.6)	-36.56%
Financial assets at fair value through profit or loss	4.5	0.0	4.5	-
Deposits and due from banks and other financial institutions	169.2	164.1	5.1	3.12%
Loans and advances to customers	1,127.6	938.1	189.5	20.20%
Non-trading investment securities	455.2	445.6	9.6	2.16%
Investment in associated company and joint venture	13.6	9.5	4.1	43.51%
Interest receivable and other assets	20.3	22.4	(2.1)	-9.54%
Premises and equipment	19.9	18.9	1.0	5.12%
Total Assets	2,092.5	1,693.8	398.7	23.54%
Liabilities and Equity				
Liabilities				
Deposits and due to banks and other financial institutions	354.2	263.8	90.5	34.31%
Borrowings under repurchase agreements	12.6	16.4	(3.9)	-23.46%
Term borrowings	339.3	235.6	103.7	44.00%
Customers' current, savings and other deposits	1,117.6	963.9	153.7	15.95%
Interest payable and other liabilities	31.5	26.1	5.4	20.56%
Total Liabilities	1,855.2	1,505.8	349.4	23.20%
Equity attributable to shareholders of the parent	237.1	187.7	49.4	26.35%
Minority Interest	0.2	0.3	(0.1)	-
Total equity	237.3	188.0	49.4	26.26%
Total Liabilities and Equity	2,092.5	1,693.8	398.7	23.54%

Risk Management

Efficient and timely management of risks in the Bank's activities is critical for financial soundness and profitability of the Bank. Risk management involves identifying, measuring, monitoring, and managing risks on a regular basis. The objective of risk management is to increase shareholder value and achieve a return on equity commensurate with the risks assumed. To achieve this objective, BBK uses the best risk management practices and skilled, experienced people.

In common with other financial institutions, the Bank faces a range of risks in its business and operations. These include: (i) credit risk; (ii) market risk (including interest rate risk, currency risk and equity price risk); (iii) liquidity risk; and (iv) legal and operational risk, as detailed below.

The Board of Directors has overall responsibility of managing risks. The Board approves and periodically reviews risk management policies and strategies and Management establishes procedures to implement these policies and strategies. The Risk Management Committee (RMC) and Asset and Liability Management Committee (ALMC), comprising executive and senior management, are responsible for overall management of the Bank's balance sheet and risk profile. The RMC discusses important risk-related issues, new policies and procedures and subsequent amendments, and reviews the implementation of its decisions. The ALMC reviews issues relating to the balance sheet at micro level.

The Risk Management Department (RMD) is responsible for identifying risk characteristics inherent in new and existing products, activities, countries, regions and industries, as well as establishing or developing relevant policies, procedures and exposure limits to mitigate such risks. The RMD also sets up systems and processes for monitoring market risk and operational risk.

The Credit Management Department (CMD) processes credit applications and ensures compliance with credit policy provisions. The CMD generates regular reports on credit risk exposures, credit rating reviews and credit limit monitoring. Heads of RMD and CMD report directly to the General Manager / Chief Executive Officer, in order to ensure independence of the risk management process.

Routine internal audits assess whether the policies and procedures are complied with and, if necessary, suggest ways of further improving internal procedures.

The Bank is fully prepared for implementing revised Capital adequacy guidelines issued by Central Bank of Bahrain, in line with Basel II norms, effective 1st January 2008. Various risks to which the Bank is exposed to and how the Bank manages them individually are given below:

Credit risk

Credit risk is defined as the risk that the Bank's borrowers or counterparties failing to meet their obligations in accordance with the agreed terms. The goal of credit risk management is to maximize the Bank's risk-adjusted rate of return by maintaining credit risk exposures within acceptable parameters.

The Bank has well defined policies and procedures for identifying, measuring, monitoring and controlling credit risk in all of its activities, at the level of individual credit and portfolio. Credit limits are approved after thorough assessment of the creditworthiness of the borrower or counterparty, including the purpose and structure of credit, and its source of repayment. Credit proposals are reviewed by the Credit Management Department (CMD) before obtaining approval by the appropriate authority. Such reviews are conducted by CMD which is independent of Business Units and reports directly to the General Manager.

The Bank devises specific business and risk strategies relating to Corporate, Retail, Investments and Treasury areas, within the ambit of Group risk policies and procedures. Any additional risks associated with such strategies are discussed in the RMC meetings and necessary risk control measures are applied through amendments to policies, procedures and circulars. The Bank also draws up a comprehensive Risk Management Strategy every year and monitors progress.

Credit growth, quality and portfolio composition are monitored continuously to maximize risk-adjusted return and reduce incidence of impairment and accretion of marginal credits. The Bank monitors concentration risk by setting up limits for the maximum exposure to individual borrower or counterparty, country, bank and industry. Such limits are also stipulated for each product. These limits are approved after detailed analysis and are reviewed and monitored regularly.

Day to day monitoring of individual borrower or counterparty exposure is the responsibility of the respective Business Units. The Bank's Credit Administration Unit, a part of the CMD, ensures that credit facilities are released after proper approval and against proper documentation. It also monitors excesses over limits, past dues, expired credits, and highlights exceptions for corrective action immediately.

The Bank has a risk asset rating policy which defines criteria for rating of risk assets. All credits are assigned a rating in accordance with the defined criteria. All lending relationships are reviewed at least once a year, and more frequently for non performing assets (NPAs). The Internal Audit Department conducts independent reviews of risk assets periodically and submits its report to senior management / Audit Committee. The Bank endeavours to continuously improve on internal credit risk rating methodologies and credit risk management policies and practices, to reflect the true credit risk and testify to the Bank's credit culture.

It is the Bank's policy to ensure that provisions for credit loss are maintained at adequate levels. For loans and advances considered by the management as individually significant, specific provision is made for the impairment loss, worked out on the basis of estimated discounted value of future cash flows in line with IAS-39 guidelines. For the remaining accounts, which are not individually significant, specific provision is made on a portfolio basis based on criteria applied consistently over time.

Experienced and skilled staff members manage recovery of Non-performing loans, under separate recovery / loan work-out sections within the Retail, Corporate, and International Banking Divisions.

Liquidity risk

Liquidity Risk is defined as the potential inability of the Bank to meet its financial obligations (liquidity needs) due to funding mismatch. Management of liquidity risk requires the Bank to be prepared to meet its cash financial obligations as and when they fall due.

The Bank has in place a liquidity risk policy, which describes the roles and responsibilities of ALMC and Treasury, and stipulates the broad guidelines with regard to minimum liquid assets to be maintained by the Bank, gap limits under each time bucket of the maturity ladder, cumulative outflow of cash limits for each time bucket and various liquidity ratios to be maintained which are approved by the ALMC based on the Annual Liquidity Strategy.

It is the Bank's policy to keep its assets in high-quality liquid assets such as inter-bank placements, Treasury Bills and Government Bonds, to ensure that funds are available to meet maturing liabilities, un-drawn facilities and deposit withdrawals as they fall due for payment. A substantial proportion of the Bank's deposits is made up of retail current, savings and fixed deposit accounts which, though payable on demand or at short notice, have traditionally formed part of a stable deposit base and a source of core funding.

The day to day management of liquidity risk is the responsibility of the Global Treasurer. He monitors the sources and maturities of assets and liabilities closely and ensures that limits stipulated by the ALMC are complied with, and that funding is not concentrated from any one source.

The Bank also draws up contingency plans to deal with extraordinary conditions of liquidity risk after comprehensive scenario analysis.

Interest rate risk

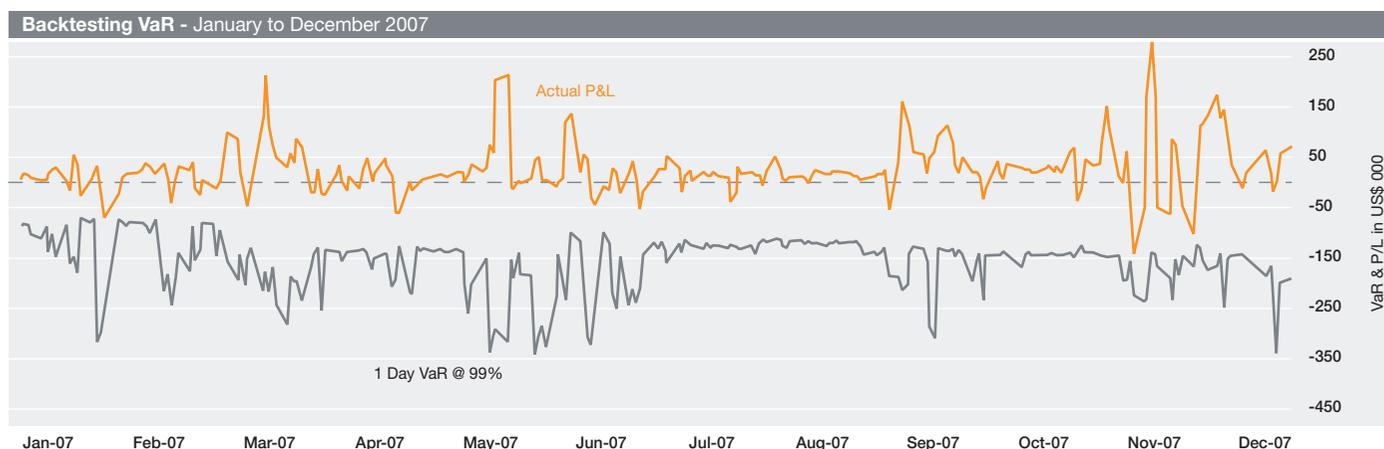
Interest rate risk is the exposure of the Bank's financial condition to adverse movements of interest rates. The Bank is exposed to this risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or re-price in a given period. Excessive interest rate risk can pose a significant threat to the Bank's earnings and capital base. Accordingly, an effective risk management process that maintains interest rate risk within prudent levels is essential for the safety and soundness of the Bank.

It is the Bank's policy to keep its assets and liabilities mismatches at stable and acceptable levels to maintain steady net interest income. The Bank monitors interest rate risk based on gap / duration limits. The Bank also uses 'what if' scenarios for changes, if any, in interest rates by applying standardised rate shocks, for projecting Net Interest Income as also Economic Value of Equity of the Bank. The Bank uses derivative instruments such as interest rate swaps, floating rate agreements and bond futures to manage interest rate risk. Whilst day to day management of interest rate risk is the Global Treasurer's responsibility, ALMC also reviews the interest rate risk reports periodically.

Market risk

Market risk is defined as the risk of losses in on or off balance sheet positions of the Bank arising from movements in market prices of interest rate-related instruments, equities in the trading book, and foreign exchange and commodity risk throughout the Bank.

The Bank has clearly defined policies for conducting investment (including trading investments) and foreign exchange business, which stipulate limits for these activities. Investments are made strictly in accordance with investment acceptance criteria, which ensure that investments are marketable and liquid. The Bank does not undertake any commodity trading activity.



Risk Management continued

The Bank uses an internal Value-at-Risk (VaR) model for measuring general market risk in Trading positions. The internal model has been approved by the Central Bank of Bahrain. VaR is calculated using a 99 per cent confidence level for a 10-day holding period. This implies a 1 per cent possibility of the loss exceeding the VaR amount calculated by the model. As at 31st December 2007, VaR calculated based on the above parameters was BD 277,308 (US\$ 602,940).

A graph of VaR for the year 2007 is given below. The graph depicts the 10-day horizon VaR movement for each day.

The Risk Management Department conducts backtesting in accordance with the Market Risk Capital Adequacy Regulations issued by the Central Bank of Bahrain. Backtesting involves comparing the one-day daily VaR with the average daily profit and loss (i.e. average of that day and the next day profit and loss). The objective is to ensure that the assumptions used for computing VaR are reasonable and provide a VaR number that is a good indicator of worst possible losses.

During the year the backtesting produced satisfactory results, indicating that the assumptions used in computing VaR have been reasonable. The Bank also regularly conducts stress testing to identify events or scenarios that could greatly impact material trading positions taken by the Bank. As per Central Bank of Bahrain requirements, validation of the internal model is conducted by the Internal Audit Department of the Bank as well as by the external auditors.

Legal risk

Legal risk is the risk that contracts are not legally enforceable or documented correctly. It is the Bank's policy to use standard documents for the majority of its lending. The Bank's standard documents are prepared in consultation with the Bank's in-house Legal Department and / or external legal counsel. All non-standard documents are approved by the Bank's in-house Legal Department and / or external legal counsel.

The policies and procedures of the Bank ensure that credit facilities are released after obtaining proper documents.

Operational risk

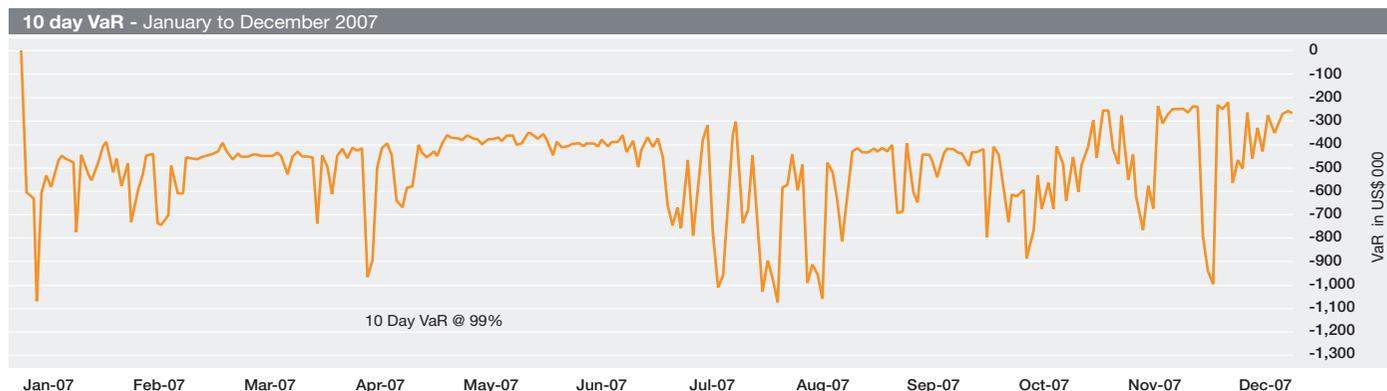
Operational risk is the exposure to loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Bank has clearly defined operations procedures for each of its products and services. It also has advanced computer systems that enable it to run operations with speed and accuracy.

All computer systems and operations procedures are approved by the Internal Audit Department. This department operates independently from other units of the Bank and reports directly to the Audit Committee, which consists of members of the Board. It conducts regular reviews of all business areas of the Bank and reports control deficiencies and exceptions to the Bank's policies and procedures. It also recommends measures to improve operational risk, which are implemented by management immediately.

The Bank also has a contingency plan to take care of any failure of its critical computer systems. Regular back-ups are made for all important datasets, and stored outside the Bank's premises. This ensures that in case of any system failure, the Bank will be able to continue its operations without losing critical data or business transactions. As part of its disaster recovery plan, the Bank has established a back-up site to stand in and operate during an emergency.

The Bank has a specific Business Continuity Plan (BCP) unit. The main objective of the BCP is to ensure that in the event of full or partial disaster, the Bank should be able to continue providing essential services to clients, minimizing any adverse effects on the Bank's business, through, business impact analysis, business restoration plans and procedures, for the identified critical functions. The unit coordinates with all concerned units to update respective continuity plans and validate on periodic basis.

The Bank has implemented an Operational risk management solution for monitoring Operational risk, conducting Risk and Control Self Assessments and Capturing Operational Loss data in accordance with Basel II / Central Bank of Bahrain guidelines.





Corporate Governance and Additional Disclosures

A. Shareholder information

BBK's shares are listed on the Bahrain and Kuwait stock exchanges. The Bank has issued 772,205,100 equity shares with a face value of 100 fils. All shares are fully paid.

Annual General Meeting

The Annual General Meeting of the shareholders was held on 25 February 2007 and two Extraordinary Meetings were held on 25 February and 2 September 2007.

Shareholders

Name	Nationality	No. of shares	%holding
Bahrain Citizens & Others	-	148,618,191	19.25%
Commercial Bank of Kuwait (CBK)	Kuwaiti	147,637,621	19.12%
Pension Fund Commission	Bahraini	145,622,781	18.86%
General Organization for Social Insurance (GOSI)	Bahraini	103,084,044	13.35%
Zumorodah Investment for Asset Management Co.	Kuwaiti	71,108,309	9.21%
Bank of Kuwait and the Middle East (BKME)	Kuwaiti	52,182,093	6.76%
KIPCO Asset Management	Kuwaiti	39,480,730	5.11%
Kuwait Investment Authority	Kuwaiti	31,041,767	4.02%
Kuwait International Investment Co.	Kuwaiti	15,461,338	2.00%
Emerging Markets Middle East Fund	Ireland	14,689,205	1.90%

Distribution schedule of each class of equity (as at 31 December 2007)

Category	No. of shares	No. of shareholders	% of outstanding shares
Less than 1%	151,897,212	2516	19.67%
1% to less than 5%	61,192,310	3	7.92%
5% to less than 10%	162,771,132	3	21.08%
10% to less than 20%	396,344,446	3	51.33%
20% to less than 50%	-	-	-
50% and above	-	-	-

B. Board of Directors information

Corporate governance philosophy

High standards in corporate governance are fundamental in maintaining BBK's leading position within the local and regional banking sector and the community. Continuous review and adherence to strong corporate governance practices help enhance compliance levels according to international standards and best practice. As the direct responsibility of the Board of Directors, this endeavour is in line with the policies of regulatory authorities and statutory requirements in the Kingdom of Bahrain and other countries where BBK operates.

Directors' roles and responsibilities

The principal role of the Board of Directors (the Board) is to oversee the implementation of the Group's strategic initiatives and its functioning within the agreed framework, in accordance with relevant statutory and regulatory structures. The Board ensures the adequacy of financial and operational systems and internal control, as well as the implementation of corporate ethics and the code of conduct. The Board has delegated responsibility for overall management of the Bank to the General Manager Chief Executive Officer (GM CEO).

The Board of Directors meets not less than four times a year. Currently, the Board comprises twelve non-executive Directors, including the Chairman.

Each Director holds the position for three years, after which he must present himself to the Annual General Meeting of shareholders for re-appointment. The majority of BBK Directors (including the Chairman and / or Deputy Chairman) are required to attend the Board meetings in order to ensure a quorum.

Directors' remuneration

The Directors' remuneration, allowances and expenses for attendance at Board meetings and its Committees for 2007 were BD 639,440 (2006: BD 492,974).

Directors' profiles

Mr Murad Ali Murad

Chairman
Director since 21 March 1999 (Independent)
Board Member – Bahrain Telecommunications Co. (Batelco)
Board Member – Bahraini Kuwaiti Insurance Co.
Deputy Chairman – Eskan Bank
Deputy Chairman – Al-Banader Hotel Co.
Board Member – Bahrain Mumtalakat Holding Co.
Board Member – Umniah Mobile Co., Jordan
Member – Council of Vocational Training in Banking Sector
Chairman – Human Resources Development Fund in Banking Sector

Mr Jassem Hasan Ali Zainal

Deputy Chairman
Director since 22 November 1994 (Independent)
Chairman & Managing Director of Zumorroda Investment Co.
Chairman – Al Khaleej Islamic Investment Bank
Deputy Chairman – Al-Razi Holding Co.
Deputy Chairman & Managing Director – Addax Investment Bank
Board Member – Kuwait International Bank
Board Member – Kuwait Airways

Mr Yacoub Yousef Al Fulajj

Director since 28 March 1994 (Independent)
Board Member – National Bank of Kuwait

Mr Mohammed Salahuddin Ahmed

Director since 1 May 1990 (Independent)
Chairman – Mohammed Salahuddin Consulting Engineering Bureau
Board Member – Howar Islands Development Co.
Board Member – Sunni Waqf Directorate
Board Member – Bahrain Businessmen's Association
Board Member – Intershiel W.L.L.

Mr Hamad Ahmed Al Busairi

Director since 11 January 2001 (Independent)
Senior Investment Manager – Kuwait Investment Authority
Board Member – Kuwait Cement Co.
Board Member – Tunisi Kuwaiti Bank

Mr Abdulla Mohammed Al Sumait

Director since 22 April 2001 (Independent)
Deputy Chief General Manager – Al Ahli Bank of Kuwait
Board Member – Union of Kuwaiti Banks

Sh Mohammed bin Isa Al Khalifa

Director since 4 December 2002
Nominated by General Organization for Social Insurance
Director General – General Organization for Social Insurance
Chairman – Securities and Investment Co.
Board Member – Bahrain Commercial Facilities Co.
Deputy Chairman – National Motor Co.
First Deputy Chairman – Bahrain Telecommunications Co.
Deputy Chairman – Bahrain International Golf Course Co.

Mr Aref Saleh Khamis

Director since 1 April 2003
Nominated by the Pension Fund Commission
Asst. Undersecretary for Financial Affairs – Ministry of Finance
Board Member – Gulf Aluminium Rolling Mills Co.
Board Member – Arab Ship Building & Repair Yard Co.
Board Member – Bahrain Institution of Public Administration
Board Member – Sh Mohd. bin Khalifa bin Salman Al-Khalifa Cardiac Centre
Member – Supreme Council for Traffic
Member – Zakat Fund

Mr Abdul Majeed Haji Al Shatti

Director since 24 March 2004
Chairman & Managing Director – Commercial Bank of Kuwait
Chairman – Union of Kuwaiti Banks
Board Member – National Technology Enterprises Co.

Mr Jamal Ali Al Hazeem

Director since 27 February 2005 (Independent)
Chief Executive Officer – First Investment Bank
Board Member – Nass Group
Board Member – Al-Tameer Co.

Mr Ali Hassan Meshari Al Bader

Director since 27 February 2005 (Independent)
Chairman & Managing Director – Strategia Investment Co.

Sh Khalifa bin Daij Al Khalifa

Director since 27 February 2005 (Independent)
President – Court of the Crown Prince
Board Member – Bahrain International Circuit

Board Secretary: Mr Saad Mohammed Al Hooti

Note:

1. All Directors of the Bank are non-executive.
2. Nine Directors are independent.
3. The qualifying criteria for 'Independent' Directors is as per the Corporate Governance guidelines of the Central Bank of Bahrain.

Corporate Governance and Additional Disclosures *continued*

Code of conduct

The Board has approved a code of conduct for the Directors, Executive Management, and members of staff of the Bank. The code binds signatories to the highest standard of professionalism and due diligence in discharging their duties. The code outlines areas of conflict of interest, confidentiality, and responsibilities of signatories to adhere to best practices.

Insider trading

The Bank has established Insider Trading Procedures to ensure that insiders are aware of the legal and administrative requirements regarding holding and trading in the Bank's securities, with the primary objective of preventing abuse of inside information. Insiders are defined to include the Directors, management, staff and any person or firm connected to these achievements.

Board meetings and attendances

During 2007, ten Board meetings were held in Bahrain. The quarterly meetings were attended as follows:

04/02/2007	22/04/2007	22/07/2007	28/10/2007
Mr Murad Ali Murad			
Mr Jassem Hasan Ali Zainal			
Mr Yacoub Yousef Al Fulajj			
Mr Mohammed Salahuddin Ahmed	Mr Mohammed Salahuddin Ahmed	Mr Hamad Ahmed Al Busairi	Mr Mohammed Salahuddin Ahmed
Mr Hamad Ahmed Al Busairi	Mr Hamad Ahmed Al Busairi	Mr Abdulla Mohammed Al Sumait	Mr Hamad Ahmed Al Busairi
Mr Abdulla Mohammed Al Sumait	Mr Abdulla Mohammed Al Sumait	Mr Aref Saleh Khamis	Sh Mohammed bin Isa Al Khalifa
Sh Mohammed bin Isa Al Khalifa	Sh Mohammed bin Isa Al Khalifa	Mr Abdul Majeed Haji Al Shatti	Mr Aref Saleh Khamis
Mr Aref Saleh Khamis	Mr Aref Saleh Khamis	Mr Jamal Ali Al Hazeem	Mr Abdul Majeed Haji Al Shatti
Mr Abdul Majeed Haji Al Shatti	Mr Abdul Majeed Haji Al Shatti	Mr Ali Hassan Meshari Al Bader	Mr Jamal Ali Al Hazeem
Mr Jamal Ali Al Hazeem	Mr Jamal Ali Al Hazeem		Mr Ali Hassan Meshari Al Bader
Mr Ali Hassan Meshari Al Bader	Mr Ali Hassan Meshari Al Bader		Sh Khalifa bin Daij Al Khalifa

Directors' interests

The number of shares held by Directors and related parties as at 31 December 2007 are as follows:

Board of Directors	Type of shares	31st Dec 2007	31st Dec 2006
Mr Murad Ali Murad	Ordinary	609,677	267,750
Mr Jassem Hasan Ali Zainal	Ordinary	135,849	112,500
Mr Yacoub Yousef Al Fulajj	Ordinary	100,000	Nil
Mr Mohammed Salahuddin Ahmed	Ordinary	407,677	315,361
Mr Abdulla Mohammed Al Sumait	Ordinary	145,392	112,500
Mr Hamad Ahmed Al Busairi	Ordinary	120,755	100,000
GOSI / Sh Mohammed bin Isa Al Khalifa	Ordinary	120,755	100,000
Pension Fund Commission / Mr Aref Saleh Khamis**	Ordinary	105,000	100,000
Mr Abdul Majeed Haji Al Shatti	Ordinary	120,755	100,000
Mr Jamal Ali Al Hazeem	Ordinary	145,392	112,500
Mr Ali Hassan Meshari Al Bader	Ordinary	135,849	112,500

(**) Qualifying shares related to Mr Aref Saleh Khamis is part of the whole shares of the Pension Fund Commission ownership.

Related parties

Al Janabeya Co. WLL owns 21,768 shares.

Material contracts involving Directors

Provision of consultancy services by Mohammed Salahuddin Consultancy Engineering Bureau (MSCEB) for the Financial Malls project. Contract value: BD 81,810 (as at 31 December 2007).

Board committees

Committee	Members	Summary terms of reference
Executive Committee	Members Mr Yacoub Yousef Al Fulaij (Chairman) Sh Mohammed bin Isa Al Khalifa (Deputy Chairman) Mr Jassem Hasan Ali Zainal Mr Aref Saleh Khamis Mr Hamad Ahmed Al Busairi Mr Mohammed Salahuddin Ahmed	<ul style="list-style-type: none">• Six members are appointed for a 1 year term.• Minimum number of meetings required each year: 10 (actual meetings in 2007: 12)• Role: reviews, approves and directs the Executive Management on matters raised to the Board of Directors.
Audit Committee	Members Mr Murad Ali Murad (Chairman) Mr Abdulla Mohammed Al Sumait Mr Abdulmajeed Haji Al Shatti Mr Jamal Ali Al Hazeem Sh Khalifa bin Daij Al Khalifa	<ul style="list-style-type: none">• Five members are appointed for 1 year term.• Minimum number of meetings required each year: 4 (actual meetings in 2007: 4).• Role: reviews the internal audit programme and internal control system, considers the major findings of: internal audit review, investigations and management's response, as well as, ensuring coordination among internal and external auditors.
Insiders Committee	Members Mr Murad Ali Murad (Chairman) Mr Abdulla Mohammed Al Sumait Mr Abdulmajeed Haji Al Shatti Mr Jamal Ali Al Hazeem Sh Khalifa bin Daij Al Khalifa	<ul style="list-style-type: none">• Five members are appointed for a 1 year term.• Minimum number of meetings required each year: 4 (actual meetings in 2007: 4)• Role: tracks, monitors and reports trading activities of insiders in accordance with stipulation of CBB on Insiders.
Compensation Committee	Members Mr Murad Ali Murad (Chairman) Mr Jassem Hasan Ali Zainal Mr Hamad Ahmed Al Busairi Mr Aref Saleh Khamis	<ul style="list-style-type: none">• Four members are appointed for a 1 year term.• Minimum number of meetings required each year: 2 (actual meetings in 2007: 7)• Role: establishes a board compensation policy of the Directors and Executive Management.

The Board reserves the right to form temporary committees and discontinue them, from time to time and as it sees necessary.

Corporate Governance and Additional Disclosures continued

C. Executive management information

Executive management profiles

Mr Abdul Karim Ahmed Bucheery

Acting General Manager (from 25 November 2007)
Education: BSc, University of Aleppo, Syria (1976).
Experience: 30 years banking experience. Joined BBK in 2002.

Dr Farid Ahmed Al Mulla

General Manager Chief Executive Officer (up to 30 November 2007)
Education: PhD in Economics and International Relations, University of Sussex, UK (1982).
Experience: 25 years banking experience. Joined BBK in 1990.

Mr Reyadh Yousif Sater

Deputy General Manager, Support Services Group
Education: MBA, University of Glamorgan, UK (2001).
Experience: 30 years banking experience. Joined BBK in 1978.

Mr Mahmood Abdul Aziz

Assistant General Manager, Operations
Education: Executive Management Diploma, University of Bahrain.
Gulf Executive Management Program, University of Virginia, US.
Experience: 36 years' banking experience. Joined BBK in 1976.

Mr Adnan A. Wahab Al Arrayed

Head of Credit Management
Education: BSc, Beirut Arab University, Lebanon (1984).
Experience: 26 years banking experience. Joined BBK in 1983.

Mr Abdul Hussain Bustani

Assistant General Manager, Human Resources and Administration
Education: Higher National Diploma (Civil Engineering), Trent University, UK (1978).
Experience: 20 years banking experience. Joined BBK in 1988.

Mr Khalil Ismail Al Meer

Assistant General Manager, Corporate Banking
Education: BSc, Business Administration, University of Bahrain (1985).
Experience: 22 years banking experience. Joined BBK in 1989.

Mr Amit Kumar

Head of Risk Management
Education: MBA, India Institute of Management, India (1983).
Experience: 24 years banking experience. Joined BBK in 1994.

Mr Ashish Sarkar

Assistant General Manager, International Banking
Education: MBA, Indian Institute of Management (1990).
Experience: 17 years banking experience. Joined BBK in 1997.

Mr Vinit Kohli

Assistant General Manager, Financial Control and Planning
Education: BCom, Delhi University, India.
CA, Institute of Chartered Accountants of India.
Experience: 26 years experience. Joined BBK in 2002.

Mr Abdulla Abdulrahman Hussain

Assistant General Manager, Information Technology
Education: MBA, University of Bahrain (1994).
Experience: 20 years IT experience. Joined BBK in 2002.

Mr Ian Mackay

Assistant General Manager, Treasury and Investment
Education: PhD in Economics, University of Manchester UK – 1974
Experience: 34 years of banking experience. Joined BBK in 2006.

Mr Rodger Dunn

Assistant General Manager, Retail Banking
Education: FIBSA – 2001, MBA – 2003 and 2006
Experience: 24 years banking experience. Joined BBK in 2007.

Mr Hugo Perez

Assistant General Manager, Transactional Banking
Education: MBA, Idea – Warton School, University of Pensilvania, USA (1991).
Experience: 16 years banking experience. Joined BBK in 2007.

Executive Management's interests

The number of shares held by members of the Executive Management team as at 31 December 2007 are as follows:

Executive Management	Type of shares	31st Dec 2007	31st Dec 2006
Dr Farid Ahmed Al Mulla	Ordinary	-	-
Mr Abdul Karim Ahmed Bucheery	Ordinary	-	-
Mr Reyadh Yousif Sater	Ordinary	-	-
Mr Abdul Hussain Bustani	Ordinary	-	-
Mr Abdulla Abdulrahman Hussain	Ordinary	-	-
Mr Ian Mackay	Ordinary	-	-
Mr Vinit Kohli	Ordinary	-	-
Mr Rodger Dunn	Ordinary	-	-
Mr Mahmood Abdul Aziz	Ordinary	7,234	5,906
Mr Ashish Sarkar	Ordinary	-	-
Mr Khalil Ismail Al Meer	Ordinary	-	-
Mr Hugo Perez	Ordinary	-	-
Mr Adnan A. Wahab Al Arrayed	Ordinary	-	-
Mr Amit Kumar	Ordinary	-	-

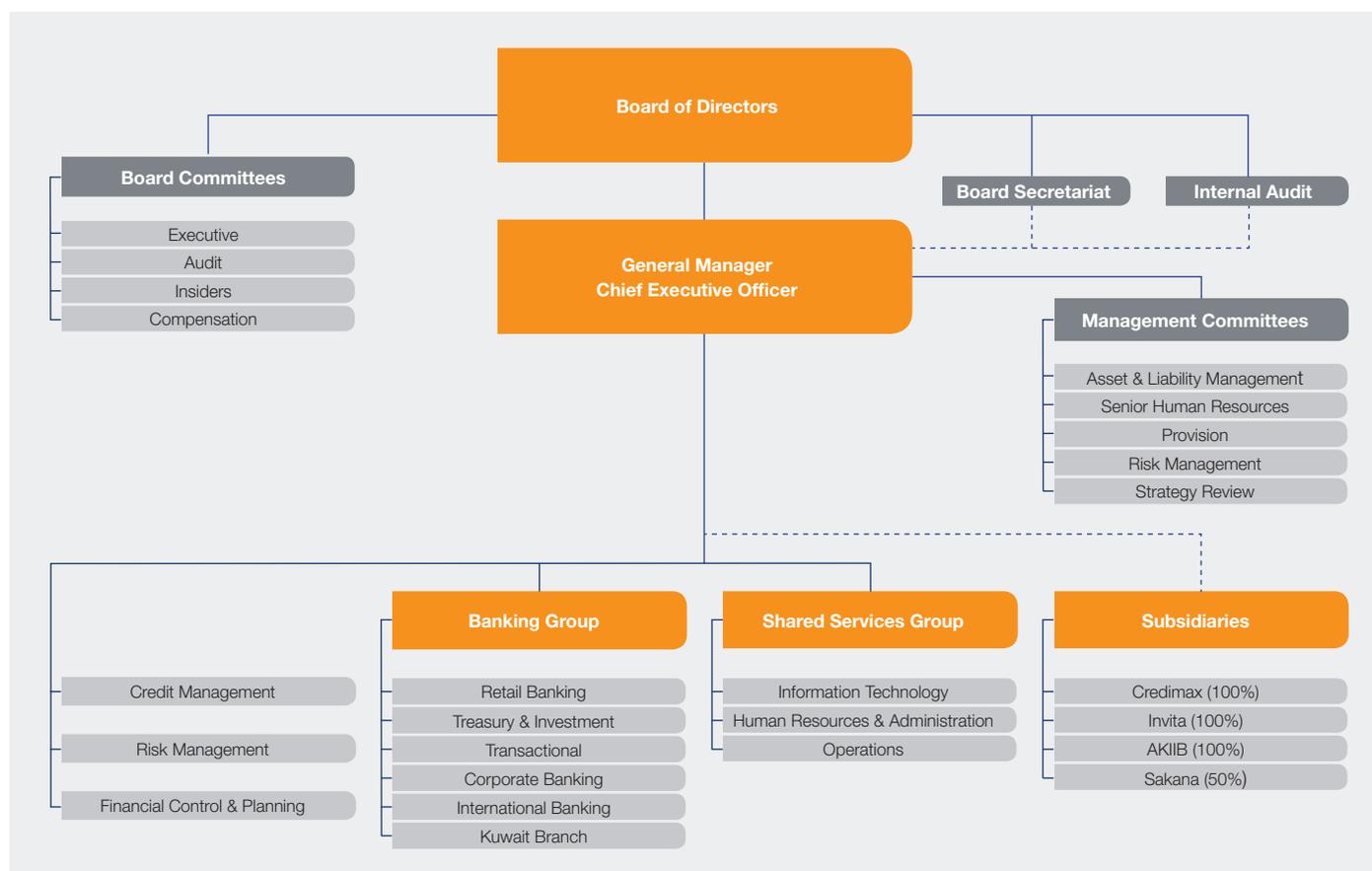
Management committees

Management Committees are chaired by the GM CEO. Committee members are heads of the relevant divisions appointed by the committee Chairman. Each committee meets at least once a month, except the Senior Human Resources Committee that meets once every other month.

Committee	Summary terms and reference
Asset & Liability Management	Establishes policies and guidelines for the overall management of the balance sheet and its associated risks.
Senior Human Resources	Establishes appropriate policies, procedures and guidelines for the management of human resources.
Provision	Reviews and establishes provisioning requirements for loans, advances and investments.
Risk Management	Identifies, measures, monitors and controls risk by establishing risk policies and procedures.
Strategy Review	Reviews and monitors progress on strategic initiatives.

D. Other information

Organisation structure



Changes from 2006 organisation structure:

- Transactional Banking Division was created under Banking Group.
- Electronic Banking Division was merged with Retail Banking.
- Kuwait branch reporting line was changed to Head of Banking Group.
- International and Corporate Banking were restructured into two separate divisions.
- Indian branches and Dubai representative office report to Head of International Banking.

Corporate Governance and Additional Disclosures *continued*

Compliance and anti-money laundering

Compliance with regulatory and statutory requirements is an ongoing process. The Bank is conscious of its responsibilities in observing all regulatory provisions and best international practices in its functioning. The Bank has an established Compliance Unit in keeping with Basel and CBB guidelines and it acts as a focal point for regulatory compliance and other best practice compliance principles. Anti-Money Laundering measures form an important area of the function, in addition to areas of corporate governance, disclosure standards, adherence to best practices, and conflict of interest.

The Bank has documented an Anti-Money Laundering and Combating Terrorist Financing Policy and Procedure, which contains sound Customer Due Diligence measures, procedures for identifying and reporting suspicious transactions, and a programme for periodic awareness training to staff, record-keeping, and a designated Money Laundering Reporting Officer. The Bank has also taken initiatives in deploying and upgrading a risk based automated transaction monitoring system in keeping with Anti-Money Laundering Regulations of CBB. The Bank has taken all other initiatives in keeping with the comprehensive Anti-Money Laundering Regulations of CBB.

The Bank's Anti-Money Laundering measures are audited by independent external auditors every year, and their report is submitted to the CBB. The overseas branches in India and Kuwait and subsidiary (Credimax) have designated compliance and MLRO functions to ensure implementation of local regulations, and also to meet CBB requirements as applicable.

The Bank is committed to combating money laundering and, towards this end, implements all 'Prevention of Money Laundering Regulations' and other guidelines issued by the CBB. These regulations and guidelines are consistent with the revised FATF 49 recommendations, 'Customer Due Diligence for Banks' paper, and best international practices.

Employee stock option plan

The BBK employee stock option plan is a share based rewards scheme, under which executive and senior manager employees are granted stock options every year at a grant determined according to market closing price on the fourteenth day after the Annual General Meeting. On exercising of the option by the employee, after the two years vesting period, the Bank issues shares in the name of the employee at the grant price. The employees who are issued shares would have normal shareholder rights on dividends and voting. Shares options entitlement which have a life cycle of five years are calculated based on employees' level of performance and the annual basic salary.

The plan aims at promoting an 'owner-manager' culture and aligns employee interests with those of the shareholders of the Bank. It is a rewards scheme to retain and motivate key employees and to foster their commitment towards a common goal of enhancing shareholder value.

Communication strategy

The Bank has an open policy on communication with its stakeholders. Shareholders are invited by the Chairman to attend the Annual General Meeting. The Chairman and other directors attend the Annual General Meeting and are available to answer any questions. The Bank is at all times mindful and conscious of its regulatory and statutory obligations regarding dissemination of information to its stakeholders. The Bank provides information on all events that merit announcement, either on its website – www.bbkonline.com – or through newspapers. The Bank's three-year financials are also posted on the website, as well as in annual reports. The Bank uses a bulletin board for communicating with its staff on general matters, and sharing information of common interest and concern.

Major BBK shareholdings

Name / Entity	Nationality / Head Quarter	Legal Status	Ownership Date	%	No. of Shares	
					Previous	Current
The Company's ownership in other companies listed on the BSE (5% and above)						
Bahrain Kuwait Insurance	Bahrain	BSC	July 06	6.82%	4,138,476	4,138,476
Securities Investment Company	Bahrain	BSC	May 06	9.89%	13,750,000	13,750,000
Bahrain Commercial Facilities Company	Bahrain	BSC	1994	20.25%	22,275,000	22,275,000

Offices and international branches

BBK – Headquarters

43 Government Avenue
 PO Box 597, Manama, Kingdom of Bahrain
 Telephone: +973 17 22 33 88
 Fax: +973 17 22 98 22
 Cable: BAHKUBANK. Telex: 8919. SWIFT: BBKUBHBM
 www.bbkonline.com

BBK – Kuwait

Ahmed Al Jaber Avenue
 PO Box 24396, 13104 Safat, Kuwait
 Telephone: +965 241 7140
 Fax: +965 244 0937

BBK – Mumbai

PO Box 11692
 Jolly Maker Chambers, 225 Nariman Point
 Mumbai 400021, India
 Telephone: +9122 282 3698
 Fax: +9122 204 4458 / 284 1416

BBK – Hyderabad

6-3-550 L B Bhavan, Somajiguda
 Hyderabad 500482, India
 Telephone: +9140 339 8219
 Fax: +9140 337 5977

BBK – Dubai Representative Office

Creek Tower, Office No. 18A
 PO Box 31115, Dubai, UAE
 Telephone: +9714 221 0560 / 221 0570 / 223 7156
 Fax: +9714 221 0260

Subsidiaries

Credimax

Hidaya 1 Building
 49 Government Avenue
 PO Box 5350, Manama, Kingdom of Bahrain
 Telephone: +973 17 207 207
 Fax: +973 17 214 193
 www.credimax.com.bh

Invita

Suite 107, Building 128
 Road 383, Block 316, Manama Center
 PO Box 597, Manama, Bahrain
 Telephone: +973 17 50 6000
 Fax: +973 17 91 9231
 www.invita.com.bh

Al Khaleej Islamic Investment Bank

Floor 38
 West Tower
 Bahrain Financial Harbour
 Manama
 Kingdom of Bahrain

Independent Auditors' Report to the Shareholders

We have audited the accompanying consolidated financial statements of BBK B.S.C. (the "Bank") and its subsidiaries (together the "Group") which comprise the consolidated balance sheet as at 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

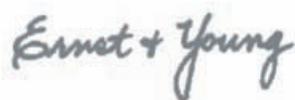
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Regulatory Matters

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the consolidated financial statements, and the contents of the Chairman's statement relating to these consolidated financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law, nor of the memorandum and articles of association of the Bank, have occurred during the year ended 31 December 2007 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position, and that the Bank has complied with the terms of its banking licence.

The logo for Ernst & Young, featuring the company name in a stylized, handwritten-style font.

3 February 2008
Manama, Kingdom of Bahrain