



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



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

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 instil 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.

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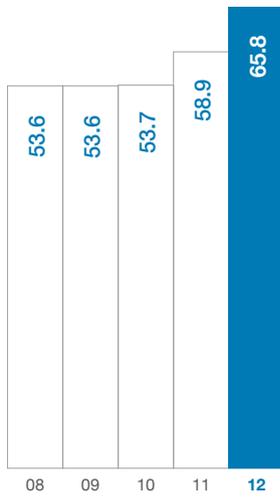
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Financial highlights

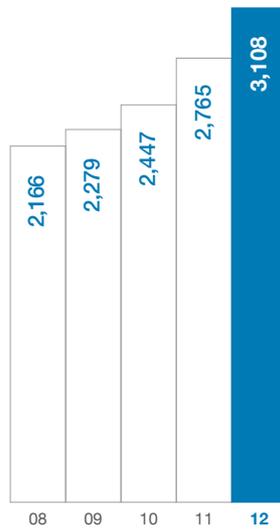
Net interest income

BD millions



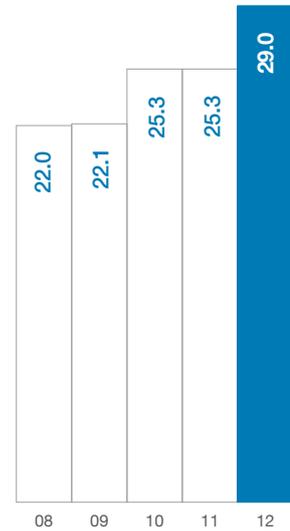
Total assets

BD millions



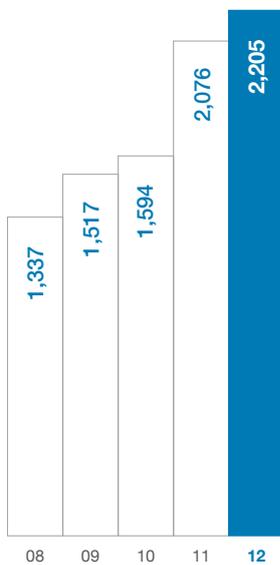
Net fees and commission income

BD millions



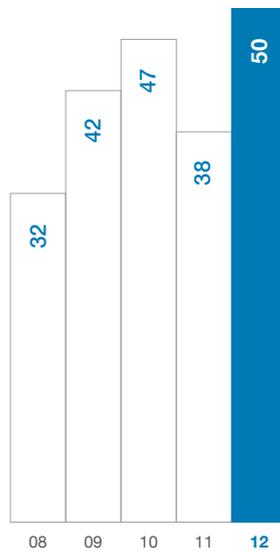
Customer deposits

BD millions



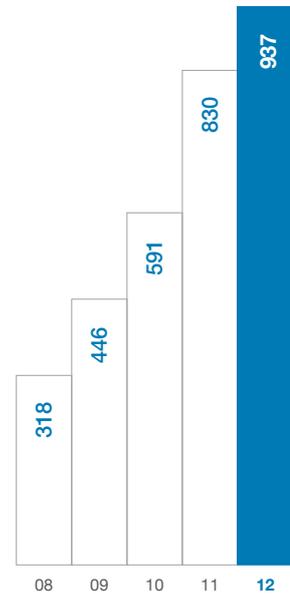
Earnings per share

Fils



Investments

BD millions



65.8 m

Net interest income

42.4 m

Net profit for the year

12.4%

Rise in total assets

	2008	2009	2010	2011	2012
Income statement highlights (BD millions)					
Net interest income	53.6	53.6	53.7	58.9	65.8
Other income	61.1	39.0	55.4	46.9	42.9
Operating expenses	35.1	42.9	45.6	47.9	50.6
Net profit for the year	27.1	35.0	39.1	31.8	42.4
Dividend	20%	25%	25%	25%	10%
Financial position highlights (BD millions)					
Total assets	2,166	2,279	2,447	2,765	3,108
Net loans	1,352	1,269	1,276	1,407	1,499
Investments	318	446	591	830	937
Customer deposits	1,337	1,517	1,594	2,076	2,205
Term borrowings	329	257	370	237	238
Equity	209	231	241	238	290
Profitability					
Earnings per share (fils)	32	42	47	38	50
Cost / income	30.62%	46.39%	41.82%	45.30%	46.54%
Return on average assets	1.22%	1.66%	1.63%	1.20%	1.46%
Return on average equity	12.14%	16.38%	16.90%	13.40%	16.31%
Profit per employee (BD)	27,919	32,661	36,344	28,952	38,789
Capital					
Capital adequacy	20.06%	17.51%	18.57%	14.85%	14.29%
Equity / total assets	9.66%	10.14%	9.83%	8.61%	9.32%
Debt / equity	157.45%	111.33%	153.94%	99.41%	82.18%
Liquidity and business indicators					
Net loans / total assets	62.44%	55.67%	52.15%	50.87%	48.23%
Net loans / customer deposits	101.18%	83.63%	80.09%	67.75%	67.98%
Investments excluding treasury bills / total assets	14.51%	16.88%	18.82%	22.24%	24.85%
Liquid assets / total assets	25.16%	31.10%	32.39%	34.98%	36.50%
Net yield ratio	2.59%	2.60%	2.39%	2.38%	2.50%
Number of employees	970	1,072	1,077	1,098	1,092

Message from the Chairman

I am pleased to report that 2012 was another very successful year for BBK, both in financial performance and achievements set out in our 2010-2012 Strategic Plan. We can be justifiably proud that we have made significant progress in the development of our business activities and in diversifying our core revenue streams.



Murad Ali Murad
Chairman

This year, we have been able to move forward with two important joint ventures - our partnership with Geojit in Kuwait to develop our products and services for the Non-Resident Indians market, and the new call centre operation, also in Kuwait, of our subsidiary, Invita. Both of these opportunities are strategic plan initiatives and both will be fully operational very shortly.

We have also received approval from the Reserve Bank of India to open a third branch in that country. This, we believe, will open up new business opportunities for BBK in a country with enormous growth potential, and we will execute upon these in our new strategy.

Through our new 2013-2015 Strategic Plan we will seek to build upon what has been achieved over the last three years. Challenging new objectives will be set for all our business units, both locally and in the other markets in which the Bank operates, as we pursue growth opportunities and build on our strengths. We will also ensure that we take a close look at our internal cost structure and our overall level of operational efficiency. Going forward, one of our key objectives will be to do more with less, wherever possible.

“Ongoing investment in our people helps us ensure that we retain our position as an employer of choice.”

The Board of Directors and I continue to evaluate the risks that the Bank will face as it seeks to grow on a number of fronts. In order to further expand the business, and factoring in the Bank's future capital adequacy requirements, which will be necessary

to meet the forthcoming Basel III regulations, it is important that sufficient capital buffers are built up. It is likely that this will be achieved through further retention of profits.

I am pleased to report that BBK achieved a net profit of BD 42.4 million in 2012 with a return on equity of 16.3 per cent compared to 13.4 per cent in 2011. Total assets at the end of the year were BD 3,108 million, compared to BD 2,765 million in 2011. The Board has recommended a cash dividend of 10 fils per share and stock dividend of 1:10.

We have been able to achieve these very satisfactory results, with double-digit growth in profit at a time when local and GCC regional markets are still being buffeted by economic and financial events occurring elsewhere in the world. The Eurozone sovereign debt crisis remains unresolved and there are few parts of the world which have escaped its impact. Locally there have been some further periods of civil unrest but the outstanding efforts of the BBK management team and all employees have ensured that our businesses both in Bahrain and overseas have continued to perform strongly.

It is of particular note that the profit growth in 2012 has come from the Bank's core business activities, as opposed to any one-off items. Corporate banking, retail banking, treasury and investments, our international branches, CrediMax and Invita have all made solid contributions, reflecting a healthy level of diversity in our revenue streams.

Corporate governance remains an important area of focus, and ensuring that appropriate controls and processes are in place is an important role of the Board. We intend to develop, and continually improve, all aspects of the corporate governance of the Bank and ensure not only that our practices meet or exceed all local requirements, but that they are also fully in line with international best practice. In this connection, I am pleased to report that BBK was presented, for a third year, with the Corporate Governance award from Hawkamah, the regional institute for corporate governance. BBK was also recognised by the major US bank, JP Morgan Chase, who gave us their 2012 “Quality of e-services in Banking” award.

BBK not only applies the highest possible standards of ethics in the management of all of its businesses but it also expects its directors to perform at a very high standard in discharging their duties. In 2012 the performance of both the Board itself and of individual committees was evaluated, and we continue to look at new ways in which to improve these evaluations. A new “Risk Committee” was established and this has taken over some of the responsibilities in connection with prudential risk management which were previously handled by the Executive Committee. The move to holding totally paperless Board meetings has also been successfully completed and this has brought new levels of efficiency.



BBK won the Corporate Governance award from Hawkamah for a third year and was recognised by JP Morgan and presented the 2012 “Quality of e-services in Banking” award.

As a major local employer we have a duty to help in the communities in which we operate, and we do this in a number of different ways. We continue to demonstrate very strong commitment to our Corporate Social Responsibility (CSR) and, as described elsewhere in this report, we have engaged in and supported a considerable number of activities and programmes this year. One particular initiative worthy of special mention is that we now offer in-branch services to support customers of the Bank who have special needs - those who are hard-of-hearing, blind or disabled. In all, we have designated BD 1.5 million in 2012 as an appropriation for donations, supporting a multitude of philanthropic initiatives in the community.

The Board and I remain resolute in our commitment to invest in our people and to provide them with the skills that they, and the Bank, will need to ensure that the organisation will continue to prosper in the future. We provide a comprehensive range of training and development opportunities for our employees, as well as competitive remuneration packages. Ongoing investment in our people helps us ensure that we retain our position as an employer of choice both in Bahrain as well as in the other markets in which we operate.

As we look to the future we will continue to serve all our stakeholders with diligence, we will seek to bring new and innovative banking services to our customers and we will strive to achieve excellence in all aspects of our service delivery.

I take this opportunity to welcome a new director of the Bank, Dr. Zakareya Sultan Al Abbasi, and also to thank our current Board of Directors for providing the vision and guidance that our organisation needs to ensure continued success in our highly competitive industry.

Finally, I extend my appreciation and gratitude to His Majesty King Hamad bin Isa Al Khalifa, the King of the Kingdom of Bahrain, and His Highness Sheikh Sabah Al Ahmed Al Jaber Al Sabah, the Amir of the State of Kuwait. I thank their respective governments and regulatory authorities for their guidance and support during 2012. I would also like to thank BBK’s Executive management team and all employees for their considerable efforts and dedication. Last, but not least, I thank our loyal shareholders and customers for their support and ongoing partnership with BBK.

Murad Ali Murad
Chairman

Board of Directors



Murad Ali Murad
Chairman
Chairman of the Nomination, Remuneration
& Corporate Governance Committee
Chairman of the Risk Committee



Aref Saleh Khamis
Deputy Chairman



Mohamed Abdulrahman Hussain
Chairman of the Executive Committee



Jassem Hasan Ali Zainal
Chairman of the Audit Committee



Dr. Zakareya Sultan Al-Abbasi



Sh. Abdulla bin Khalifa bin Salman Al Khalifa



Sh. Khalifa bin Duaj Al Khalifa



Dr. Abdulmohsen Medej Mohammed Al Medej



Mutlaq Mubarak Al Sanei



Elham Ebrahim Hasan



Yusuf Saleh Khalaf



Hassan Mohammed Mahmood

Board of Directors' report

The Board of Directors is honoured to present BBK's 41st annual report, covering the year ended 31 December 2012.

Economic and market background

Sentiment in the financial markets continued to be affected by the Eurozone sovereign debt crisis throughout 2012. With economic growth under pressure in major economies the ripples from this continue to be felt locally.

Some of the sectors of Bahrain's economy which are most closely linked to investor confidence, such as construction and financial services, slowed in 2012, yet since the start of the internal disturbances in early 2011, heavy spending by the Government has helped offset weaker private sector confidence. The local disquiet continued throughout 2012 and the Bahrain Bourse All Share Index fell by 6.8 per cent. However, Government spending during the year was a record US\$ 9.8 billion and Bahrain's economy is expected to have grown in excess of 3 per cent in 2012. The local economy continues to gain from higher oil prices as well as external aid from other GCC states.

Despite a slowdown in some parts of the world, the Gulf region has some definite success stories, with both Qatar and the United Arab Emirates continuing to develop at a robust rate. It is our belief that the fundamentals of both Bahrain and the wider GCC region remain strong and we are therefore confident that when global economic activity begins to pick up again Bahrain will be well placed to capitalise on new business opportunities.

BBK's record of sustained growth

For the past 20 years BBK has demonstrated a solid and reliable track record of profit growth and an uninterrupted dividend payment history. This growth has not only been substantial, but it has also been steady. The fact that the Bank has been able to produce consistent, rather than volatile, profit growth, against a backdrop of sometimes challenging market conditions both internationally and domestically, speaks volumes for BBK's conservative and prudent approach towards business development.

Cost optimisation review

Much has been achieved under the 2010-2012 Strategic Plan. Going forward, there is considerable scope to develop and grow BBK's business and the Board will resolve to navigate the current economic environment safely and continue to play a key role in guiding the Bank's future expansion plans. The Board is also keenly aware of its duty to ensure that costs are carefully controlled. In this regard we have engaged the highly respected consulting firm, Booz & Company, to undertake a Cost Optimisation Review of all our businesses. As we pursue new business opportunities within the framework of the new 2013-2015 Strategic Plan, we will also be addressing the recommendations made by Booz & Company to improve internal efficiencies in the Bank.

A Board Cost Optimization Committee (COC) comprising of seven members, three of which are from the Board of Directors and four from BBK's Executive Management team, has been formed to steer the work in this respect. Abdul Hussain Bustani, formerly Assistant General Manager – Human Resources & Administration at BBK, has been appointed to head the Project Management Office (PMO) and will oversee the implementation of these recommendations under the supervision and guidance of the COC, which will report progress to the Board which in turn will closely monitor the achievements in this area.

Business review

Despite a slowdown in the corporate banking sector locally, BBK has continued to perform well. Throughout 2012, Relationship Managers worked closely with their colleagues in other areas of the Bank to maximise product cross-selling opportunities. Revenue targets were exceeded and provisions were in line with forecast.

BBK Cashlink, the Bank's market-leading payments and cash management platform, was further upgraded and now provides both enhanced customer convenience and improved levels of efficiency. As a result of increasing transaction volumes, Transactional Banking has seen growth in revenues this year.

International Banking had a good year, with some new lending opportunities in India and the expansion of our presence in Kuwait, where business is developing well. There was continued focus on building bilateral corporate relationships and providing working capital facilities to clients in the GCC region. This approach resulted in further successes in Saudi Arabia, Qatar and Oman.

The Retail Banking business continued to make steady progress and has effectively leveraged investments made in new technology and new distribution channels. The retail component of the Bank's lending grew in 2012 and several important new product and service initiatives were completed, including the launch of our new Al Wajaha account.

Some excellent decisions were made during the year in respect of BBK's Treasury and Investment portfolio, particularly in the case of fixed income opportunities, and this area of the Bank has once again performed strongly.

2012 financial highlights

BBK was able to achieve net profits of BD 42.4 million in 2012, up 33.3 per cent on the previous year's profit of BD 31.8 million. Net interest income rose 11.6 per cent to BD 65.8 million.

Fees and commissions stood at a healthy level of BD 29.0 million with growth of 10.3 per cent over 2011, mainly due to additional business generated by the corporate and retail banking businesses.

2012 financial highlights continued

Fueled by a strong growth in customer deposits, total assets grew by BD 343 million to BD 3,108 million. This increase resulted in business growth in retail, corporate, investments and international business. Customer deposits increased by 6.2 per cent to reach BD 2,205 million, a reflection of the high level of customer confidence and trust in BBK. Non-trading investments also increased, by 27.2 per cent, with the Bank continuing its policy of seeking out and investing only in high quality opportunities. The portfolio is both well diversified and well hedged to limit risk.

This very satisfactory financial performance was achieved despite the Bank making higher general provisions for possible impairments. The adoption of a conservative provisioning policy is aimed at ensuring that BBK is well-cushioned against the impact of further turbulence in the markets. Net provisions for the year amounted to BD 15.0 million.

At the close of business on 31 December 2012, the Bank's market capitalisation stood at BD 331 million (or 394 fils per share).

Future outlook

Bahrain receives strong financial support from other GCC countries, and, over the course of 2012, spending by the Government has been the main driver of the local economy. The Government budget is expected to rise further in 2013 and beyond, and there will be increased levels of activity in the infrastructure development sector, mainly in projects such as roads, power plants, housing and schools. BBK intends to play a greater role in the future development of Bahrain's infrastructure, and we expect this to be a catalyst for more activity in the corporate, trade and contracting sectors.

Retail and consumer activity is likely to increase in 2013, providing further room for growth on this side of our business. We believe that there will be more activity for BBK in India as well, and there are good prospects for us to get involved in new financing opportunities in Kuwait, where a number of major projects will be starting soon.

Corporate governance

The Board remains steadfast in its determination that BBK should both set an outstanding example and lead the way in the corporate governance arena. All directors of BBK have a clear understanding of the very high standards which are expected of them. In this connection, a formal process of evaluation for individual directors, the Board – as a whole – and Board Committees, has been implemented and the results of these evaluations will be communicated at the Annual General Meetings of the Bank's shareholders.

Another key objective of the Board is to ensure that all matters relating to governance of the Bank should be entirely transparent. Our shareholders have a right to know how corporate governance works at BBK. They also have a right to share their views with the Board and to expect to get answers to their questions. In recent years the Bank has pursued, and continues to pursue, a number of important initiatives in this area. These efforts have been recognised in the form of awards in 2012 and in previous years from Hawkamah, the regional institute for corporate governance.

Appropriations

The Board of Directors recommends the below-listed appropriations of the Bank's net profit for approval by shareholders:

Appropriations	BD'000
Retained earnings as at 1 January 2012	29,306
Profit for the year 2012	42,358
Transfer to general reserve	(4,200)
Proposed appropriation for donations	(1,250)
Movement in Reserve Account related to Employee Performance Share Plan	537
Retained earnings as 31 December 2012 available for distribution (before proposed dividend)	66,751
Proposed cash dividends (10% of paid-up capital, net of treasury stock)	(8,397)
Proposed stock dividends (10% of paid-up capital)	(8,514)
Retained earnings as 31 December 2012 (after proposed dividend)	49,840

Directors' remuneration

The Directors' remuneration for the year 2012 was BD 525,000. Additionally, Board Committees' sitting fees amounted to BD 62,750 and other related expenses to the Board of Directors' work was BD 40,967. Furthermore, the total amount for BBK subsidiaries' Board remuneration, sitting fees and other related expenses for the year 2012 was BD 224,378 (total remuneration, sitting fees and all related expenses for BBK and its subsidiaries, for 2011: BD 894,098).

Ratings

Fitch Ratings has assessed BBK's Long Term IDR at BBB-, with stable outlook, and the Short Term IDR at F3. Moody's has rated the Bank Deposit Obligation (FC & LC) at A3/P-2, with a Bank Financial Strength of D+, which translates to Baa2 Baseline Credit Assessment (BCA), a Long Term Senior rating of Baa2, and subordinated debt of Baa1.

Appointment of auditors

At the Annual General Meeting of shareholders held on 11 March 2012, Ernst & Young were re-appointed as external auditors to the Bank for the financial year ending 31 December 2012.

Appreciation

The Board extends appreciation and gratitude to His Majesty King Hamad bin Isa Al Khalifa, the King of the Kingdom of Bahrain, and His Highness Sheikh Sabah Al Ahmed Al Jaber Al Sabah, the Amir of the State of Kuwait, and also thanks their respective governments and regulatory authorities for their guidance and support during 2012.

Finally, the Board expresses sincere thanks to our shareholders for their continued confidence, to our loyal customers for their patronage, and to BBK's management and employees for their achievements in 2012.

On behalf of the Board of Directors

Murad Ali Murad
Chairman



Reliability remains one of the Bank's pillars of recognition, committed to providing excellent services day after day, year on year.

Corporate governance report

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.

BBK (the Bank) shall continue its endeavour to enhance shareholders' value, protect their interests and defend their rights by practicing the pursuit of excellence in corporate life. The Bank shall not only comply with all statutory requirements – including the Corporate Governance Code of the Kingdom of Bahrain and the High Level Controls Module of the Central Bank of Bahrain – but also formulate and adhere to strong corporate governance practices. BBK shall continuously strive to best serve the interests of its stakeholders including shareholders, customers, employees and the public at large.

The adoption and implementation of corporate governance is the direct responsibility of the Board of Directors (Board), and 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.

Shareholders information

BBK's shares are listed on the Bahrain Bourse. The Bank has issued 851,356,122 equity shares, each with a face value of 100 fils. All shares are fully paid.

Annual General Meeting

The Annual General Meeting (AGM) was held on 11 March 2012. The meeting minutes of the AGM is published in this annual report. The Bank submits a Corporate Governance report to the AGM annually covering status on compliance with the related regulatory requirements. Any material non compliance issues are also highlighted in the meeting. The Bank discloses and/or reports to the shareholders in the AGM the details under the Public Disclosure module of the Rule Book. Such disclosures include the total remunerations paid to the Board of Directors, the Executive Management and the External Auditors. The total amount paid to Directors and Executive Management is also contained in the Annual Report.

Shareholders

Name	Country of origin	Number of shares	% holding
Citizens of the Kingdom of Bahrain and Others	-	167,892,533	19.72
Ithmaar Bank	Bahrain	215,946,187	25.36
Social Insurance Organization (SIO)			
- Pension Fund Commission	Bahrain	159,933,766	18.79
- General Organization for Social Insurance (GOSI)	Bahrain	113,573,255	13.34
Kuwait Investment Authority	Kuwait	159,173,547	18.70
Global Mena Macro Fund Company	Kuwait	25,644,066	3.01
Global Investment House	Kuwait	9,192,768	1.08

Distribution schedule of each class of equity

Category	Number of shares	Number of shareholders	% of outstanding shares
Less than 1%	167,892,533	2,385	19.72
1% to less than 5%	34,836,834	2	4.09
5% to less than 10%	-	-	-
10% to less than 20%	432,680,568	3	50.83
20% to less than 50%	215,946,187	1	25.36
50% and above	-	-	-

Board of Directors information

Board composition

The Board composition is based on the Bank's Memorandum of Association and Articles of Association and comprises twelve members. The Board represents a mix of high-level professional skills and expertise. Furthermore, in compliance with the corporate governance requirements, the Board Committees consist of members with adequate professional backgrounds and experience. The Board has four independent Directors. The Board periodically reviews its composition and the contribution of Directors and Committees.

The appointment of Directors is subject to prior Central Bank of Bahrain (CBB) approval. The classification of 'executive' Directors, 'non-executive' Directors and 'independent non-executive' Directors is as per definitions stipulated by the CBB.

In February 2012, a new member representing Social Insurance Organization (SIO) was appointed namely Dr. Zakareya Sultan Al Abbasi, replacing Sh. Mohammed bin Isa Al Khalifa who submitted his resignation to the Board. Presently, the Board has 12 members. The current term for the Board will end in March 2014.

Good governance: the hallmark of success

Directors are elected/appointed by the shareholders at the AGM. Experts who are non-shareholders or promoters of the Bank may also be elected as Directors. Election or re-election of a Director at the AGM shall be accompanied by a recommendation from the Board, based on a recommendation from the Nomination, Remuneration & Corporate Governance Committee with specific information such as biographical and professional qualifications and other directorships held.

The Board is supported by the Board Secretary who provides professional and administrative support to the General Assembly, the Board, its Committees and members. The Board Secretary also assumes the responsibilities of the Company Secretary. The appointment of the Board Secretary is subject to the approval of the Board.

Directors' roles and responsibilities

The Board of Directors oversees the implementation of the Bank'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 reserves a formal schedule of matters for its decision to ensure that the direction and control of the Bank rest with the Board. This includes strategic issues and planning, performance reviews, material acquisition and disposal of assets, capital expenditure, authority levels, appointment of Auditors and review of the financial statements, financing and borrowing activities including annual operating plan and budget, ensuring regulatory compliance and reviewing the adequacy and integrity of Internal Controls.

The Board shall exercise judgment in establishing and revising the delegation of authority for Board Committees and Management. This delegation could be for authorisation of expenditures, approval of credit facilities and for other corporate actions. Such delegation may be approved and expressed under various policies of the Bank. The thresholds for the identified authorities will depend upon the operating requirements of the Bank.

The issues of major capital expenditure, divestitures, mergers and acquisitions, certain strategic investments would be within Board's authority.

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. The Board Charter is published on the Bank's website.

Material transactions that need Board approval

Lending transaction to Directors at a certain level of exposure, require Board's approval. Also Credit and Investment applications

exceeding certain pre-defined exposure levels require approval of the Board. Similarly, related party transactions relating to members of the Board require approval of the Board.

Independent professional assistance

The Board members are entitled to obtain independent professional advice relating to the affairs of the Bank or to their individual responsibilities as members subject to approval by the Board.

Director's professional development

The Board is required to be up to date with current business, industry, regulatory and legislative developments and trends that will affect the Bank's business operations. Immediately after appointment, the Bank will provide a formal induction, if necessary. Meetings will also be arranged with Executive Management and the Bank's auditors. This will foster a better understanding of the business environment and markets in which the Bank operates. A continuing awareness programme is essential and it may take many different forms, through distribution of publications, workshops, presentations at Board meetings and attendance at conferences encompassing topics on directorship, business, industry and regulatory developments.

Board and Committee evaluation

The Board performs a self-evaluation on an annual basis. The Board annually reviews its Charter and its own effectiveness; and initiates suitable steps for any amendments. The Board will also review self-evaluations of the individual Board members and the Board Committees and consider appropriately any recommendations arising out of such evaluation. The relevant policy is published on the Bank's website.

Remuneration of Directors

The Board has adapted a remuneration policy for Directors with well defined procedures to apply to the Directors' various remuneration and compensation components, reflective of their involvement and contributions in the activities of the Board of Directors and its ad hoc, temporary and permanent committees. The basic guideline of the policy is that the participation would be considered in terms of attendance in meetings. Participation in a meeting via Telephone/Video conference shall be considered an attendance of the meeting. The members of the Board are treated equally when they are compensated for additional work or effort in their participation. Directors' remuneration is governed by Commercial Companies Law No. 21 for the year 2001 and therefore all payments comply with the provision of the Law.

Whistle blowing policy

The Bank has a whistle blowing policy with designated officials to whom the employee can approach. The policy provides adequate protection to the employees for any reports in good faith. The Board's Audit Committee oversees this policy. The whistle blowing policy is published on the Banks' website.

Board of Directors information continued**Key Persons (KP) policy**

The Bank has established a Key Persons' policy to ensure that Key Persons are aware of the legal and administrative requirements regarding holding and trading of BBK shares, with the primary objective of preventing abuse of inside information. Key Persons are defined to include the Directors, Executive Management, designated employees and any person or firm connected to the identified Key Persons. The ownership of the Key Persons' policy is entrusted to the Board's Audit Committee. The Key Persons' policy is posted on the Bank's website.

Code of Conduct

The Board has an approved Code of Conduct for BBK Directors. The Board has also approved a Code of Ethics for the Executive Management and employees. These codes outline areas of conflict of interest, confidentiality, and the responsibilities of signatories to adhere to best practices. The high level responsibility for monitoring the codes lies with the Board of Directors. The Director's 'Code of Conduct' is published on the Bank's website.

Conflict of Interest

The Bank has a documented procedure for dealing with situations involving 'Conflict of Interest' of Directors. In the event of the Board or its Committees considering any issues involving

Conflict of Interest of Directors, the decisions are taken by the full Board/Committees. The concerned Director abstains from the discussion/voting process. These events are recorded in the Board/Committees proceedings. The Directors are required to inform the entire Board of Conflicts of Interest (potential or otherwise) in their activities with, and commitments to, other organisations as they arise and abstain from voting on the matter. This disclosure includes all material facts in the case of a contract or transaction involving the Director.

Corporate social responsibility

BBK's contribution towards the well being of the community is an integral part of its corporate role. This corporate social responsibility is translated by the Bank through annual appropriation of a budget allocated for donations to finance community related projects and initiatives. The projects may vary in nature but ought to fall into any one of the following fields; charity, culture, research, education, philanthropy, environmental protection and sports.

BBK has an approved high-level donation policy for the distribution of the donation budget. The policy outlines guiding principles and sets criteria for the evaluation and selection of donation requests with the ultimate objective of maximizing the return on both the Bank's social image and the benefit of the community.

Disclosures relating to Board of Directors**Directors' profiles****Murad Ali Murad****Chairman****Director since 21 March 1999** (independent and non-executive)**Chairman of the Nomination, Remuneration & Corporate Governance Committee and Chairman of the Risk Committee**

Fellow member of Chartered Institute of Management Accounting, London, United Kingdom.

Over 40 years experience in the banking sector and has own business for the past 10 years.

Deputy Chairman	Umniah Mobile Telephones Limited Private Shareholding Company	Jordan
First Deputy Chairman	Bahrain Telecommunications Company (Batelco)	Kingdom of Bahrain
Board Member	Bahrain Kuwait Insurance Company	Kingdom of Bahrain
Chairman of the Board of Trustees	Human Resources Development Fund in Banking Sector	Kingdom of Bahrain
Member	Council of Vocational Training in Banking Sector	Kingdom of Bahrain

Aref Saleh Khamis**Deputy Chairman****Director since 1 April 2003** (non-independent and non-executive)

Master in Business Administration, King Fahad University of Petroleum and Minerals, Dhahran, Kingdom of Saudi Arabia.

28 years experience in the government sector.

NOMINATED BY: Social Insurance Organization (SIO).

Undersecretary	Ministry of Finance	Kingdom of Bahrain
Chairman	Social Insurance Organization (SIO)	Kingdom of Bahrain
Chairman	Gulf Aluminium Rolling Mills Company (GARMCO)	Kingdom of Bahrain
Deputy Chairman	Future Generation Fund – Ministry of Finance	Kingdom of Bahrain
Deputy Chairman	Qatar-Bahrain Causeway Foundation	Kingdom of Bahrain
Alternate Board Member	Arab Ship Building & Repair Yard Company (ASRY)	Kingdom of Bahrain
Member	Sh. Mohammed bin Khalifa bin Salman Al Khalifa Cardiac Centre	Kingdom of Bahrain
Member	King Hamad Hospital Consultative Board	Kingdom of Bahrain

Corporate governance report continued

Mohamed Abdulrahman Hussain**Board Member** Director since 2 March 2008 (non-independent and non-executive)

Chairman of the Executive Committee Bachelor of Arts, Economics and Finance, University of Aleppo, Syria. Over 33 years experience in the banking sector.	Board Member	First Leasing Bank B.S.C. (c)	Kingdom of Bahrain
	Board Member and Chairman of the Executive Committee	Solidarity Group Holding B.S.C. (c)	Kingdom of Bahrain
	Board Member and Chairman of the Risk Management Committee	Faysal Bank Limited	Pakistan
	Board Member and Member of the Executive Committee	Eskan Bank	Kingdom of Bahrain

Jassem Hasan Ali Zainal**Board Member** Director since 22 November 1994 (independent and non-executive)

Chairman of the Audit Committee Master in Civil Engineering, Kuwait University, State of Kuwait. 22 years experience in the banking sector, 4 years in the government sector, 4 years with finance companies, 5 years with investment companies and has own business for 4 years.	Chairman and CEO	International Finance Company	State of Kuwait
	Deputy Chairman	Addax Investment Bank	Kingdom of Bahrain
	Board Member	Kuwait International Bank	State of Kuwait
	Board Member	Kuwait Airways Company	State of Kuwait
	Board Member	Al-Masah Capital Limited	Dubai, UAE
	Board Member	Credit Information Network (Ci-Net)	State of Kuwait
	Board Member	Miami International Securities Exchange, LLC (MIAX)	United States of America

Dr. Zakareya Sultan Al Abbasi**Board Member** Director since 22nd February, 2012 (non-independent and non-executive)

PhD., University of East Anglia, United Kingdom. 27 years experience in the government sector (social insurance). NOMINATED BY: Social Insurance Organization (SIO).	CEO	Social Insurance Organization (SIO)	Kingdom of Bahrain
	Board Member	SIO Assets Management Company	Kingdom of Bahrain
	Board Member	Eskan Bank	Kingdom of Bahrain

Sh. Abdulla bin Khalifa bin Salman Al Khalifa**Board Member** Director since 2 March 2008 (non-independent and non-executive)

Bachelor of Business Administration, George Washington University, United States of America. 12 years experience in the banking and investment sector.	Acting CEO	SIO Assets Management Company	Kingdom of Bahrain
	Chairman	SICO Investment Bank	Kingdom of Bahrain
	Chairman	Seef Properties B.S.C. (c)	Kingdom of Bahrain
	Vice Chairman	Bahrain International Golf Course Company B.S.C. (c)	Kingdom of Bahrain
	Board Member	BFC Group	Kingdom of Bahrain

Sh. Khalifa bin Duaij Al Khalifa**Board Member** Director since 27 February 2005 (independent and non-executive)

Master in Business Administration, Johns Hopkins University, United States of America. Master in Social & Public Policy, Georgetown University, United States of America. 5 years experience in the government sector (investment field) and 7 years in the diplomatic sector.	President	Court of H.R.H. the Crown Prince	Kingdom of Bahrain
	Board Member	Crown Prince's International Scholarship Programme	Kingdom of Bahrain

Corporate governance report continued

Disclosures relating to Board of Directors continued

Directors' profiles continued

Dr. Abdulmohsen Medej Mohammed Al Medej

Board Member		Director since 11 May 2009 (non-independent and non-executive)	
<p>PhD., University of Durham, United Kingdom.</p> <p>35 years experience in the education sector, 18 years in the government sector and has own business for 9 years.</p> <p>NOMINATED BY: Kuwait Investment Authority</p>	Chairman	Zahra Group Holding	State of Kuwait
	Board Member	Kuwait Investment Authority	State of Kuwait
	Board Member	Supreme Council for Planning & Development	State of Kuwait
	Board Member	Kuwait Foundation for the Advancement of Science	State of Kuwait
	Member, Board of Trustees	Australian College in Kuwait	State of Kuwait

Mutlaq Mubarak Al Sanei

Board Member		Director since 6 March 2011 (non-independent and non-executive)	
<p>Bachelor of Economics, Kuwait University, State of Kuwait.</p> <p>Over 20 years experience in the management of diversified investments across the Middle East and North Africa and around 5 years in the management of real estate and tourism projects in North Africa.</p>	Director Follow-up Unit	Kuwait Investment Authority	State of Kuwait
	Board Member	The Arab Investment Company	Kingdom of Saudi Arabia
	Vice Chairman	Kuwait Economic Society	State of Kuwait

Elham Ebrahim Hasan

Board Member		Director since 6 March 2011 (non-independent and non-executive)	
<p>Bachelor of Science in Accountancy, University of Cairo, Egypt.</p> <p>Certified Public Accountant from Boston, MA, United States of America.</p> <p>27 years experience in the auditing field (primarily auditing banks and financial institutions).</p> <p>NOMINATED BY: Ithmaar Bank.</p>	Managing Partner	Elham Hasan S.P.C.	Kingdom of Bahrain
	Chairman	HealthCorp Middle East Limited	Kingdom of Bahrain
	Board Member	EDAMAH	Kingdom of Bahrain
	Board Member	BNP Paribas Investment Company	Kingdom of Saudi Arabia
	Board Member	Solidarity Group Holding B.S.C. (c)	Kingdom of Bahrain
	Board Member	Economic Development Board	Kingdom of Bahrain

Yusuf Saleh Khalaf

Board Member		Director since 6 March 2011 (independent and non-executive)	
<p>Associate of Chartered Certified Accountants, United Kingdom.</p> <p>6 years experience in the auditing field and over 25 years in the banking sector.</p>	Managing Director	Vision Line Consulting W.L.L.	Kingdom of Bahrain
	Board Member	First Leasing Bank B.S.C. (c)	Kingdom of Bahrain
	Board Member	Solidarity General Takaful B.S.C. (c)	Kingdom of Bahrain
	Board Member	Eskan Bank	Kingdom of Bahrain
	Board Member	SICO Investment Bank	Kingdom of Bahrain

Hassan Mohammed Mahmood

Board Member		Director since 1 September 2010 (non-independent and non-executive)	
<p>Bachelor of Commerce, University of Bangalore, India.</p> <p>Over 15 years experience in audit and consultancy and over 15 years in islamic finance.</p> <p>NOMINATED BY: Ithmaar Bank.</p>	Board Member	Faisal Finance (Maroc) S.A.	Morocco
	Board Member	Overland Capital Group, Inc.	United States of America
	Board Member	Egyptian Investment Company	Egypt
	Board Member	Faysal Bank Limited	Pakistan
	Board Member	Islamic Investment Company of Gulf (Bahamas) Limited	Bahamas
	Board Member	Gulf Financing Investment Company	Egypt
	Board Member	Egyptian Company for Business Trade	Egypt
	Board Member	Faisal Islamic Bank of Egypt	Egypt
	Board Member	Ithra Capital	Kingdom of Saudi Arabia

Corporate governance report continued

Directors' and related parties' interests

The number of shares held by Directors as of 31 December 2012 was as follows:

Name of Director	Type of shares	31 Dec 2012	31 Dec 2011
Murad Ali Murad	Ordinary	672,164	672,164
Pension Fund Commission / Aref Saleh Khamis ⁽¹⁾	Ordinary	105,000	105,000
Mohamed Abdulrahman Hussain	Ordinary	105,000	105,000
Jassem Hasan Ali Zainal	Ordinary	149,773	149,773
GOSI / Dr. Zakareya Sultan Al Abbasi ⁽²⁾	Ordinary	100,000	Nil
Sh. Abdulla bin Khalifa bin Salman Al Khalifa	Ordinary	100,000	100,000
Sh. Khalifa bin Duajj Al Khalifa	Ordinary	500,000	500,000
Kuwait Investment Authority / Dr. Abdulmohsen Medej Al Medej ⁽³⁾	Ordinary	100,000	100,000
Kuwait Investment Authority / Mutlaq Mubarak Al Sanei ⁽³⁾	Ordinary	100,000	100,000
Ithmaar Bank / Elham Ebrahim Hasan ⁽⁴⁾	Ordinary	100,000	100,000
Yusuf Saleh Khalaf	Ordinary	100,000	100,000
Ithmaar Bank / Hassan Mohammed Mahmood ⁽⁴⁾	Ordinary	150,000	150,000

(1) Qualifying shares related to Aref Saleh Khamis are part of the whole shares of the Pension Fund Commission ownership.

(2) Qualifying shares related to Dr. Zakareya Sultan Al Abbasi are part of the whole shares of the General Organization for Social Insurance (GOSI) ownership.

(3) Qualifying shares related to Dr. Abdulmohsen Al Medej and Mutlaq Al Sanei are part of the whole shares of the Kuwait Investment Authority ownership.

(4) Qualifying shares related to Elham Ebrahim Hasan and Hassan Mohammed Mahmood are part of the whole shares of Ithmaar Bank ownership.

Related parties:

Al Janabeya Company owns 198,998 shares and is related to the Chairman of the Board.

Nature and extent of transactions with related parties during 2012:

None.

Approval process for related parties' transactions:

The Bank has a due process for dealing with transactions involving Directors and related parties. Any such transaction will require the approval of the Board of Directors.

Material contracts and loans involving Directors:

Name of the Director	Relationship with Director	Purpose of loan	Amount of loan	Interest rate	Terms of payment of interest	Repayment of the principal	Security
Murad Ali Murad	Chairman	Personal banking needs	250,000	0.75% over FD Rate p.a.	Charged to borrower's account on monthly basis	On demand	100% cash collateral
Jassem Hasan Ali Zainal	Board Member	Personal banking needs	140,000	Base rate 0.5% p.a.	Charged to borrower's account on monthly basis	On demand	Partly secured by listed shares
Yusuf Saleh Khalaf	Board Member	Personal banking needs	200,000	Base rate 0.5% p.a.	Charged to borrower's account on monthly basis	On demand	Partly secured by listed shares

Note: The materiality amount for such disclosures is considered above BD 100,000.

Directors trading of Bank's shares during the year 2012

Name of Director	Trading through Bahrain Bourse	Date of trading
Dr. Zakareya Sultan Al Abbasi	Transfer of 100,000 shares from Social Insurance Organization (GOSI ownership) to comply with directorship qualifying shares	25/07/2012

Board meetings and attendances

The Board of Directors meet at the summons of the Chairman or Deputy Chairman, in event of his absence or disability, or if requested to do so by at least two Directors. The Board meets at least four times a year. A meeting of the Board of Directors is deemed valid if attended by more than half of the members in person. During 2012, nine Board meetings at the Bank were held in the Kingdom of Bahrain in the following manner:

KEY:	✓	✗	⊘
	Attended	Absent	Was not a member during this period

Quarterly Board meetings 2012

Members	29 Jan	15 Apr	15 Jul	21 Oct
Murad Ali Murad	✓	✓	✓	✓
Aref Saleh Khamis	✓	✓	✓	✓
Mohamed Abdulrahman Hussain	✓	✓	✓	✓
Jassem Hasan Ali Zainal	✓	✓	✓	✓
Dr. Zakareya Sultan Al Abbasi	⊘	✓	✓	✓
Sh. Abdulla bin Khalifa bin Salman Al Khalifa	✓	✓	✓	✓
Sh. Khalifa bin Duaij Al Khalifa	✓	✓	✗	✗
Dr. Abdulmohsen Medej Al Medej	✗	✗	✓	✗
Mutlaq Mubarak Al Sanei	✓	✓	✓	✓
Elham Ebrahim Hasan	✓	✓	✓	✓
Yusuf Saleh Khalaf	✓	✓	✓	✓
Hassan Mohammed Mahmood	✓	✓	✓	✓

Other Board meetings 2012

Members	30 Jan	11 Mar	15 Jul*	29 Nov & 1 Dec**	23 Dec
Murad Ali Murad	✓	✓	✓	✓	✓
Aref Saleh Khamis	✓	✓	✓	✓	✓
Mohamed Abdulrahman Hussain	✓	✓	✓	✓	✓
Jassem Hasan Ali Zainal	✓	✓	✓	✓	✓
Dr. Zakareya Sultan Al Abbasi	⊘	✓	✓	✓	✓
Sh. Abdulla bin Khalifa bin Salman Al Khalifa	✓	✓	✓	✓	✓
Sh. Khalifa bin Duaij Al Khalifa	✗	✓	✗	✓	✓
Dr. Abdulmohsen Medej Al Medej	✗	✗	✗	✗	✗
Mutlaq Mubarak Al Sanei	✓	✓	✓	✓	✓
Elham Ebrahim Hasan	✓	✓	✓	✗	✓
Yusuf Saleh Khalaf	✓	✓	✓	✓	✓
Hassan Mohammed Mahmood	✓	✓	✓	✗	✓

* Unscheduled meeting for expansion project and capital requirements for the Bank.

** The three year strategy review meeting was held on 29th November 2012 and continued on 1st December 2012.

Board Committees

The Board level Committees are formed and their members are appointed by the Board of Directors each year after the Annual General Meeting. They are considered the high level link between the Board and the Executive Management. The objective of these Committees is to assist the Board in supervising the actual operations of the Bank, by reviewing any issues that are submitted by the Executive Management and making recommendations to the Board for their final review.

The Board reserves the right to form temporary Committees and discontinue them, from time to time as necessary. Furthermore, the members of the Board are provided with copies of the meeting minutes of the said Committees as required by the regulators.

During the year 2012, the Board established the Risk Committee, which is responsible for reviewing risk policies and recommending them to the Board of Director's for approval. These duties were previously mandated to the Executive Committee, which also is authorised to approve business transactions. The Board has decided that the Executive Committee should not have this dual role to avoid any possible conflict of interest.

There are no major issues of concern to report relating to the work of the Board Committees during the year 2012.

The full texts for the Terms of Reference for Board Committees (Executive Committee, Audit Committee, Nomination, Remuneration & Corporate Governance Committee and Risk Committee) are published on the Bank's website.

Board Committees' composition, roles and responsibilities

Executive Committee

Members:	Summary terms of reference, roles and responsibilities:
<p>Mohammed Abdulrahman Hussain Chairman</p> <p>Aref Saleh Khamis Deputy Chairman</p> <p>Sh. Abdulla bin Khalifa bin Salman Al Khalifa Member</p> <p>Mutlaq Mubarak Al Sanei Member</p> <p>Abdulkarim Ahmed Bucheery Member</p> <p>Elham Ebrahim Hasan Member</p>	<ul style="list-style-type: none"> ■ Not less than five members are appointed for a one year term. ■ Minimum number of meetings required each year: 8 (actual meetings in 2012: 11). ■ The Chairman and Deputy Chairman must be a Director and elected by the members of the Committee in the first meeting following the appointment of its members. ■ The quorum shall be of more than half of the members and must include the Chairman or the Deputy Chairman. The attendance by proxies is not permitted. ■ The Chairman or Deputy Chairman shall be available at the Annual General Meeting to answer questions relating to the Committee's functions. ■ The Chief Executive is a member of the Committee. Other Directors, who are not members of the Committee; members of Management; or other persons may also attend the meeting at the invitation by the Chairman. ■ The Committee conducts an annual self-assessment of the performance of the Committee / members and report conclusions and recommendations to the Board. <p>Summary of responsibilities: reviews, approves and directs the Executive Management on matters raised to the Board of Directors such as business plans, donations, credit / investment applications and such other proposals within its authority and the periodical review of the Bank's achievements.</p>

Audit Committee

Members:	Summary terms of reference, roles and responsibilities:
<p>Jassem Hasan Ali Zainal Chairman (Independent)</p> <p>Sh. Khalifa bin Duaij Al Khalifa Member (Independent)</p> <p>Yusuf Saleh Khalaf Member (Independent)</p> <p>Hassan Mohammed Mahmood Member (Non-independent)</p>	<ul style="list-style-type: none"> ■ The Board appoints not less than three members for a one year term. ■ The Chairman must be elected by the members of the Committee, from amongst the independent non-executive directors, in its first meeting after the appointment of the members, the majority of members should also be independent. ■ Minimum number of meetings required each year: 4 (actual meetings in 2012: 4). ■ Quorum shall be more than half of the members and must include the Chairman. The attendance by proxies is not permitted. ■ The Chairman or Deputy Chairman shall be available at the Annual General Meeting to answer questions relating to the Committee's functions. ■ The Chief Executive, General Manager of Shared Services Group, Chief Internal Auditor and a representative of the External Auditors shall attend the meetings. ■ The Committee conducts an annual self-assessment of the performance of the Committee / members and report conclusions and recommendations to the Board. <p>Summary of responsibilities: reviews the internal audit programme and internal control system, considers major findings of internal audit reviews, investigations and management's response, ensures coordination among Internal and External auditors, monitors trading activities of Key Persons and ensures prohibition of the abuse of inside information and disclosure requirements.</p>

Nomination, Remuneration & Corporate Governance Committee

Members:	Summary terms of reference, roles and responsibilities:
<p>Murad Ali Murad Chairman (Independent)</p> <p>Dr. Abdulmohsen Medej Al Medej Deputy Chairman (Non-independent)</p> <p>Sh. Khalifa bin Duaij Al Khalifa Member (Independent)</p>	<ul style="list-style-type: none"> ■ The Board appoints not less than three members for a one year term. The Chairman is an independent Director, the majority of members should also be independent. ■ The Chairman/Deputy Chairman must be elected by the members of the Committee in its first meeting following the appointment of its members. ■ The Committee shall meet at least twice a year (actual meetings in 2012:5). ■ The quorum shall be more than half of the members and must include the Chairman or the Deputy Chairman. The attendance by proxies is not permitted. ■ The Chairman or Deputy Chairman shall be available at the Annual General Meeting to answer questions relating to the Committee's functions. ■ The Chief Executive and the General Managers of Shared Services shall attend all the meetings. ■ The Committee conducts an annual self-assessment of the performance of the Committee / members and report conclusions and recommendations to the Board. <p>Summary of responsibilities: assess, evaluate and advise to the Board of Directors on all matters associated with nominations and remunerations of the Directors and the Executive Management. Also, to ensure that the Bank adopts and enhances sound corporate governance practices, which are consistent with the Corporate Governance Code of the Kingdom of Bahrain and the regulatory requirements and also reflects the best market practices in corporate governance and makes recommendations to the Board as appropriate.</p>

Corporate governance report continued

Board Committees continued

Board Committees' composition, roles and responsibilities continued

Risk Committee

Members:	Summary terms of reference, roles and responsibilities:
Murad Ali Murad CHAIRMAN (Independent)	<ul style="list-style-type: none"> ■ At least four members are appointed for a one year term. ■ The Chairman and Deputy Chairman must be a Director and elected by the members of the Committee in its first meeting following the appointment of its members. ■ The quorum shall be of more than half of the members and must include the Chairman or the Deputy Chairman. The attendance by proxies is not permitted. ■ The Chairman or Deputy Chairman shall be available at the Annual General Meeting to answer questions relating to the Committee's functions. ■ The Chief Executive, General Managers (Business and Support), Assistant General Manager of Risk, Compliance & Legal Affairs, Chief Financial Officer, Head of Credit Management and Head of the Risk Management Department shall attend all the meetings. ■ The Committee conducts an annual self-assessment of the performance of the Committee/members and reports conclusions and recommendations to the Board. <p>Summary of responsibilities: reviews risk policies and recommends to the Board of Directors for approval. Also, examines and monitors the risk issues related to the Bank's business and operations and directs the Management appropriately.</p>
Dr. Zakareya Sultan Al Abbasi MEMBER (Non-independent)	
Yusuf Saleh Khalaf MEMBER (Independent)	
Jassem Hasan Ali Zainal MEMBER (Independent)	

KEY:



Attended



Absent

Board Committee meetings and record of attendance

Executive Committee meetings 2012

Members	28 Jan	10 Mar	14 Apr	12 May	19 Jun	20 Jun*	14 Jul	27 Sep	20 Oct	18 Nov	22 Dec
Mohamed Abdulrahman Hussain	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Aref Saleh Khamis	✓	✓	✓	✓	✓	✓	✓	✓	✓	✗	✓
Sh. Abdulla bin Khalifa bin Salman Al Khalifa	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mutlaq Mubarak Al Sanej	✓	✓	✓	✓	✓	✓	✓	✗	✓	✓	✓
Abdulkarim Ahmed Bucheery	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Elham Ebrahim Hasan	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

* Previously unscheduled meeting.

Audit Committee meetings 2012

Members	28 Jan	14 Apr	14 Jul	20 Oct	23 Dec
Jassem Hasan Ali Zainal	✓	✓	✓	✓	✓
Sh. Khalifa bin Duajj Al Khalifa	✓	✗	✓	✓	✓
Yusuf Saleh Khalaf	✓	✓	✓	✓	✓
Hassan Mohammed Mahmood	✓	✓	✓	✓	✓

Risk Committee meetings 2012

Members	5 Apr	19 Jun	07 Oct
Murad Ali Murad	✓	✓	✓
Dr. Zakareya Sultan Al Abbasi	✓	✓	✓
Yusuf Saleh Khalaf	✓	✓	✓
Jassem Hasan Ali Zainal	✓	✓	✓

Nomination, Remuneration & Corporate Governance Committee meetings 2012

Members	29 Jan	20 Feb	10 Mar	21 Oct	2 Dec*
Murad Ali Murad	✓	✓	✓	✓	✓
Dr. Abdulmohsen Medej Al Medej	✗	✓	✗	✗	✗
Sh. Khalifa bin Duajj Al Khalifa	✓	✗	✓	✓	✓

* Previously unscheduled meeting.

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 established independent Compliance Function in keeping with Basel and CBB guidelines. The unit acts as a focal point for all regulatory compliance and for adapting other best practice compliance principles. The Bank continuously strives to improve the level of compliance in all its activities. The Bank's adopted corporate philosophy is "BBK shall continue its endeavour to enhance shareholders' value, protect their interests and defend their rights by practicing pursuit of excellence in corporate life." During the year, financial penalty of BD 150 was imposed on BBK Group for three un-cleaned erroneous open accounts in the Bahrain Credit Reference Bureau system, which have since been rectified. Anti-money laundering measures form an important area of the Compliance Function, in addition to areas of corporate governance, disclosure standards, insiders' / Key Persons trading, conflict of interest and adherence to best practices.

The Bank has documented an Anti-Money Laundering and Combating Terrorist Financing Policy and Procedure which contains sound customer due diligence measures, procedure for identifying and reporting suspicious transactions, a programme for periodic awareness training to employees, record-keeping and a designated Money Laundering Reporting Officer (MLRO). The Bank has deployed a risk based automated transaction monitoring system in keeping with the anti-money laundering regulations of the CBB.

The Bank's anti-money laundering measures are regularly audited by the internal auditors who report to the Audit Committee of the Board. The Central Bank performs periodic inspections of the Bank's compliance with anti-money laundering regulations. Additionally, 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 subsidiaries (CrediMax and Capinnova) 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.

Communication strategy

The Bank has an open policy on communication with its stakeholders and has adopted a communication disclosure policy consistent with Basel II requirements. Shareholders are invited by the Chairman to attend the AGM. 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 other forms of publication. The Bank's annual report and three years financial statements are also published on the website, as well as the Bank's Corporate Governance report, Corporate Governance Framework, Whistle Blowing policy, Board Charter, Code of Conduct, Key Persons' dealing policy and Terms of Reference of all Board Committees. Shareholders can complete an online form which can be found on the website to forward any queries they may have.

The Bank uses a bulletin board for communicating with its employees on general matters, and sharing information of common interest and concern.

Management review

2012 was the final year of BBK's 2010-2012 Strategic Plan and we are pleased to report that we have successfully implemented almost all of the key growth initiatives outlined in this plan and in a number of important areas our achievements have surpassed the goals that we set for ourselves.



Abdulkarim Ahmed Bucheery
Chief Executive

In the wake of the global financial crisis of 2008, we made a decision to re-focus our business firmly on local and regional business opportunities. With the continuing economic difficulties in some areas, particularly the Eurozone, this has proved to be a prudent decision and in 2012 our financial performance was very satisfactory. Our numbers demonstrate a strong ability to generate recurring core revenues from our businesses and we have managed to avoid any unpleasant financial surprises. Additional precautionary provisions have been made to cover impaired assets and we are optimistic that 2012 is the last year in which we have to make substantial provisions to cover the diminution in the value of the assets we have on our books.

We have continued our policy of focussing on the GCC region and withdrawing from international markets other than those, such as India, where we already have a presence. We were pleased to have been able to secure a licence to establish a third branch in India, thereby becoming one of a very limited number of banks given approval to expand their presence in this important market.

BBK has benefitted from a flight to quality and we have had excess liquidity throughout 2012. We have sought to deploy this liquidity effectively into investment level securities and these have shown significant growth compared with our loans portfolio. There has been growth in customer deposits and the increasing size of our balance sheet is a reflection of the overall expansion of the Bank as we are doing more business in GCC countries. We have

"Helping employees build solid experience and motivation as they proceed along their career paths."

been growing locally at a faster rate than the Bahrain economy, which suggests that we have gained market share in 2012.

On the retail side of our business there are clear signs that our investments into

developing our electronic delivery channels are paying off, and we have been able to compete effectively on the basis of our service excellence and speed of response, rather than on price. We have been particularly aggressive in expanding in consumer loans and there will be new opportunities to exploit synergies between our retail and credit cards businesses. We have also done well in the local small and medium size business sector – our SME portfolio almost doubled in 2012.

BBK won recognition for how it addresses the online needs of the capital market rising 41 places to 5th position amongst listed organisations in the Middle East Region in the *KWD Webranking Survey 2012*. This also places BBK in 1st position amongst Bahrain listed banking institutions and is a key accomplishment which reflects the Bank's pioneering position in providing the latest technologies and superior services to all our stakeholders via our website.

Our corporate banking business continues to perform well, despite challenging market conditions and limited opportunities to lend. Not all of the Government-led infrastructure development projects earmarked for commencement in 2012 got under way, but a number of them are expected to commence in 2013, and this will bring new opportunities for BBK. Corporate Banking have continued to seek out lending opportunities in the GCC region and Transactional Banking have focussed on trade finance opportunities, particularly in the export field.

Our people

We place great importance on the continuing development of the skills and competencies of our employees, and on ensuring that we are able to identify future leaders at an early stage and put them on a suitable career path within the organisation. Our policy continues to be to promote from within and we are very fortunate to have a number of highly competent managers coming up through the ranks, which assists us greatly in our succession planning.

A considerable amount of the training activity in 2012 was focussed on the retail side of the business. The Retail Banking Certification Programme, which commenced in January 2010 with the aim of upgrading the job skills of Retail Banking employees in a proactive and structured way, saw the graduation of the first batch of employees. Many other BBK employees have already started work on their certification and will complete all modules of the programme soon.

Professional excellence and integrity is at the heart of our business.

Leadership, crisis management, compliance and many other training programmes were also held during the year. These benefit the organisation in a number of positive ways, by creating a pool of skilled employees and enhancing the Bank's overall efficiency levels, simultaneously helping the employees themselves build solid experience and motivation as they proceed along their career paths.

In another training initiative, a number of employees were given training in Sign Language to enable them to communicate with the hearing-impaired customers and thus provide more convenient banking services to special needs customers in general. We believe that this is a first both in Bahrain and in the GCC region.

Our clients

Retail Banking had another very active year during which a number of new initiatives were implemented in line with the Bank's Strategic Plan. Service delivery enhancements included the launch of SMS banking, eStatements on mobile phones and the upgrading of Telebanking. A new premium banking service, Al Wajaha Account, was introduced for the Bank's most discerning customers, who can now be assisted by dedicated relationship managers and have all of their banking needs taken care of in BBK Financial Malls, Branches and in Majlis Al Wajaha, a luxurious lounge in BBK's Head Office.

"A new premium banking service, Al Wajaha account, was introduced for the Bank's most discerning customers."

A comprehensive array of financial privileges are offered to the account holders, such as preferential interest rates, and higher ATM withdrawal and spending limits at Point of Sales.

The Al Wajaha services include the prestigious Al Wajaha Visa Infinite Debit Card, a first in the local market,

offering a unique package of benefits from Visa including travel rewards such as multi-trip insurance, access to concierge services and emergency medical services. In addition, Al Wajaha customers are automatically provided with a Priority Pass card giving them access to over 600 airport lounges in over 300 cities worldwide.

A very successful summer loans promotion, which ran between May and September, saw the Bank gain market share in this important sector.

During the year, BBK launched the revamped Secura brand, offering a new range of insurance and saving products from Medgulf Allianz Takaful and Bahrain Kuwait Insurance Co., designed to meet all the insurance needs of our customers. The certification of 14 employees in the sales of insurance products took place in 2012 and now we can count more than 250 employees of BBK, Credimax and Invita having received insurance products training over the last two years from the Bancassurance unit in BBK.

2012 saw continuing investment in BBK's branch network and cashpoint infrastructure with new and enhanced ATMs offering not only cash dispensing but cash and cheque deposit functionality. The branch modernisation programme also saw the installation of parking facilities and wheelchair access for the disabled at all BBK Financial Malls.

In the Kingdom of Bahrain, BBK has seven Financial Malls, nine branches and a total of 53 ATMs including 19 off-site and six CDMs (Cash Deposit Machines). BBK also has one large branch in the State of Kuwait, a representative office in Dubai and two branches in the Republic of India, in Mumbai and Hyderabad, with a third one under establishment in Kochi.

Retail Banking management relocated to the CrediMax building in Al Seef District during 2012 in a move designed to maximise synergies between the Bank's retail banking and credit cards businesses.

Transactional Banking launched Phase 2 of "BBKCashlink", the Bank's internet accessible cash management payments system. This has brought greater efficiencies to bulk payments processing and offers a range of user access improvements designed to help customers and ensure that BBKCashlink remains a market-leading product.

There has been a continuing focus on driving up transaction volumes and this has resulted in good growth in Transactional Banking revenues. A number of enhancements to the Bank's trade finance system were also implemented during the year, including automation of the export financing module.

Our clients continued

Bahrain's tourism industry showed signs of improvement in 2012 and there has also been considerable expansion of the medical services sector, resulting in overall asset growth in the SME sector. The Bank's efforts last year to segment the market began to pay dividends and while there have been signs that some banks have withdrawn from providing finance to local SMEs, BBK has maintained support for local business and remains committed to helping Bahrain's exporters.

Corporate Banking focussed their business development efforts primarily on the trading and manufacturing sectors, as well as on contractors involved in Government projects, and recorded satisfactory growth in assets. On the liabilities side, the Bank was able to reduce costs. In view of the Bank's strong liquidity position there was no requirement to bid up for deposits. The Bank was aided by a "flight to quality" and the net result was that Corporate Banking comfortably exceeded their revenue target.

Much attention was given to staying in close contact with clients and supporting them fully in the event that they encountered financial difficulties. Some accounts were restructured but provisions were in line with forecast.

Another important initiative was the establishment of a Group Relationship Management approach. Relationship Managers in Corporate Banking are working hand-in-hand with staff in other divisions of the Bank, and in subsidiaries, to cross-sell the full range of products. Primarily the focus was on trade finance, cash management and treasury products.

International Banking had another profitable year and all of the goals set out in the 2010-2012 Strategic Plan were achieved. The operation in India, which currently consists of two branches, is performing well and has seen steady growth in assets. The injection of additional capital into the Indian business in 2011 has

"The Reserve Bank of India has granted BBK a licence to operate a third branch in the country."

enabled BBK to move up a notch in terms of its ability to compete for corporate loan business. Although the corporate lending environment in India was not without its challenges in 2012, BBK has prospered by focussing on "defensive" sectors such as the pharmaceutical industry.

The Reserve Bank of India has granted BBK a licence to operate a third branch in the country – this will be at Aluva in Kochi (Kerala) and we expect to have this operational in early 2013. The new branch licence demonstrates our commitment to growing our business in India, and with the country's economy growing quickly we anticipate new opportunities to leverage our GCC presence in order to capitalise on trade flows and money transfers between India and the GCC.

In Kuwait we have expanded our corporate and treasury teams in order to boost client coverage and have continued to focus on providing lending and trade finance facilities to corporates and SMEs. By concentrating on traditional banking products and services, we aim to generate satisfactory yields as well as commission and fee income. The Kuwait branch has continued to make a valuable contribution to the overall profitability of International Banking.

In the rest of the GCC region the focus continued to be on building bilateral corporate relationships and providing primarily working capital facilities to clients in Saudi Arabia, Qatar and Oman. This strategy is progressing well and there have been business wins in all three of these markets. At the end of 2012 the offshore banking loan book was some 20 per cent above plan period forecast.

While some major projects are still mothballed and cash-flow remains a problem, the situation in the Dubai market is slowly improving. We have continued to adopt a cautious approach and our representative office there has been working hard to avoid credit impairment in the portfolio. Following the restructuring of this portfolio it has been performing well. Opportunities to get into cash assignment businesses such as shopping-malls are being selectively pursued.

Our NRI (Non-Resident Indians) business continues to grow and we have expanded our services to include sales of third party insurance products from the Life Insurance Company of India to NRIs in Bahrain and Kuwait. In addition, the new joint venture between BBK, Geojit and a Kuwaiti partner will be operational shortly and this will give us the opportunity to widen our product range further to include sales of investment products in India to NRIs based in Kuwait.

Treasury & Investment continue to make a significant contribution to the Bank's net profit. This contribution grew in 2012. Their overall strategy of pursuing high quality, and highly liquid, investment opportunities in the GCC region, with some diversification into the wider MENA region, has continued. A number of opportunistic deals were concluded, on a highly selective basis, in emerging markets.

Throughout 2012 many of the same concerns that were present in the markets in 2011, remained. Primarily these centred around the Eurozone sovereign debt crisis and growth in some Emerging Markets and the potential impact of these concerns on other markets, but equity markets rallied and ended the year higher than they were before the collapse of Lehman Brothers. This has enabled Treasury and Investment to grow the size of their equities portfolio. There was also a strong rally in GCC bond yields and clients have shown greater appetite for GCC fixed income opportunities. Growth in the Bank's investment portfolio has continued to offset lower than anticipated growth in credit.

The Bank's liquidity and funding positions remain sound and this has meant that there was little pressure to bid up for deposits. Going forward, a gradual recovery of the regional stock market is anticipated and it is hoped that BBK's recent launch of a GCC equity brokerage service and the new BBK-Geojit Securities venture in Kuwait will generate attractive new business.

Our subsidiaries

CrediMax, BBK's wholly-owned subsidiary specialising in credit card issuing and acquiring continues to perform very well, maintaining its dominant position. As there are limited opportunities for CrediMax to expand further within Bahrain, they are considering the possibility of establishing a presence in other markets in the wider GCC region.

Capinnova Investment Bank, the Shari'a compliant investment banking arm of BBK, provides various products and services through its Asset Management, Corporate Finance and Private Equity departments. Despite the current challenging and difficult market conditions, Capinnova performed satisfactorily in comparison with their peers. The private equity deals Capinnova closed this year, will reap the benefits in the years to come, as we are constantly looking at ways of improving Capinnova's overall performance. The bank is in the process of signing a Memorandum of Understanding (MOU) with the Arab Tourism Organization (ATO), the main purpose being to create a strategic alliance which will enable the bank to explore and target different types of projects from the public and private sector in the member countries of the ATO.

Invita, BBK's wholly-owned call centre outsourcing subsidiary, continues to perform very well. Seeking more opportunities for growth, they are expanding into other GCC markets, particularly Kuwait.

Sakana, a 50-50 joint venture between Capinnova and Ithmaar Bank of Bahrain, provides Islamic finance to the real estate sector. Its business model has been affected by the unfavorable conditions being witnessed in the real estate markets and this will require us to consider a new strategy for this subsidiary.

Global Payment Services (GPS), a subsidiary of CrediMax specialising in the processing and outsourcing business, continued to attract new local and overseas clients, with particular success in Iraq, and will be an important business arm of both BBK and Credimax going forward. They have an attractive business model and will continue to seek out opportunities to develop their business by extending their services to clients outside Bahrain.

Internal processes

Information Technology (IT) focused their efforts on implementing key initiatives set out in the Bank's five year IT Strategic Plan (ITSP) which is overseen by a group-wide IT Steering Committee.

IT initiatives progress during the year included the replacement of all legacy networking equipment with the latest technology, enhancements to the Bank's network connectivity, and the performance of critical system back-ups. BBK's core banking system was upgraded and there were also upgrades to the AML and Trade Finance platforms. In addition to the upgrades, Phase 2 of BBK CashLink was released, the SMS/Mobile Banking Platform was completely revamped and multi-function ATMs (which allow both cash/cheques deposit and withdrawal) were introduced. Furthermore, in line with the ITSP objective of increasing the Bank's outsourcing footprint with subsidiaries, the debit card personalisation process was migrated to GPS and the Tele-Banking service was moved to Invita.

Two CBB-mandated initiatives, IBAN and Image Based Cheque Clearing, were also successfully completed.

The Bank maintains a Business Continuity Management (BCM) capability which minimises the risk of severe operational disruptions occurring and ensures business continuity in an unforeseen event, complying with corporate governance and regulatory requirements. In June, the Bank conducted a full bank-wide test of the Business Continuity Plan (BCP) in line with CBB directives and approved BCM policy. It was attended by Executive Management, members of the Crisis Management team and three members of the Bank's Board of Directors. BBK is one of Bahrain's first banks to have its own dedicated, bespoke and fully equipped Business Continuity Centre (BCC) which ensures customers with a continuity of critical banking services simultaneously securing its vital assets in the scenario of an unexpected event. During the year similar exercises were undertaken for CrediMax, Capinnova and BBK-India.

In 2012, **Risk, Compliance & Legal Affairs** focussed considerable attention on reviewing and strengthening important risk management policies of the Bank. These included the policies on Country Risk, Bank Risk and Maximum Exposure. Every policy has to be reviewed at least once every three years at a minimum. In addition, the monitoring of non-performing assets and high risk facilities was strengthened.

The requirements of Basel 2.5 were implemented. This is a regulation which imposes higher capital charges on banks for the market risks they run in their trading operations. The Bank continues to work towards Basel III implementation, and does so in close consultation with the Central Bank of Bahrain.

Other initiatives undertaken during the year included automation of the Bank's RAROC (Risk Adjusted Return on Capital) process and the completion of an Impact Assessment Study on FATCA (the U.S. Foreign Account Tax Compliance Act).

Regulatory compliance is a key area of focus for the Bank and the general trend towards increasing compliance expectations by all stakeholders continues. BBK's Compliance Department plays an essential role in ensuring that the Bank and all subsidiaries and overseas branches operate in full compliance with all Central Bank of Bahrain directives, as well as those issued by all relevant overseas regulatory authorities. In 2012 an upgrade of the Bank's automated risk-based Anti Money-Laundering (AML) monitoring system was completed.

Credit Management performs an independent, and essential, risk management role for the Bank on both the credit portfolio and the investment portfolio. Their credit review role ensures that the Bank maintains a prudent and independent approach to risk. Their credit administration role ensures that the Bank makes its lending and investment decisions based on all required information and in full compliance with relevant credit risk policies and procedures through reliable credit monitoring and comprehensive management information systems. In 2012, further enhancements were made to the Bank's credit and management information systems to ensure robust credit control and timely, accurate reporting to support lending and investment decisions.

Internal processes continued

The **Internal Control Unit's** (ICU) main role is to plan, monitor and ensure that adequate internal control systems are in place in all departments and that the assets of the Bank are duly safeguarded. ICU has well designed and comprehensive internal control systems and procedures in place to ensure the Bank's business activities and any associated risks that could arise in the course of doing business are appropriately managed. These control systems and procedures are reviewed at least annually or even more frequently if deemed necessary.

Operations Division played a significant role in the successful implementation of the Bahrain Cheque Truncation System project, a major country wide initiative for the banking industry driven by the Central Bank of Bahrain, which enables customers to get same day value for all cheques deposited before 11:30 a.m. The Operations Division controlled various phases of this project to ensure BBK's readiness for smooth "go live" as per CBB's deadline.

The division has also been heavily involved in other strategic initiatives of the Bank such as the implementation of BBK Cash Management platform phase 2 and the upgrade of three major core applications namely Core Banking, Trade Finance and Treasury Back Office to further enhance customer services."

Our community

We are proud of our long tradition of providing support to a wide range of humanitarian, educational, cultural, social and health initiatives in the communities in which we operate. In 2012, in addition to our ongoing commitments in respect of our Corporate Social Responsibility (CSR) as a major local employer, the Board has additionally approved the creation of a "sinking fund" which the Bank will build up in the years ahead in order to support significant future CSR projects.

"BBK is a Platinum Sponsor of the CPISP programme, with a BD 1 million commitment pledged over five years."

We have continued our support for the Crown Prince's International Scholarship Programme (CPISP). BBK is a Platinum Sponsor of the CPISP programme, with a BD 1 million commitment pledged over five years. In 2012 we presented a cheque for BD 200,000

being the third instalment. Other areas where we have been able to provide support for the education of our young people include internships at the Bank for students of inJAz Bahrain, lectures to students at the Royal University for Women, and the provision of sunshades for 3 Elementary Schools.

We have also provided support for, amongst others, the "Wehda Wahda" campaign of the Ministry of Human Rights and Social Development, which fosters national unity and citizenship amongst members of the Bahraini society.

In line with our belief in the importance of preserving our culture and heritage, we have also committed BD 420,000 to support the re-building and renovation of the Khalifiya Library in Muharraq, which is currently being restored as public library for local residents.

Conclusion

The Bank's performance in 2012 has been very pleasing. We are particularly delighted to have been able to deliver on the vast majority of initiatives set out in our 2010-2012 Strategic Plan, particularly as during this plan period we encountered events both locally and internationally which were not possible to predict, but which have not blown us off course. Our financial performance bears testament to the solid foundations on which the Bank is built and the excellence of the people who work with us.

The outlook for our region remains positive and with our new 2013-2015 Strategic Plan in place we have an effective roadmap for taking BBK forward and achieving further success.

In closing, it is my pleasure to extend the BBK management team's sincere appreciation to our Board of Directors for their ongoing support and valuable guidance, to the Central Bank of Bahrain, the Central Bank of Kuwait, the Reserve Bank of India, Bahrain Bourse, our loyal customers and finally to all our dedicated employees who have worked so hard to achieve such a satisfactory performance and to deliver on BBK's vision, while at the same time contributing to the Kingdom of Bahrain's progress and to a brighter future for all.

Abdulkarim Ahmed Bucheery

Chief Executive

Executive Management



Abdulkarim Ahmed Bucheery
Chief Executive

BSc, University of Aleppo, Syria (1976).
35 years banking experience.
Joined BBK in 2002.



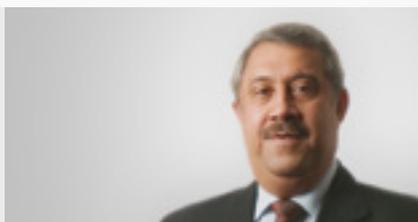
Rashed Salman Al Khalifa
General Manager, Business Group

MBA, Arizona State University, United States of America (1982).
30 years banking experience.
Joined BBK in 2008.



Reyadh Yousif Sater
General Manager, Shared Services Group

MBA, University of Glamorgan, United Kingdom (2001).
35 years banking experience.
Joined BBK in 1978.



Mahmood Abdul Aziz
Assistant General Manager, Operations

(Until 2 December 2012)*
Executive Management Diploma, University of Bahrain. Gulf Executive Management Program, University of Virginia, United States of America (1997).
41 years banking experience.
Joined BBK in 1976.



Adnan A. Wahab Al Arayyed
Head of Credit Management

BSc, Beirut Arab University, Lebanon (1984).
31 years banking experience.
Joined BBK in 1983.



Rashad Akbari
Assistant General Manager, Transactional Banking

MSc, Marketing, University of Stirling, United Kingdom (1997).
26 years work experience, of which 12 years in banking.
Joined BBK in 2000.



Abdul Hussain Bustani
Assistant General Manager, Project Management Office

(Effective 15 October 2012)
Higher National Diploma, Civil Engineering, Trent University, United Kingdom (1978).
37 years work experience, of which 23 years in banking.
Joined BBK in 1988.



Axel Hofmann
Assistant General Manager, Retail Banking

MBA, University of Texas, United States of America (1991).
22 years banking experience.
Joined BBK in 2007.



Mohammed Abdulla Isa
Assistant General Manager, Financial Planning & Control

Certified Public Accountant, American Institute of Certified Public Accountants, Delaware State Board of Accountancy, United States of America (2001).
21 years finance experience.
Joined BBK in 2001.

* Effective 2 December 2012, Mahmood Abdul Aziz joined the Project Management Office.



Khalil Al Meer
Assistant General Manager,
Corporate Banking

BSc, Business Administration,
 University of Bahrain, Kingdom
 of Bahrain (1985).
 27 years banking experience.
Joined BBK in 1989.



Jamal Al Sabbagh
Assistant General Manager,
Information Technology

MBA, University of Glamorgan,
 United Kingdom (2001).
 32 years banking experience.
Joined BBK in 1980.



Hassaan Mohammed Burshaid
Assistant General Manager,
Human Resources & Administration
(Effective 15 October 2012)

MSc, Human Resources Management, DePaul
 University, United States of America (2006).
 18 years of experience in the field of
 human resources.
Joined BBK in 1998.



Amit Kumar
Assistant General Manager,
Risk, Compliance & Legal Affairs

MBA, Indian Institute of Management,
 Republic of India (1983).
 29 years banking experience.
Joined BBK in 1994.



Abdulrahman Saif
Assistant General Manager,
Treasury & Investment

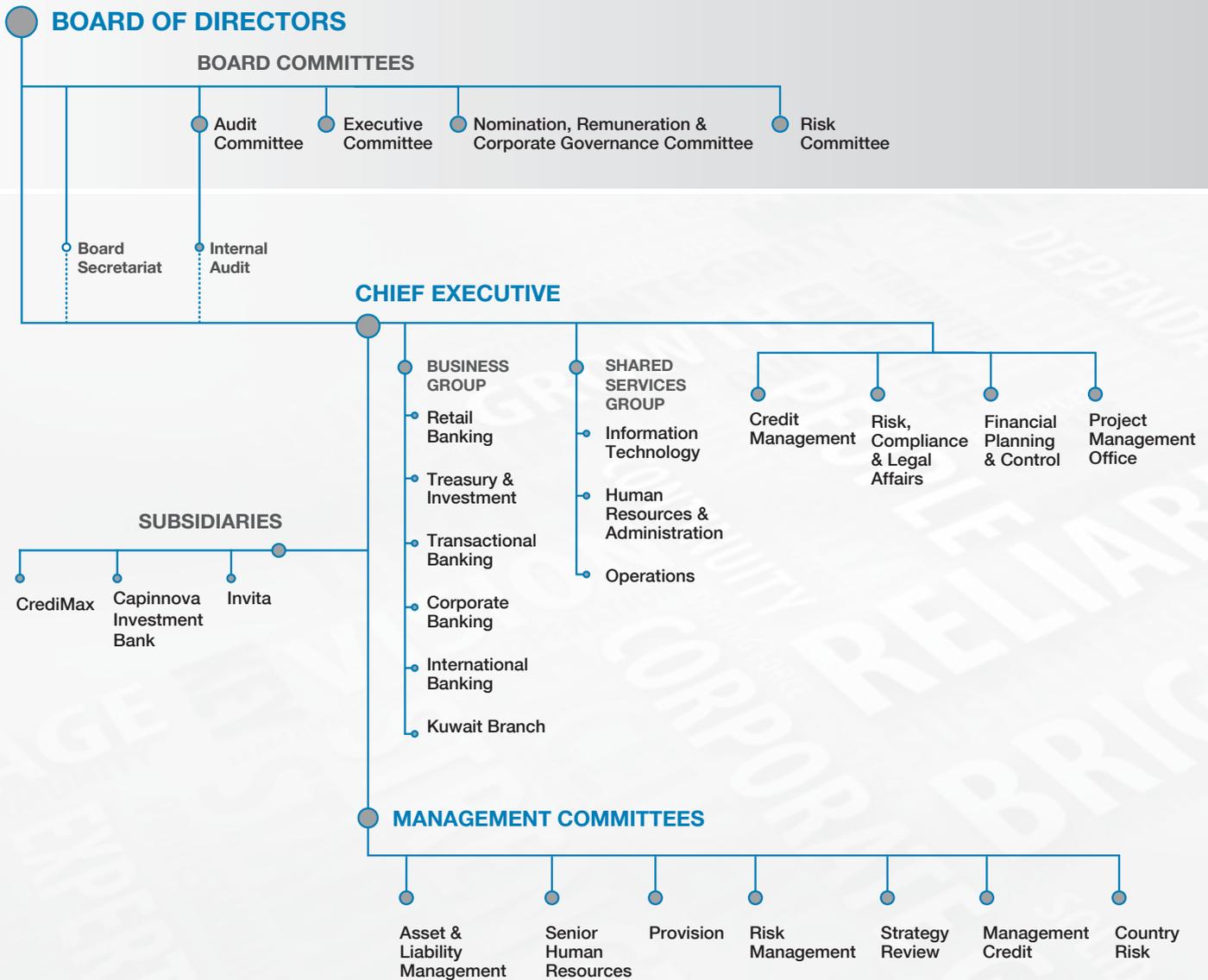
PhD, Economics, University of Leicester,
 United Kingdom (1992).
 30 years banking experience.
Joined BBK in 2008.



Ashish Sarkar
Assistant General Manager,
International Banking

MBA, Indian Institute of Management,
 Republic of India (1990).
 22 years banking experience.
Joined BBK in 1997.

Organisation information



Notes:

- (1) The branches in India and the Representative Office in Dubai report to the International Banking Division.
- (2) The Assistant General Manager of Risk, Compliance & Legal Affairs (RCLA) participates in the Board and/or Executive Committee meetings whenever risk issues are discussed. The Head of Compliance and Money Laundering Reporting Officer (MLRO) reports to the Assistant General Manager of RCLA, and has access to the management and presents quarterly compliance reports to the Audit Committee.
- (3) The Project Management Office has been created to oversee the implementation of key strategic initiatives.

Remuneration Policy

BBK employee remuneration framework aims at providing an economically competitive level of compensation to attract and retain talented employees. In its endeavour to achieve this, the Bank maintains the level of overall compensation at the upper quarter percentile line of the Bahrain banking industry with specific reference to the premier commercial banks. The Bank's reward policy is meritocracy based system, linking reward to performance through a performance management system that recognises the value of each job in the organisation and focuses on creating a performance driven culture.

Executive Management remuneration

Fixed and Variable Pay

The total remuneration of the Executive Management team in 2012 was BD 4,562,225. This amount includes the guaranteed cash components such as the basic salary, fixed bonus allowances and the variable performance reward related to 2011.

Employee Performance Share Plan (EPSP) Awards

The total accumulative number of shares granted under the EPSP to the eligible members of the Executive Management as at end of 2012 was 4,145,620 shares. The vesting of the awarded shares will be subject to satisfactorily achieving the target performance conditions.

Subsidiaries Board remuneration

Members of the Executive Management who represent the Bank as Directors on the Boards of wholly owned subsidiaries and/or associate companies received a total amount of BD 229,831 as remuneration and sitting fees for their contribution in the respective subsidiary or/and the associate company in 2011.

Long Term Incentive Plans

The BBK Long Term Incentive Plans are share based reward schemes, under which the Bank allocates certain numbers of shares every year to Executive Management employees based on performance, potential, and job criticality level. The grant price is determined according to the share price at the closing of the market on the fourteenth day after the Annual General Meeting. There are two forms of the Employee Long Term Incentive Plans:

Employee Stock Options Plan

This plan was introduced in 1999 and options were granted on a yearly basis until 2009. The plan will end once all options granted till 2009 expire or vest.

Employee Performance Shares Plan

The scheme was introduced effective 2010. The plan operates on a yearly basis of shares being allocated and held in a trust in the name of the individual employee over the vesting period. Following the assessment of the performance of the Bank against the target performance conditions stipulated for the period, the ownership of the vested shares is transferred to the individual employee.

Executive Management interests

The number of shares held by members of the Executive Management team as of 31 December 2012 was as follows:

Name	Type of shares	31 December 2012	31 December 2011
Mahmood Abdul Aziz	Ordinary	7976	7976
Jamal Al Sabbagh	Ordinary	6208	6208

Executive Management trading of Bank's shares during the year 2012

No trading.

Management Committees

Management Committees are chaired by the Chief Executive. Committee members are heads of the relevant divisions appointed by the Committee Chairman.

Committee	Summary terms and reference
Asset & Liability Management	Establishes policies and guidelines for the overall management of the statement of financial position and its associated risks. Frequency of meetings: At least once a month.
Senior Human Resources	Establishes appropriate policies, procedures and guidelines for the management of human resources. Frequency of meetings: Once every other month.
Provision	Reviews and establishes provisioning requirements for loans, advances and investments. Frequency of meetings: Once every quarter.
Risk Management	Identifies, measures, monitors and controls risk by establishing risk policies and procedures. Frequency of meetings: Once every other month.
Strategy Review	Reviews and monitors progress on strategic initiatives. Frequency of meetings: Twice a year.
Management Credit	Approves credit and investment proposals above a certain limit. Also reviews and recommends any proposal requiring Executive Committee or Board approval. Frequency of meetings: Once a week.
Country Risk	Reviews country reports/ratings/strategies of the identified countries and presents recommendations for undertaking exposures to the Board for their approval. Frequency of meetings: Once a month.

Organisation information continued

Major BBK shareholdings as of 31 December 2012

Name / Entity	Nationality / Head Quarters	Legal status	Ownership date	%	Number of shares	
					Previous	Current
The company's ownership in other companies listed on the Bahrain Bourse (5% and above)						
Bahrain Kuwait Insurance (BKIC)	Bahrain	B.S.C. (c)	2006	6.82%	4,436,215	4,879,836
Securities Investment Company	Bahrain	B.S.C. (c)	2006	9.89%	41,250,000	41,250,000
Bahrain Commercial Facilities Company	Bahrain	B.S.C. (c)	1994	23.00%	37,618,691	37,618,691
Major shareholders of the company's outstanding shares (5% and above)						
Ithmaar Bank	Bahrain	B.S.C.	2008	25.34%	215,736,187	215,946,187
Pension Fund Commission (PFA)	Bahrain	Governmental Institution	1986	18.79%	159,933,766	159,933,766
Kuwait Investment Authority (KIA)	Kuwait	Investment Company	1990	18.70%	159,173,547	159,173,547
Social Insurance Organization (SIO)	Bahrain	Governmental Institution	1986	13.34%	113,573,255	113,573,255
The Bank's holdings in other companies (Quoted / unquoted in / out Kingdom of Bahrain) (10% and above)						
CrediMax	Bahrain	B.S.C. (c)	1999	100.00%	5,000,000	5,000,000
Invita	Bahrain	B.S.C. (c)	2006	100.00%	500,000	1,000,000
Global Payment Services *	Bahrain	W.L.L.	2005	55.00%	10,000	10,000
Sakana Holistic Housing Solutions **	Bahrain	B.S.C. (c)	2006	50.00%	10,000,000	10,000,000
Capinnova Investment Bank	Bahrain	B.S.C. (c)	1999	100.00%	125,000,000	125,000,000
The Benefit Company	Bahrain	B.S.C. (c)	1997	22.00%	3,960	3,960
EBLA Computer Consultancy **	Kuwait	K.S.C. (c)	2010	36.36%	13,333,334	13,333,334
Naseej Company	Bahrain	B.S.C. (c)	2009	13.89%	250,000,000	250,000,000
Alosra Bank	Bahrain	B.S.C. (c)	2009	10.00%	5,000,000	5,000,000
Shared Electronic Banking Services	Kuwait	K.S.C.	1990	10.00%	900,000	900,000
Diyaar Al Hameen Al Ola Limited **	Cayman Islands	W.L.L.	2011	35.00%	1,645,000	1,645,000
Saudi MAIS Company for Medical Products **	Saudi Arabia	W.L.L.	2011	24.00%	8,250	8,280
BBK Geojit Securities	Kuwait	K.S.C.	2012	40.00%	2,000,000	2,000,000

* Shareholding through CrediMax.

** Shareholding through Capinnova Investment Bank.

BBK offices and international branches

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BBK is committed to providing quality, growth and industry leadership in business and in the community of Bahrain.

Financial review

BBK has delivered another record performance in 2012, as the Bank continues to be disciplined in the execution of its strategy, focused on the fundamentals of its businesses and within markets that have good growth prospects.

The Bank remains true to its corporate strategy, managing a well diversified, strongly capitalised and liquid financial position which resulted in the delivery of another record performance of BD 42.4 million for the year ended 31 December 2012.

This review incorporates the consolidated operating results and the consolidated statement of financial position of BBK including its overseas branches, its principal subsidiaries, joint ventures, associated companies and the indirect investment in associates through subsidiaries.

The consolidated financial statements have been prepared and are presented in accordance with International Financial Reporting Standards, Bahrain Commercial Companies Law, Central Bank of Bahrain (CBB) and Financial Institutions law.

Operating results

The Bank achieved a net profit, attributable to the owners of the Bank, of BD 42.4 million for the year ended 31 December 2012, being 33.3 per cent higher than last year. The net result for the year was largely impacted by the boost in the Bank's core operating activities stemming mainly from the net interest income, commercial services fees and FX and investment activities income.

In continuation of the BBK's prudent approach to risk management and provisioning, the Bank has conservatively provided for adequate provisioning levels in 2012 to cater for unexpected losses caused by market turbulences including the changes in the fair market value for certain available-for-sale investments.

Operating income

Total operating income for the year witnessed a growth of BD 2.8 million and stood at BD 108.6 million reflecting solid and diversified income streams. Net interest income reached BD 65.8 million; recording 11.6 per cent increase over the last year as a reflection of robust growth in the Bank's core business activities. Other income components dropped to BD 42.9 million at the end of 2012 mainly due to the fact that other income in 2011 included around BD 9.2 million non-recurring income arising

from the exchange of subordinated debt notes to senior debt notes and BD 0.6 million gain realised from the partial sale of subordinated debt notes.

Net interest income

Net interest income for the year boosted by 11.6 per cent, and stood at BD 65.8 million largely on account of the growth in the loan and advances portfolio by 6.5 per cent from BD 1,407 million level recorded in 2011. The 27.2 per cent rise in the non-trading investment portfolio from BD 564 million in 2011 has also contributed to the growth in net interest income. Interest expense for the year includes amortisation of the previously realised non-recurring income of BD 9.2 million arose from exchanging subordinated debt notes into senior debt notes, which has suppressed the net interest income for the year by BD 1.4 million. Whilst asset margins have continued to see some pressure, net interest income has benefited from strong financial position momentum and wider liability margins.

Asset and Liability Management (ALM) was up year on year; the build-up of lower-yielding higher quality assets to support more stringent regulatory requirements was more than offset by growth in money market income on the back of improved spreads and a broadening of the depositor base driven by an enhanced product offering.

The Bank net interest yield ratio at 2.50 per cent was up from 2.38 per cent in 2011, reflecting the strong liquidity surplus of the Group, higher liability margins and the increased, but cautious, focus in selective retail and corporate higher margin lending within the region.

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, income generated from extinguishment of subordinated debts as a result of exchanging the subordinated debts with senior debt notes, gain

Summary income statement

BD millions	2012	2011	Variance BD millions	Change per cent
Net interest income	65.8	58.9	6.9	11.61%
Other income	42.9	46.9	(4.0)	-8.55%
Total income	108.6	105.8	2.8	2.68%
Operating expenses	50.6	47.9	2.7	5.48%
Provisions	15.0	25.5	(10.5)	-41.21%
Profit before taxation	43.1	32.4	10.7	33.12%
Taxation/Non-controlling interest	(0.7)	(0.6)	(0.1)	25.95%
Net profit for the year	42.4	31.8	10.6	33.25%

Consistent performance and disciplined execution of our corporate strategy

realised from the redemption of subordinated debts, investment trading and share of profit/loss in associated companies and joint venture.

Total other income generated during the year reached BD 42.9 million (31 December 2011: BD 46.9 million) recording a technical decline of 8.6 percent mainly on account of the realisation of non-recurring income of BD 9.2 million as a result of exchanging 85.2 per cent of subordinated sub-debts into senior debt notes and BD 0.6 million gain realised from the partial sale of sub-debts in 2011. Excluding such non-recurring income from 2011 results, the Bank other operating income would have grown by 15.6 per cent.

Other income includes foreign exchange and investment income of BD 13.9 million compared to BD 20.6 million for the period ended 31 December 2011. The drop is attributed to the absence of BD 9.2 million non-recurring income arose from the exchange of BBK sub-debt notes to senior notes in as well as the BD 0.6 million gain realised on the sale of sub-debt 2011.

While FX and investment income registered a decline of 32.5 per cent and stood at BD 13.9 million, net fees and commission income recorded a sustainable growth of 10.3 per cent from BD 26.3 million reported in 2011 on account of the increase in commercial services activities of the Bank.

Operating expenses

Operating expenses increased BD 2.6 million or 5.5 per cent, to BD 50.6 million at the end of 2012. The increase was primarily in staff related expenses, which grew by 10.4 per cent reflecting the impact of prior and current year investment in human resources together with inflationary pressures across our footprint. Other expenses included infrastructure spend in new branches (including renovations and relocations), distribution channels such as ATMs and technology systems, and marketing. Accordingly, the cost to income ratio increased to 46.5 per cent from 45.3 per cent reported in 2011.

Net provisions

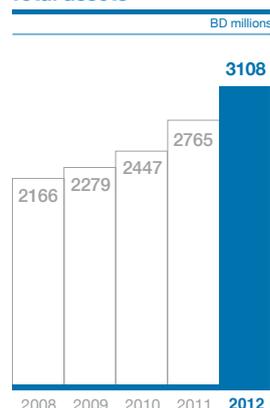
The Bank follows the International Accounting Standard (IAS 39) with regard to accounting for impairment of financial assets. The provisions for impairment of the Bank's loans and advances and assets carried at cost or amortised cost are arrived at after calculating the net present value of the anticipated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

Following Bank's prudent risk management approach, BD 15.0 million (31 December 2011: BD 25.5 million) was taken as provision to cater for unexpected losses caused by market turbulences out of which around BD 6.0 million (31 December 2011: BD 9.0 million) provision set to cater for the changes in the fair market value of non- trading investments. The net provision for the year for impairment on loans and advances to customers stood at around BD 9.0 million including general provision; compared to BD 16.5 million in 2011. Lower provision for impairment on loans and non-trading investments reflects better quality control over the assets and enhanced credit quality of the investment portfolio.

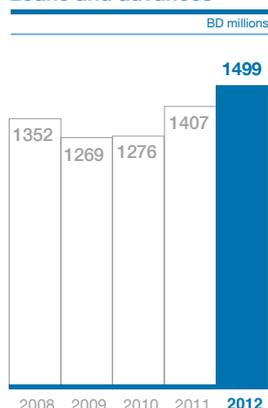
Comprehensive income

Comprehensive income has witnessed a robust growth from BD 20.6 million at end of 2011 to reach BD 72.5 million in December 2012. The growth was mainly driven by the significant improvement in the market value of the non-trading investment portfolio as a result of the Bank strategy to continuously improve the quality of its investment portfolio.

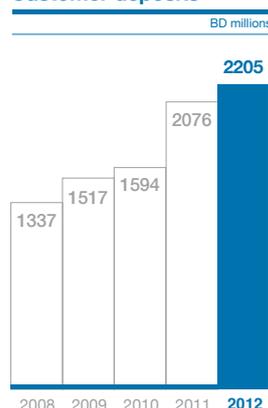
Total assets



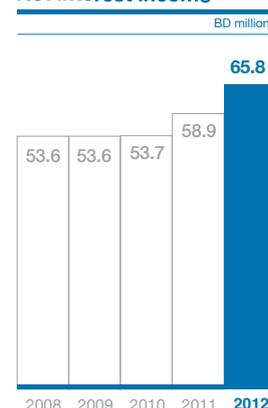
Loans and advances



Customer deposits



Net interest income



Financial review continued

Financial position

The Group demonstrated discipline and focus in sustaining a strong financial position, which continues to be highly liquid, diversified and conservative with limited exposure to problem assets classes. Growth across both the retail and corporate banking activities has been robust, with a good increase in both advances and deposits. We remain a strong net lender into the inter-bank market, particularly in GCC and MENA region. Our net loans and advances-to-deposits ratio continues to be low at 60.9 per cent, down from 63.4 per cent at the previous year end. This is reflective of our capability to grow deposits whilst optimising the use of surplus liquidity in the markets. The profile of our financial position remains stable as the majority of our financial assets are loans and advances that are held on amortised cost basis, which reduces the risk of short-term distress shocks. The Group is strongly capitalised, and generated good levels of organic equity during the year, although our Core Tier 1 ratio slightly reduced to 12.9 per cent from 13.8 per cent in 2011, primarily due to increase in the risk weighted exposure stemming from the growth in the loan and advance portfolio.

Financial position footings grew by BD 342.6 million or 12.4 percent and reached BD 3,108 million at the end of 2012. Financial position growth was largely driven by an increase in customer lending on the back of significant growth in customer deposits, with surplus liquidity being held with central banks.

Assets

At the year-end, net loans and advances to customers stood at BD 1,499 million, reporting a growth of 6.5 per cent over 2011 balance largely due to change in business strategy and the focus shift from the international markets towards booking more exposures to the local and GCC markets.

The investment 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 2012, the quoted bonds and equities constitute 62.9 per cent of the gross investments (56.5 per cent at the end of 2011). Fixed income portfolio is substantially hedged against exposure to interest rate risk or highly dominated by regional governments' bonds and sukuk.

Non trading investment securities grew by BD 153.4 million or 27.2 per cent and reached BD 717.3 million at the end of 2012 mainly due to increased investment activities in the regional markets.

Consolidated statement of financial position

BD millions	2012	2011	Variance BD millions	Change per cent
Assets				
Cash and balances with central banks	262.7	228.0	34.7	15.25%
Treasury bills	165.2	215.3	(50.1)	-23.28%
Financial assets at fair value through statement of income	0.3	-	0.3	N/A
Deposits and amounts due from banks and other financial institutions	349.9	243.5	106.4	43.69%
Loans and advances to customers	1,498.7	1,406.7	92.0	6.54%
Non-trading investment securities	717.3	563.9	153.4	27.20%
Investment in associated company and joint venture	54.6	51.1	3.5	6.73%
Interest receivable and other assets	30.9	27.9	3.0	10.73%
Premises and equipment	28.0	28.6	(0.6)	-2.56%
Total Assets	3,107.6	2,765.0	342.6	12.39%
Liabilities and equity				
Liabilities				
Deposits and amounts due to banks and other financial institutions	255.1	142.4	112.7	79.18%
Borrowings under repurchase agreement	47.9	1.0	46.9	N/A
Term borrowings	238.1	236.6	1.5	0.61%
Customers' current, savings and other deposits	2,204.8	2,076.2	128.6	6.19%
Interest payable and other liabilities	72.0	70.8	1.2	1.80%
Total Liabilities	2,817.9	2,527.0	290.9	11.51%
Attributable to the owners of the Bank	289.2	237.7	51.5	21.67%
Non - controlling Interest	0.5	0.3	0.2	43.02%
Total equity	289.7	238.0	51.7	21.70%
Total Liabilities and equity	3,107.6	2,765.0	342.6	12.39%

Consolidated Statement of Financial Position

Investment in associated companies and joint venture represents the Bank's interest of 23 per cent in the equity of Bahrain Commercial Facilities Company, a public shareholding company, 22 per cent in the equity of The Benefits Company, 40 per cent investment in BBK Geojit Securities, 36.36 per cent in the equity of EBLA Computer Consultancy, 35 per cent in the equity of Diyaar Al Harameen Al Ola Limited, 24 per cent in the equity of Saudi MAIS Company for Medical Products and its 50 per cent investment in Sakana Holistic Housing Solutions through our Sharia'a compliant investment subsidiary Capinnova Investment Bank. The carrying value of these investments represents the Bank's share of the net assets of these companies.

Treasury bills and inter-bank deposits are money market instruments held essentially for managing liquidity. The Bank's liquid assets (including cash and balances with central banks, treasury bills, trading investments, and placements with banks) to total assets ratio improved from 34.98 per cent in 2011 to 36.50 per cent in 2012. Other assets mainly include accrued interest receivable, fixed assets net of accumulated depreciation, and prepaid expenses.

Liabilities

Current, saving and other deposits include the balances of interest-bearing and non interest-bearing accounts due to customers on demand, and term deposits taken with different maturity dates, in various currencies and at varying rates of interest. Customer deposits increased by BD 128.6 million to BD 2,205 million at the end of 2012 registering a 6.2 per cent growth despite the global financial turmoil and liquidity crises, reflecting the confidence of customers in the Bank.

While deposits and due to banks showed an increase of BD 112.7 million over the BD 142.4 million level reported in 2011, the Bank remained a net lender in the inter-bank market with a total placements to banks of BD 349.9 million compared to BD 243.5 million at the end of 2011. It is worth to mention that during 2011, the Bank partially redeemed US\$ 9.45 million out of its US\$ 275 million subordinated debt. It also successfully exchanged 85.2 per cent during 2011 worth of US\$ 129.86 million of its subordinated debts that was maturing on 2017 to US\$ 104.68 million senior debts with an extended maturity up to 2018 which reflects the Bank's comfortable liquidity level.

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

Capital adequacy

The Bank has implemented the Basel II framework for the calculation of capital adequacy since January 2008, in accordance with Central Bank of Bahrain guidelines.

Equity before appropriations stood at BD 290 million at the end of 2012 (BD 238 million at the end of 2011). While there was a growth in risk weighted assets, the Bank maintain a comfortable level of capital adequacy ratio of 14.29 per cent, well above the CBB's minimum regulatory requirement of 12 per cent.

To further strengthen the Bank's capital base, the Board of Directors approved the appropriation of BD 4.2 million (31 December 2011: BD 3.5 million) from the current year's profit to the general reserve. This represents 10.6 per cent increase over the 2011 general reserve of BD 39.5 million.

The Bank has also conducted an impact assessment of Basel III requirements in line with the guidelines provided by the Bank of International Settlements (BIS) and the Central Bank of Bahrain, where the outcome showed that the Bank has sufficient capital to accommodate the requirements of Basel III Accord, as and when it's due.