

BBK WON THE HAWKAMAH
CORPORATE
GOVERNANCE
AWARD FOR 2009, PRESENTED IN
CONJUNCTION WITH
THE UNION OF ARAB BANKS



Corporate Governance Report

A. 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 shall continue its endeavour to enhance shareholder value, protect their interests and defend their rights by practicing pursuit of excellence in corporate life. The Bank shall not only comply with all statutory requirements 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, staff and the public at large.

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

B. Shareholder information

BBK's shares are listed on the Bahrain Stock Exchange. The Bank decided to delist its shares from the Kuwait Stock Exchange from 19th October 2009. The Bank has issued 851,356,122 equity shares, each with a face value of 100 fils. All shares are fully paid.

1. Annual General Meeting

The Annual General Ordinary and Extraordinary Meetings were held on 1st March 2009. The Extraordinary Meeting resolved to approve increasing the Bank's issued and paid up capital by granting bonus shares to the shareholders by 5 per cent, i.e. 1:20 shares at a nominal value of 100 fils. In keeping with the Kuwait Stock Exchange's requirements, a second General Ordinary Meeting was held on 19th April 2009 to seek the approval necessary for delisting BBK's shares from the Kuwait Stock Exchange.

2. Shareholders

Name	Nationality	No. of shares	% holding
Citizens of the Kingdom of Bahrain & Others	-	179,860,675	21.12
Ithmaar Bank	Bahrain	215,736,187	25.34
Social Insurance Organization (Pension Fund)	Bahrain	159,943,766	18.79
Kuwait Investment Authority	Kuwait	159,173,547	18.70
Social Insurance Organization (GOSI)	Bahrain	113,490,122	13.33
Global Investment House	Kuwait	9,192,768	1.08
Emerging Markets Middle East Fund	Ireland	13,959,057	1.64

3. Distribution schedule of each class of equity

Category	No. of shares	No. of shareholders	% of outstanding shares
Less than 1%	179,860,675	2,370	21.12
1% to less than 5%	23,151,825	2	2.72
5% to less than 10%	-	-	-
10% to less than 20%	432,607,435	3	50.82
20% to less than 50%	215,736,187	1	25.34
50% and above	-	-	-

Corporate Governance Report

continued

C. Board of Directors information

1. 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 background and experience. 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 approval. The classification of 'executive' Directors, 'non-executive' Directors and 'independent non-executive' Directors is as per definitions stipulated by the Central Bank of Bahrain.

During 2009, due to changes in ownership by major shareholders, two Directors retired from the Board and two new Directors (one representing Kuwait Investment Authority and the other independent) were inducted. The retiring Members were: Mrs. Maha Khalid Al Ghunaim and Mr. Omar El Quqa. The Board continues to have twelve Members including the Chairman.

2. Directors' roles and responsibilities

The principal role of the Board of Directors (the Board) is to oversee 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 has delegated responsibility for overall management of the Bank to the Chief Executive.

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. All policies pertaining to Bank's operation and functioning are to be approved by the Board.

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.

3. Directors' profiles

Murad Ali Murad

Chairman / Chairman of Nomination & Remuneration Committee

Director since 21 March 1999 (Independent and Non-executive)

Board Member	Bahrain Telecommunications Co. (Batelco)	Kingdom of Bahrain
Board Member	Bahrain Kuwait Insurance Co.	Kingdom of Bahrain
Deputy Chairman	Al-Banader Hotel Co.	Kingdom of Bahrain
Board Member	Bahrain Mumtalakat Holding Co.	Kingdom of Bahrain
Board Member	Umniah Mobile Co.	Jordan
Member	Council of Vocational Training in Banking Sector	Kingdom of Bahrain
Chairman	Human Resources Development Fund in Banking Sector	Kingdom of Bahrain

Sh. Mohammed bin Isa Al Khalifa

Deputy Chairman

Director since 4 December 2002 (Non-executive)

Nominated by Social Insurance Organization (GOSI)

CEO	Social Insurance Organization	Kingdom of Bahrain
Chairman	Securities and Investment Co.	Kingdom of Bahrain
Chairman	Oasis Capital Bank	Kingdom of Bahrain
First Deputy Chairman	Bahrain Telecommunication Co. (Batelco)	Kingdom of Bahrain
Deputy Chairman	National Motor Co.	Kingdom of Bahrain
Deputy Chairman	Bahrain International Golf Course Company	Kingdom of Bahrain
Board Member	Bahrain Commercial Facilities Co.	Kingdom of Bahrain

Khalid Abdulla Janahi

Board Member / Chairman of Executive Committee

Director since 2 March 2008 (Non-independent and Non-executive)

Chairman	Ithmaar Bank BSC	Kingdom of Bahrain
Chief Executive	Dar Al-Maal Al-Islami Trust (DMI Trust)	Switzerland
Chairman	Faisal Private Bank	Switzerland
Chairman	DMI Administrative Services and IICG	Bahamas
Chairman	Solidarity Company BSC (c)	Kingdom of Bahrain
Board Member	Faisal Islamic Bank	Egypt
Board Member	Centre for International Business and Management (CIBAM) – University of Cambridge	UK
Fellow	Institute of Chartered Accountants	England and Wales

Jamal Ali Al Hazeem

Board Member / Chairman of Audit and Insider Committees

Director since 27 February 2005 (Independent and Non-executive)

Chairman	Tashgheel	Kingdom of Bahrain
Board Member	Nass Corporation	Kingdom of Bahrain
Board Member	Al Massaleh Real Estate Co. K.S.C.(c)	State of Kuwait
Board Member	Taameer Real Estate Investment Co.	State of Kuwait
Board Member	The Malls	Kingdom of Bahrain

Ali Hasan Mushari Al Bader

Board Member

Director since 9 June 2009 (Independent and Non-executive)

Board Member	Automated Systems Co.	State of Kuwait
--------------	-----------------------	-----------------

Sh. Abdulla bin Khalifa bin Salman Al Khalifa

Board Member

Director since 2 March 2008 (Non-independent and Non-executive)

Vice Chairman	Naseej B.S.C. (c)	Kingdom of Bahrain
Director	Bahrain International Golf Course Co. B.S.C. (c)	Kingdom of Bahrain
Director	Strategic Acquisition Fund Co. B.S.C. (c)	Kingdom of Bahrain
Director	Conder FX	Kingdom of Bahrain
Assistant Director, Investment	Social Insurance Organization	Kingdom of Bahrain

Corporate Governance Report

continued

3. Directors' profiles continued

Sh. Khalifa bin Daij Al Khalifa

Board Member

Director since 27 February 2005 (Independent and Non-executive)

President	Court of the Crown Prince	Kingdom of Bahrain
Board Member and Chairman of Investment Committee	EDAMA	Kingdom of Bahrain
Board Member	Crown Prince's International Scholarship Program	Kingdom of Bahrain

Dr. Abdulmohsen Medej Mohammed Al Medej

Board Member

Director since 11 May 2009 (Non-executive)

Nominated by Kuwait Investment Authority

Board Member	Kuwait Investment Authority	State of Kuwait
Vice Chairman	Zahra Group Holding	State of Kuwait
Chairman	Arabian Energy Services	State of Kuwait
Member	Supreme Council for Planning & Development	State of Kuwait
Member-Board of Trustee	Australian College in Kuwait	State of Kuwait

Mohamed Abdulrahman Hussain

Board Member

Director since 2 March 2008 (Non-independent and Non-executive)

Chief Executive Officer & Board Member	Ithmaar Bank BSC	Kingdom of Bahrain
Board Member	First Leasing Bank BSC (c)	Kingdom of Bahrain
Board Member	Faisal Private Bank (Switzerland) SA	Switzerland
Board Member	Faysal Bank Limited	Pakistan
Board Member	Ithraa Capital	Kingdom of Saudi Arabia
Board Member	Citic International Assets Management Ltd. (CIAM)	Hong Kong
Board Member	Solidarity Company BSC (c)	Kingdom of Bahrain
Board Member	Emerging Markets Partnership BSC (c)	Kingdom of Bahrain
Board Member	Faisal Islamic Bank	Egypt

Aref Saleh Khamis

Board Member

Director since 1 April 2003 (Non-Executive)

Nominated by Social Insurance Organization (Pension Fund)

Undersecretary	Ministry of Finance	Kingdom of Bahrain
Chairman	Gulf Aluminium Rolling Mills Co. (GARMCO)	Kingdom of Bahrain
Deputy Chairman	Qatar-Bahrain Causeway Foundation	Kingdom of Bahrain
Alternate Board Member	Arab Ship Building & Repair Yard Co. (ASRY)	Kingdom of Bahrain
Director	Sh. Mohd. bin Khalifa bin Salman Al Khalifa Cardiac Centre	Kingdom of Bahrain

Ziad Hasan Rawashdeh

Board Member

Director since 2 March 2008 (Non-Executive)

Nominated by Ithmaar Bank

Board Member	Ithmaar Bank BSC	Kingdom of Bahrain
Board Member	Solidarity Company BSC (c)	Kingdom of Bahrain
Group Chief Operation Officer	Dar Al-Maal Al-Islami Trust (DMITrust)	Switzerland

Jassem Hasan Ali Zainal

Board Member

Director since 22 November 1994 (Independent and Non-executive)

Chairman & Managing Director	Automated Systems Co.	State of Kuwait
Deputy Chairman	Al Razi Holding Co.	State of Kuwait
Deputy Chairman	Addax Investment Bank	Kingdom of Bahrain
Board Member	Kuwait International Bank	State of Kuwait
Board Member	Kuwait Airways Co.	State of Kuwait

4. Code of conduct

The Board has approved a Code of Conduct for BBK Directors. The Board has also approved a Code of Ethics for the Executive Management and staff that includes 'whistle-blowing' procedures. These codes bind signatories to the highest standards of professionalism and due diligence in discharging their duties. They outline areas of conflict of interest, confidentiality, and the responsibilities of signatories to adhere to best practices.

5. Insider trading

The Bank has established Insider Trading procedures to ensure that insiders are aware of the legal and administrative requirements regarding holding and trading of BBK shares, with the primary objective of preventing abuse of inside information. Insiders are defined to include the Directors, Executive Management, staff and any person or firm connected to the identified insiders. Responsibility for ensuring compliance with insider trading procedures is entrusted to the Board's Insider committee.

6. Board meetings and attendances

The Board of Directors meets at the summons of its Chairman or his Deputy (in event of his absence or disability) or if requested to do so by at least two Directors. According to the Commercial Law, the Board meets at least four times a year. A meeting of the Board of Directors shall be valid if attended by not less than seven directors in person. During 2009, eight Board meetings were held in Bahrain in the following manner:

Members	1-Feb	19-Apr	19-Jul	18-Oct
Murad Ali Murad	✓	✓	✓	✓
Sh. Mohammed bin Isa Al Khalifa	✓	✓		✓
Khalid Abdulla Janahi			✓	✓
Jamal Ali Al Hazeem	✓	✓	✓	✓
Ali Hasan Mushari Al Bader			✓	✓
Sh. Abdulla bin Khalifa bin Salman Al Khalifa	✓	✓		✓
Sh. Khalifa bin Daij Al Khalifa	✓	✓		✓
Dr. Abdulmohsen Medej Al Medej			✓	✓
Mohamed Abdulrahman Hussain	✓	✓	✓	✓
Aref Saleh Khamis	✓	✓	✓	✓
Ziad Hasan Rawashdeh	✓	✓	✓	✓
Jassem Hasan Ali Zainal	✓	✓	✓	✓

Corporate Governance Report

continued

6. Board meetings and attendances continued

Other Board meetings, 2009				
Members	1-Mar (1st session)	1-Mar (2nd session)	29-Apr	21-Nov
Murad Ali Murad	✓	✓	✓	✓
Sh. Mohammed bin Isa Al Khalifa	✓	✓	✓	✓
Khalid Abdulla Janahi	✓	✓		
Jamal Ali Al Hazeem	✓	✓	✓	✓
Ali Hasan Mushari Al Bader				✓
Sh. Abdulla bin Khalifa bin Salman Al Khalifa	✓	✓	✓	✓
Sh. Khalifa bin Daij Al Khalifa			✓	✓
Dr. Abdulmohsen Medej Al Medej				✓
Mohamed Abdulrahman Hussain	✓	✓	✓	✓
Aref Saleh Khamis	✓	✓	✓	✓
Ziad Hasan Rawashdeh	✓	✓		✓
Jassem Hasan Ali Zainal	✓	✓	✓	✓

7. Directors' and related parties' interests

The number of shares held by Directors as of 31 December 2009 was as follows:

	Type of shares	31 December 2009	31 December 2008
Murad Ali Murad	Ordinary	672,164	640,148
GOSI / Sh. Mohammed bin Isa Al Khalifa	Ordinary	133,133	126,793
Khalid Abdulla Janahi	Ordinary	105,000	100,000
Jamal Ali Al Hazeem	Ordinary	160,294	152,661
Ali Hasan Mushari Al Bader	Ordinary	Nil	Nil
Sh. Abdulla bin Khalifa bin Salman Al Khalifa	Ordinary	Nil	Nil
Sh. Khalifa bin Daij Al Khalifa	Ordinary	130,000	Nil
Dr. Abdulmohsen Medej Al Medej	Ordinary	Nil	Nil
Mohamed Abdulrahman Hussain	Ordinary	105,000	100,000
Pension Fund Commission / Aref Saleh Khamis *	Ordinary	105,000	100,000
Ziad Hasan Rawashdeh	Ordinary	105,000	100,000
Jassem Hasan Ali Zainal	Ordinary	149,773	142,641

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

Related parties

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

8. Material contracts involving Directors

None.

9. Board committees

The Board level committees are formed and their Members are appointed by the Board of Directors at the beginning of each Board term. 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 many issues that are submitted by the management to the Board 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 and as it sees necessary. Further, the Members of the Board are provided with copies of meeting minutes of the said committees as required by the regulators.

The Chief Executive was elected by the Executive Committee as one of its Members during the year 2009.

a) Board committees' composition, roles and responsibilities:

Executive Committee	
Members	Summary Terms of Reference, Roles and Responsibilities
<p>Khalid Abdulla Janahi <i>Chairman</i></p> <p>Sh. Mohammed bin Isa Al Khalifa <i>Deputy Chairman</i></p> <p>Abdulkarim Ahmed Bucheery</p> <p>Mohamed Abdulrahman Hussain</p> <p>Aref Saleh Khamis</p> <p>Jassem Hasan Ali Zainal</p>	<ul style="list-style-type: none"> • Six Members are appointed for a 1 year term. • Minimum number of meetings required each year: 10 (actual meetings in 2009: 10). • Chairman and Deputy Chairman are elected from among its Members for one year. • At least four Directors (including the Committee's Chairman and/or Deputy Chairman) are required to attend the meetings in person in order to ensure a quorum. • Minutes of the meetings shall be recorded in a special register and shall be signed by all Members who attend the meetings, and the Board secretary as well. • The Chief Executive, General Managers, AGM Treasury and Investment and Chief Financial Officer shall normally attend meetings. • Summary of Responsibilities: Reviews, approves and directs the Executive Management on matters raised to the Board of Directors such as various policies, business plans and the periodical review of the Bank's achievements.

Audit Committee	
Members	Summary Terms of Reference, Roles and Responsibilities
<p>Jamal Ali Al Hazeem <i>Chairman</i> <i>(Independent)</i></p> <p>Ali Hasan Mushari Al Bader <i>(Independent)</i></p> <p>Sh. Khalifa bin Daij Al Khalifa <i>(Independent)</i></p>	<ul style="list-style-type: none"> • The Board appoints not less than three Members for a 1 year term and appoints the Chairman thereto. • Minimum number of meetings required each year: 4 (actual meetings in 2009: 7). • Meetings shall be valid only if attended by two Members including the Committee's Chairman. • Minutes of the meetings shall be recorded in a special register and shall be signed by all Members who attend the meetings, and the Board Secretary as well. • The Chief Executive, GM Shared Services Group, Head of Internal Audit, and a representative of the external auditors shall normally attend meetings. • Summary of Responsibilities: Reviews the internal audit program and internal control system, considers major findings of internal audit reviews, investigations and management's response. Ensures coordination among internal and external auditors.

Insider Committee	
Members	Summary Terms of Reference, Roles and Responsibilities
<p>Jamal Ali Al Hazeem <i>Chairman</i> <i>(Independent)</i></p> <p>Ali Hasan Mushari Al Bader <i>(Independent)</i></p> <p>Sh. Khalifa bin Daij Al Khalifa <i>(Independent)</i></p>	<ul style="list-style-type: none"> • At present, the Audit Committee is assigned to hold the role of Insider Committee. Meetings of the Insider Committee were held through Audit meetings and with the same formation. • Summary of Responsibilities: Tracks, monitors and reports trading activities of insiders to ensure compliance with the CBB's Guidelines on Insiders. Ensures prohibition of the abuse of inside information and disclosure requirements.

Corporate Governance Report

continued

a) Board committees' composition, roles and responsibilities: continued

Nomination and Remuneration Committee	
Members	Summary Terms of Reference, Roles and Responsibilities
Murad Ali Murad <i>Chairman</i>	<ul style="list-style-type: none"> • The Board appoints not less than three Members for a 1 year term and appoints the Chairman thereto. • The committee shall meet at least twice a year and at such other times as the Chairman of the Committee requires (actual meetings in 2009:3). • Meetings shall be valid only if attended by two Members including the Committee's Chairman or Deputy Chairman. • The Chairman of the Committee shall attend the Annual General Meeting and prepare to respond to any shareholder questions on the Committee's activities. • Minutes of the meetings shall be recorded in a special register and shall be signed by all Members who attend the meetings, and the Board secretary as well. • Summary of Responsibilities: Establishes a Board compensation policy for the Directors and Executive Management.
Dr. Abdulmohsen Medej Al Medej <i>Deputy Chairman</i>	
Sh. Abdulla bin Khalifa bin Salman Al Khalifa	
Ziad Hasan Rawashdeh	

b) Board Committee meetings and record of attendance:

Executive Committee meetings, 2009							
Members	31-Jan	28-Feb	23-Mar	18-Apr	30-May	20-Jun	18-Jul
Khalid Abdulla Janahi		✓	✓		✓*	✓	✓
Sh. Mohammed bin Isa Al Khalifa	✓	✓	✓	✓	✓	✓	
Abdulkarim Ahmed Bucheery			✓	✓	✓	✓	✓
Mohamed Abdulrahman Hussain	✓	✓	✓	✓	✓*	✓	✓
Aref Saleh Khamis	✓	✓	✓	✓		✓	✓
Jassem Hasan Ali Zainal				✓	✓	✓	✓
Members	29-Aug	17-Oct	20-Nov				
Khalid Abdulla Janahi		✓					
Sh. Mohammed bin Isa Al Khalifa	✓	✓	✓				
Abdulkarim Ahmed Bucheery	✓	✓	✓				
Mohamed Abdulrahman Hussain	✓	✓	✓				
Aref Saleh Khamis		✓	✓				
Jassem Hasan Ali Zainal	✓	✓	✓				

* Attended by tele-conference

Audit Committee meetings, 2009							
Members	31-Jan	18-Apr	29-Apr	18-Jul	6-Aug	17-Oct	28-Oct
Jamal Ali Al Hazeem	✓	✓	✓	✓	✓	✓	✓
Ali Hasan Mushari Al Bader					✓	✓	✓
Sh. Khalifa bin Daij Al Khalifa	✓	✓	✓	✓		✓	✓
Jassem Hasan Ali Zainal	✓	✓					

Insider Committee meetings, 2009							
Members	31-Jan	18-Apr	29-Apr	18-Jul	6-Aug	17-Oct	28-Oct
Jamal Ali Al Hazeem	✓	✓	✓	✓	✓	✓	✓
Ali Hasan Mushari Al Bader					✓	✓	✓
Sh. Khalifa bin Daij Al Khalifa	✓	✓	✓	✓		✓	✓
Jassem Hasan Ali Zainal	✓	✓					

Note: The Audit Committee is assigned to hold the role of Insider Committee, with the same formation.

Nomination and Remuneration Committee meetings, 2009			
Members	1-Feb	28-Feb	21-Nov
Murad Ali Murad	✓	✓	✓
Dr. Abdulmohsen Medej Al Medej			✓
Sh. Abdulla bin Khalifa bin Salman Al Khalifa	✓	✓	✓
Ziad Hasan Rawashdeh	✓	✓	✓

D. 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 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. Anti-Money Laundering measures form an important area of the Compliance Function, in addition to areas of corporate governance, disclosure standards, insider's 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 staff, 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.

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