

# 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)

<b>Chairman of the Executive Committee</b> <hr/> <i>Bachelor of Arts, Economics and Finance, University of Aleppo, Syria.</i> <i>Over 33 years experience in the banking sector.</i>	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)

<b>Chairman of the Audit Committee</b> <hr/> <i>Master in Civil Engineering, Kuwait University, State of Kuwait.</i> <i>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.</i>	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)

<i>PhD., University of East Anglia, United Kingdom.</i> <i>27 years experience in the government sector (social insurance).</i> <i>NOMINATED BY: Social Insurance Organization (SIO).</i>	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)

<i>Bachelor of Business Administration, George Washington University, United States of America.</i> <i>12 years experience in the banking and investment sector.</i>	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)

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

## 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 <sup>(1)</sup>	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 <sup>(2)</sup>	Ordinary	100,000	Nil
Sh. Abdulla bin Khalifa bin Salman Al Khalifa	Ordinary	100,000	100,000
Sh. Khalifa bin Duaij Al Khalifa	Ordinary	500,000	500,000
Kuwait Investment Authority / Dr. Abdulmohsen Medej Al Medej <sup>(3)</sup>	Ordinary	100,000	100,000
Kuwait Investment Authority / Mutlaq Mubarak Al Sanei <sup>(3)</sup>	Ordinary	100,000	100,000
Ithmaar Bank / Elham Ebrahim Hasan <sup>(4)</sup>	Ordinary	100,000	100,000
Yusuf Saleh Khalaf	Ordinary	100,000	100,000
Ithmaar Bank / Hassan Mohammed Mahmood <sup>(4)</sup>	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><b>Mohammed Abdulrahman Hussain</b> Chairman</p> <p><b>Aref Saleh Khamis</b> Deputy Chairman</p> <p><b>Sh. Abdulla bin Khalifa bin Salman Al Khalifa</b> Member</p> <p><b>Mutlaq Mubarak Al Sanei</b> Member</p> <p><b>Abdulkarim Ahmed Bucheery</b> Member</p> <p><b>Elham Ebrahim Hasan</b> Member</p>	<ul style="list-style-type: none"> <li>■ Not less than five members are appointed for a one year term.</li> <li>■ Minimum number of meetings required each year: 8 (actual meetings in 2012: 11).</li> <li>■ 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.</li> <li>■ 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.</li> <li>■ The Chairman or Deputy Chairman shall be available at the Annual General Meeting to answer questions relating to the Committee's functions.</li> <li>■ 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.</li> <li>■ The Committee conducts an annual self-assessment of the performance of the Committee /members and report conclusions and recommendations to the Board.</li> </ul> <p><b>Summary of responsibilities:</b> 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><b>Jassem Hasan Ali Zainal</b> Chairman (Independent)</p> <p><b>Sh. Khalifa bin Duajj Al Khalifa</b> Member (Independent)</p> <p><b>Yusuf Saleh Khalaf</b> Member (Independent)</p> <p><b>Hassan Mohammed Mahmood</b> Member (Non-independent)</p>	<ul style="list-style-type: none"> <li>■ The Board appoints not less than three members for a one year term.</li> <li>■ 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.</li> <li>■ Minimum number of meetings required each year: 4 (actual meetings in 2012: 4).</li> <li>■ Quorum shall be more than half of the members and must include the Chairman. The attendance by proxies is not permitted.</li> <li>■ The Chairman or Deputy Chairman shall be available at the Annual General Meeting to answer questions relating to the Committee's functions.</li> <li>■ The Chief Executive, General Manager of Shared Services Group, Chief Internal Auditor and a representative of the External Auditors shall attend the meetings.</li> <li>■ The Committee conducts an annual self-assessment of the performance of the Committee /members and report conclusions and recommendations to the Board.</li> </ul> <p><b>Summary of responsibilities:</b> 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><b>Murad Ali Murad</b> Chairman (Independent)</p> <p><b>Dr. Abdulmohsen Medej Al Medej</b> Deputy Chairman (Non-independent)</p> <p><b>Sh. Khalifa bin Duajj Al Khalifa</b> Member (Independent)</p>	<ul style="list-style-type: none"> <li>■ 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.</li> <li>■ The Chairman/Deputy Chairman must be elected by the members of the Committee in its first meeting following the appointment of its members.</li> <li>■ The Committee shall meet at least twice a year (actual meetings in 2012:5).</li> <li>■ 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.</li> <li>■ The Chairman or Deputy Chairman shall be available at the Annual General Meeting to answer questions relating to the Committee's functions.</li> <li>■ The Chief Executive and the General Managers of Shared Services shall attend all the meetings.</li> <li>■ The Committee conducts an annual self-assessment of the performance of the Committee /members and report conclusions and recommendations to the Board.</li> </ul> <p><b>Summary of responsibilities:</b> 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:
<b>Murad Ali Murad</b> CHAIRMAN (Independent)	<ul style="list-style-type: none"> <li>■ At least four members are appointed for a one year term.</li> <li>■ 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.</li> <li>■ 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.</li> <li>■ The Chairman or Deputy Chairman shall be available at the Annual General Meeting to answer questions relating to the Committee's functions.</li> <li>■ The Chief Executive, General Managers (Business and Support), Assistant General Manager of Risk, Compliance &amp; Legal Affairs, Chief Financial Officer, Head of Credit Management and Head of the Risk Management Department shall attend all the meetings.</li> <li>■ The Committee conducts an annual self-assessment of the performance of the Committee/members and reports conclusions and recommendations to the Board.</li> </ul> <p><b>Summary of responsibilities:</b> 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>
<b>Dr. Zakareya Sultan Al Abbasi</b> MEMBER (Non-independent)	
<b>Yusuf Saleh Khalaf</b> MEMBER (Independent)	
<b>Jassem Hasan Ali Zainal</b> 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 &amp; 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](http://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.