BBK

بنك البحرين والكويت

Annual Report 2011

Driving efficiency, momentum and growth for 4 decades

Honouring our people, our heritage and our customers by delivering continued excellence now and for generations to come.

April 1978

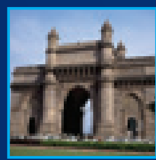
Opening of BBK Kuwait Branch

March 1971

BBK was incorporated in the Kingdom of Bahrain

November 1985

BBK opens first branch in the Republic of India



1970 1980 1990

70's 80's 9

A 40-year history celebrates the strength of our partnerships and the accomplishments of our people, all of whom are the reason for BBK's growth and success...

November 1996

Opening of BBK Dubai Representative Office

June 1999

Inauguration of BBK Pedestrian Bridge on King Faisal Highway

November 2000

Launch of CrediMax subsidiary

December 2004

Bahrainisation Award by the GCC Ministers of Labour and Social Affairs

May 2005

Launch of BBK's new brand identity

May 2006

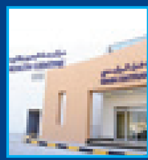
First Financial Mall In Adliya

November 2009

Corporate Governance Award by Hawkamah in conjunction with Union of Arab Banks

October 2011

Inauguration of BBK Health Center in Hidd



... now and for future generations to come.

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

Contents

Visit www.bbkonline.com/annualreport2011 to access the 2011 Annual Report.

Designed and produced by Lucida Design

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.

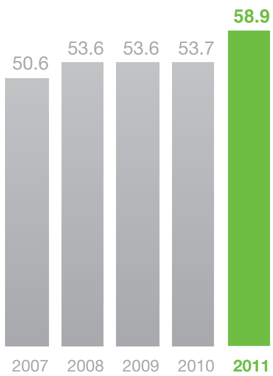
The Bank will expand its overseas presence in more locations in which it chooses to operate in order to satisfy the diversified needs of clients. We believe clients are the driving force in everything we do. We will not compromise on our absolute commitment to providing the very best in client service.

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.

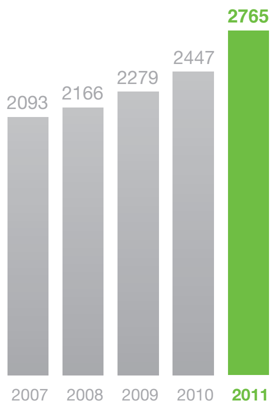
Our shareholders are the source of our financial strength and can expect continued growth and profitability. They are supportive and are confident of our vision of the future.

Financial highlights



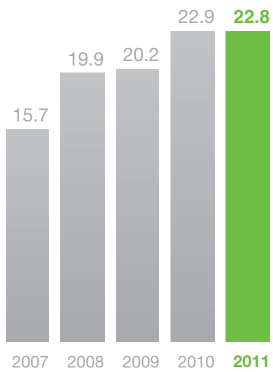
Net interest income

BD millions



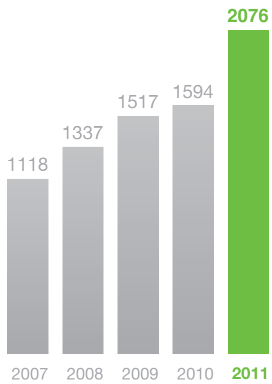
Total assets

BD millions



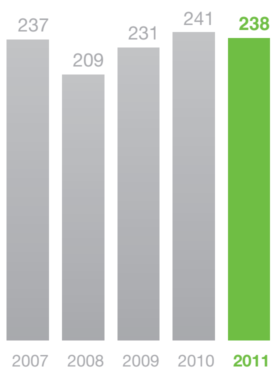
Net fees and commission income

BD millions



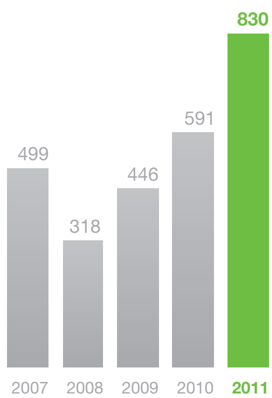
Customer deposits

BD millions



Equity

BD millions



Investments

BD millions

	2007	2008	2009	2010	**2011**
Income statement highlights (BD millions)					
Net interest income	50.6	53.6	53.6	53.7	**58.9**
Other income	37.0	61.1	39.0	55.4	**46.9**
Operating expenses	30.6	35.1	42.9	45.6	**47.9**
Net profit for the year	30.0	27.1	35.0	39.1	**31.8**
Dividend	27%	20%	25%	25%	**25%**
Financial position highlights (BD millions)					
Total assets	2,093	2,166	2,279	2,447	**2,765**
Net loans	1,128	1,352	1,269	1,276	**1,407**
Investments	499	318	446	591	**830**
Customer deposits	1,118	1,337	1,517	1,594	**2,076**
Term borrowings	339	329	257	370	**237**
Equity	237	209	231	241	**238**
Profitability					
Earnings per share (fils)	41	32	42	47	**38**
Cost / income	34.97%	30.62%	46.39%	41.82%	**45.30%**
Return on average assets	1.51%	1.22%	1.66%	1.63%	**1.20%**
Return on average equity	16.02%	12.14%	16.38%	16.90%	**13.40%**
Profit per employee (BD)	34,405	27,919	32,661	36,344	**28,952**
Capital					
Capital adequacy	23.29%	20.06%	17.51%	18.57%	**14.85%**
Equity / total assets	11.34%	9.66%	10.14%	9.83%	**8.61%**
Debt / equity	142.98%	157.45%	111.33%	153.94%	**99.41%**
Liquidity and business indicators					
Net loans / total assets	53.89%	62.44%	55.67%	52.15%	**50.87%**
Net loans / customer deposits	100.90%	101.18%	83.63%	80.09%	**67.75%**
Investments excluding treasury bills / total assets	22.62%	14.51%	16.88%	18.82%	**22.24%**
Liquid assets / total assets	34.43%	25.16%	31.10%	32.39%	**34.98%**
Net yield ratio	2.60%	2.59%	2.60%	2.39%	**2.38%**
Number of employees	873	970	1,072	1,077	**1,098**

Our ceaseless quest to improve our standards, our products and our services is underpinned by a culture of operating with integrity and a commitment to care for communities within which we operate.

Murad Ali Murad

Message from the Chairman

I am pleased to tell you that in 2011 BBK produced another solid financial performance. It was a year which saw continued turbulence in world markets stemming in large part from the sovereign debt crisis in the Eurozone and the fear that the United States would fall back into recession.

In addition to lacklustre global economic growth there have also been a number of uprisings in countries across the Middle East and North Africa region. The Kingdom of Bahrain itself has had periods of civil unrest and this has inevitably had a negative impact on business sentiment locally. Despite these events, none of which were foreseen a year ago, the outstanding efforts of the BBK management team and all employees have ensured that BBK's businesses have continued to perform strongly.

2011 was the second year of BBK's three year Strategic Plan (2010-2012) and we have continued to focus on achieving a number of main objectives, including re-focusing our business and pursuing a growth agenda in the GCC region. Key initiatives aimed at developing our corporate and retail businesses, and improving asset quality, remain on track. We have expanded our distribution network and are continuing to work on a number of IT initiatives which will enable us both to offer service enhancements for our customers and bring substantial improvements in our operating efficiency.

The challenging economic conditions have not required us to re-visit our overall strategy but rather to adjust some business initiatives which enabled us to remain on course to deliver on key targets. Should these conditions prevail until well into 2012 we are comfortable that we can make further adjustments to our strategy which will take into account changing market conditions. By the end of the Strategic Plan period we remain confident that the regional economy will be on the road to recovery and we are well-positioned to take advantage of new business opportunities when this happens.

I am pleased to report that BBK achieved a net profit of BD 31.79 million in 2011 with return on equity of 13.40 per cent compared to 16.90 per cent in 2010. Total assets at the end of the year were BD 2,765 million compared to BD 2,447 million in 2010. The Board has recommended a dividend of 25 fils per share.

Our programme of opening new Financial Malls was completed in 2010 and with the addition of a new branch in Seef this year we now have an outstanding distribution network for our customers in Bahrain. Our focus this year in the retail side of our business has been on leveraging our distribution network. Measures aimed at improving the Bank's liquidity position have proved extremely effective, and the re-focusing of our corporate banking business has enabled BBK to continue to gain market share. Risk management, credit and investment policies were regularly reviewed throughout the year.

Our subsidiaries have generally performed well. CrediMax moved into attractive new premises in Seef during the year and are continuing to look at both local and regional business expansion opportunities. Capinnova, our Islamic investment banking operation, has started generating net profits, albeit at modest levels, despite the challenging market conditions for investment banking. It now continues to focus on expanding its capabilities. Business at Sakana, a 50 per cent joint venture owned by Capinnova, has been slower than we had planned and we may have to review this in due course. Invita, our call centre subsidiary, had hoped to expand into different markets during the year but due to unrest in the MENA region we have put this on hold for now. Outside Bahrain, our business in India is performing strongly and during the year we substantially increased the capital in this business. In Kuwait we are adding new services for our clients and we continue to expand our client base in the GCC region. There were also some notable business successes in Oman and Qatar during the year.

BBK applies the highest standards of ethics in the management of all its businesses. A comprehensive set of corporate governance codes and charters both shapes and guides management practices. While we were pleased that our approach to corporate governance was recognised in the form of awards from Hawkamah, the regional institute for corporate governance, in both 2009 and 2010, we are not resting on our laurels. We continue to strive for even higher standards and to set new benchmarks in this all-important area. A development of particular note during 2011 was the adoption of "BoardWorks", a web-based directors' communications system. We are proud to have become the first bank in the Middle East to use such a system. The use of "BoardWorks" has resulted in time and cost savings, as paper meeting packs and other paper-based communications with Board members have now been entirely replaced by electronic communications. Reduction in paper usage supports a core BBK objective - helping to protect and preserve the environment. It also ensures the prompt receipt of important documents by Board members, which in turn aids prudent decision-making by the Board and enhances overall corporate governance practice at the Bank.

BBK won two prestigious awards this year in light of the Bank's innovative and comprehensive web-based solutions catering to both retail and business customers.

(left)
Middle East eGovernment and eService Excellence Award 2011

(right)
Bahrain eContent Award

From 2013 the requirements of Basel III will begin to come into force. These include more stringent capital requirements which are likely to have implications for banks all over the world. Under the careful stewardship of the Central Bank of Bahrain, local banks have long operated under stricter capital requirements than those which are stipulated under the current Basel rules, so when Basel III comes into effect we are confident that this will have relatively limited impact on BBK. Work is ongoing to analyse our future capital requirements and we are comfortable that the Bank is in a good position as regards our state of preparedness.

Every society has people within it who are less fortunate than others and BBK recognise that we have an important responsibility to support the Bahrain Government in all its endeavours to help the needy and the suffering. As one of the larger businesses in Bahrain we naturally seek to foster the building of thriving local communities and to provide assistance to the less fortunate in these communities through a wide range of charitable undertakings. Our charitable donations and work in the community are focussed primarily on improving the educational opportunities for Bahrain's young people. We also support initiatives which will protect and preserve Bahrain's rich cultural heritage. In financial terms our most significant contribution to the community during the year was to underwrite all the costs of a new Medical Centre in Hidd. This is an outstanding facility and one which will really improve access to healthcare for people living in this area.

In many ways 2011 has been a more challenging year than 2010 but we have nevertheless achieved a great deal. None of these achievements would have been possible without the hard work and commitment of our excellent employees. It is more important than ever that we invest in our people and equip them with the right skills that they, and the Bank, will need in the future. We remain fully committed to providing a comprehensive range of training and development opportunities for our employees, and to maintaining our position as a company which offers an industry-leading employment proposition.

The year 2012 will of course present new challenges, but I am confident that BBK will continue to rise to these challenges and deliver a performance that meets both the expectations of our customers and our shareholders.

I take this opportunity to thank the outgoing Directors Sh. Mohammed bin Isa Al Khalifa, Deputy Chairman of the Board and Ali Hasan Mushari Al Bader and Ziad Hasan Rawashdeh for their valued contributions during their tenures and wish them well in their future endeavours. I would like to welcome the new Directors Yusuf Khalaf, Elham Hasan and Mutlaq Al-Sanei and also 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, King of the Kingdom of Bahrain, and His Highness Sheikh Sabah Al Ahmed Al Jaber Al Sabah, Amir of the State of Kuwait. I thank their respective governments and regulatory authorities for their guidance and support during 2011. I would also like to thank BBK's 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

Strength

Strength

BBK’s key success pillars lie in a determination to achieve excellence in everything we undertake. Coupled with deep local knowledge and a long-standing history in the regional economies and careful investments in our business and in our people we sustain strength and fortitude for generations to come.

Board of Directors


(left to right)

Murad Ali Murad
Chairman

Aref Saleh Khamis
Deputy Chairman

(left to right)

Mohamed Abdulrahman Hussain
Chairman of Executive Committee

Jassem Hasan Ali Zainal
Chairman of Audit Committee

Sh. Abdulla bin Khalifa bin Salman Al Khalifa



(left to right)

Sh. Khalifa bin Duaij Al Khalifa

Dr. Abdulmohsen Medej Mohammed Al Medej

Mutlaq Mubarak Al Sanei



(left to right)

Elham Ebrahim Hasan

Yusuf Saleh Khalaf

Hasan Mohammed Mahmood



Board of Directors' report

The Board of Directors is honoured to present BBK's 40th annual report, covering the year ended 31 December 2011.

Economic and market background

The global economic crisis continued to dominate the financial landscape during 2011. The sovereign debt crisis in the Eurozone and concerns about the slowing economy in the United States have been felt in the local economy and in the wake of the regional uprisings. Bahrain itself has also had some internal disturbances.

Bahrain's economy showed considerable resilience in 2011 with a relatively good growth level in GDP. This growth was achieved despite the wave of social unrest in the first quarter. Investment, trade and consumption were all affected by global economic deteriorations, high uncertainty as well as regional and local unrest.

The Government of the Kingdom of Bahrain has responded to the economic slowdown by increasing domestic spending. With some benefit deriving from higher oil prices and external aid committed from other GCC states this should result in a budget surplus for the coming year and a bounce back for the local economy.

The wider GCC region has also been affected by the situation in the Eurozone and by US economic stagnation. However, it is our belief that the economic fundamentals of the GCC region remain strong and we are therefore confident that once sentiment improves in the West, growth in our region will resume.

Business review

BBK turned in a highly satisfactory financial performance during 2011 despite the challenging conditions in the local market as well as regionally and internationally. The comprehensive three year Strategic Plan (2010-2012) which commenced last year continues to serve as a highly effective roadmap for the Bank. We are pleased to report that the implementation of this plan is proceeding well and the Bank remains on course to achieve its key plan objectives.

Having successfully issued a USD 500 million five year bond in October 2010 it is unlikely that the Bank will have a requirement to return to the capital markets for new issuance during the Strategic Plan period. Over the course of 2011 the Bank's liquidity position improved further and is at a level that the Board of Directors is entirely comfortable with.

In November, the Bank completed an exchange offer on BBK's 2017 Lower Tier 2 Bond issue with a participation rate of 85.2 per cent, exchanging investors' holding for a new 2018 Senior Bond with an uplift in the coupon.

The Bank's prudential risk management initiatives have continued – while BBK has avoided the problems of concentration-risk in real estate lending which have hurt a number of other financial institutions in the region, actions aimed at further improving the quality of the Bank's corporate assets and seeking to "de-risk" the portfolio are ongoing and are progressing to the Board's satisfaction.

The corporate banking market in Bahrain has seen a slowdown this year but BBK has continued to perform well in this sector and even exceeded the previous year's results. This was achieved by staying very close to our clients to monitor asset quality, ensuring that any requests for restructuring have been handled expeditiously and through diligent control of costs. With the launch of BBKCashlink platform the Bank now has a payments and cash management service which is on a par with the offerings of large global banks and will enable BBK to compete strongly for this type of business in the corporate and Small to Medium-sized Enterprises (SMEs) banking sectors.

The retail banking business again contributed positively to the Bank's overall results and has achieved a steady increase in market share in both loans and deposits. In recent years we have made a considerable investment in the expansion of BBK's physical network of Financial Malls, branches and ATMs. This network is now the most extensive in Bahrain and our focus has shifted towards increasing the volumes of customers and transactions handled by our network. In order to broaden our range of services, important new partnerships have been entered into this year with leading companies in Bahrain, such as Batelco. Other retail initiatives, such as the new eStatement, not only offer added convenience to our customers but also help to protect the environment as paper consumption by BBK customers will be reduced.

International banking, and in particular our business in India, also performed very well and we remain hopeful that we will soon be able to expand our branch presence there. The Indian economy continues to show robust growth and BBK is well-positioned to benefit from this growth. There have also been some notable business wins for BBK in GCC countries during 2011.

The Bank's investment portfolio has been strategically re-positioned over the last three years to focus on opportunities in the GCC region and this portfolio continues to contribute strongly to our bottom-line. CrediMax moved into attractive new premises in Seef during the year and we are confident that this business, already dominant as a credit card issuer in the local market, will continue to identify new opportunities for profitable growth.

Taking all of the above factors into account, BBK was able to achieve net profits of BD 31.79 million in 2011, down 18.79 per cent on the previous year's profit of BD 39.14 million. Net interest income rose 9.64 per cent to BD 58.91 million.

Fees and commissions maintained healthy levels at BD 27.30 million mainly due to diversified products generated by the corporate and retail banking businesses. Foreign exchange and investment income witnessed a decline of around 31.30 per cent to reach BD 20.73 million mainly on the absence of the non-recurring gain that was realised in 2010 as a result of the sale of certain non-trading investments.

Total assets grew by BD 318 million to BD 2,765 million. This increase resulted from business growth in retail, corporate and international business. Customer deposits increased by 30.29 per cent to reach BD 2,076 million, a reflection of the high level of customer confidence and trust in BBK. Non-trading investments also increased, by almost 32.55 per cent, with the Bank continuing its policy of seeking out and investing only in high quality investments. The portfolio is both well-diversified and well hedged to limit risk.

This very satisfactory financial performance was achieved despite the Bank making a substantial provision 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 25.51 million.

At the close of business on 31 December 2011, the Bank's market capitalisation stood at BD 347 million (or 414 fils per share).

Corporate governance

The Board remains determined that BBK should set an outstanding example and lead the way in the corporate governance arena. It is our intention that not only should all directors have a clear understanding of the very high standards that are expected of them but also that 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 both 2009 and 2010 from Hawkamah, the regional institute for corporate governance. Furthermore, the Board has adopted a formal process of evaluation for Directors, the Board and the Board Committees. The result of said evaluation will be reported in the Annual General Meeting of the Bank.

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 2011	**23,249**
Profit for the year 2011	31,789
Transfer to general reserve	(3,500)
Proposed appropriation for donations	(1,500)
Other transfer – share based payments	206
Retained earnings at 31 December 2011 available for distribution *(before proposed dividend)*	**50,244**
Proposed dividend *(25% of paid-up capital, net of treasury stock)*	(20,938)
Retained earnings at 31 December 2011 *(after proposed dividend)*	29,306

Directors' remuneration

The Directors' remuneration, for the year 2011 was BD 525,000. Furthermore, the total amount for the sitting fees related to attending Board Committees' meetings was BD 52,500 and other expenses related to the Board of Directors work was BD 316,598 (total remuneration and fees for 2010: BD 910,565). For the year 2011 the Bank has charged Directors' remuneration of BD 525,000 to statement of income which is included in operating expenses.

Ratings

Early in 2011 the Kingdom of Bahrain was subject to a downgrade of its Long Term Issuer Default Rating from the international rating agencies. This event triggered a downgrade of BBK's debt ratings by the rating agencies.

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 and Shares Registrar

At the Annual General Meeting of shareholders held on 6 March 2011, Ernst & Young were reappointed as External Auditors to the Bank for the financial year ending 31 December 2011. Also KPMG Fakhro was reappointed as Shares Registrar for the Bank for the year 2011.

Appreciation

The Board extends appreciation and gratitude to His Majesty King Hamad bin Isa Al Khalifa, King of the Kingdom of Bahrain, and His Highness Sheikh Sabah Al Ahmed Al Jaber Al Sabah, Amir of the State of Kuwait, and also thanks their respective governments and regulatory authorities for their guidance and support during 2011.

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 2011.

On behalf of the Board of Directors

Murad Ali Murad
Chairman

Growth

Since it's establishment in 1971, BBK has grown to be a Bank of sound financial performance that is underpinned by an entrenched culture operating with integrity, strong financial discipline and a commitment to care for our employees, customers and communities within which we operate. We have built a reputation based on our customer service excellence, expertise and leadership and we aim to continue to grow for decades to come.

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.

Shareholder 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 6 March 2011 marking a new term for the Board. 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 includes 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	No. of shares	% holding
Citizens of the Kingdom of Bahrain and Others	–	158,115,986	18.57
Ithmaar Bank	Bahrain	215,736,187	25.34
Social Insurance Organization (Pension Fund)	Bahrain	159,933,766	18.79
Kuwait Investment Authority	Kuwait	159,173,547	18.70
Social Insurance Organization (GOSI)	Bahrain	113,573,255	13.34
Global Mena Macro Fund Company	Kuwait	25,656,556	3.01
Emerging Markets Middle East Fund	Ireland	9,974,057	1.17
Global Investment House	Kuwait	9,192,768	1.08

Distribution schedule of each class of equity

Category	No. of shares	No. of shareholders	% of outstanding shares
Less than 1%	158,115,986	2,349	18.57
1% to less than 5%	44,823,381	3	5.26
5% to less than 10%	-	-	-
10% to less than 20%	432,680,568	3	50.83
20% to less than 50%	215,736,187	1	25.34
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 until October 2011. 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 March 2011 at the start of a new term for the Board, five members were appointed by shareholders and seven were elected by the AGM. Out of the twelve, three new Directors were inducted namely Elham Ebrahim Hasan, Mutlaq Mubarak Al Sanei, and Yusuf Saleh Khalaf. Moreover, during the third quarter of the year, the Deputy Chairman of the Board Sh. Mohammed bin Isa Al Khalifa who was appointed by the Social Insurance Organisation submitted his resignation from the Board due to moving to another organisation. Presently, the Board has 11 members. The current term for the Board will end in March 2014.

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 to shareholders shall be accompanied by a recommendation from the Board, based on a recommendation from the Nomination, Remuneration and 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 and Board Committees have a process of self-evaluation. Furthermore, the Bank has a formal induction programme for new Directors to familiarise them with the Bank's policies and procedures as well as the divisions of the Bank and its subsidiaries.

A continuous awareness program is in place to constantly update the Directors with various regulatory and market changes.

The Board Charter 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 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.

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 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 (potential) conflicts of interest 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 maximising 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** **Chairman of Nomination, Remuneration and Corporate Governance Committee**	*Director since 21 March 1999* *(independent and non-executive)*
Deputy Chairman	Banader Hotels Company *(till 31 December 2011)*	Kingdom of Bahrain
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	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** *Nominated by Social Insurance Organization (Pension Fund)*	*Director since 1 April 2003* *(non-independent and non-executive)*
Undersecretary	Ministry of Finance	Kingdom of Bahrain
Chairman	Social Insurance Organization	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

	Mohamed Abdulrahman Hussain **Board Member** **Chairman of Executive Committee**	*Director since 2 March 2008* *(non-independent and non-executive)*
Board Member and Chairman of Executive Committee	First Leasing Bank B.S.C. (c)	Kingdom of Bahrain
Board Member and Chairman of Executive Committee	Solidarity Group Holding B.S.C. (c)	Kingdom of Bahrain
Board Member and Chairman of Risk Management Committee	Faysal Bank Limited	Pakistan
Board Member	Ithraa Capital	Kingdom of Saudi Arabia

	Jassem Hasan Ali Zainal **Board Member** **Chairman of Audit Committee**	*Director since 22 November 1994* *(independent – until October 2011 – and non-executive)*
Chairman and Managing Director	International Finance Company	State of Kuwait
Deputy Chairman	Al Razi Holding 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

	Sh. Abdulla bin Khalifa bin Salman Al Khalifa **Board Member**	*Director since 2 March 2008* *(non-independent and non-executive)*
Assistant Director, Investment	Social Insurance Organization	Kingdom of Bahrain
Chairman	Seef Properties B.S.C.	Kingdom of Bahrain
Vice Chairman	Naseej B.S.C. (c)	Kingdom of Bahrain
Board Member	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)*
President	Court of H.R.H. 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** *Nominated by Kuwait Investment Authority*	*Director since 11 May 2009* *(non-independent and non-executive)*
Chairman	Zahra Group Holding	State of Kuwait
Board Member	Kuwait Investment Authority	State of Kuwait
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)*
Director Follow-up Unit, General Reserve Sector	Kuwait Investment Authority	State of Kuwait
Vice Chairman	Kuwait Economic Society	State of Kuwait
Board Member	The Arab Investment Company	Kingdom of Saudi Arabia

	Elham Ebrahim Hasan **Board Member** *Nominated by Ithmaar Bank*	*Director since 6 March 2011* *(non-independent and non-executive)*
Managing Partner	Elham Hasan S.P.C.	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)*
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

	Hasan Mohammed Mahmood **Board Member** *Nominated by Ithmaar Bank*	*Director since 1 September 2010* *(non-independent and non-executive)*
Board Member	Faisal Finance (Maroc) S.A.	Morocco
Board Member	Overland Capital Group, Inc.	USA
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

Disclosures relating to Board of Directors continued

Directors' and related parties' interests

The number of shares held by Directors as of 31 December 2011 was as follows:

Name of Director	Type of shares	31 Dec 2011	31 Dec 2010
Murad Ali Murad	Ordinary	672,164	672,164
Pension Fund Commission / Aref Saleh Khamis *	Ordinary	105,000	105,000
Mohamed Abdulrahman Hussain	Ordinary	105,000	105,000
Jassem Hasan Ali Zainal	Ordinary	149,773	149,773
Sh. Abdulla bin Khalifa bin Salman Al Khalifa	Ordinary	100,000	100,000
Sh. Khalifa bin Duaij Al Khalifa	Ordinary	500,000	500,000
KIA / Dr. Abdulmohsen Medej Al Medej **	Ordinary	100,000	100,000
KIA / Mutlaq Mubarak Al Sanei **	Ordinary	100,000	Nil
Ithmaar Bank / Elham Ebrahim Hasan ***	Ordinary	100,000	Nil
Yusuf Saleh Khalaf	Ordinary	100,000	Nil
Ithmaar Bank / Hasan Mohammed Mahmood ***	Ordinary	150,000	50,000

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

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

*** *Qualifying shares related to Elham Ebrahim Hasan and Hasan Mohammed Mahmood are part of the whole shares of Ithmmar 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 2011:

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	Self	Personal banking needs	BD 200,000	FD rate + 0.75% p.a.	On demand	On demand	100% cash collateral

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

Directors trading of Bank's shares during the year 2011

Name of Director	Trading through Bahrain Bourse	Date of trading
Hasan Mohammed Mahmood	Transfer of 100,000 shares from Ithmmar Bank to comply with directorship qualifying shares	23/06/2011
Elham Ebrahim Hasan	Transfer of 100,000 shares from Ithmmar Bank to comply with directorship qualifying shares	23/06/2011
Mutlaq Mubarak Al Sanei	Transfer of 100,000 shares from Kuwait Investment Authority to comply with directorship qualifying shares	28/06/2011
Yusuf Saleh Khalaf	Buying 100,000 shares	28/07/2011 15/12/2011 21/12/2011

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 2011, eight Board meetings at the Bank were held in the Kingdom of Bahrain in the following manner:

Quarterly Board meetings 2011

Members	30 Jan	17 Apr	7 Aug	16 Oct
Murad Ali Murad	✓	✓	✓	✓
Aref Saleh Khamis	✓	✓	✓	✓
Mohamed Abdulrahman Hussain	✓	✓	✓	✓
Jassem Hasan Ali Zainal	✓	✓	✓	✓
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	†	✓	✓	✓
Hasan Mohammed Mahmood	✓	✓	✓	✓

† Was not a member during this period

Other Board meetings 2011

Members	31 Jan	6 Mar	6 Mar	25 Dec
	‡	1st Session	2nd Session	
Murad Ali Murad	✓	✓	✓	✓
Aref Saleh Khamis	✓	✓	✓	✓
Mohamed Abdulrahman Hussain	✓	✓	✓	✓
Jassem Hasan Ali Zainal	✓	✓	✓	✓
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	†	†	✓	✓
Hasan Mohammed Mahmood	✓	✓	✓	✓

‡ Previously unscheduled meeting   † Was not a member during this period

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.

There are no major issues of concern to report relating to the work of the Board Committees during the year 2011.

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

Board Committees continued

Board Committees' composition, roles and responsibilities

Executive Committee

Members:	Summary terms of reference, roles and responsibilities:
Mohammed Abdulrahman Hussain Chairman **Aref Saleh Khamis** Deputy Chairman **Sh. Abdulla bin Khalifa bin Salman Al Khalifa** Member **Mutlaq Mubarak Al Sanei** Member **Abdulkarim Ahmed Bucheery** Member **Elham Ebrahim Hasan** Member	‣ At least five members are appointed for a 1 year term. ‣ Minimum number of meetings required each year: 8 (actual meetings in 2011: 12). ‣ The Chairman and Deputy Chairman are elected by the members of the Committee for one year. ‣ 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, Assistant General Manager of 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:
Jassem Hasan Ali Zainal Chairman *(independent until October 2011)* **Sh. Khalifa bin Duaij Al Khalifa** Member *(independent)* **Yusuf Saleh Khalaf** Member *(independent)* **Hasan Mohammed Mahmood** Member *(non-independent)*	‣ The Board appoints not less than three members for a 1 year term. ‣ The Chairman shall 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 2011: 4). ‣ 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, 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, monitors trading activities of key persons and ensures prohibition of the abuse of inside information and disclosure requirements.

Nomination, Remuneration and Corporate Governance Committee

Members:	Summary terms of reference, roles and responsibilities:
Murad Ali Murad Chairman *(independent)* **Dr. Abdulmohsen Medej Al Medej** Deputy Chairman *(non-independent)* **Sh. Abdulla bin Khalifa bin Salman Al Khalifa** Member *(non–independent)* **Sh. Khalifa bin Duaij AlKhalifa** Member *(independent)* **Jassem Hasan Ali Zainal** Member *(independent until October 2011)*	‣ The Board appoints not less than three members for a 1 year term. The Chairman is an independent Director, the majority of members should also be independent. ‣ The Chairman and Deputy Chairman are elected by the members of the Committee for one year. ‣ The Committee shall meet at least twice a year. Attendance by proxies is not permitted (actual meetings in 2011:4). ‣ The Chairman or Deputy Chairman shall be available at the Annual General Meeting to answer questions relating to the Committee's functions. **Summary of responsibilities:** to 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, regulatory requirements and also reflects the best market practices in Corporate Governance and make recommendations to the Board as appropriate.

Board Committee meetings and record of attendance

Executive Committee meetings 2011

Members	29 Jan	19 Feb	5 Mar	16 Apr	20 May	* 29 May	18 Jun	6 Aug	15 Sep	15 Oct	19 Nov	24 Dec
Mohamed Abdulrahman Hussain	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Aref Saleh Khamis	✓	✓	✓	✓	✓	✓	☎	✓	✓	✓	✓	✓
Sh. Abdulla bin Salman Al Khalifa	†	†	†	†	†	†	†	†	†	†	✓	✓
Mutlaq Mubarak Al Sanei	†	†	†	✓	✓		✓	✓	✓	✓	✓	✓
Abdulkarim Ahmed Bucheery	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Elham Ebrahim Hasan	†	†	†	✓	✓		✓	✓	☎	✓	✓	✓

☎ Attended by telephone conference   * Previously unscheduled meeting   † Was not a member during this period

Audit Committee meetings 2011

Members	29 Jan	16 Apr	6 Aug	15 Oct
Jassem Hasan Ali Zainal	†	✓	✓	✓
Sh. Khalifa bin Duaij Al Khalifa	✓			✓
Yusuf Saleh Khalaf	†	✓	✓	✓
Hasan Mohammed Mahmood	✓	✓	✓	✓

† Was not a member during this period

Nomination, Remuneration and Corporate Governance Committee meetings 2011

Members	30 Jan	5 Mar	17 Apr	16 Oct
Murad Ali Murad	✓	✓	✓	✓
Dr. Abdulmohsen Medej Al Medej	✓	✓	✓	✓
Sh. Abdulla bin Khalifa bin Salman Al Khalifa	✓	✓	✓	✓
Sh. Khalifa bin Duaij Al Khalifa	✓			
Jassem Hasan Ali Zainal	†	†	✓	✓

† Was not a member during this period

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.' 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.

BBK's respectable financial performance bears testament to the solid foundations on which the Bank is built and the excellence of the people: its people.

Abdulkarim Ahmed Bucheery

Management Review

2011 was the second year of BBK's 2010-2012 Strategic Plan and we have continued to focus on implementing the key initiatives for growth outlined in this plan. While both Bahrain's economy and the wider regional economy have been impacted by slowing growth in global markets we have not been blown off course and much has been achieved this year.

We are firmly focussed on local and regional business opportunities. Our investment portfolio has been extensively re-aligned since the global financial crisis of 2008 and reflects regional as opposed to international thrust. Approximately 68 per cent of our portfolio is in GCC countries. BBK has no exposure to the troubled economies of southern Europe and our overall exposure to European countries is in the order of 15 per cent, a level which we are entirely comfortable with at this stage.

Earlier this year the Government of the Kingdom of Bahrain was subject to a downgrade by the credit rating agencies and Bahrain's banks were also downgraded as a result. This downgrade has not had a significant impact on our business overall and our profitability has held up well.

The performance of our Retail Banking business this year has been particularly pleasing. Our ongoing investments in our premises, our people, our systems and our products are beginning to pay off and our overall market share in retail is steadily growing. We were quick to realise the implications of the local unrest in March and took steps to ensure that all BBK branches remained open and that our ATMs remained filled with cash. For BBK it was business-as-usual and we were, and are, proud to stand behind our clients and do whatever we can to help them cope financially. In the wake of the unrest our retail deposit balances have increased. We believe that we are benefitting from a "flight to quality".

Our Transactional Banking business has been boosted by the launch of BBKCashlink, our market-leading payments and cash management service. Corporate Banking also performed well and were able to improve profitability despite difficult conditions in the local market. Internationally we are looking to expand our branch network in India and await approval from the Reserve Bank of India to establish two new branches there.

Our people

At BBK we continue to place great importance on the development of the skills and competencies of our employees. This is a key objective both of our Strategic Plan and of Bahrain's Economic Vision 2030.

During the year we continued our programme of employee development; more members of employees in the Retail Division went through the Retail Banking Certification Programme and a number of Leadership Development Programmes were held for executive, middle and junior management. These programmes are intended to enhance employee competence, support their career progress and develop leadership capabilities within the organisation in a systematic and planned manner as aligned with the Bank's succession planning process and strategic objectives.

An Employee Engagement Survey of BBK's Bahrain-based employees also took place. This had a high participation rate and was met with a positive response. It was pleasing to note that employee engagement has shown an improvement compared with the previous survey conducted in 2010.

Our clients

Retail Banking had another active year which saw the implementation of new initiatives in line with the Bank's Strategic Plan. Retail made a positive contribution to the Bank's results and despite some impact being felt as a result of the unrest has continued to grow market share in both retail deposits and retail loans. This was achieved through the ability to gain new customers as a result of our quality products, service excellence and expanding multi-channel distribution network while keeping very tight cost control. Overall, revenue levels were maintained, costs were controlled and net interest margin increased. There was some impact on overall profitability in retail as a result of higher provisions on retail loans.

During the year one new branch was opened, at CrediMax's new building in the Seef District and eight new offsite ATMs were added to the network. In the Kingdom of Bahrain, BBK has seven Financial Malls, nine branches, two Cash Management Centres and a total of 53 ATMs including 20 offsite and six CDMs (Cheque Deposit Machines). BBK has one large branch in the State of Kuwait, a representative office in Dubai and two branches in the Republic of India, one in Mumbai and the other in Hyderabad.

Much of the focus was on driving business volumes at the Financial Malls and in this regard we are delighted to be partnering with leading organisations such as Batelco. This partnership involves the establishment of a Batelco shop unit in five of BBK's Financial Malls - offering telecommunications products and services to the Bank's customers. The Secura Insurance has been strengthened through the introduction of a range of Bank Assurance products catering to the various needs of customers at different stages in their life. This was achieved in partnership with Allianz and BKIC allowing BBK to offer both Islamic and conventional insurance products through fully trained and certified employees in all BBK branches.

Other significant developments included the continuous expansion of the range of services offered to our Priority Banking customer base, a Mobile Banking service, SMS banking service and "eStatements". Our Mobile Banking service is amongst the most sophisticated service of its type in the local market and we are proud that our website has won both the Bahrain eContent Award by the eGovernment Authority of Bahrain as well as the Middle East eGovernment and eService Excellence Award 2011.

For **Transactional Banking** the launch of "BBKCashlink", the Bank's new internet accessible payments management system, has been very well received by our corporate and SME clients. No other local bank has a product which can match BBKCashlink in terms of service scope and functionality. In addition to signing up over 499 local clients we are pleased to report that a number of well known international financial institutions are already using the service as well.

The disturbances in Bahrain in March have had some impact on local SMEs but the Transactional Banking team remained very active, reaching out to offer support to clients who were experiencing difficulties. This included offering top-ups to credit facilities or in some cases help with restructuring facilities. Overall, the quality of SME assets was maintained and BBK has been able to get good volumes of new deposits. We believe that this is due to the "flight to quality" which has characterised the local market, particularly in the first half of the year.

Trade Finance business inevitably dropped somewhat as a result of the general slowdown in local economic activity, but by being proactive and working closely with their clients, Transactional Banking were able to meet their income targets for the year.

Although **Corporate Banking** focuses exclusively on the local market, business growth was not affected by the slowdown in the local economy. Businesses across Bahrain have naturally been cautious about committing to new projects. With the reduction in business investment and the hope that the Government would boost the economy with spending on infrastructure projects, Corporate Banking have positioned themselves to take advantage of such potential opportunities.

Implementation of Strategic Plan initiatives continued and Corporate Banking pursued the same overall approach as in 2010. Relationship Managers (RMs) have stayed close to their clients to monitor signs of deterioration in asset quality and dealt with restructuring requests and requests for margin reduction on a case-by-case basis.

On the other side of the balance sheet, the Bank has strong liquidity. While lending margins were under pressure, this was more than offset by a reduction in interest expense afforded by the Bank's strong liquidity position. Corporate Banking were also able to manage their costs carefully and overall were able to outperform last year's.

International Banking had another profitable year. The operation in India, which currently consists of two branches, performed above expectations. During the year fresh capital was injected into our Indian operation, which, it is hoped, will allow us to book larger facilities in India and open the door for dealing with more substantial businesses than has hitherto been the case. It also demonstrates our commitment to further expand our business in India. We are also planning to improve our geographical reach in the country and have applied for fresh branch locations. The Indian economy is growing quickly and there will be more and more opportunities for us to leverage our GCC presence to capitalise on trade flows between India and the GCC.

Our focus on doing more business in the GCC region has paid dividends in the form of some significant new business wins during the year, particularly in Qatar and Oman.

The Kuwait branch contributed to the profitability of the International Banking activities. We have modified our strategy in the Kuwait market to concentrate on the traditional banking products and services for higher yields, commissions and fees. Our target will be lending and financing trade to large corporate businesses as well SMEs. Operations in Kuwait are expected to boost even further due to the enhancement of Corporate and Treasury teams better service existing and potential clients.

Facilities booked for clients in Dubai, as a result of the business development efforts of our representative office employees there, are growing steadily.

The Saudi market remains challenging – while we continue to seek out quality business there, this is a highly competitive market where it is difficult for us to compete with the highly liquid local banks due to their ability to undercut overseas banks on pricing.

We saw a good level of growth in deposits from our NRI (Non-Resident Indians) business and our range of products and services for this key customer group continues to expand. We are in the process of launching a new service for NRIs in Kuwait – through a joint venture between BBK, Geojit and a Kuwaiti partner we will be able to offer NRIs there the opportunity to purchase a range of investments products in India.

Treasury and Investment continued in the same successful direction as 2010 with further diversification and re-structuring of the investment portfolio. In line with the Strategic Plan the focus was on seeking out quality, and highly liquid, investment opportunities in the GCC region and to a lesser extent in the wider MENA region.

In 2011 the markets were not as strong compared to 2010. There were limited new issues in the market with a number of issuers deciding to defer their offerings until such time as market sentiment improves. Despite the challenging market conditions our investment portfolio made a substantial contribution to the Bank's profit.

The "flight to quality" that started when the Global Financial Crisis hit in 2008 has continued and BBK has benefitted from this. Depositors remain focussed on the quality of the institutions where they put their funds and despite the ratings downgrade to both the Kingdom of Bahrain and Bahrain banks, BBK has proved a favoured destination for funds. We continue to enjoy a very comfortable liquidity position.

Our GCC Equity Fund, which was launched in 2010, initially performed very well but the headwinds from Europe and the United States saw GCC stock markets fall this year so the fund's performance was impacted. We believe that the fundamentals of the GCC markets remain healthy and are confident of a strong recovery in equities once the global economic situation starts to improve.

In November, Treasury and Investment completed an exchange offer on BBK's 2017 Lower Tier 2 Bond issue. It offered existing investors the chance to exchange their holding for a new 2018 Senior bond with an uplift in the coupon. The participation rate was 85.2 per cent, which is exceptional for this type of transaction. The exchange was done as part of a liability management exercise to extend the liability profile of the Bank.

Our subsidiaries

CrediMax, BBK's wholly-owned subsidiary specialising in credit card issuing and acquiring continues to perform well and has successfully maintained its dominant position as the market leader in the Kingdom of Bahrain. During the year CrediMax moved into attractive new premises in the Seef District to better serve clients and to be well equipped for future expansions. CrediMax has successfully launched its first in kind "Pre-Paid" cards, off-the-shelf products available to everybody and suitable for various occasions as a Gift Card, a Thank You Card and a Youth Card.

Capinnova Investment Bank, the Shari'a compliant investment banking arm of BBK provides various services and products through its three business lines - Asset Management, Corporate Finance and Private Equity. Amidst the challenging market conditions, Capinnova managed to record profits during its second year of operations in 2010 and the business continues to grow, albeit slowly. Capinnova has successfully completed Corporate Finance deals along with Private Equity transactions in Saudi Arabia and Kuwait. Capinnova entered a Private Equity deal in healthcare in Saudi Arabia during the last quarter of 2011. Asset Management is striving to launch its first fund and mid income housing project in Bahrain.

Invita, BBK's wholly-owned call centre outsourcing subsidiary continues to do well despite the entry into the market this year of a new competitor. With limited growth potential locally Invita are looking at opportunities for expansion in the Kuwait market.

Sakana is a 50-50 joint venture between Capinnova and Ithmaar Bank of Bahrain and provides Islamic finance to the real estate sector. With further backing from its shareholders, it is poised to achieve more growth in 2012.

Global Payment Services (GPS), a subsidiary of CrediMax specialising in the processing and outsourcing business, continued to attract additional clients from overseas to join the existing well built platform that was developed to manage various cards related processes.

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 governs IT's strategic direction based on BBK's corporate strategy. The IT Strategic Plan also included the creation of a Group-Wide IT Steering Committee to govern the implementation of ITSP.

IT initiatives progressed during the year. It included work to support the upgrade of BBK's core banking system with completion planned for 2012, new Business Continuity Management arrangements for CrediMax, Capinnova and Invita, Image Based Clearing and International Bank Account Numbers (IBAN) projects as per CBB mandate, the rollout of eStatements, piloting of a new SMS/Mobile Banking platform and enhanced storage and backup capabilities.

IT also initiated the first phase of the Enterprise Data Warehouse, in accordance with the Bank's approved EDW/BI strategy. This will be a valuable new resource which will enable the Bank to have a 360 degree view of all customer relationships with BBK and therefore lead to enhanced management information allowing for improved operational and strategic decision making.

During 2011, **Risk, Compliance and Legal Affairs** updated various Risk Policies and Procedures with enhanced controls, covering Corporate and Retail Credit, Treasury and Investments, Credit Risk, Market Risk and Operational Risk. Further enhancements to the ICAAP (Internal Capital Adequacy Assessment Process) and RAROC (Risk Adjusted Return On Capital) process were undertaken. The annual Risk Management Strategy document which comprehensively covers all types of risks (Capital, Credit Risk, Market Risk, Liquidity Risk, Earnings, Environment Risk, Operational Risk, Compliance Risk and Internal Control Risk) duly considering the current market conditions was updated for the year, which included assessment of impact of draft Basel III norms.

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 of all Central Bank of Bahrain directives. In 2011, the Bank's Corporate Governance Manual including the Corporate Governance Framework and Board Charter was updated to ensure that it is fully in line with the Ministry of Industry and Commerce's Corporate Governance Code for Bahrain and the Central Bank of Bahrain's High Level Controls (HC) Module of the Rulebook. An upgrade of the Bank's automated risk based Anti Money-Laundering (AML) monitoring system commenced.

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 balanced 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. During 2011 a number of enhancements were made to the Bank's credit and management information systems to ensure robust credit control and meaningful reporting to support lending and investment decisions.

The **Internal Control Unit's** (ICU) main role is to plan, monitor and ensure that adequate internal control systems are in place in various departments and the assets of the Bank are safe guarded. In this respect, ICU has well designed and adequate internal control process and procedures (ICU manual) to ensure that the Bank's business activities and associated risks are well managed. These systems and control measures are being reviewed on a annual basis and/or whenever deemed necessary.

The **Operations** Division has supported a number of strategic and compliance projects such as Image based clearing system known as Bahrain Cheque Truncation System which is schedule to go live in 2012. The IBAN project (compliance project) which has been planned by CBB for rollout in Kingdom of Bahrain in 2012 as part of 2030 vision statement in under progress. The stress-testing of the Bank's business continuity plan was another major achievement for the division to ensure the Bank's readiness.

The Operations Division has played a significant role in migrating clients to the newly launched cash management platform, the division has also upgraded two of its critical applications – Trade Finance and Treasury Back Office Systems. to cater for current and future business requirements.

Our community

At BBK we are justifiably 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. As in previous years in 2011 a considerable number of not-for-profit organisations received financial support from the Bank.

The Bank's biggest financial commitment to the community was to support a new health centre in Hidd. This was opened by the Prime Minister, His Royal Highness Prince Khalifa Bin Salman Al Khalifa, in October 2011. BBK has donated BD 4 million to build, furnish and equip this health centre, now the largest in Bahrain.

We have also supported "Iqrah 2", a childrens library in Malkeya, established by Sh. Ebrahim bin Mohammed Al Khalifa Centre for Culture and Research. We are maintaining our support to the Crown Prince's International Scholarship Programme (CPISP) as a Platinum Sponsor and have pledged to assist with the restoration of the old Al Khalifiyah library in Muharraq.

Conclusion

2011 was a year which saw a number of events both locally and internationally which nobody could have predicted. It has not been an easy year for business but the fact that BBK was able to produce a very respectable financial performance bears testament to the solid foundations on which the Bank is built and the excellence of the people that work for us. It is pleasing also that we remain on track to deliver on the key objectives that we set for the Bank in the 2010-2012 Strategic Plan.

Despite prevailing uncertainty in world markets and the local difficulties that we have seen we nevertheless look to the future with optimism. We remain hopeful that 2012 will be a better year for businesses everywhere and that economic growth will re-commence, bringing with it new business opportunities for BBK.

In closing, it is my pleasure to extend the BBK leadership 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 worked so hard, individually and collectively, to deliver a level of financial performance and support for the local community in 2011 of which we can all be proud.

Abdulkarim Ahmed Bucheery
Chief Executive

Success

Our principal assets to success are our people, capital and reputation. We are committed to maintaining a culture of diversity, integrity and strong business principles. Customer satisfaction also remains a top success factor and the Bank constantly strives to find a better solution to a client's needs.

Executive Management

Abdulkarim Ahmed Bucheery
Chief Executive
BSc, University of Aleppo, Syria (1976)
34 years banking experience
Joined BBK in 2002

Rashed Salman Al Khalifa
General Manager
Business Group
MBA, Arizona State University, USA (1982)
29 years banking experience
Joined BBK in 2008

Reyadh Yousif Sater
General Manager
Shared Services Group
MBA, University of Glamorgan, UK (2001)
34 years banking experience
Joined BBK in 1978

Mahmood Abdul Aziz
Assistant General Manager
Operations
Executive Management Diploma, University of Bahrain. Gulf Executive Management Program, University of Virginia, USA
40 years banking experience
Joined BBK in 1976

Adnan A. Wahab Al Arayyed
Head of Credit Management
BSc, Beirut Arab University, Lebanon (1984)
30 years banking experience
Joined BBK in 1983

Rashad Akbari
Assistant General Manager
Transactional Banking
MSc, Marketing, University of Stirling, UK (1997)
25 years work experience, of which 11 years in banking
Joined BBK in 2000

Axel Hofmann
Assistant General Manager
Retail Banking
MBA, University of Texas, USA (1991)
21 years banking experience
Joined BBK in 2007

Mohammed Abdulla Isa
Assistant General Manager
Financial Planning and Control
Certified Public Accountant, American Institute of Certified Public Accountants – Delaware State Board of Accountancy (2001)
20 years finance experience
Joined BBK in 2001

Amit Kumar
Assistant General Manager
Risk, Compliance and Legal Affairs
MBA, India Institute of Management (1983)
28 years banking experience
Joined BBK in 1994

Khalil Al Meer
Assistant General Manager
Corporate Banking
BSc, Business Administration, University of Bahrain (1985)
26 years banking experience
Joined BBK in 1989

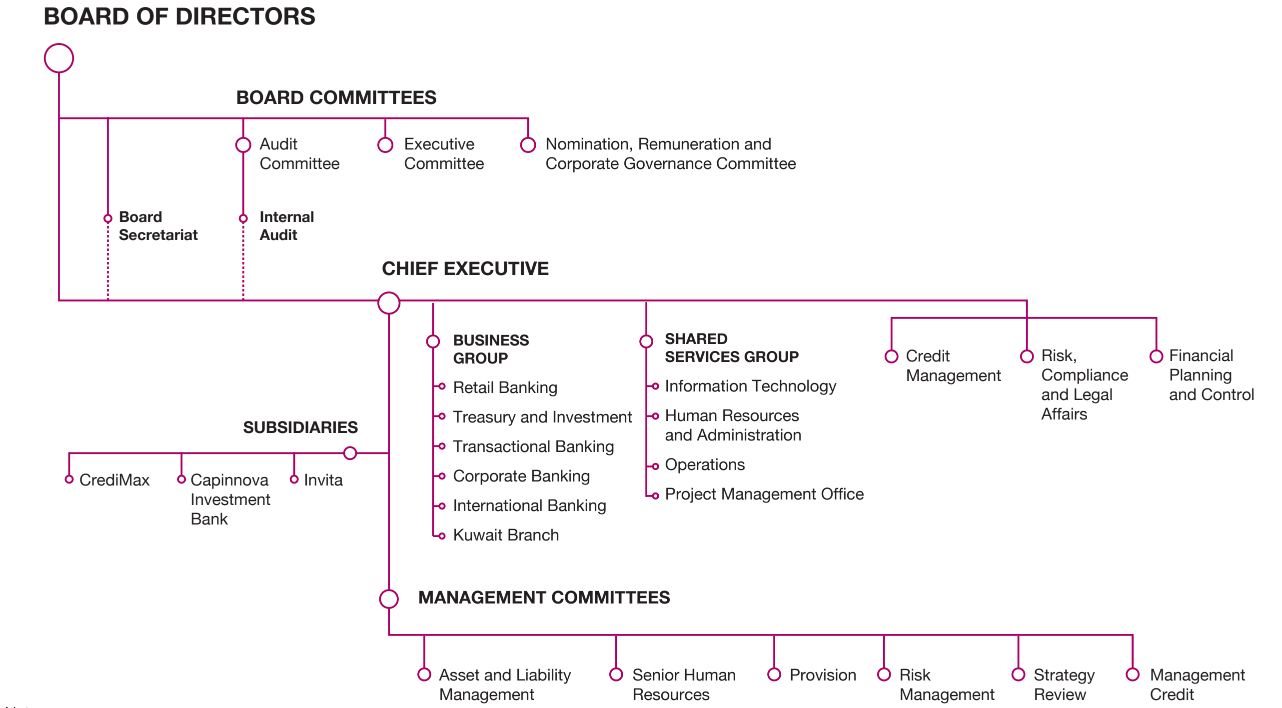
Jamal Al Sabbagh
Assistant General Manager
Information Technology
MBA, University of Glamorgan, UK (2001)
31 years banking experience
Joined BBK in 1980

Abdul Hussain Bustani
Assistant General Manager
Human Resources and Administration
Higher National Diploma, Civil Engineering, Trent University, UK (1978)
36 years work experience, of which 22 years in banking
Joined BBK in 1988

Abdulrahman Saif
Assistant General Manager
Treasury and Investment
PhD, Economics, University of Leicester UK (1992)
29 years banking experience
Joined BBK in 2008

Ashish Sarkar
Assistant General Manager
International Banking
MBA, Indian Institute of Management (1990)
21 years banking experience
Joined BBK in 1997

Organisation information



Notes:

(i) The branches in India and the Representative Office in Dubai report to the International Banking Division.

(ii) The Assistant General Manager of Risk, Compliance and 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.

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 2011 was BD 4,159,431. This amount includes the guaranteed cash components such as the basic salary, fixed bonus allowances and the variable performance reward related to 2010.

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 2011 was 2,414,906 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 200,197 as remuneration and sitting fees for their contribution in the respective subsidiary or / and the associate company in 2010.

Executive Management interests

The number of shares held by members of the Executive Management team as of 31 December 2011 was as follows:

Name	Type of shares	31 Dec 2011	31 Dec 2010
Mahmood Abdul Aziz	Ordinary	7,976	7,976
Jamal Al Sabbagh	Ordinary	6,208	6,208

Executive Management trading of Bank's shares during the year 2011

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 and 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.

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. In 2010 the Bank has opted to introduce a new performance shares plan approved by the shareholders.

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.

Major BBK shareholdings as of 31 December 2011

					Number of shares	
Name / Entity	**Nationality / Head Quarter**	**Legal status**	**Ownership date**	**%**	**Previous**	**Current**
Companies listed on the Bahrain Bourse *(5% and above)*						
Bahrain Kuwait Insurance (BKIC)	Bahrain	B.S.C. (c)	2006	6.82%	4,436,215	4,436,215
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	215,736,187
Pension Fund Commission (PFA)	Bahrain	Governmental Institution	1986	18.79%	159,943,766	159,933,766
Kuwait Investment Authority (KIA)	Kuwait	Investment Company	1990	18.70%	159,073,547	159,173,547
Social Insurance Organization (GOSI)	Bahrain	Governmental Institution	1986	13.34%	113,490,122	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	500,000
BBK Investment Fund Company	Bahrain	B.S.C.	1997	100.00%	53,000	Nil
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.	2009	13.89%	250,000,000	250,000,000
Alosra Bank	Bahrain	B.S.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 Harameen Al Ola Limited **	Cayman Islands	W.L.L.	2011	35.00%	-	1,645,000
Saudi MAIS Company for Medical Products **	Saudi Arabia	W.L.L.	2011	24.00%	-	8,250

** Shareholding through CrediMax*
*** Shareholding through Capinnova Investment Bank*

BBK offices and international branches

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Fax: +973 17 22 98 22
Cable: BAHKUBANK
Telex: 8919
SWIFT: BBKUBHBM

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Fax: +912 22 204 4458
+912 22 284 1416

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+971 4 223 7156
Fax: +971 4 221 0570

Financial Review

This review incorporates the consolidated operating results and the consolidated statement of financial position of BBK including its overseas branches, its principle subsidiaries, namely CrediMax, Capinnova Investment Bank and Invita; the indirect major investment through subsidiaries in Global Payment Services (GPS) through Credimax, the joint ventures Sakana Holistic Housing Solutions, Diyyar Al Noor Limited and Capinnova Medical through Capinnova Investment Bank and associated companies; Bahrain Commercial Facilities Company, The Benefit Company and the indirect investment in associates through subsidiaries in EBLA Computer Consultancy, Diyaar Al Harameen Al Ola Limited and Saudi MAIS Company for Medical Products.

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

Operating results

The Bank achieved a net profit, attributable to the shareholders of the Bank, of BD 31.8 million for the year ended 31 December 2011; being 18.79 per cent lower than last year. The net result for the year was largely impacted by a boost in the Bank's core operating activities stemming mainly from the net interest income, commercial services fees and investment activities income. Another major positive contribution was driven by the realisation of other investment income of BD 9.2 million as a result of exchanging the Bank's subordinated debts with a senior debt notes.

In continuation of the Bank prudent approach to risk management and provisioning, the Bank has conservatively increased its provisioning levels in 2011 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 stood at BD 105.8 million, compared to BD 109.1 million in 2010. While net interest income reached BD 58.9 million; recording 9.64 per cent increase over the last year as a reflection of solid growth in the Bank's core business activities. Other income components dropped to BD 46.9 million at the end of 2011 mainly due to the fact that 2010 other income included non-recurring income arose from the sale of certain non-trading investments.

Net interest income

Net interest income for the year boosted by 9.64 per cent, and stood at BD 58.9 million largely on account of the swell in the loan and advances portfolio by around 10.22 per cent from BD 1,276.3 million recorded in 2010. During the year, the Bank has reclassified the income generated from the redemption of subordinated debts of BD 0.6 million (31 December 2010: BD 2.2 million) from the Interest income account to other income account retrospectively as it was deemed to be more appropriate.

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 sub-debts with senior debt notes, gain realised from the redemption of subordinated debts, investment trading and share of profit / loss in associated companies and joint venture.

The total income generated during the year from these core activities reached BD 46.9 million (31 December 2010: BD 55.4 million) recording a decline of 15.28 percent mainly attributed to the absence of non-recurring income of BD 19.3 million recorded in 2010 arose from the sale of certain non-trading investments and gain on partial redemption of sub-debt.

Other income includes investment income of BD 20.7 million compared to BD 30.2 million for the period ended 31 December 2010. This year investment income included BD 9.2 million net of transaction costs arose from the exchange of BBK sub-debt notes

Summary income statement

BD millions	2011	2010	Variance BD millions	Change per cent
Net interest income	**58.9**	53.7	**5.2**	9.64%
Other income	**46.9**	55.4	**(8.5)**	-15.39%
Total income	**105.8**	109.1	**(3.3)**	-3.07%
Operating expenses	**47.9**	45.7	**2.2**	4.82%
Provisions	**25.5**	23.7	**1.8**	7.55%
Profit before taxation	**32.4**	39.7	**(7.3)**	-18.50%
Taxation / non-controlling interest	**(0.6)**	(0.6)	**(0.0)**	2.72%
Net profit for the year	**31.8**	39.1	**(7.3)**	-18.82%

to senior notes in November 2011. The Bank has exchanged around 85.2 per cent of its subordinated notes with a senior debt notes. Since the exchange is done on a substantially different terms, it is accounted as an extinguishment of the old debt. The differences between the carrying amount of the old sub-debt (extinguished) or transferred to the investors and the new liabilities assumed is recognised as other income. Other income also includes a gain on the redemption of sub-debt of BD 0.6 million (31 December 2010: BD 2.2 million).

While FX and investment income registered a decline of 31.39 per cent and stood at BD 20.6 million, fees and commission income maintained a healthy level of BD 22.8 million by the end of 2011 as a result of the surge in commercial services activities of the Bank.

Operating expenses

The operating expenses, which include staff costs, premises and equipment depreciation and other administrative costs, increased by 5.05 per cent and stood at BD 47.9 million to accommodate the growth of investments in new financial malls and branch modernisation, further expansion of core business activities, and the development of IT and premises infrastructure of the Bank. Accordingly, the cost to income ratio increased to 45.30 per cent from 41.80 per cent in 2010, which was impacted by the non-recurring gain on sale on non-trading investment income in 2010.

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 25.5 million (31 December 2010: BD 23.7 million) was taken as provision to cater for unexpected losses caused by market turbulences out of which around BD 6.3 million (31 December 2010: BD 2.7 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 BD 16.5 million including general provision; compared to BD 17.7 million in 2010.

Financial position

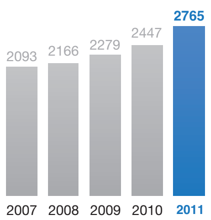
The statement of financial position of the Bank at the year-end grew to BD 2,765 million, registering a growth of 12.99 per cent in comparison to 31 December 2010. This growth was mainly driven by strong underlying business growth led by the increase in customer deposits, net loans and advances and investments in securities and bonds.

Assets

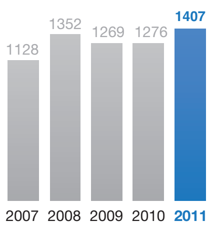
At the year-end, net loans and advances to customers stood at BD 1,407 million, reporting a growth of 10.22 per cent over 2010 balance largely due to change in business strategy and focus from the international markets towards more exposures to the local and GCC markets.

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 2011, the quoted bonds and equities constitute 56.49 per cent of the gross investments (58.32 per cent at the end of 2010).

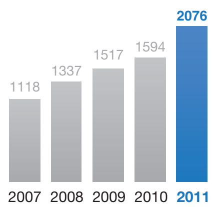
Non trading investment securities witnessed a significant increase by BD 139 million representing 32.55 per cent over the 2010 at BD 425 million, mainly due to increased investment activities in regional markets.



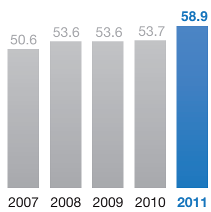
Total assets
BD millions



Loans and advances
BD millions



Customer deposits
BD millions



Net interest income
BD millions

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, 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 32.39 per cent in 2010 to 34.98 per cent in 2011. 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 to BD 2,076 million at the end of 2011, from BD 1,594 million at the end of 2010, a substantial growth of 30.29 per cent despite the global financial turmoil and liquidity crises, reflecting the confidence of customers in the Bank.

During 2011, the Bank partially redeemed USD 9.45 million (USD 24.35 million in 2010) out of its USD 275 million subordinated debt. It also successfully exchanged 85.20 per cent worth of USD 129.86 million of its subordinated debts that was maturing on 2017 to USD 104.68 million senior debts with an extended maturity up to 2018, thus the Bank is enjoying a very 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 238 million at the end of 2011 (BD 241 million at the end of 2010). While there was a growth in risk weighted assets, the Bank stood at a comfortable level of capital adequacy ratio of 14.85 per cent, well above the Central Bank of Bahrain'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 3.5 million (31 December 2010: BD 9 million) from the current year's profit to the general reserve. This represents 9.70 per cent increase over the 2010 general reserve of BD 36 million.

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

Consolidated statement of financial position

BD millions	2011	2010	Variance BD millions	Change per cent
Assets				
Cash and balances with central banks	**228.0**	358.9	(130.9)	-36.48%
Treasury bills	**215.3**	130.2	85.1	65.39%
Deposits and due from banks and other financial institutions	**243.5**	171.0	72.5	42.36%
Loans and advances to customers	**1,406.7**	1,276.3	130.4	10.22%
Non-trading investment securities	**563.9**	425.4	138.5	32.55%
Investment in associated company and joint venture	**51.1**	35.1	16.0	45.58%
Interest receivable and other assets	**27.9**	21.1	6.8	32.48%
Premises and equipment	**28.6**	29.1	(0.5)	-1.64%
Total assets	**2,765.0**	2,447.1	317.9	12.99%
Liabilities and equity				
Liabilities				
Deposits and due to banks and other financial institutions	**142.4**	195.5	(53.1)	-27.18%
Borrowings under repurchase agreements	**1.0**	1.7	(0.7)	-36.41%
Term borrowings	**236.6**	370.3	(133.7)	-36.10%
Customers' current, savings and other deposits	**2,076.2**	1,593.5	482.7	30.29%
Interest payable and other liabilities	**70.8**	45.6	25.2	55.21%
Total liabilities	**2,527.0**	2,206.6	320.4	14.52%
Equity attributable to shareholders of the Bank	**237.7**	240.2	(2.5)	-1.08%
Non-controlling interest	**0.3**	0.3	0.0	24.91%
Total equity	**238.0**	240.5	(2.5)	-1.05%
Total liabilities and equity	**2,765.0**	2,447.1	317.9	12.99%

heritage

Our heritage is not only unique and irreplaceable but historically and spiritually important. BBK's goal is to inspire people, within and outside the Bank, establishing opportunities for its management, employees and customers and promoting cultural preservation, social harmony and development within the community now and for future generations to come.

Financial information

Independent Auditors' report to the shareholders of BBK B.S.C.

Report on the financial statements

We have audited the accompanying consolidated financial statements of BBK B.S.C. ("the Bank") and its subsidiaries (together "the Group") which comprise the consolidated statement of financial position as at 31 December 2011 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as the Board of Directors determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other regulatory requirements

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 1), we report that:

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith; and

b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements.

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2011 that might have had a material adverse effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests.

Ernst + Young

29 January 2012

Manama, Kingdom of Bahrain

Consolidated statement of financial position

31 December 2011

	Note	2011 BD '000	2010 BD '000
ASSETS			
Cash and balances with central banks	4	**227,973**	358,926
Treasury bills	5	**215,286**	130,172
Deposits and due from banks and other financial institutions	6	**243,480**	171,037
Loans and advances to customers	7	**1,406,719**	1,276,316
Non-trading investment securities	8	**563,915**	425,428
Investments in associated companies and joint venture	9	**51,127**	35,120
Interest receivable and other assets	10	**27,949**	21,096
Premises and equipment	11	**28,605**	29,082
TOTAL ASSETS		**2,765,054**	2,447,177
LIABILITIES AND EQUITY			
Liabilities			
Deposits and due to banks and other financial institutions		**142,361**	195,501
Borrowings under repurchase agreement		**1,067**	1,678
Term borrowings	12	**236,615**	370,279
Customers' current, savings and other deposits	13	**2,076,214**	1,593,576
Interest payable and other liabilities	14	**70,778**	45,601
Total liabilities		**2,527,035**	2,206,635
Equity			
Share capital	15	**85,135**	85,135
Treasury stock	15	**(4,445)**	(3,742)
Share premium	15	**39,919**	39,919
Statutory reserve	16	**42,568**	42,568
General reserve	16	**36,000**	27,000
Cumulative changes in fair values	17	**(16,192)**	(6,465)
Foreign currency translation adjustments		**(561)**	917
Retained earnings		**29,306**	23,249
Proposed appropriations	18	**25,938**	31,680
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK		**237,668**	240,261
Non-controlling interest		**351**	281
Total equity		**238,019**	240,542
TOTAL LIABILITIES AND EQUITY		**2,765,054**	2,447,177

Murad Ali Murad
Chairman

Aref Saleh Khamis
Deputy Chairman

Abdulkarim Ahmed Bucheery
Chief Executive

The attached notes 1 to 44 form part of these consolidated financial statements.

Consolidated statement of income

Year ended 31 December 2011

	Note	2011 BD '000	2010 BD '000
Interest and similar income	19	92,353	84,923
Interest and similar expense		33,444	31,195
Net interest income		58,909	53,728
Share of profit in associated companies and joint venture	9	3,340	2,328
Other income	20	43,551	53,022
Total operating income		105,800	109,078
Staff costs		29,375	29,388
Other expenses		15,104	12,972
Depreciation	11	3,447	3,261
Net provision for impairment on loans and advances to customers	7	16,462	17,718
Net provision for impairment of non-trading investment securities	8	9,048	6,001
Total operating expenses		73,436	69,340
PROFIT BEFORE TAXATION		32,364	39,738
Net tax provision		(505)	(589)
PROFIT FOR THE YEAR		31,859	39,149
Attributable to:			
Shareholders of the Bank		31,789	39,142
Non-controlling interest		70	7
		31,859	39,149
Basic earnings per share (BD)	21	0.038	0.047
Diluted earnings per share (BD)	21	0.038	0.047

The attached notes 1 to 44 form part of these consolidated financial statements.

Consolidated statement of comprehensive income

Year ended 31 December 2011

	Note	2011 BD '000	2010 BD '000
Profit for the year		**31,859**	39,149
Foreign currency translation adjustments		**(1,478)**	1,379
Net movement in cumulative changes in fair values	17	**(10,295)**	(7,226)
Share of changes in fair value reserve of associates	17	**568**	(163)
Directors' remuneration	18	**-**	(525)
Donations	18	**(1,700)**	(1,800)
Other comprehensive income for the year		**(12,905)**	(8,335)
Total comprehensive income for the year		**18,954**	30,814
Attributable to:			
Shareholders of the Bank		**18,884**	30,807
Non-controlling interest		**70**	7
		18,954	30,814

The attached notes 1 to 44 form part of these consolidated financial statements.

Consolidated statement of changes in equity

Year ended 31 December 2011

		Attributable to shareholders of the Bank											Total equity
	Note	Share capital	Treasury stock	Share premium	Statutory reserve	General reserve	Cumulative changes in fair values	Foreign currency translation adjustments	Retained earnings	Proposed appropriations	Total	Non-controlling interest	
		BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Balance at 1 January 2010		85,135	(2,845)	39,919	39,001	27,000	924	(462)	18,853	23,358	230,883	111	230,994
Profit for the year		-	-	-	-	-	-	-	39,142	-	39,142	7	39,149
Other comprehensive income		-	-	-	-	-	(7,389)	1,379	-	(2,325)	(8,335)	-	(8,335)
Total comprehensive income		-	-	-	-	-	(7,389)	1,379	39,142	(2,325)	30,807	7	30,814
Share - based payments	40	-	-	-	-	-	-	-	501	-	501	-	501
Approval of dividend	18	-	-	-	-	-	-	-	-	(21,033)	(21,033)	-	(21,033)
Purchase of treasury stock	15	-	(897)	-	-	-	-	-	-	-	(897)	-	(897)
Transfer to statutory reserve	16	-	-	-	3,567	-	-	-	(3,567)	-	-	-	-
Proposed appropriations	18	-	-	-	-	-	-	-	(31,680)	31,680	-	-	-
Additional capital in subsidiaries - non-controlling interest		-	-	-	-	-	-	-	-	-	-	163	163
Transfer to general reserve 2010		-	-	-	-	9,000	-	-	-	(9,000)	-	-	-
Balance at 31 December 2010		85,135	(3,742)	39,919	42,568	36,000	(6,465)	917	23,249	22,680	240,261	281	240,542
Profit for the year		-	-	-	-	-	-	-	31,789	-	31,789	70	31,859
Other comprehensive income		-	-	-	-	-	(9,727)	(1,478)	-	(1,700)	(12,905)	-	(12,905)
Total comprehensive income		-	-	-	-	-	(9,727)	(1,478)	31,789	(1,700)	18,884	70	18,954
Share - based payments	40	-	-	-	-	-	-	-	206	-	206	-	206
Dividends paid	18	-	-	-	-	-	-	-	-	(20,980)	(20,980)	-	(20,980)
Purchase of treasury stock	15	-	(703)	-	-	-	-	-	-	-	(703)	-	(703)
Proposed appropriations	18	-	-	-	-	-	-	-	(25,938)	25,938	-	-	-
Transfer to general reserve 2011		-	-	-	-	-	-	-	-	-	-	-	-
Balance at 31 December 2011		**85,135**	**(4,445)**	**39,919**	**42,568**	**36,000**	**(16,192)**	**(561)**	**29,306**	**25,938**	**237,668**	**351**	**238,019**

The attached notes 1 to 44 form part of these consolidated financial statements.

Consolidated statement of cash flows

Year ended 31 December 2011

	Note	2011 BD '000	2010 BD '000
OPERATING ACTIVITIES			
Profit before taxation		32,364	39,738
Adjustments for:			
Net provisions relating to:			
Loans and advances to customers	7	16,462	17,718
Non-trading investment securities	8	9,048	6,001
Share of profit in associated companies and joint venture	9	(3,340)	(2,328)
Depreciation	11	3,447	3,261
Gain on sale of non-trading investment securities	20	(1,929)	(19,128)
Gain on exchange offer and buy back of term borrowings	20	(9,924)	(2,227)
Operating profit before working capital changes		46,128	43,035
(Increase) decrease in operating assets			
Mandatory reserve deposits with central banks		(2,234)	(16,441)
Treasury bills maturing after 90 days		(69,966)	(113,766)
Deposits and due from banks and other financial institutions		(57,535)	(1,748)
Loans and advances to customers		(146,865)	(25,473)
Interest receivable and other assets		(6,853)	(9,861)
Increase (decrease) in operating liabilities			
Deposits and due to banks and other financial institutions		(53,140)	(44,078)
Borrowings under repurchase agreements		(611)	1,678
Customers' current, savings and other deposits		482,638	76,667
Interest payable and other liabilities		25,177	11,364
Net cash from (used in) operating activities		216,739	(78,623)
INVESTING ACTIVITIES			
Purchase of non-trading investment securities		(382,754)	(346,494)
Disposal and maturities of non-trading investment securities		226,554	283,841
Dividends received from associated company	9	3,029	1,383
Investments in associated companies and joint venture	9	(15,128)	(6,866)
Purchase of premises and equipment		(2,970)	(4,340)
Net cash used in investing activities		(171,269)	(72,476)
FINANCING ACTIVITIES			
Redemption and buy back of term borrowings		(123,740)	(72,978)
Term borrowings received		-	188,500
Payment of dividend, directors' remuneration and donations	18	(22,680)	(23,358)
Treasury stock		(703)	(897)
Additional capital in subsidiaries - non-controlling interest		-	163
Net cash (used in) from financing activities		(147,123)	91,430
Foreign currency translation adjustments		(1,478)	1,379
NET CHANGE IN CASH AND CASH EQUIVALENTS		(103,131)	(58,290)
Cash and cash equivalents at beginning of the year		416,900	475,190
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	23	313,769	416,900

The attached notes 1 to 44 form part of these consolidated financial statements.

Notes to the consolidated financial statements

31 December 2011

1. Activities

BBK B.S.C. (the "Bank"), a public shareholding company, was incorporated in the Kingdom of Bahrain by an Amiri Decree in March 1971 and registered with the Ministry of Industry and Commerce under Commercial Registration number 1234 dated 16 March 1971. The Bank operates in Bahrain under a commercial banking license issued by the Central Bank of Bahrain (CBB) and its shares are listed on the Bahrain Bourse.

The Bank is engaged in commercial banking activities through its branches in Bahrain, Kuwait and India, credit card operations and business process outsourcing services through its subsidiaries. The Bank's registered office is at 43 Government Avenue, P.O. Box 597, Manama, Kingdom of Bahrain.

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 29 January 2012.

2. Basis of consolidation *(revised)*

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries (the "Group"), all of which have 31 December as their year end. The Bank has the following principal subsidiaries:

Name	Ownership	Country of incorporation	Activity
CrediMax B.S.C. (c)	100%	Kingdom of Bahrain	Credit card operations
Invita B.S.C. (c)	100%	Kingdom of Bahrain	Business process outsourcing services
Capinnova Investment Bank B.S.C. (c)	100%	Kingdom of Bahrain	Islamic investment banking

CrediMax B.S.C. (c) owns 55 per cent (2010: 55 per cent) of the share capital of Global Payment Services W.L.L., which is engaged in processing and backup services relating to credit, debit and charge cards.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Non-controlling interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from parent shareholders' equity. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary.
- Derecognises the carrying amount of any non-controlling interest.
- Derecognises the cumulative translation differences, recorded in equity.
- Recognises the fair value of the consideration received.
- Recognises the fair value of any investment retained.
- Recognises any surplus or deficit in profit or loss.
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

3. Basis of preparation and significant accounting policies

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and the applicable provisions of the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law.

Basis of presentation

The consolidated financial statements are prepared on a historical cost basis, except for derivative financial instruments, available-for-sale investment securities, trading investments and financial assets held at fair value through statement of income, that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in fair values attributable to risks that are being hedged.

The consolidated financial statements are prepared in Bahraini Dinars which is the functional currency of the Bank.

Changes in accounting policy and disclosures

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year except that the Group has adopted the following new and amended IASB Standards and International Financial Reporting Interpretations Committee (IFRIC) Interpretations during the year.

IAS 24 Related Party Disclosures *(amendment)*

The IASB has issued an amendment to IAS 24 that clarifies the identification of related party relationships, particularly in relation to significant influence or joint control. The new definitions emphasise a symmetrical view on related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. Secondly, the amendment introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

3. Basis of preparation and significant accounting policies continued

IAS 32 Financial instruments: presentation *(amendment)*

The amendment alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given prorate to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group as the Group has not issued these type of instruments.

IFRS 7 Financial instruments: Disclosures *(amendment)*

These amendments introduced new disclosure requirements for transfers of financial assets, including disclosures for:

- financial assets that are not derecognised in their entirety; and
- financial assets that are derecognised in their entirety but for which the entity retains continuing involvement.

The amendment has had no effect on the disclosures made by the Group as the Group did not have such derecognition transactions.

Improvements to IFRSs

In May 2010 the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but did not have any impact on the financial position or performance of the Group.

- IFRS 3 Business Combinations: The measurement options available for non-controlling interest (NCI) have been amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation must be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.
- IFRS 7 Financial Instruments – Disclosures: The amendment was intended to simplify the disclosures provided, by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The revised standard also added an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments.
- IAS 1 Presentation of Financial Statements: The amendment clarifies that an analysis of each component of other comprehensive income may be presented either in the statement of changes in equity or in the notes to the financial statements.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IRS 3 (as revised in 2008);
- IFRS 3 Business Combinations (Un-replaced and voluntarily replaced share-based payment award);
- IAS 27 Consolidated and Separate Financial Statements;
- IAS 34 Interim Financial Reporting; and
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments.

Trading investments

Trading investments are held for a short-term period and are initially recognised at cost being the fair value of the consideration given and subsequently measured at fair value with any gain or loss arising from a change in fair value being included in the consolidated statement of income in the period in which it arises. Interest earned or dividends received are included in net trading income.

Financial assets designated at fair value through statement of income

Financial assets classified in this category are designated by management on initial recognition when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- The assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows, that would not be separately recorded.

Financial assets at fair value through statement of income are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in 'net gain or loss on financial assets designated at fair value through statement of income'. Interest earned is accrued in interest income, while dividend income is recorded in other income.

Deposits and due from banks and other financial institutions

These are stated at cost, adjusted for effective fair value hedges, less any amounts written off and provision for impairment.

Loans and advances to customers

Loans and advances to customers are stated at amortised cost, adjusted for effective fair value hedges, net of interest suspended, provision for impairment and any amounts written off.

Non-trading investment securities

These include bonds, equities, managed funds and other investments. Investments in managed funds comprise investments in mutual funds, private equity, real estate and credit structured products.

These are classified as follows:

- Investments carried at amortised cost
- Available-for-sale

All non-trading investments are initially recognised at cost, being the fair value of the consideration given, including incremental transaction costs.

Investments carried at amortised cost

Debt instruments which could be classified as loans and advances and which have fixed or determinable payments but are not quoted in an active market are treated as investments and carried at amortised cost, adjusted for effective fair value hedges, less provision for impairment. Premiums and discounts on non-trading investments with fixed or determinable repayments are amortised, using the effective interest rate method, and taken to interest income.

Available-for-sale

All other investments are classified as "available-for-sale". After initial recognition, available-for-sale investments are subsequently measured at fair value, unless fair value cannot be reliably measured in which case they are measured at cost less impairment. Fair value changes which are not part of an effective hedging relationship, are reported as a separate component of equity as cumulative changes in fair value until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported as "cumulative changes in fair value" within equity, is included in the consolidated statement of income for the year.

That portion of any fair value changes relating form an effective hedging relationship is recognised directly in the consolidated statement of income.

Impairment and uncollectability of financial assets

The Group assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of the financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers), the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'interest income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to provision for impairment.

The present value of estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system, that considers Credit Risk characteristics such as asset type, industry, geographical location, collateral type, past due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with Credit Risk characteristics such as asset type, industry, geographical location, collateral type, past due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with Credit Risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Available-for-sale financial assets

For available-for-sale investments, the Group assesses at each statement of financial position date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Group assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss on the investment previously recognised in the consolidated statement of income. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of interest. If in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence of impairment the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income is removed from equity and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognised directly in equity.

(iii) Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Term borrowings

Financial instruments or their components issued by the Group, which are not designated at fair value through statement of income, are classified as liabilities under 'term borrowings', where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, term borrowings are subsequently measured at amortised cost using the effective interest rate. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (in whole or in part) is derecognised where:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either *(a)* the Group has transferred substantially all the risks and rewards of ownership or *(b)* when it has neither transferred or retained substantially all the risks and rewards and when it no longer has control over the financial asset, but has transferred control of the asset.

3. Basis of preparation and significant accounting policies continued

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Fair values

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Available-for-sale financial assets valued using a valuation technique or pricing models primarily consist of unquoted equities and debt securities.

These assets are valued using models which sometimes only incorporate data observable in the market and at other times using both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Other non-trading assets valued using a valuation technique consists of certain debt securities and asset-backed securities. The Group values the securities using valuation models which use discounted cash flow analysis which incorporates either only observable data or both observable and non-observable data. Observable inputs include assumptions regarding current rates of interest and real estate prices; unobservable inputs include assumptions regarding expected future default rates, prepayment rates and market liquidity discounts.

Investment in associated companies and joint venture

An associate is a company in which the Group exerts significant influence, normally comprising an interest of 20 per cent to 50 per cent in the voting capital and is accounted for using the equity method of accounting. A joint venture is a contractual arrangement whereby the Group undertakes an economic activity with other entity(s) that is subject to joint control. The joint venture is also accounted for using the equity method of accounting. Under the equity method, the investments in the associates and joint venture are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates and joint venture. The consolidated statement of income reflects the Group's share of the results of operations of the associates and joint venture. Where there has been a change recognised directly in the equity of the associate and joint venture, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

Premises and equipment

All items of premises and equipment are initially recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of all premises and equipment, other than freehold land which is deemed to have an indefinite life.

Collateral pending sale

The Group occasionally acquires real estate in settlement of certain loans and advances to customers. Such real estate is stated at the lower of the carrying value of the related facility and the current fair value of the collateral acquired, assessed on an individual basis. If the current fair value for any individual asset is lower, a provision is created. Gains or losses on disposal, and unrealised losses on revaluation, are recognised in the consolidated statement of income.

Deposits

All money market and customer deposits are carried at the fair value of consideration received, adjusted for effective hedges, less amounts repaid.

Repurchase and resale agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability, reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate. When the counterparty has the right to sell or repledge the securities, the Group reclassifies those securities in its consolidated statement of financial position, as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the consolidated statement of financial position. The consideration paid, including accrued interest, is recorded in the consolidated statement of financial position, reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in interest income and is accrued over the life of the agreement using the effective interest rate. If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale and measured at fair value with any gains or losses included in 'net interest income'.

Taxation

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on foreign operations is provided in accordance with the fiscal regulations of the respective countries in which the Group operates.

Employees' end of service benefits

Costs relating to employees' end of service benefits are accrued in accordance with actuarial and other valuations as required by regulations applicable in each location.

Share-based payment transactions *(revised)*

For equity-settled shared-based payment transactions the Group measures the services received, and the corresponding increase in equity at the fair value of the services received by reference to the fair value of the equity instruments granted. The fair value of those equity instruments is measured at grant date. The fair value so calculated at the grant date is recognised as an expense in the consolidated statement of income over the vesting period, with a corresponding credit to retained earnings. When an employee leaves the Group during the vesting period the shares granted stand forfeited and any amount recognised in respect of these forfeited shares is reversed through the consolidated statement of income.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) and the costs to settle the obligation are both probable and able to be reliably measured.

Treasury stock

Treasury stock is deducted from equity and is stated at cost. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of own equity instruments.

Proposed dividends

Proposed dividends are included as part of equity and only recognised as liabilities when approved by the shareholders. The payment of a dividend also requires the prior approval of the Central Bank of Bahrain.

Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. All such guarantees are treated as memorandum liabilities and are disclosed as part of contingent liabilities. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'other liabilities', being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is taken to the consolidated statement of income in 'net provision for impairment'. The premium received is recognised in the consolidated statement of income in 'fee and commission income' on a straight line basis over the life of the guarantee.

Derivatives

The Group enters into derivative instruments including futures, forwards, swaps, and options in the foreign exchange and capital markets. Derivatives are stated at fair value. Derivatives with positive market values are included in 'other assets' and derivatives with negative market values are included in 'other liabilities' in the consolidated statement of financial position.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through the consolidated statement of income. These embedded derivatives are measured at fair value with the changes in fair value recognised in the consolidated statement of income.

Hedge accounting

The Group makes use of derivative instruments to manage exposures to interest rate and foreign currency risks. In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

A formal assessment is also undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80 per cent to 125 per cent. Hedges are formally assessed each quarter to reconfirm their effectiveness.

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

Fair value hedges

In relation to fair value hedges, which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value is recognised immediately in the consolidated statement of income. The hedged item is adjusted for fair value changes and the difference relating to the risk being hedged is recognised in the consolidated statement of income.

Cash flow value hedges

In relation to cash flow hedges which meet the conditions for hedge accounting the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised initially in equity and the ineffective portion is recognised in the consolidated statement of income. The gains or losses on effective cash flow hedges recognised initially in equity are either transferred to the consolidated statement of income in the period in which the hedged transaction impacts the consolidated statement of income or included in the initial measurement of the cost of the related asset or liability.

For hedges which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the consolidated statement of income for the year.

Discontinuation of hedges

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. For effective fair value hedges of financial instruments with fixed maturities any adjustment arising from hedge accounting is amortised over the remaining term to maturity. For effective cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the consolidated statement of income.

Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and are, accordingly, not included in the consolidated statement of financial position.

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to settle on a net basis.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest income and loan commitment fees, which are considered an integral part of the effective yield of a financial asset, are recognised using the effective yield method unless collectability is in doubt. The recognition of interest income is suspended when loans become impaired, such as when overdue by more than ninety days. Notional interest is recognised on impaired loans and other financial assets based on the rate used to discount future cash flows to their net present value based on the original effective interest rate.

Interest expense is recognised using the effective yield method.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Other fees receivable are recognised when earned. Dividend income is recognised when the right to receive payment is established.

Where the Group enters into an interest rate swap to change interest from fixed to floating (or vice versa) the amount of interest income or expense is adjusted by the net interest on the swap.

Foreign currencies

(i) Transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. All differences arising on non-trading activities are taken to 'other income' in the consolidated statement of income, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in a foreign entity. These differences are taken directly to equity until the disposal of the net investment, at which time they are recognised in the consolidated statement of income.

3. Basis of preparation and significant accounting policies continued

Foreign currencies continued

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

(ii) Group companies

As at the reporting date, the assets and liabilities of subsidiaries and overseas branches are translated into the Group's presentation currency at the rate of exchange as at the statement of financial position date, and their statements of income are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity through the consolidated statement of comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated statement of income.

Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with central banks (excluding mandatory reserve deposits), treasury bills, deposits and due from banks and other financial institutions with original maturities of ninety days or less.

Trade date accounting and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Significant accounting judgments and estimates

In the process of applying the Group's accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the consolidated financial statements. The most significant uses of judgment and estimates are as follows:

Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

Classification of investments

Management decides on acquisition of an investment whether it should be classified as held for trading, held to maturity, available-for-sale, fair value through statement of income or investments carried at amortised cost.

The Group classifies investments as trading if they are acquired primarily for the purpose of making a short term profit.

The Group classifies debt instruments as carried at amortised cost if the debt instruments are not quoted in an active market.

The Group classifies investments which it intends and has the ability to hold to maturity as held-to-maturity.

The Group classifies financial instruments which contain embedded derivatives which cannot be separated from the host instrument as carried at fair value through statement of income.

All other investments are classified as available-for-sale.

Impairment losses on loans and advances and investments

The Group reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group makes judgments about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio, concentrations of risks and economic data.

Collective impairment provisions on loans and advances

In addition to specific provisions against individually significant loans and advances, the Group also makes a collective impairment provision against groups of loans and advances which have not been identified for allocating specific provision but carry higher risk of default than originally perceived when the assets were booked.

Impairment of non-trading investment securities

The Group reviews its debt securities classified as available-for-sale investments at each statement of financial position date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances. The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and duration and the extent to which the fair value of an investment is less than its cost.

New standards and amendments issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards (where applicable) when they become effective:

IAS 1 Financial statement presentation

The amendments becomes effective for annual periods beginning on or after 1 July 2012 and require that an entity present separately, the items of other comprehensive income that would be reclassified (or recycled) to profit or loss in the future if certain conditions are met (for example, upon derecognition or settlement), from those that would never be reclassified to profit or loss. The amendment affects presentation only, therefore, will have no impact on the Group's financial position or performance.

IAS 19 Employee benefits

The IASB has issued numerous amendments to IAS 19, which are effective for annual periods beginning on or after 1 January 2013. These include the elimination of the corridor approach and recognising all actuarial gains and losses in the other comprehensive income as they occur; immediate recognition of all past service costs; and replacement of interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset); and certain clarifications and re-wording. The Group is currently assessing the full impact of these amendments.

IFRS 9 Financial instruments

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39.

It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

It also includes those paragraphs of IAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of IFRIC 9 Reassessment of Embedded Derivatives.

For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own Credit Risk is recorded in other comprehensive income rather than the consolidated income statement of income, unless this creates an accounting mismatch.

The IASB issued amendments to IFRS 9 that defer the mandatory effective date from 1 January 2013 to 1 January 2015 with early application continuing to be permitted. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets.

The Group will quantify the effect of adoption of this Standard, in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated financial instruments

IFRS 10 introduces a new approach to determining which investees should be consolidated and provides a single consolidation model that identifies control as the basis for consolidation for all types of entities.

An investor controls an investee when:

- it is exposed or has rights to variable returns from its involvement with that investee;
- it has the ability to affect those returns through its power over that investee; and
- there is a link between power and returns.

Control is re-assessed as facts and circumstances change.

IFRS 10 replaces IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities. IFRS 10 is effective for annual periods beginning on or after 1 January 2013 and earlier application is permitted. The Group is currently assessing the full impact of this new standard.

IFRS 11 Joint arrangements

IFRS 11 establishes principles for the financial reporting by parties to a joint arrangement and improves on IAS 31 by establishing principles that are applicable to the accounting for all joint arrangements.

IFRS 11 classifies joint arrangements into two types – joint operations and joint ventures; and defines joint control as the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (i.e. activities that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control.

IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 is effective for annual periods beginning on or after 1 January 2013 and earlier application is permitted. The Group is currently assessing the full impact of this new standard.

IFRS 12 Disclosure of interests in other entities

IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. As a consequence of these new IFRSs, the IASB also issued amended and re-titled IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures.

IFRS 12 aims to provide information to enable users to evaluate:

- the nature of, and risks associated with, an entity's interests in other entities; and
- the effect of those interests on the entity's financial position, financial performance and cash flows.

IFRS 12 is effective for annual periods beginning on or after 1 January 2013 and earlier application is permitted. The Group is currently assessing the full impact of this new standard.

IFRS 13 Fair value measurement

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs. IFRS 13 does not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013 and earlier application is permitted. The Group is currently assessing the full impact of this new standard.

IAS 27 Separate financial statements *(as revised in 2011)*

IAS 27 (2011) supersedes IAS 27 (2008). As a consequence of the new IFRS 10 and IFRS 12 aforementioned, IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications.

IAS 27 (2011) is effective for annual periods beginning on or after 1 January 2013 and earlier application is permitted. The Bank does not present separate financial statements.

IAS 28 Investments in associates and joint ventures separate financial statements *(as revised in 2011)*

IAS 28 (2011) supersedes IAS 28 (2008). As a consequence of the new IFRS 11 and IFRS 12 (refer above), IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates.

IAS 28 (2011) is effective for annual periods beginning on or after 1 January 2013 and earlier application is permitted. The Group is currently assessing the full impact of this revised standard.

The Group is currently assessing the implications of these standards and amendments, their impact on the Group's financial position and results and the timing of their adoption.

4. Cash and balances with central banks

	2011	2010
	BD '000	BD '000
Cash	12,884	10,385
Current accounts and placements with central banks	152,268	287,954
Mandatory reserve deposits with central banks	62,821	60,587
	227,973	358,926

Mandatory reserve deposits are not available for use in the Group's day to day operations.

5. Treasury bills

These are short term treasury bills issued by the Government of the Kingdom of Bahrain, the State of Kuwait and the Republic of India, carried at amortised cost.

6. Deposits and due from banks and other financial institutions

	2011	2010
	BD '000	BD '000
Deposits with banks and other financial institutions	205,734	141,172
Other amounts due from banks	37,746	29,865
	243,480	171,037

7. Loans and advances to customers

	2011	2010
	BD '000	BD '000
Commercial loans and overdrafts	1,287,340	1,156,898
Consumer loans	217,785	202,105
	1,505,125	1,359,003
Less: Allowance for impairment and interest in suspense	(98,406)	(82,687)
	1,406,719	1,276,316

Movements in allowance for impairment and interest in suspense are as follows:

2011	Commercial loans and overdrafts	Consumer loans	Total
	BD '000	BD '000	BD '000
Balance at 1 January	74,359	8,328	82,687
Charge for the year	12,883	5,418	18,301
Recoveries/write-backs	(511)	(1,328)	(1,839)
Interest suspended during the year	3,308	8	3,316
Amounts written off during the year	(1,860)	(1,279)	(3,139)
Interest recovered on impaired loans	(1,433)	(4)	(1,437)
Exchange and other movements	530	(13)	517
Balance at 31 December	87,276	11,130	98,406
Individual impairment	71,730	11,120	82,850
Collective impairment	15,546	10	15,556
Gross amount of loans, individually determined to be impaired	116,690	20,882	137,572

2010	Commercial loans and overdrafts	Consumer loans	Total
	BD '000	BD '000	BD '000
Balance at 1 January	57,826	6,544	64,370
Charge for the year	19,049	3,972	23,021
Recoveries/write-backs	(4,050)	(1,253)	(5,303)
Interest suspended during the year	2,431	7	2,438
Amounts written off during the year	(836)	(908)	(1,744)
Interest recovered on impaired loans	(744)	-	(744)
Exchange and other movements	683	(34)	649
Balance at 31 December	74,359	8,328	82,687
Individual impairment	60,643	8,311	68,954
Collective impairment	13,716	17	13,733
Gross amount of loans, individually determined to be impaired	93,785	29,978	123,763

The fair value of the collateral consisting of cash, securities, letters of guarantee and real estate that the Group holds relating to loans individually determined to be impaired at 31 December 2011 amounts to BD 70,706 thousand (2010: BD 56,330 thousand).

8. Non-trading investment securities

	Available-for-sale	Carried at amortised cost	Total 2011	Total 2010
	BD '000	BD '000	BD '000	BD '000
Quoted investments				
Government bonds	142,700	6,374	149,074	104,050
Other bonds	176,329	-	176,329	149,303
Equities	33,516	-	33,516	28,421
Managed funds	-	-	-	2,855
	352,545	6,374	358,919	284,629
Unquoted investments				
Government bonds	72,646	72,689	145,335	96,581
Other bonds	82,239	6,103	88,342	64,452
Equities	36,221	-	36,221	33,873
Managed funds	6,541	-	6,541	8,551
	197,647	78,792	276,439	203,457
	550,192	85,166	635,358	488,086
Allowance for impairment	(71,443)	-	(71,443)	(62,658)
Balance at 31 December 2011	478,749	85,166	563,915	
Balance at 31 December 2010	365,697	59,731		425,428

Included under available-for-sale investments are unquoted investments amounting to BD 122,668 thousand (2010: BD 83,756 thousand), which are recorded at cost since their fair value cannot be reliably estimated. There is no market for these investments and the Group intends to hold them for the long term.

Impaired investments

Gross amount of investments, determined to be impaired, before deducting any assessed impairment allowance:

	2011 Available -for-sale	2010 Available -for-sale
	BD '000	BD '000
Impaired investments	63,306	59,107

Allowance for impairment

The movements in allowance for impairment of non-trading investment securities are as follows:

	2011	2010
	BD '000	BD '000
Balance at 1 January	62,658	65,225
Charge for the year	9,048	6,001
Recoveries	-	-
Amounts written off	(1,325)	(7,959)
Exchange and other movements	1,062	(609)
Balance at 31 December	71,443	62,658

9. Investments in associated companies and joint venture

The Group has a 23 per cent (2010: 23 per cent) shareholding in Bahrain Commercial Facilities Company B.S.C. (BCFC), incorporated in the Kingdom of Bahrain, which is engaged in consumer financing, insurance, dealing in real estate and automobiles.

The Group has a 50 per cent (2010: 50 per cent) stake in Sakana Holistic Housing Solutions B.S.C. (c) (Sakana), a jointly controlled company incorporated in the Kingdom of Bahrain which is engaged in Islamic real estate financing.

The Group has a 22 per cent (2010: 22 per cent) shareholding in The Benefit Company B.S.C. (c) incorporated in the Kingdom of Bahrain which is engaged in ancillary services to provide payment systems and other related financial services for the benefit of commercial banks and their customers in the Kingdom of Bahrain.

The Group has a 36.36 per cent (2010: 36.36 per cent) stake in EBLA Computer Consultancy K.S.C.C. EBLA Computer Consultancy K.S.C.C was incorporated in Kuwait and is engaged in the provision of IT solutions and IT consultancy services in the Middle East.

The Group has a 24 per cent (2010: nil) shareholding in Saudi MAIS Company for Medical Products through Capinnova Medical which is a special purpose vehicle company incorporated in the Kingdom of Saudi Arabia owned by Capinnova Investment Bank.

Effective from 28 September 2011, as a result of settlement of a murabaha facility, the Group acquired a 35 per cent equity stake for a net consideration of USD 16,450 thousand (BD 6,202 thousand), in Diyaar Al Harameen Al Ola Limited (Diyaar), a company incorporated in the Cayman Islands. Diyaar holds 100 per cent beneficial interest in a hotel in Makkah (2010: nil).

The following tables illustrate summarised financial information of the Group's interest in these entities:

	2011	2010
	BD '000	BD '000
Carrying amount of investment in associated companies and joint venture		
At 1 January	35,120	27,472
Acquisitions during the year	15,128	6,866
Share of profit	3,340	2,328
Dividends received from associated company	(3,029)	(1,383)
Change in unrealised fair values - associated companies *(note 17)*	568	(163)
At 31 December	51,127	35,120

	2011	2010
	BD '000	BD '000
Share of associated companies and joint venture statements of financial position		
Current and non-current assets	98,100	73,487
Current and non-current liabilities	(46,973)	(38,367)
Net assets	51,127	35,120
Share of associated companies and joint venture revenues		
Revenue	3,678	3,387

10. Interest receivable and other assets

	2011	2010
	BD '000	BD '000
Interest receivable	8,701	6,367
Accounts receivable	5,603	8,305
Positive fair value of derivatives (note 26)	4,274	1,292
Prepaid expenses	2,542	627
Deferred tax	305	-
Advance tax	-	231
Collateral pending sale	50	50
Other	6,474	4,224
	27,949	21,096

11. Premises and equipment

	Freehold land	Leasehold properties and buildings	Furniture and equipment	Capital work in progress	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
Net book value at 31 December 2011	**13,198**	**4,944**	**10,045**	**418**	**28,605**
Net book value at 31 December 2010	12,819	5,183	10,776	304	29,082

The depreciation charge for the year amounted to BD 3,447 thousand (2010: BD 3,261 thousand).

12. Term borrowings

The term borrowings were obtained for general financing purposes and comprise:

Amount of facility	Rate of interest	Maturity Year	2011	2010
USD '000			BD '000	BD '000
500,000	Libor + 0.45%	2011	-	120,750
145,140	Libor + 0.75%	2017	8,509	61,029
129,860	Libor + 1.75%	2018	39,606	-
500,000	4.50%	2015	188,500	188,500
			236,615	370,279

In 2011, the Bank bought back BD 3,563 thousand of its own subordinated debt, carrying a rate of interest of Libor + 0.75 per cent and with maturity of 2017 resulting in a profit of BD 573 thousand, which is included in other income. In 2010, the Bank bought back BD 75,205 thousand of its own subordinated debt, carrying rate of interest of Libor + 0.75 per cent and with maturity of 2017 and senior notes, carrying rate of interest of Libor + 0.45 per cent and with maturity of 2011 resulting in a profit of BD 2,227 thousand, which is included in other income.

During 2011, the Group issued notes of USD 104,680 thousand / BD 39,606 thousand at 3 month LIBOR + 1.75 per cent per annum maturing 2018 in exchange for USD129,860 thousand / BD 48,957 thousand at 3 month LIBOR + 0.75 per cent maturing 2017 (2010: nil).

During 2011, on maturity the Group redeemed term borrowings of BD 120,939 thousand, carrying interest rate of Libor + 0.45 per cent.

During 2010, the Group issued notes of USD 500,000 thousand / BD 188,500 thousand 4.5 per cent fixed per annum) at 4.5 per cent fixed per annum.

13. Customers' current, savings and other deposits

	2011	2010
	BD '000	BD '000
Term deposits	1,171,347	1,005,987
Current accounts	594,150	309,954
Savings accounts	240,504	209,871
Other accounts	70,213	67,764
	2,076,214	1,593,576

14. Interest payable and other liabilities

	2011	2010
	BD '000	BD '000
Accrued expenses	26,838	20,158
Interest payable	9,266	7,292
Accounts payable	8,970	9,986
Negative fair value of derivatives *(note 26)*	14,307	5,580
Other	11,397	2,585
	70,778	45,601

15. Equity

Share capital

	2011	2010
	BD '000	BD '000
Authorised		
1,000,000,000 shares of BD 0.100 each	100,000	100,000
Issued and fully paid		
851,356,122 shares (2010: 851,356,122 shares) of BD 0.100 each	85,135	85,135
Treasury stock *(see below)*	(4,445)	(3,742)

Treasury stock represents the purchase by the Bank of its own shares. At the end of the year, the Bank held 13,832,307 (2010: 12,156,806) of its own shares, inclusive of bonus shares issued during 2010. The treasury stock includes 2,773,443 shares which have been purchased for Employee Performance Share Plan. Treasury stock does not carry the right to vote or to receive dividends.

Share premium

The share premium arising on issue of ordinary shares is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

Employee Performance Share Plan

The Group has an Employee Performance Share Plan under which shares are granted to certain eligible employees *(note 40)*.

16. Reserves

Statutory reserve

The statutory reserve has been created in accordance with the Bahrain Commercial Companies Law. The Bank transfers 10 per cent of its annual profits to its statutory reserve till such time as the reserve equals 50 per cent of the issued share capital of the Bank. The reserve is not available for distribution, except in circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

General reserve

The general reserve has been built up in accordance with the provisions of the Bank's articles of association and underlines the shareholders' commitment to enhance the strong equity base of the Bank. The general reserve is distributable subject to the approval of the Central Bank of Bahrain.

17. Cumulative changes in fair values

	2011	2010
	BD '000	BD '000
Available-for-sale investments		
At 1 January	(4,714)	2,512
Gains realised on sale during the year	(1,195)	(11,295)
Transferred to statement of income on impairment	6,325	1,296
Change in unrealised fair values during the year	(15,425)	2,773
At 31 December	(15,009)	(4,714)
Cash flow hedges		
At 1 January	(1,751)	(1,588)
Change in unrealised fair values - associated companies *(note 9)*	568	(163)
At 31 December	(1,183)	(1,751)
	(16,192)	(6,465)

18. Proposed appropriations

	2011	2010
	BD '000	BD '000
Dividend	**20,938**	20,980
Transfer to general reserve	**3,500**	9,000
Donations	**1,500**	1,700
	25,938	31,680

The Board of Directors has proposed a cash dividend of BD 0.025 per share (2010: BD 0.025 per share), net of treasury stock. The Bank paid dividend of BD 0.025 per share (2010: BD 0.025 per share).

The above appropriations will be submitted for formal approval at the Annual General Assembly of the Shareholders to be held on 11 March 2012. The payment of dividend is also subject to the approval of the Central Bank of Bahrain.

19. Interest and similar income

	2011	2010
	BD '000	BD '000
Loans and advances to customers	**71,214**	68,741
Non-trading investment securities - available-for-sale	**12,571**	9,262
Deposits and due from banks and other financial institutions	**2,902**	3,418
Non-trading investment securities - amortised cost	**2,149**	1,513
Notional interest on impaired financial assets - loans and advances to customers *(note 7)*	**1,437**	744
Treasury bills	**2,080**	1,245
	92,353	84,923

20. Other income

	2011	2010
	BD '000	BD '000
Fee and commission income	**27,300**	27,322
Dividend income	**2,475**	2,905
Gain on sale of non-trading investment securities	**1,929**	19,128
Income from managed funds	**69**	84
Trading income	**44**	75
Gain on foreign exchange	**3,006**	3,331
Other	**13,204**	4,646
	48,027	57,491
Fee and commission expense	**(4,476)**	(4,469)
	43,551	53,022

Included in fee and commission income is BD 173 thousand (2010: BD 69 thousand) relating to trust and other fiduciary activities.

Other income for the year ended 31 December 2011 includes BD nil (2010: BD 17,135 thousand) relating to gain on sale of a non-trading investment security.

The Bank redeemed BD 3,563 thousand of its own subordinated debt and senior notes during the year (2010: BD 75,205 thousand) resulting in a profit of BD 573 thousand (2010: BD 2,227 thousand) which is included in other income. The prior year comparative has been reclassified from interest expense to other income as this is more appropriate. Other income – other includes gain on extinguishment of subordinated debt of BD 9,351 thousand (2010: nil), less transaction costs of BD 214 thousand. During 2011 as part of the exchange offer the Bank issued senior notes with substantially different terms as compared to the original subordinated debt. The new notes were issued at a discount that would be amortised in interest expense over the maturity of the senior note at the effective interest rate.

21. Basic and diluted earnings per share

Basic earnings per share

Basic earnings per share for the year are calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

	2011	2010
Profit for the year attributable to the shareholders of the Bank (BD '000)	**31,789**	39,142
Weighted average number of shares, net of treasury stock, outstanding during the year	**837,523,819**	839,199,320
Basic earnings per share (BD)	**0.038**	0.047

Diluted earnings per share

Diluted earnings per share is calculated by dividing the net profit attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive shares into ordinary shares.

	2011	2010
Profit for the year attributable to the shareholders of the Bank (BD '000)	**31,789**	39,142
Share based payment expense	**206**	501
Total	**31,995**	39,643
Weighted average number of shares, net of treasury stock, outstanding during the year	**837,523,819**	839,199,320
Share options	**-**	88,222
Employee performance share plan	**1,975,451**	2,003,046
Weighted average number of ordinary shares adjusted for the effect of dilution effect of dilution	**839,499,270**	841,290,588
Diluted earnings per share (BD)	**0.038**	0.047

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these financial statements which would require the restatement of earnings per share.

22. Operating segments

Segment information

For management purposes the Group is organised into four major business segments:

Retail banking	Principally handling individual customers' deposits and providing consumer finance type loans, overdrafts, credit facilities and funds transfer facilities, credit cards and foreign exchange.
Corporate banking	Principally handling loans and other credit facilities, deposit and current accounts for corporate and institutional customers in Bahrain.
International banking	Principally handling loans and other credit facilities, deposit and current accounts for international corporate and institutional customers. This also covers the operations of the overseas units.
Investment, treasury and other activities	Principally providing money market, trading and treasury services as well as the management of the Group's funding operations. Investment activities involve handling investments in local and international markets, investment advisory services and funds management. Other activities also include business process outsourcing services.

These segments are the basis on which the Group reports its information to the chief operating decision maker. Transactions between segments are generally recorded at estimated market rates on an arm's length basis. Interest is charged/credited to business segments based on a transfer pricing rate which approximates the marginal cost of funds on a matched funded basis.

22. Operating segments continued

Segment information continued

Segment information for the year ended 31 December 2011 was as follows:

2011	Retail banking	Corporate banking	International banking	Investment, treasury and other activities	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
Operating income before provisions	32,151	25,966	23,896	20,447	102,460
Net provision for impairment on loans and advances to customers	(4,166)	(3,388)	(8,908)	-	(16,462)
Net provision for impairment of non-trading investment securities	-	-	-	(9,048)	(9,048)
Segment result	8,774	9,966	6,168	3,611	28,519
Income from associated companies and joint venture					3,340
Profit for the year					31,859
Profit attributable to non-controlling interest					(70)
Profit for the year attributable to the shareholders of the Bank					31,789
Segment assets	336,756	549,623	1,097,286	704,700	2,688,365
Investment in associated companies and joint venture					51,127
Common assets					25,562
Total assets					2,765,054
Segment liabilities	493,408	746,256	694,524	550,964	2,485,152
Common liabilities					41,883
Total liabilities					2,527,035

Segment information for the year ended 31 December 2010 was as follows:

2010	Retail banking	Corporate banking	International banking	Investment, treasury and other activities	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
Operating income before provisions	30,943	19,187	34,167	22,453	106,750
Net provision for impairment on loans and advances to customers	(3,129)	(2,447)	(12,142)	-	(17,718)
Net provision for impairment of non-trading investment securities	-	-	-	(6,001)	(6,001)
Segment result	10,584	3,094	11,161	11,982	36,821
Income from associated companies and joint venture					2,328
Profit for the year					39,149
Profit attributable to non-controlling interest					(7)
Profit for the year attributable to the shareholders of the Bank					39,142
Segment assets	312,595	502,979	897,679	675,626	2,388,879
Investment in associated companies and joint venture					35,120
Common assets					23,178
Total assets					2,447,177
Segment liabilities	447,029	769,008	619,063	343,131	2,178,231
Common liabilities					28,404
Total liabilities					2,206,635

Geographic information

The Group operates in five geographic markets: Domestic (Bahrain), Others (Middle East/Africa, Europe, North America and Asia). The following tables show the distribution of the Group's revenue and non-current assets by geographical segment, allocated based on the location in which the assets and liabilities are located, for the years ended 31 December 2011 and 31 December 2010:

	Domestic	Others	Total
	BD '000	BD '000	BD '000
31 December 2011			
Net interest income	**50,044**	**8,865**	**58,909**
Share of profit in associated companies and joint venture	**2,234**	**1,106**	**3,340**
Other income	**41,802**	**1,749**	**43,551**
	94,080	**11,720**	**105,800**
Non-current assets	**23,519**	**5,086**	**28,605**
31 December 2010			
Net interest income	45,167	8,561	53,728
Share of profit in associated companies and joint venture	1,370	958	2,328
Other income	37,892	15,130	53,022
	84,429	24,649	109,078
Non-current assets	23,837	5,245	29,082

Non-current assets represents premises and equipment.

23. Cash and cash equivalents

Cash and cash equivalents included in the consolidated statement of cash flows include the following consolidated statement of financial position amounts:

	2011	2010
	BD '000	BD '000
Cash *(note 4)*	**12,884**	10,385
Current accounts and placements with central banks *(note 4)*	**152,268**	287,954
Treasury bills	**15,565**	417
Deposits and due from banks and other financial institutions with an original maturities of ninety days or less	**133,052**	118,144
	313,769	416,900

24. Related party transactions

Related parties represent major shareholders, associates and the joint venture, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

Amounts outstanding as of the statement of financial position date in respect of transactions entered into with related parties were as follows:

	Major shareholders	Associated companies and joint venture	Directors and key management	Total
	BD '000	BD '000	BD '000	BD '000
2011				
Loans and advances to customers	**-**	**2,000**	**1,709**	**3,709**
Customers' current, savings and other deposits	**337,866**	**2,805**	**1,894**	**342,565**
2010				
Loans and advances to customers	-	8,672	1,244	9,916
Customers' current, savings and other deposits	205,590	470	1,985	208,045

No provision is required in respect of loans given to related parties (2010: nil).

The income and expense in respect of related parties included in the consolidated statement of income are as follows:

	Major shareholders	Associated companies and joint venture	Directors and key management	Total
	BD '000	BD '000	BD '000	BD '000
2011				
Interest income	**-**	**11**	**2**	**13**
Interest expense	**3,853**	**2**	**2**	**3,857**
2010				
Interest income	16	572	18	606
Interest expense	6,967	-	32	6,999

Compensation of the key management personnel is as follows:

	2011	2010
	BD '000	BD '000
Short term employee benefits	**7,174**	7,702
Others	**324**	617
	7,498	8,319

Key management interest in an employee share incentive scheme

During the year the Bank has introduced a new share-based payment scheme refer *(note 40)* for details.

25. Maturity analysis of assets and liabilities

The maturity profile of the assets and liabilities at 31 December 2011 given below reflects management's best estimates of the maturities of assets and liabilities. These have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date, except in the case of customer deposits. The liquidity profile of customer deposits has been determined on the basis of the effective maturities indicated by the Group's deposit retention history.

31 December 2011	Within 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Subtotal	1 to 5 years	5 to 10 years	10 to 20 years	More than 20 years	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Assets										
Cash and balances with central banks	165,152	-	-	-	165,152	-	-	-	62,821	227,973
Treasury bills	112,981	77,548	4,969	19,788	215,286	-	-	-	-	215,286
Deposits and due from banks and other financial institutions	217,416	24,692	-	1,029	243,137	343	-	-	-	243,480
Loans and advances to customers	66,440	134,581	107,881	164,223	473,125	485,823	243,189	42,807	161,775	1,406,719
Non-trading investment securities	286,890	25,796	38,545	46,164	397,395	74,129	38,923	228	53,240	563,915
Investments in associated companies and joint venture	-	-	-	-	-	-	-	-	51,127	51,127
Interest receivable and other assets	24,473	116	162	53	24,804	2,614	-	-	531	27,949
Premises and equipment	-	-	-	-	-	-	-	-	28,605	28,605
Total assets	873,352	262,733	151,557	231,257	1,518,899	562,909	282,112	43,035	358,099	2,765,054
Liabilities										
Deposits and due to banks and other financial institutions	105,475	10,285	1,067	25,534	142,361	-	-	-	-	142,361
Borrowings under repurchase agreement	1,067	-	-	-	1,067	-	-	-	-	1,067
Term borrowings	-	-	-	-	-	188,500	48,115	-	-	236,615
Customers' current, savings and other deposits	284,327	149,241	35,122	25,267	493,957	16,734	-	-	1,565,523	2,076,214
Interest payable and other liabilities	61,816	2,349	2,108	1,423	67,696	2,688	94	-	300	70,778
Total liabilities	452,685	161,875	38,297	52,224	705,081	207,922	48,209	-	1,565,823	2,527,035
Net	420,667	100,858	113,260	179,033	813,818	354,987	233,903	43,035	(1,207,724)	238,019
Cumulative	420,667	521,525	634,785	813,818		1,168,805	1,402,708	1,445,743	238,019	

31 December 2010	Within 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Subtotal	1 to 5 years	5 to 10 years	10 to 20 years	More than 20 years	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Assets										
Cash and balances with central banks	298,158	-	-	-	298,158	-	-	-	60,768	358,926
Treasury bills	40,410	35,948	5,798	48,016	130,172	-	-	-	-	130,172
Deposits and due from banks and other financial institutions	138,701	30,717	-	-	169,418	1,619	-	-	-	171,037
Loans and advances to customers	108,549	97,126	62,007	99,749	367,431	445,210	289,896	48,019	125,760	1,276,316
Non-trading investment securities	181,172	18,636	34,756	13,487	248,051	68,844	50,576	3,940	54,017	425,428
Investments in associated companies and joint venture	-	-	-	-	-	-	-	-	35,120	35,120
Interest receivable and other assets	19,775	207	177	109	20,268	233	-	-	595	21,096
Premises and equipment	-	-	-	-	-	-	-	-	29,082	29,082
Total assets	786,765	182,634	102,738	161,361	1,233,498	515,906	340,472	51,959	305,342	2,447,177
Liabilities										
Deposits and due to banks and other financial institutions	159,878	10,057	38	25,528	195,501	-	-	-	-	195,501
Borrowings under repurchase agreement	1,678	-	-	-	1,678	-	-	-	-	1,678
Term borrowings	-	120,939	-	-	120,939	188,311	61,029	-	-	370,279
Customers' current, savings and other deposits	184,692	101,326	70,628	27,665	384,311	12,634	-	-	1,196,631	1,593,576
Interest payable and other liabilities	44,607	311	218	152	45,288	119	-	-	194	45,601
Total liabilities	390,855	232,633	70,884	53,345	747,717	201,064	61,029	-	1,196,825	2,206,635
Net	395,910	(49,999)	31,854	108,016	485,781	314,842	279,443	51,959	(891,483)	240,542
Cumulative	395,910	345,911	377,765	485,781		800,623	1,080,066	1,132,025	240,542	

26. Derivatives

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price in one or more underlying financial instrument, reference rate or index. In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. The use of derivatives is governed by the Group's policies approved by the Board of Directors. The Group enters into derivative contracts for the purpose of reducing risks from potential movements in foreign exchange rates and interest rates inherent in the Group's non-trading assets and liabilities. The Group also enters into derivative contracts for the purpose of trading.

The table below shows the positive and negative fair values of derivative financial instruments together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end but are neither indicative of the Market Risk nor Credit Risk.

31 December 2011	Positive fair value	Negative fairvalue	Notional amount
	BD '000	BD '000	BD '000
Derivatives held for trading			
Forward foreign exchange contracts	2,426	1,097	49,667
Options	-	-	295
Derivatives held as fair value hedges			
Interest rate swaps	80	12,580	367,873
Forward foreign exchange contracts	1,768	630	181,722
	4,274	14,307	599,557

31 December 2010	Positive fair value	Negative fair value	Notional amount
	BD '000	BD '000	BD '000
Derivatives held for trading			
Forward foreign exchange contracts	298	262	20,211
Options	95	95	3,496
Derivatives held as fair value hedges			
Interest rate swaps	456	4,587	206,693
Forward foreign exchange contracts	443	636	161,206
	1,292	5,580	391,606

Derivative product types

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements. Forward rate agreements are effectively tailor-made interest rate futures which fix a forward rate of interest on a notional amount, for an agreed period of time starting on a specified future date.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For currency swaps, fixed or floating interest payments and notional amounts are exchanged in different currencies.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Group does not engage in the writing of options.

Derivatives held or issued for trading purposes

Most of the Group's derivative trading activities relate to back to back customer deals. In addition, the Group takes certain foreign exchange positions with the expectation of profiting from favourable movements in prices, rates or indices. Also included under this heading are derivatives which do not meet IAS 39 hedging requirements.

Derivatives held or issued for hedging purposes

The Group has put in place systems for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange rates (currency risk) and interest rates through asset and liability management activities. It is the Group's policy to reduce its exposure to currency and Interest Rate Risks to acceptable levels as determined by the Board of Directors. For strategies adopted to manage interest rate and currency risk, please refer notes 35 and 36 respectively.

As part of its asset and liability management the Group uses derivatives for hedging currency and interest rate movements. This is achieved by hedging specific financial instruments, forecasted transactions as well as strategic hedging against consolidated statement of financial position sheet exposures. In all such cases the objective of the hedging relationship, details of the hedged item and hedging instrument are documented and the transactions are accounted for as fair value or cash flow hedges, as the case may be.

Fair value hedges

Fair value hedges are used by the Group to protect it against changes in the fair value of financial assets and financial liabilities due to movements in exchange rates and interest rates. The financial instruments hedged for Interest Rate Risk include loans, available-for-sale debt securities, debt issued and other borrowed funds. The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks, and interest rate swaps to hedge Interest Rate Risk.

For the year ended 31 December 2011, the Group recognised a net gain of BD 795 thousand (2010: net loss of BD 353 thousand), representing the gain on the hedging instruments. The total gain on hedged items attributable to the hedged risk amounted to BD 717 thousand (2010: gain of BD 354 thousand).

27. Commitments and contingent liabilities

Credit-related commitments

Credit-related commitments include commitments to extend credit, standby letters of credit, guarantees and acceptances which are designed to meet the requirements of the Group's customers.

Commitments to extend credit represent the unused portions of contractual commitments to make loans and revolving credits, principally in the form of loans and advances, guarantees and letters of credit. With respect to Credit Risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most of the commitments to extend credit are contingent upon the customer maintaining specific credit standards. Commitments generally have fixed expiration dates of less than one year or other termination clauses. Since commitments may expire without being drawn upon, the total contracted amounts do not necessarily represent future cash requirements.

Letters of credit, guarantees (including standby letters of credit) and acceptances commit the Group to make payments on behalf of customers contingent upon certain conditions. Standby letters of credit, which are included under guarantees, would have Market Risk if issued or extended at a fixed rate of interest. However, these contracts are primarily made at a floating rate.

27. Commitments and contingent liabilities continued

Credit-related commitments continued

The Group has the following credit related commitments:

31 December 2011	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Contingencies						
Letters of credit	6,176	34,519	14,102	-	-	54,797
Guarantees	18,930	52,431	207,760	10,094	354	289,569
Acceptances	2,384	3,932	7,451	26	-	13,793
						358,159
Commitments						
Undrawn loan commitments	30,193	23,169	89,012	3,750	-	146,124
Commitments in respect of investments	-	-	-	396	-	396
						146,520
						504,679

31 December 2010	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Contingencies						
Letters of credit	5,035	32,173	26,469	-	-	63,677
Guarantees	21,480	46,569	190,219	6,147	3,720	268,135
Acceptances	1,920	10,603	10,340	-	-	22,863
						354,675
Commitments						
Undrawn loan commitments	35,612	26,381	107,442	7,914	6,063	183,412
Commitments in respect of investments	-	-	-	452	-	452
						183,864
						538,539

The Group does not expect all its commitments to be drawn before the expiry of the commitment.

As at 31 December 2011, the Group had no capital commitments (2010: same).

Lease commitments

Operating lease commitments – Group as lessee

The Group has entered into commercial leases on premises. Future minimum lease payments under non-cancellable operating leases as at 31 December are as follows:

	2011	2010
	BD '000	BD '000
Within one year	433	407
After one year but not more than five years	1,630	1,628
More than five years	2,581	2,778
	4,644	4,813

28. Risk Management

Efficient and timely management of risks involved in the Group's activities is critical for the financial soundness and profitability of the Group. Risk Management involves the identifying, measuring, monitoring and managing of risks on a regular basis. The objective of Risk Management is to increase shareholders' value and achieve a return on equity that is commensurate with the risks assumed. To achieve this objective, the Group employs leading risk management practices and recruits skilled and experienced people.

As with other financial institutions, the Group faces a range of risks in its business and operations including (i) Credit Risk; (ii) Market Risk (comprising of Interest Rate Risk, currency risk and equity price risk); (iii) Liquidity Risk, (iv) Legal Risk and (v) Operational Risk, as detailed below.

The Board of Directors of the Bank has overall responsibility for managing risks. Whilst the Board approves and periodically reviews risk management policies and strategies of the Group, the management establishes procedures to implement the policies and strategies. The Risk Management Committee (RMC) and Asset and Liability Management Committee (ALMC), comprising Executive and Senior Management, are high level management committees responsible for the overall management of the risk profile of the Group. RMC discusses important risk related issues, policies, procedures and reviews implementation of its decisions. ALMC reviews issues relating to the statement of financial position at a micro level.

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

The Credit Management Department (CMD) processes credit applications and ensures that the provisions of Credit Risk policies are complied with. The CMD generates regular reports on Credit Risk exposures, performs credit rating reviews and monitors credit limits. The Heads of RMD and CMD report directly to the Chief Executive of the Bank, thereby ensuring the independence of the risk management process.

The internal audit department assess whether the policies and procedures are complied with and, if necessary, suggest ways of further improving internal procedures.

The various risks to which the Group is exposed to and how the Group manages them is discussed in the following paragraphs.

29. Credit Risk and concentration of Credit Risk

Credit Risk is the risk that one party to a financial instrument will fail to discharge an obligation and thereby cause the other party to incur a financial loss. Concentration of Credit Risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features, fail to meet contractual obligations, due to them being affected by changes in economic, political or other conditions.

Credit Risk in derivative financial instruments arises from potential counterparty default on contractual obligations and it is limited to the positive fair value in favour of the Group.

The Group attempts to control Credit Risk by monitoring credit exposures continuously, limiting transactions with specific counterparties, assessing the creditworthiness of counterparties, diversifying lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses, and by obtaining security wherever necessary and appropriate. In addition to monitoring credit limits, the Group manages credit exposures by entering into netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposures.

The Group has well defined policies and procedures for identifying, measuring, monitoring and controlling Credit Risk in all of the Group's activities, at the level of individual credit and at portfolio level. Credit limits are approved after a thorough assessment of the creditworthiness of the borrower or counterparty, including the purpose and structure of the credit, and its source of repayment. Credit proposals are reviewed by the Credit Management Department (CMD) before approval by the appropriate approving authority is obtained. Such reviews are conducted independently of business units. CMD reports directly to the Chief Executive of the Bank. All policies relating to credit are reviewed and approved by the Board of Directors. An Executive Committee, consisting of eight senior Members of the Board of Directors, reviews and approves larger credits. In addition, all larger credits in excess of the approval authority of the Executive Committee are approved by the Board of Directors.

The Group devises specific business and risk strategies relating to corporate, retail, investments and treasury areas, within the ambit of the Group's risk policies and procedures. Any additional risks associated with such strategies are discussed in the RMC meetings and necessary risk control measures are applied through amendments to policies, procedures and circulars. The Group also draws up a comprehensive Risk Management Strategy every year and monitors the progress of that strategy.

Day-to-day monitoring of individual borrower or counterparty exposure is the responsibility of the respective business unit. The Group's Credit Administration Unit, a part of the CMD, ensures that credit facilities are released after appropriate approval and against proper documentation. It also monitors excesses over limits, past dues, expired credits and escalates exceptions if any, for corrective action.

Counterparty credit limits are established for all customers after careful assessment of their creditworthiness and approval as per the levels of authority (approved by the Executive Committee and the Board of Directors). These are also subject to large credit exposure limit criteria of the Central Bank of Bahrain and the local regulators in overseas locations. Standard procedures, outlined in the Group's Credit Procedures Manual, require that all credit proposals be subjected to a detailed screening by a designated Credit Officer who is part of a three signature approval process and functions independent of the business units.

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

The Group has a risk asset rating policy which defines criteria for rating risk assets. All credits are assigned a rating in accordance with the defined criteria. All lending relationships are reviewed at least once in a year and more frequently in case of non-performing assets (NPAs). The Internal Audit Department conducts an independent review of risk assets periodically and submits its report to Senior Management/Audit Committee. The Group endeavours continuously to improve upon the internal Credit Risk rating methodologies and Credit Risk management policies and practices, to reflect the true Credit Risk of the portfolio and the credit culture in the Group.

It is the Group's policy to ensure that provisions for credit loss are maintained at an adequate level. For loans and advances considered by the management as individually significant, specific provision is made for the impairment loss calculated on the basis of estimated discounted value of future cash flows in line with IAS 39 guidelines. For the remaining accounts, which are individually not significant, specific provision is made based on historic trends and the current economic environment. All provisions are approved by the Provision Committee, which comprises members of senior management.

Details of the composition of the loans, advances and overdraft portfolio are set out in note 7 to the consolidated financial statements.

The portfolio of non-performing assets is managed by skilled and experienced staff, under separate recovery / loan remedial units.

Details of the industry sector analysis and the geographical distribution of assets, liabilities and off statement of financial position items are set out in note 31.

30. Maximum exposure to Credit Risk without taking into account of any collateral and other credit enhancements

The table below shows the maximum exposure to Credit Risk for the components of the statement of financial position and for derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	2011	2010
	BD '000	BD '000
Balances with central banks	**215,090**	348,541
Treasury bills	**215,286**	130,172
Deposits and due from banks and other financial institutions	**243,480**	171,037
Loans and advances to customers	**1,406,719**	1,276,316
Non-trading investment securities	**498,162**	357,119
Interest receivable and other assets	**25,096**	20,238
	2,603,833	2,303,423
Contingent liabilities	**358,159**	354,675
Commitments	**146,520**	183,864
	504,679	538,539
	3,108,512	2,841,962

31. Concentration of assets, liabilities and off statement of financial position items

The distribution of assets, liabilities and credit commitments and contingencies by geographic region and industry sector was as follows:

2011	Assets	Liabilities	Credit commitments and contingencies
	BD '000	BD '000	BD '000
Gulf Co-operation Council countries	2,392,507	2,110,363	343,601
North America	44,500	4,922	10,524
European Union countries	78,941	271,224	36,723
Asia	226,625	77,474	94,751
Others	22,481	63,052	19,080
	2,765,054	2,527,035	504,679
Trading and manufacturing	445,174	101,008	147,573
Banks and other financial institutions	629,026	710,279	182,806
Construction and real estate	509,182	36,612	98,607
Government and public sector	781,904	914,220	11,010
Individuals	126,372	485,823	1,316
Others	273,396	279,093	63,367
	2,765,054	2,527,035	504,679

2010	Assets	Liabilities	Credit commitments and contingencies
	BD '000	BD '000	BD '000
Gulf Co-operation Council countries	2,216,671	1,700,584	422,054
North America	30,729	4,888	2,730
European Union countries	65,235	405,246	36,697
Asia	116,305	84,327	75,975
Others	18,237	11,590	1,083
	2,447,177	2,206,635	538,539
Trading and manufacturing	405,252	265,600	171,580
Banks and other financial institutions	911,444	602,943	179,810
Construction and real estate	333,423	54,259	121,782
Government and public sector	417,684	362,843	544
Individuals	195,059	454,601	6,687
Others	184,315	466,389	58,136
	2,447,177	2,206,635	538,539

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the Credit Risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, inventory and trade receivables, and bank guarantees
- For retail lending, mortgages over residential properties
- Cash collaterals such as bank deposits
- Marketable securities

The Group also obtains guarantees from parent companies for loans to their subsidiaries.

The Group monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

32. Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using internal and external Credit Risk ratings.

The table below shows the credit quality by class of asset for loan-related statement of financial position lines, based on the Group's credit rating system.

	Neither past due nor impaired				
31 December 2011	High grade	Standard grade	Watch list grade	Past due or individually impaired	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
Loans and advances to customers					
Commercial loans	175,575	751,139	235,614	125,012	1,287,340
Consumer loans	186,499	9,212	9,514	12,560	217,785
Total	362,074	760,351	245,128	137,572	1,505,125

	Neither past due nor impaired				
31 December 2010	High grade	Standard grade	Watch list grade	Past due or individually impaired	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
Loans and advances to customers					
Commercial loans	296,628	548,302	197,598	114,370	1,156,898
Consumer loans	175,652	11,681	5,379	9,393	202,105
Total	472,280	559,983	202,977	123,763	1,359,003

Internal Credit Risk ratings

The Group follows an internal rating mechanism for grading relationships under loans and advances.

The Group utilises a scale ranging from 1 to 10 for credit relationships, with 1 to 8 denoting performing grades, 9 and 10 non-performing, in line with Basel II guidelines. Grades 1 to 3 represents high grade, 4 to 5 represents standard grade and 6 to 8 represents watch-list grade.

All credits are assigned a rating in accordance with the defined criteria.

The Group endeavours continuously to improve upon the internal Credit Risk rating methodologies and Credit Risk management policies and practices to reflect the true underlying Credit Risk of the portfolio and the credit culture in the Group.

All lending relationships are reviewed at least once in a year and more frequently in the case of non-performing assets.

Past due loans and advances include those that are only past due by a few days. An analysis of past due loans, by age, is provided below.

Ageing analysis of past due but not impaired loans

31 December 2011	Less than 30 days	31 to 60 days	61 to 89 days	Total
	BD '000	BD '000	BD '000	BD '000
Loans and advances to customers				
Commercial loans	12,143	564	1,163	13,870
Consumer loans	391	192	139	722
Total	12,534	756	1,302	14,592

31 December 2010	Less than 30 days	31 to 60 days	61 to 89 days	Total
	BD '000	BD '000	BD '000	BD '000
Loans and advances to customers				
Commercial loans	13,704	993	8,041	22,738
Consumer loans	177	111	86	374
Total	13,881	1,104	8,127	23,112

The credit quality of other financial assets is managed by the Group using external credit ratings. The table below shows the credit quality by class of the financial assets.

	Neither past due nor impaired				
31 December 2011	High grade	Standard grade	Sub-standard grade	Past due or individually impaired	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
Deposits and due from banks and other financial institutions	209,377	34,103	-	-	243,480
Non-trading investment securities					
Bonds	288,897	209,102	-	61,084	559,083
Equities	67,344	925	-	1,468	69,737
Managed funds	5,786	-	-	754	6,540
	362,027	210,027	-	63,306	635,360
Total	571,404	244,130	-	63,306	878,840

	Neither past due nor impaired				
31 December 2010	High grade	Standard grade	Sub-standard grade	Past due or individually impaired	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
Deposits and due from banks and other financial institutions	130,955	40,082	-	-	171,037
Non-trading investment securities					
Bonds	294,045	62,739	714	56,888	414,386
Equities	57,535	3,118	176	1,465	62,294
Managed funds	8,886	1,766	-	754	11,406
	360,466	67,623	890	59,107	488,086
Total	491,421	107,705	890	59,107	659,123

Deposits and due from banks and other financial institutions under standard grade are unrated deposits which are rated based on the Group's internal ratings.

The following table shows the parameters used for classification of investments:

	S&P/ Fitch			Moody's		
High grade	Range from	AAA to	A-	Range from	Aaa to	A3
Standard grade	Range from	BBB+ to	B-	Range from	Baa1 to	B3
Sub-standard grade	Range from	CCC+ to	CCC-	Range from	Caa1 to	Caa3

High grade includes unrated investments amounting to BD 85,401 thousand (2010: BD 69,676 thousand). These mainly comprise of Sukuks issued by GCC governments and corporates.

33. Carrying amount of financial assets whose terms have been renegotiated

The table below shows the carrying amount for renegotiated financial assets, by class.

	2011	2010
	BD '000	BD '000
Loans and advances to customers		
Commercial loans	136,760	104,333
Consumer loans	3,156	2,888
	139,916	107,221

34. Market Risk

Market Risk is defined as the risk of potential loss that may arise from adverse changes in the value of a financial instrument or portfolio of financial instruments due to movements in interest rates, foreign exchange rates, equity, commodity prices and derivatives. This risk arises from asset - liability mismatches, changes that occur in the yield curve, foreign exchange rates and changes in volatilities/implied volatilities in the market value of derivatives.

The Group has clearly defined policies for conducting investment (including trading investments) and foreign exchange business which stipulates limits for these activities. Investments are made strictly in accordance with investment acceptance criteria. The Group does not undertake any commodity trading activities. For management of Market Risk arising from movement in interest rates, refer note 35.

The Group uses an internal Value-at-Risk (VaR) model for measuring general Market Risk in the trading book of the Group and all foreign exchange positions. The internal model was approved by the Central Bank of Bahrain. VaR is calculated using a 99 per cent confidence level for a 10 day holding period. This implies a 1 per cent possibility of the loss exceeding the VaR amount calculated by the model. As at 31 December, VaR calculated based on the above parameters was as follows:

	2011	2010
	BD '000	BD '000
Foreign exchange	75	93
Interest rate	-	2
	75	95

The Bank's Risk Management Department conducts backtesting in accordance with the Market Risk Capital Adequacy Regulations issued by the Central Bank of Bahrain to ensure that the VaR model and assumptions used for computing VaR numbers are reliable. Backtesting of 1 day VaR as per actual profit and loss (comparing 1 day VaR with the average actual daily profit and loss) and also hypothetical back testing (comparing 1 day VaR with derived profit and loss of static positions) is carried out on a daily basis as stipulated in the Central Bank of Bahrain Rule book. The objective is to ensure that the assumptions used for computing VaR are reasonable and provide a VaR number that is a good indicator of possible losses in trading positions. During the year, the backtesting produced satisfactory results.

The Group also conducts stress testing to identify events or influences that could greatly impact material trading positions taken by the Group. As per the Central Bank of Bahrain requirements, validation of the internal model is conducted by the Internal Audit Department of the Bank as well as by the External Auditors.

35. Interest rate risk management

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

It is the Group's policy to keep its assets and liabilities mismatches at stable and acceptable levels to maintain a steady net interest income. The Group monitors Interest Rate Risk based on gap / duration limits. The Group also uses 'what if' scenarios for projecting net interest income and economic value of equity of the Group. The Group uses derivative instruments such as interest rate swaps, floating rate agreements and bond futures to manage Interest Rate Risk. Whilst day to day management of Interest Rate Risk is responsibility of the Global Treasurer, ALMC also reviews the Interest Rate Risk reports periodically.

Based on the consolidated statement of financial position as at 31 December 2011 an increase of 100 basis point in interest rates, with all variables held constant, will result in an increase in the net interest income, for the following next 12 months, by approximately BD 5,712 thousand (2010: increase by BD 2,609 thousand). Similarly a decrease of 100 basis point in interest rates will result in a decrease in the net interest income by BD 5,712 thousand (2010: decrease by BD 2,609 thousand).

An increase of 100 basis point in interest rates, with all other variables held constant, will result in a negative impact on equity of approximately 3.1 per cent (2010:3.7 per cent). Similarly a decrease of 100 basis point in interest rates, with all other variables held constant, will result in a positive impact on equity of approximately 3.1 per cent (2010:3.7 per cent).

36. Currency risk

The functional currency of the Group is the Bahraini Dinar.

The Group had the following significant non-strategic net exposures denominated in foreign currencies as of the consolidated statement of financial position date:

	2011	2010
	BD '000	BD '000
	Equivalent long (short)	Equivalent long (short)
US dollar	**(6,052)**	(54,795)
Euro	**176**	85
GCC currencies (excluding Kuwaiti dinar)	**40,709**	44,897
Kuwaiti dinar	**3,347**	203
Others	**347**	489

As the Bahraini dinar and other GCC currencies (except the Kuwaiti dinar) are pegged to the US dollar (USD), positions in USD and other GCC currencies are not considered to represent a significant currency risk. For currency sensitivity impact refer to VaR (note 34).

The Board of Directors has established levels of currency risk by setting limits on currency position exposures. Positions are monitored on a daily basis to ensure that they are maintained within established limits. The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks.

37. Equity price risk

Equity price risk is the risk that the fair values of equities or managed funds decrease as a result of changes in the corresponding value of equity indices or the value of individual equity stocks. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

The effect on equity (as a result of a change in the fair value of equity instruments held as available-for-sale) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	Effect on equity		
	% change in Index	Total 2011	Total 2010
		BD '000	BD '000
Bahrain Bourse	+25%	**4,145**	5,370
Other GCC and other stock exchanges	+25%	**2,607**	1,637
		6,752	7,007

38. Liquidity Risk

Liquidity Risk is the risk that the Group will be unable to meet its funding requirements. Liquidity Risk can be caused by market disruptions or a credit downgrade which may cause certain sources of funding to dry up immediately. To guard against this risk, the Group has diversified funding sources, assets are managed with liquidity in mind and liquidity positions are monitored, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities. In addition, the Group maintains various statutory deposits with central banks and has taken lines of credit from various banks and financial institutions.

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

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

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

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

The table below summarizes the maturity profile of the Group's financial liabilities (including interest) based on contractual undiscounted repayment obligations.

31 December 2011	Within 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	10 to 20 years	More than 20 years	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Deposits and due to banks and other financial institutions	105,941	10,315	1,067	25,928	-	-	-	-	143,251
Borrowings under repurchase agreement	1,067	-	-	-	-	-	-	-	1,067
Term borrowings	-	310	4,670	4,980	215,263	48,708	-	-	273,931
Customers' current, savings and other deposits	1,231,146	471,003	229,815	149,392	26,983	29,116	-	-	2,137,455
Total undiscounted financial liabilities	1,338,154	481,628	235,552	180,300	242,246	77,824	-	-	2,555,704
Derivative financial instruments									
Contractual amounts payable	(1,273)	(76,946)	(3,568)	(82,992)	(175,549)	(84,544)	(10,831)	-	(435,703)
Contractual amounts receivable	467	77,667	1,675	81,678	160,598	77,471	10,614	-	410,170
	(806)	721	(1,893)	(1,314)	(14,951)	(7,073)	(217)	-	(25,533)

31 December 2010	Within 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	10 to 20 years	More than 20 years	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Deposits and due to banks and other financial institutions	183,716	10,237	939	25,471	-	-	-	-	220,363
Borrowings under repurchase agreement	1,678	-	-	-	-	-	-	-	1,678
Term borrowings	-	121,325	4,447	4,660	225,286	62,005	-	-	417,723
Customers' current, savings and other deposits	882,097	361,022	243,575	97,140	19,976	9	-	-	1,603,819
Total undiscounted financial liabilities	1,067,491	492,584	248,961	127,171	245,262	62,014	-	-	2,243,583
Derivative financial instruments									
Contractual amounts payable	(94,538)	(51,594)	(4,939)	(6,661)	(903)	(360)	(27)	-	(159,022)
Contractual amounts receivable	94,747	51,265	4,938	6,620	395	69	-	-	158,034
	209	(329)	(1)	(41)	(508)	(291)	(27)	-	(988)

39. Fair values of financial instruments

The table below sets out the estimated carrying values and fair values of those on and off statement of financial position financial instruments carried at amortised cost where fair values are materially different from the carrying amounts shown in the consolidated financial statements:

2011	Carrying value	Fair value	Difference
	BD '000	BD '000	BD '000
Financial liabilities			
Term borrowings	236,615	214,910	(21,705)
Financial assets			
Non-trading investment securities	85,166	85,030	(136)

2010	Carrying value	Fair value	Difference
	BD '000	BD '000	BD '000
Financial liabilities			
Term borrowings	266,793	254,864	(11,929)
Financial assets			
Non-trading investment securities	59,731	59,596	(135)

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 : quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2 : other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3 : techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy at 31 December 2011:

31 December 2011	Level 1	Level 2	Total
	BD '000	BD '000	BD '000
On statement of financial position			
Financial assets			
Bonds	320,764	297	321,061
Equities	27,113	4,212	31,325
Managed funds	-	3,695	3,695
	347,877	8,204	356,081
Financial liabilities			
Term borrowings *(note 12)*	-	-	-
Off statement of financial position			
Financial assets			
Derivatives held for trading	-	2,426	2,426
Derivatives held as fair value hedges	-	1,848	1,848
	-	4,274	4,274
Financial liabilities			
Derivatives held for trading	-	1,097	1,097
Derivatives held as fair value hedges	-	13,210	13,210
	-	14,307	14,307

31 December 2010	Level 1	Level 2	Total
	BD '000	BD '000	BD '000
On statement of financial position			
Financial assets			
Bonds	230,450	15,604	246,054
Equities	28,027	2,162	30,189
Managed funds	1,631	4,066	5,697
	260,108	21,832	281,940
Financial liabilities			
Term borrowings *(note 12)*	-	103,486	103,486
Off statement of financial position			
Financial assets			
Derivatives held for trading	-	393	393
Derivatives held as fair value hedges	-	899	899
	-	1,292	1,292
Financial liabilities			
Derivatives held for trading	-	358	358
Derivatives held as fair value hedges	-	5,223	5,223
	-	5,581	5,581

The Group had no level 3 investments during either the current or prior year.

Included under available-for-sale investments are unquoted investments amounting to BD 122,668 thousand (2010: BD 83,756 thousand) which are carried at cost.

Transfers between level 1, level 2 and level 3

During the reporting year ended 31 December 2011, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

40. Share-based payments

The expense recognised for employee services received during the year is shown in the following table:

	2011	2010
	BD '000	BD '000
Expense arising from equity-settled share-based payment transactions	397	397
Expense arising from modification to stock option plan	-	36
Expense arising from stock option transactions	6	68
Expense arising from stock option transactions 2010	(198)	-
Total expense arising from share-based payment transactions	205	501

During 2010, the Nomination and Remuneration Committee of the Bank modified the employees stock option plans for the previously granted stock options. The existing plan was discontinued with effect from 31 March 2010. The Bank moved to a new long-term incentive plan, which is referred to as the Employee Performance Share Plan (EPSP), which will award shares (rather than options) to executives. The details of the modifications to stock option plan and EPSP are described below:

Employee Performance Share Plan (EPSP)

Shares are granted to Senior Managers and above, with more than 12 months service at the date of grant and meeting certain performance criteria. The shares granted are subject to the satisfaction of conditions relating to the Bank's net profit over a three year period.

The Bank intends to utilise its existing treasury shares for the EPSP and may also choose to issue new shares to settle the EPSP in the future. The price of the shares granted was equal to the market price of the Bank's shares on the grant date.

The following table illustrates the number and cost per share of the shares granted during the year under the new scheme.

2011	Number of shares	Cost per share
		BD
Equity shares granted during the year	1,975,451	0.430

2010	Number of shares	Cost per share
		BD
Equity shares granted during the year	2,003,046	0.426

The market price of BBK B.S.C. shares at 31 December 2011 was BD 0.414 (2010: BD 0.430).

41. Capital adequacy

The risk asset ratio calculated in accordance with the capital adequacy guidelines approved by the Central Bank of Bahrain, for the Group is as follows:

	2011	2010
	BD '000	BD '000
Capital base:		
Tier 1 capital	253,152	234,267
Tier 2 capital	18,424	75,470
Total capital base (a)	271,576	309,737
Credit Risk weighted exposure	1,661,003	1,506,892
Operational Risk weighted exposure	163,610	156,152
Market Risk weighted exposure:	4,560	4,982
Total risk weighted exposure (b)	1,829,173	1,668,026
Capital adequacy (a/b * 100)	14.85%	18.57%
Minimum requirement	12.00%	12.00%

Capital management

The primary objectives of the Group's capital management policies are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

Basel II and Capital management

The Bank has adopted the new Basel II Capital Adequacy Framework (Basel II) with effect from 1 January 2008 as per the guidelines issued by the Central Bank of Bahrain which is enhancing the Bank's risk management process, supervisory review, disclosure standards and capital management.

The Bank has adopted the Standardized Approach in case of Credit Risk, the Internal Model Approach for Market Risk and the Basic Indicator Approach for Operational Risk.

The Bank has established its Internal Capital Adequacy Assessment Process (ICAAP) to provide policy guidance in Capital Planning and Capital Management. The Bank also uses Risk Adjusted Return on Capital (RAROC) model in its decision making process.

42. Legal and Operational Risk

Legal Risk

Legal Risk is the risk relating to losses due to legal or regulatory action that invalidates or otherwise precludes performance by the end user or its counterparty under the terms of the contract or related netting agreements.

The Group has developed preventive controls and formalised procedures to identify legal risks so that potential losses arising from non-adherence to laws and regulations, negative publicity, etc. are significantly reduced. The Group also has well established legal procedures to scrutinise product offerings and manage risks arising out of its transactions.

As at 31 December 2011, there were legal cases pending against the Group aggregating BD 0.856 thousand (2010: BD 0.872 thousand). Based on the opinion of the Group's legal advisors, the management believes that no liability is likely to arise from these cases.

Operational Risk

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

The Operational Risk department operates independently from other units of the Bank and reports directly to the Audit Committee, which consists of Members of the Board. It conducts regular reviews of all business areas of the Bank and reports control deficiencies and exceptions to the Bank's policies and procedures. It also recommends measures to mitigate Operational Risk, which are implemented by management immediately.

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

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

The Bank is using an Operational Risk management solution for monitoring Operational Risk, conducting risk and control self assessments and capturing operational loss data in accordance with Basel II / Central Bank of Bahrain guidelines.

The Bank's subsidiaries have similar contingency plans for their operations.

43. Deposit Protection Scheme

Deposits held with the Bahrain operations of the Bank are covered by the Deposit Protection Scheme (the Scheme) established by the Central Bank of Bahrain regulation concerning the establishment of the Deposit Protection Scheme and Deposit Protection Board. No liability is dues until one of the member commercial banks of the scheme is unable to meet its deposit obligations.

44. Staff Saving Scheme

The scheme is a contribution saving fund between the Bank and the employee of the Bank. It was introduced in January 1996 with the objective of providing the employees with a cash benefit upon resignation, retirement or death. Participation in the scheme is discretionary and the employee may contribute any amount. The Bank guarantees a corresponding contribution of an amount that is 3 per cent higher provided that total Bank contribution is not in excess of 10 per cent of the employees' salary. The employee becomes eligible for the full amount of the Bank contribution once the employee has completed 5 years of service, otherwise the entitlement is proportionately calculated. The scheme is managed by a committee, consisting of members from management and representatives nominated and selected by staff.

As at 31 December 2011 the total contribution fund including the earned income stands at BD 10,466 thousand (2010: BD 8,585 thousand). Out of the total fund amount, payment of the principal amount equal to BD 9,150 thousand (2010: BD 7,511 thousand) consisting of the respective staff and Bank's contribution is guaranteed by the Bank to employees participating in the scheme.

Basel II Pillar III disclosures

1. Executive Summary

This report has been prepared in accordance with Pillar III disclosure requirements prescribed by the Central Bank of Bahrain, herein referred to as (CBB).

CBB Basel II guidelines became effective on 1st January 2008 as the common framework for the implementation of the Basel Committee on Banking Supervision's (Basel Committee) Basel II capital adequacy framework for banks incorporated in the Kingdom of Bahrain.

The disclosures in this report are in addition to the disclosures set out in the consolidated financial statements for the year ended 31 December 2011 presented in accordance with the International Financial Reporting Standards (IFRS).

2. Introduction to the Basel II framework

The CBB's Basel II framework is based on three pillars, consistent with the Basel II framework developed by the Basel Committee, as follows:-

- Pillar I: calculation of the Risk Weighted Assets (RWAs) and capital requirement. The capital requirement has to be covered by own regulatory framework.
- Pillar II: the supervisory review process, including the Internal Capital Adequacy Assessment Process (ICAAP).
- Pillar III: rules for the disclosure of risk management and capital adequacy information.

Pillar I

Pillar I prescribes the basis for the calculation of the regulatory capital adequacy ratio. Pillar I sets out the definition and calculations of the RWAs, and the derivation of the regulatory capital base. The capital adequacy ratio is calculated by dividing the regulatory capital base by the total RWAs.

The resultant ratio is to be maintained above a predetermined and communicated level. Under the previously applied Basel I Capital Accord, the minimum capital adequacy ratio for banks incorporated in Bahrain was 12 per cent compared to the Basel Committee's minimum ratio of 8 per cent.

The CBB also requires banks incorporated in Bahrain to maintain a buffer of 0.5 per cent above the minimum capital adequacy ratio. In the event that the capital adequacy ratio falls below 12.5 per cent additional prudential reporting requirements apply, and a formal action plan setting out the measures to be taken to restore the ratio above the target level is to be formulated and submitted to the CBB. Consequently, the CBB requires BBK to maintain an effective minimum capital adequacy ratio of 12.5 per cent. No separate minimum tier 1 ratio is required to be maintained under the CBB's Basel II capital adequacy framework.

Under the CBB's Basel II capital adequacy framework, the RWAs are calculated using more sophisticated and risk sensitive methods than under the previous Basel I regulations. Credit Risk and Market Risk are two essential risk types that were included under Basel I, while Operational Risk has been introduced as a new risk type in the CBB's Basel II capital adequacy framework.

The table below summarises the approaches available for calculating RWAs for each risk type in accordance with the CBB's Basel II capital adequacy framework:

Approaches for determining regulatory capital requirements as per CBB guidelines

Credit Risk	Market Risk	Operational Risk
Standardised Approach	Standardised Approach	Basic Indicator Approach
Foundation Internal Ratings Based Approach (FIRB)	Internal Models Approach	Standardised Approach

The approach applied by BBK for each risk type is as follows:

i) Credit Risk

For regulatory reporting purposes, BBK is using the Standardised Approach for Credit Risk. The standardised approach is similar to the basis under the previous Basel I capital adequacy regulations, except for the use of external ratings to derive RWAs and the ability to use a wider range of financial collaterals. The RWAs are determined by multiplying the credit exposure by a risk weight factor dependent on the type of counterparty and the counterparty's external rating, where available.

ii) Market Risk

For the regulatory Market Risk capital requirement, BBK is using the Internal Model Approach based on Value-at-Risk (VaR) model. The use of the Internal Model Approach for the calculation of regulatory Market Risk capital has been approved by the CBB.

iii) Operational Risk

Under the CBB's Basel II capital adequacy framework, all banks incorporated in Bahrain are required to apply the Basic Indicator Approach for Operational Risk unless approval is granted by the CBB to use the Standardised Approach. The CBB's Basel II guidelines do not currently permit the use of the Advanced Measurement Approach (AMA) for Operational Risk. For regulatory reporting purposes, BBK is currently using the Basic Indicator Approach. Under the Basic Indicator Approach, the regulatory capital requirement is calculated by applying an alpha co-efficient of 15 per cent to the average gross income for the preceding three financial years.

Pillar II

Pillar II defines the process of supervisory review of an institution's risk management framework and, ultimately, its capital adequacy.

Under the CBB's Pillar II guidelines, all banks incorporated in Bahrain are required to maintain a 12 per cent minimum capital adequacy ratio.

Pillar II comprises of two processes:

- an Internal Capital Adequacy Assessment Process (ICAAP), and
- a supervisory review and evaluation process.

The ICAAP incorporates a review and evaluation of risk management and capital relative to the risks to which the bank is exposed. BBK has developed ICAAP document and it addresses all components of BBK's risk management, from the daily management of more material risks to the strategic capital management of the Group.

The supervisory review and evaluation process represents the CBB's review of the Group's capital management and an assessment of internal controls and corporate governance. The supervisory review and evaluation process is designed to ensure that institutions identify their material risks and allocate adequate capital, and employ sufficient management processes to support such risks.

The supervisory review and evaluation process also encourages institutions to develop and apply enhanced risk management techniques for the measurement and monitoring of risks in addition to the credit, market and Operational Risks addressed in the core Pillar I framework. Other risk types which are not covered by the minimum capital requirements in Pillar I include Liquidity Risk, Interest Rate Risk in the banking book, business risk and concentration risk. These are covered either by capital, or risk management and mitigation processes under Pillar II.

Pillar III

In the CBB's Basel II framework, the third pillar prescribes how, when, and at what level information should be disclosed about an institution's risk management and capital adequacy practices.

The disclosures comprise detailed qualitative and quantitative information. The purpose of the Pillar III disclosure requirements is to complement the first two pillars and the associated supervisory review process. The disclosures are designed to enable stakeholders and market participants to assess an institution's risk appetite and risk exposures and to encourage all banks, via market pressures, to move toward more advanced forms of risk management.

Under the current regulations, partial disclosure consisting mainly of quantitative analysis is required during half year reporting, whereas full disclosure is required to coincide with the financial year end reporting.

3. Group structure

The Group's financial statements are prepared and published on a full consolidation basis, with all subsidiaries being consolidated in accordance with IFRS. For capital adequacy purposes, all subsidiaries are included within the Group structure. However, the CBB's capital adequacy methodology accommodates both normal and aggregation forms of consolidation.

The principal subsidiaries, associates and joint ventures and basis of consolidation for capital adequacy purposes are as follows:

	Domicile	Ownership	Consolidation basis
Subsidiaries			
CrediMax B.S.C. (c)	Kingdom of Bahrain	100%	Full Consolidation
Invita B.S.C. (c)	Kingdom of Bahrain	100%	Full Consolidation
Capinnova Investment Bank B.S.C. (c)	Kingdom of Bahrain	100%	Aggregation
Global Payment Services W.L.L. (GPS) *	Kingdom of Bahrain	55%	Full Consolidation
Associates			
EBLA Computer Consultancy K.S.C.C. **	State of Kuwait	36%	Aggregation
Diyaar Al Harameen Al Ola Limited **	Cayman Islands	35%	Aggregation
Saudi MAIS Company for Medical Products **	Kingdom of Saudi Arabia	24%	Aggregation
Bahrain Commercial Facilities Company B.S.C. (c)	Kingdom of Bahrain	23%	Aggregation
The Benefit Company B.S.C. (c)	Kingdom of Bahrain	22%	Aggregation
Joint venture			
Sakana Holistic Housing Solutions B.S.C. (c) **	Kingdom of Bahrain	50%	Aggregation

** Shareholding through CrediMax subsidiary*
*** Shareholding through Capinnova Investment Bank*

There are no investments in subsidiaries that are treated as a deduction from the Group's regulatory capital. There are no restrictions on the transfer of funds or regulatory capital within the Group.

4. Capital components - consolidated

Tier one capital is defined as capital of the same or close to the character of paid-up capital and comprises share capital, share premium, retained earnings and eligible reserves. Eligible reserves include general reserve, statutory reserve, and unrealised losses arising from revaluation of equities classified as available-for-sale, and excludes unrealised losses arising from revaluation of debt securities classified as available-for-sale.

Tier two capital comprises interim profits, qualifying subordinated term finance, collective impairment provisions, and unrealised gains arising from revaluation of equities classified as available-for-sale, though limited to 45 per cent. It excludes unrealised gains arising from valuing debt securities classified as available-for-sale.

The subordinated term financing facilities, amounting to USD 22.570 million (initial amount raised USD 275 million), are part of its US $ 1 billion Euro Medium Term Deposits Notes Programme. These are issued for 10 years with a call option which can only be exercised starting 2012. The subordinated financing facilities have been approved for inclusion in tier two capital for regulatory capital adequacy purposes by the CBB.

The CBB applies various limits to elements of the regulatory capital base. The amount of innovative tier one securities cannot exceed 15 per cent of total tier one capital; qualifying tier two capital cannot exceed tier one capital; and qualifying subordinated term finance cannot exceed 50 per cent of tier one capital. There are also restrictions on the amount of collective impairment provisions that may be included as part of tier two capital.

In accordance with the CBB's Basel II capital adequacy framework, certain assets are required to be deducted from regulatory capital rather than included in RWAs. At 31st December 2011, BD 5.926 million (2010: BD 8.79 million) was deducted from regulatory capital in relation to securitisation exposures that were rated below BB- or were unrated. In accordance with the CBB's Basel II capital adequacy framework, the deductions are applied 50 per cent from tier one and 50 per cent from tier two capital.

There are no impediments on the transfer of funds or regulatory capital within the Group other than restrictions over transfers to ensure minimum regulatory capital requirements are met for subsidiary companies.

	December 2011	December 2010
	BD '000	BD '000
Tier 1 capital		
Share capital	**80,691**	81,393
General reserves	**36,000**	27,000
Statutory reserves	**42,568**	39,001
Share premium	**39,919**	39,919
Retained earnings and others	**22,895**	20,273
Non-controlling interest	**351**	281
Unrealised losses arising from fair valuing equities	**(3,571)**	(4,872)
Deductions from tier 1 capital	**(40,225)**	(40,304)
Total tier 1 capital	**178,628**	162,691
Tier 2 capital		
Current year profit	**31,789**	39,142
45% of unrealised gains arising from fair valuing equities	**2,796**	1,870
Collective impairment provisions	**15,556**	13,733
Subordinated term debt	**8,509**	61,029
Deductions from tier 2 capital	**(40,225)**	(40,304)
Total tier 2 capital	**18,425**	75,470
Total available capital (tier 1 + tier 2)	**197,053**	238,161
Aggregation	**74,525**	71,576
Total eligible capital	**271,578**	309,737

5. Capital adequacy

The Group's policy is to maintain a strong capital base so as to preserve investor, creditor and market confidence and to sustain the future development of the business. The impact of the level of capital on shareholders' return is also recognized as well as the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The Group manages its capital structure and makes adjustments to the structure taking account of changes in economic conditions and strategic business plans. The capital structure may be adjusted through the dividend payout, and the issue of new shares, and subordinated term finance.

BBK aims to maintain a minimum total capital adequacy ratio in excess of 15 per cent. The CBB's current minimum total capital adequacy ratio for banks incorporated in Bahrain is set at 12 per cent. The Capital Adequacy ratio of the Group at 31 December 2011 was 14.85 per cent (2010: 18.57 per cent).

Strategies and methods for maintaining a strong capital adequacy ratio

BBK prepares multi-year strategic projections on a rolling annual basis which include an evaluation of short term capital requirements and a forecast of longer-term capital resources.

Capital ratios - consolidated and subsidiaries above 5 per cent of Group capital

	December 2011		December 2010	
	Total capital ratio	Tier 1 capital ratio	Total capital ratio	Tier 1 capital ratio
BBK - Group	**14.85%**	**13.84%**	18.57%	14.04%
CrediMax	**84.19%**	**67.81%**	82.85%	55.14%
Capinnova Investment Bank	**75.58%**	**75.58%**	110.03%	110.03%

6. Credit Risk – Pillar III disclosures

This section describes the BBK's exposure to Credit Risk and provides detailed disclosures on Credit Risk in accordance with the CBB's Basel II framework in relation to Pillar III disclosure requirements.

Definition of exposure classes

BBK has a diversified on and off balance sheet credit portfolio, the exposures of which are divided into the counterparty exposure classes defined by the CBB's Basel II capital adequacy framework for the standardised approach for Credit Risk. A high-level description of the counterparty exposure classes, referred to as standard portfolios in the CBB's Basel II capital adequacy framework, and the generic treatments, i.e. the risk weights to be used to derive the RWAs, are as follows:

Sovereigns portfolio

The sovereigns portfolio comprises exposures to governments and their respective central banks. The risk weights are zero per cent for exposures in the relevant domestic currency, or in any currency for exposures to GCC sovereigns. Foreign currency claims on other sovereigns are risk weighted based on their external credit ratings.

Certain multilateral development banks as determined by the CBB may be included in the sovereigns portfolio and treated as exposures with a zero per cent risk weighting.

Public Sector Entities (PSE) portfolio

Claims on Bahraini PSEs, and claims on PSEs on domestic currency - which are assigned a zero per cent risk weight by their respective country regulator, can be assigned a zero per cent risk weight. All other PSEs are risk weighted according to their external ratings.

Banks portfolio

Claims on banks are risk weighted based on their external credit ratings. A preferential risk weight treatment is available for qualifying short term exposures. Short term exposures are defined as exposures with an original tenor of three months or less. The Bank's portfolio also includes claims on investment firms, which are risk weighted based on their external credit ratings, though without any option for preferential treatment for short term exposures.

Corporates portfolio

Claims on corporates are risk weighted based on their external credit ratings. A 100 per cent risk weight is assigned to exposures to unrated corporates. A preferential risk weight treatment is available for certain corporates owned by the Government of Bahrain, as determined by the CBB, which are assigned a zero per cent risk weight.

Regulatory retail portfolio

Claims on retail portfolio are risk weighted at 75 per cent, except for past due portfolio.

Mortgage portfolio

Claims which are fully secured by first mortgages on residential property that is or will be occupied by the borrower, or that is leased, must carry a risk weighting of 75 per cent. Claims secured mortgages on commercial real estate are subject to a minimum of 100 per cent risk weight. If the borrower is rated below BB-, the risk-weight corresponding to the rating of the borrower must be applied.

Equities portfolio

The equities portfolio comprises equity investments in the banking book, i.e. the available-for-sale securities portfolio. A 100 per cent risk weight is assigned to listed equities while unlisted equities are weighted at 150 per cent.

In addition to the standard portfolios, other exposures are assigned to the following exposure classes:

Investments in funds portfolio

The risk weight for claims on corporate will be used to determine the risk weight for investments in rated funds. Unrated funds will be assigned a risk weight of 100 per cent if listed, and 150 per cent if not listed.

Past due exposures

This includes claims, for which the repayment is overdue for more than ninety days. The risk weighting for such loans is either 100 per cent or 150 per cent is applied depending on the level of provisions maintained against the loan.

Holding of real estate

All holding of real estate by banks (owned directly or by the way of investments in real estate companies, subsidiaries or associated companies or other arrangements such as trusts, funds or REITS) must be risk weighted at 200 per cent. Premises occupied by the bank are weighted at 100 per cent.

Other assets and holdings of securitisation tranches

Other assets are risk weighted at 100 per cent. Securitisation tranches are risk weighted based on their external credit ratings. Risk weightings range from 20 per cent to 350 per cent. Exposures to securitisation tranches that are rated below BB- or are unrated are deducted from regulatory capital rather than subject to a risk weight.

All BBK's holding of securitisations is part of the bank's investment portfolio.

External rating agencies

BBK uses ratings issued by Standard & Poor's, Moody's and Fitch to derive the risk weightings under the CBB's Basel II capital adequacy framework. Where ratings vary between rating agencies, the highest rating from the lowest two ratings is used to represent the rating for regulatory capital adequacy purposes.

Credit Risk presentation under Basel II

The Credit Risk exposures presented in most of this report differ from the Credit Risk exposures reported in the consolidated financial statements. Differences arise due to the application of different methodologies, as illustrated below:

- Under the CBB's Basel II framework, off statement of financial position exposures are converted into credit exposure equivalents by applying a credit conversion factor (CCF). The off statement of financial position exposure is multiplied by the relevant CCF applicable to the off statement of financial exposure position category. Subsequently, the exposure is treated in accordance with the standard portfolios as referred to above in this report in the same manner as on statement of financial position exposures.
- Credit Risk exposure reporting under Pillar III is frequently reported by standard portfolios based on the type of counterparty. The financial statement presentation is based on asset class rather than the relevant counterparty. For example, a loan to a bank would be classified in the Banks standard portfolio under the capital adequacy framework although is classified in loans and advances in the consolidated financial statements.
- Certain eligible collateral is applied to reduce exposure under the Basel II capital adequacy framework, whereas no such collateral netting is applicable in the consolidated financial statements.
- Based on the CBB's Basel II guidelines, certain exposures are either included in, or deducted from, regulatory capital rather than treated as an asset as in the consolidated financial statements, e.g. unrated securitisation tranches.

7. Capital requirement for risk weighted exposure

31 December 2011	**Gross credit exposures (before risk mitigation)**	**Eligible financial collateral**	**Credit Risk after risk mitigation**	**Risk weighted asset**	**Regulatory capital required 12%**
	BD '000	BD '000	BD '000	BD '000	BD '000
Sovereign	**734,536**	**-**	**37,478**	**20,875**	**2,505**
Public sector entities	**181,107**	**-**	**36,456**	**14,869**	**1,784**
Banks	**595,683**	**1,009**	**594,127**	**250,715**	**30,086**
Corporates	**1,069,177**	**48,823**	**959,911**	**957,280**	**114,874**
Regulatory retail	**169,755**	**17,111**	**152,644**	**114,483**	**13,738**
Mortgage	**71,636**	**3,203**	**68,433**	**51,576**	**6,189**
Equity	**45,443**	**-**	**-**	**48,226**	**5,787**
Investment in funds	**3,892**	**-**	**3,892**	**5,839**	**701**
Past due	**20,903**	**1**	**20,901**	**26,134**	**3,136**
Real estate	**31,787**	**-**	**-**	**52,589**	**6,311**
Securitisation	**3,151**	**-**	**3,151**	**3,151**	**378**
Other assets	**44,995**	**-**	**44,995**	**44,995**	**5,399**
Cash items	**15,213**	**-**	**-**	**466**	**56**
Total	**2,987,278**	**70,147**	**1,921,988**	**1,591,198**	**190,944**
Aggregation	**69,804**	**-**	**69,804**	**69,804**	**8,376**
Total Credit Risk	**3,057,082**	**70,147**	**1,991,792**	**1,661,002**	**199,320**
Market Risk	**-**	**-**	**-**	**4,560**	**547**
Operational Risk	**-**	**-**	**-**	**163,610**	**19,633**
Total Risk Weighted Exposure	**3,057,082**	**70,147**	**1,991,792**	**1,829,172**	**219,500**

31 December 2010	Gross credit exposures (before risk mitigation)	Eligible financial collateral	Credit Risk after risk mitigation	Risk weighted asset	Regulatory capital required 12%
	BD '000	BD '000	BD '000	BD '000	BD '000
Sovereign	739,638	-	53,567	26,298	3,156
Public sector eEntities	175,861	-	6,771	5,233	628
Banks	414,166	1,087	410,954	171,037	20,524
Corporates	1,056,193	53,272	960,305	942,571	113,109
Regulatory retail	163,014	19,510	143,504	107,628	12,915
Mortgage	66,694	2,904	63,789	48,295	5,795
Equity	44,224	-	-	45,857	5,503
Investment in funds	4,099	-	4,099	6,148	738
Past due	612	-	612	612	73
Real estate	33,354	-	-	54,663	6,560
Securitisation	3,436	-	3,436	3,436	412
Other assets	36,569	-	36,569	36,569	4,388
Cash items	11,164	-	-	156	19
Total	2,749,024	76,773	1,683,606	1,448,503	173,820
Aggregation	58,389	-	58,389	58,389	7,007
Total Credit Risk	2,807,413	76,773	1,741,995	1,506,892	180,827
Market Risk	-	-	-	4,982	598
Operational Risk	-	-	-	156,152	18,738
Total Risk Weighted Exposure	**2,807,413**	**76,773**	**1,741,995**	**1,668,026**	**200,163**

Collateral valuation policy

The Bank has detailed policies and procedures for valuing collateral/securities offered for various credit facilities. The collateral is valued, at minimum, quarterly or annually based on the type of security.

More frequent valuations are also considered if warranted by market volatility and declining trend in valuations are observed. The basis of valuation for different types of securities such as equity, debt, and real estate is also clearly defined in the policies.

8. Funded and unfunded total credit exposure

Total gross credit exposures	2011 Total funded credit exposure	2011 Total un-funded credit exposure	2010 Total funded credit exposure	2010 Total un-funded credit exposure
	BD '000	BD '000	BD '000	BD '000
Sovereign	734,057	479	701,764	37,874
Public sector entities	158,135	22,972	147,235	28,626
Banks	466,840	128,843	288,787	125,379
Corporates	917,513	151,664	875,943	180,250
Regulatory retail	168,433	1,322	160,640	2,374
Mortgage	71,636	-	66,694	-
Equity	45,443	-	44,224	-
Investment in funds	3,695	197	3,873	226
Past due	20,903	-	612	-
Real estate	31,787	-	33,354	-
Securitisation	3,151	-	3,436	-
Other assets	44,995	-	36,569	-
Cash Items	15,213	-	11,164	-
Total	2,681,801	305,477	2,374,295	374,729
Aggregation	69,804	-	58,389	-
Total Credit Risk at 31 December	**2,751,605**	**305,477**	**2,432,684**	**374,729**

9. Average credit exposure

The following are the average quarterly balances for the full year:

	2011	2010
	BD '000	BD '000
Sovereign	730,110	688,483
Public sector entities	176,358	180,983
Banks	529,355	447,211
Corporates	1,022,863	1,019,022
Regulatory retail	167,181	154,886
Mortgage	70,630	58,360
Equity	44,400	45,803
Investment in funds	3,898	4,399
Past due	26,498	818
Real estate	32,746	31,464
Securitisation	3,597	3,793
Other assets	41,398	40,753
Cash items	13,181	11,510
Total	2,862,215	2,687,485
Aggregation	61,374	58,932
Total Credit Risk	**2,923,589**	2,746,417

10. Concentration of Credit Risk by region

December 2011	GCC	North America	Europe	Asia	Others	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Cash and balances with central banks	223,300	-	-	4,673	-	227,973
Treasury bills	210,032	-	-	5,254	-	215,286
Deposits in banks and other financial institutions	159,822	23,567	21,446	7,220	172	212,227
Loans and advances to customers	1,231,233	392	12,988	151,510	10,596	1,406,719
Investment securities	433,050	20,243	44,507	54,105	11,713	563,618
Other assets	52,116	-	-	3,862	-	55,978
Total funded exposure	2,309,553	44,202	78,941	226,624	22,481	2,681,801
Unfunded commitments and contingents	204,058	11,023	17,575	61,310	11,511	305,477
Aggregation	69,804	-	-	-	-	69,804
Total Credit Risk at 31 December 2011	**2,583,415**	**55,225**	**96,516**	**287,934**	**33,992**	**3,057,082**

December 2010	GCC	North America	Europe	Asia	Others	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Cash and balances with central banks	355,134	-	-	3,792	-	358,926
Treasury bills	128,538	-	-	1,634	-	130,172
Deposits in banks and other financial institutions	99,060	3,934	28,197	3,262	79	134,532
Loans and advances to customers	1,194,374	315	1,583	74,637	5,407	1,276,316
Investment securities	319,624	26,198	35,456	31,118	12,751	425,147
Other assets	47,339	-	-	1,863	-	49,202
Total funded exposure	2,144,069	30,447	65,235	116,306	18,237	2,374,295
Unfunded commitments and contingents	312,654	1,580	22,177	38,020	297	374,728
Aggregation	58,389	-	-	-	-	58,389
Total Credit Risk at 31 December 2010	2,515,112	32,027	87,413	154,326	18,534	2,807,412

11. Concentration of Credit Risk by industry

31 December 2011	Trading and manufacturing	Banks and other financial institutions	Construction and real estate	Government and public sector	Individuals	Others	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Cash and balances with central banks	-	12,883	-	215,090	-	-	227,973
Treasury bills	-	-	-	215,286	-	-	215,286
Deposits in banks and other financial institutions	-	212,227	-	-	-	-	212,227
Loans and advances to customers	407,216	153,299	488,380	44,690	126,372	186,762	1,406,719
Investment securities	29,472	191,907	20,802	306,839	-	14,598	563,618
Other assets	-	-	-	-	-	55,978	55,978
Total funded exposure	436,688	570,316	509,182	781,905	126,372	257,338	2,681,801
Unfunded commitments and contingents	79,470	119,954	60,780	7,017	3,527	34,729	305,477
Aggregation		69,804					69,804
Total Credit Risk at 31 December 2011	516,158	760,074	569,962	788,922	129,899	292,067	3,057,082

31 December 2010	Trading and manufacturing	Banks and other financial institutions	Construction and real estate	Government and public sector	Individuals	Others	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Cash and balances with central banks	-	10,385	-	348,541	-	-	358,926
Treasury bills	-	-	-	130,172	-	-	130,172
Deposits in banks and other financial institutions	-	134,532	-	-	-	-	134,532
Loans and advances to customers	367,891	111,931	487,466	35,614	117,679	155,735	1,276,316
Investment securities	20,735	133,950	21,309	246,299	-	2,854	425,147
Other assets	-	-	-	-	-	49,202	49,202
Total funded exposure	388,626	390,798	508,775	760,626	117,679	207,791	2,374,295
Unfunded commitments and contingents	94,814	142,036	70,993	548	4,873	61,464	374,728
Aggregation		58,389	-	-	-	-	58,389
Total Credit Risk at 31 December 2010	483,440	591,223	579,768	761,174	122,552	269,255	2,807,412

12. Concentration of Credit Risk by maturity

31 December 2011	Within 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	10 to 20 years	Above 20 years	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Cash and balances with central banks	165,152	-	-	-	-	-	-	62,821	227,973
Treasury bills	112,981	77,548	4,969	19,788	-	-	-	-	215,286
Deposits in banks and other financial institutions	186,163	24,692	-	1,029	343	-	-	-	212,227
Loans and advances to customers	66,440	134,581	107,881	164,224	485,823	243,188	42,808	161,774	1,406,719
Investment securities	20,690	23,242	39,405	63,290	239,251	102,169	12,384	63,186	563,618
Other assets	24,093	116	162	53	2,613	-	-	28,941	55,978
Total funded exposure	575,519	260,179	152,416	248,384	728,031	345,357	55,192	316,722	2,681,801
Unfunded commitments and contingents	66,644	36,177	116,640	79,148	6,425	97	52	294	305,477
Aggregation	-	-	-	-	-	-	-	69,804	69,804
Total Credit Risk at 31 December 2011	642,163	296,356	269,056	327,532	734,456	345,454	55,244	386,820	3,057,082

31 December 2010	Within 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	10 to 20 years	Above 20 years	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Cash and balances with central banks	298,158	-	-	-	-	-	-	60,768	358,926
Treasury bills	40,410	35,948	5,797	48,017	-	-	-	-	130,172
Deposits in banks and other financial institutions	102,196	30,717	-	-	1,619	-	-	-	134,532
Loans and advances to customers	108,549	97,126	62,007	99,749	445,210	289,896	48,019	125,760	1,276,316
Investment securities	8,704	21,484	37,418	23,645	184,017	91,237	3,940	54,703	425,147
Other assets	19,204	207	177	109	233	-	-	29,272	49,202
Total funded exposure	577,221	185,481	105,399	171,520	631,079	381,132	51,959	270,503	2,374,295
Unfunded commitments and contingents	70,172	44,368	137,983	106,608	8,347	4,438	305	2,507	374,728
Aggregation	-	-	-	-	-	-	-	58,389	58,389
Total Credit Risk at 31 December 2010	647,393	229,849	243,382	278,129	639,426	385,571	52,264	331,399	2,807,412

13. Impaired loans and provisions

	2011			2010		
	Principle and interest outstanding	Impaired loans	Specific provisions	Principle and interest outstanding	Impaired loans	Specific provisions
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Manufacturing	237,842	15,889	14,154	210,934	20,286	13,988
Mining and quarrying	11,911	-	-	9,921	-	-
Agriculture, fishing and forestry	3,818	24	24	4,867	26	26
Construction	219,367	13,200	4,689	191,484	15,774	5,007
Financial	193,776	41,785	36,522	142,240	38,713	27,887
Trade	178,399	8,454	3,916	164,353	9,426	3,747
Personal / Consumer finance	141,717	16,071	14,371	147,417	17,511	15,272
Commercial real estate financing	211,305	33,472	7,843	224,876	14,620	555
Residential mortgage	74,511	4,765	962	68,314	4,250	624
Government	44,817	-	-	35,873	-	-
Technology, media and telecommunications	94,886	3,870	325	51,806	370	274
Transport	37,107	-	-	42,818	1,417	1,416
Other sectors	55,670	42	43	64,100	1,370	158
Total at 31 December	1,505,126	137,572	82,849	1,359,003	123,763	68,954

14. Reconciliation of changes in impaired loans and provision

	2011		2010	
	Specific impairment provisions	Collective impairment provisions	Specific impairment provisions	Collective impairment provisions
	BD '000	BD '000	BD '000	BD '000
At beginning of the year	68,954	13,733	58,122	6,248
Amounts written off	(3,139)	-	(1,744)	-
Write backs/cancellation due to improvement	(1,846)	7	(5,263)	(40)
Additional provisions made	18,202	3,415	16,790	8,669
Exchange adjustment and other movements	2,116	(1,599)	1,793	(1,144)
Notional interest on impaired loans	(1,437)	-	(744)	-
Balance at reporting date	82,850	15,556	68,954	13,733

15. Impaired and past due loans by region

December 2011	GCC	North America	Europe	Asia	Others	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Past Due loans	6,682	-	-	7,909	-	14,591
Impaired loans	135,325	-	-	2,247	-	137,572
Specific impairment provisions including interest in suspense	81,908	-	-	942	-	82,850
Collective impairment provisions	15,217	-	-	339	-	15,556

December 2010	GCC	North America	Europe	Asia	Others	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Past Due loans	21,941	-	-	1,171	-	23,112
Impaired loans	122,643	-	-	1,120	-	123,763
Specific impairment provisions including interest in suspense	68,215	-	-	739	-	68,954
Collective impairment provisions	13,420	-	-	313	-	13,733

16. Aging of impaired loans

2011	3 months up to 1 year	1 to 3 years	Over 3 years	Total 2011
	BD '000	BD '000	BD '000	BD '000
Impaired loans	40,185	22,350	75,037	137,572
Less: specific provisions	8,284	7,437	47,875	63,596
Less: Interest in suspense	577	1,758	16,919	19,254
Net outstanding	31,324	13,155	10,243	54,722
Market value of collateral	35,077	17,865	17,764	70,706

2010	3 months up to 1 year	1 to 3 years	Over 3 years	Total 2010
	BD '000	BD '000	BD '000	BD '000
Impaired loans	31,166	44,731	47,866	123,763
Less: specific provisions	1,725	24,294	25,524	51,543
Less: Interest in suspense	294	3,153	13,964	17,411
Net outstanding	29,147	17,284	8,378	54,809
Market value of collateral	26,686	12,232	17,414	56,332

17. Restructured loans

	December 2011	December 2010
	BD '000	BD '000
Loans restructured during the period	138,215	105,006
Impact of restructured facilities and loans on present and future earnings	-	-
Impact of restructured facilities and loans on provisions	1,702	2,215

The above restructuring's were primarily extensions of the loan tenor, revisions in interest rate, and additional collateral received.

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

The "Market Risk Internal Model" is being used to measure Value-at-Risk (VaR) for calculating Capital Charge arising from Market Risk exposures (mainly Foreign Exchange and Interest Rate Risk positions) of the Trading book. The VaR model quantifies the maximum potential loss that could occur in the Trading book risk positions under normal market conditions, at 99 per cent confidence level, on a 10 day horizon.

BBK maintains a prudent approach to handle Market Risk exposures guided by Market Risk Policy and Procedure. The Position, Stop-loss and VaR limits are monitored by Middle Office (reporting to Risk Management Department and Independent of Business unit) and a daily risk report is circulated to the Senior Management.

In addition to the above, the Middle Office also carries out valuation of the Investment Portfolio independently as per the internal policies and procedures. Furthermore BBK also conducts Stress Testing and Back Testing of Market Risk positions.

The summary of VaR of the trading book during 2011 is as follows:

	VaR Results for the December 31, 2011 (10 day 99%) Global (BAHRAIN and KUWAIT) January 1 - December 31, 2011					VaR Results for the December 31, 2010 (10 day 99%) Global (BAHRAIN and KUWAIT) January 1 - December 31, 2010				
Asset class	Limit	VaR	High VaR	Low VaR	Average VaR	Limit	VaR	High VaR	Low VaR	Average VaR
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Foreign exchange	641	75	216	25	84	641	93	323	37	118
Interest rate	151	0	3	0	0	151	2	72	0	26
Total	792	75	217	26	85	792	95	339	37	144

The Bank conducts Backtesting of VaR on a daily basis in compliance with CBB regulations to validate the internal VaR model and to check whether or not the model can predict potential losses with a fair degree of accuracy. Under Backtesting, the daily VaR numbers are compared with the mark-to-market profit or loss figures (on actual average Profit & Loss basis and also hypothetical Profit & Loss basis). If this comparison is close enough, the Backtest raises no issues regarding quality of the risk measurement model.

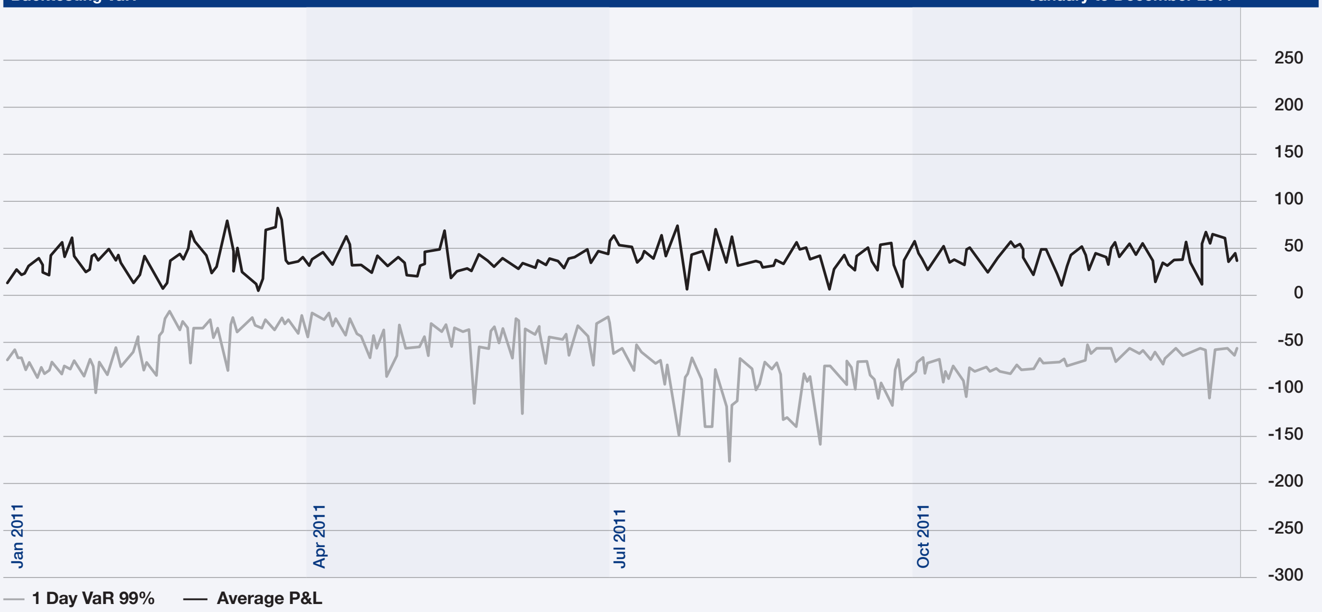
The Backtesting results for the period January to December 2011 confirmed that there was no occasion on which a daily trading loss exceeded VaR figure.

Month end Var (10 day 99%)

Month	Var in BD'000
31/01/2011	109
28/02/2011	49
31/03/2011	60
30/04/2011	74
31/05/2011	35
30/06/2011	78
31/07/2011	98
31/08/2011	96
30/09/2011	92
31/10/2011	99
30/11/2011	79
31/12/2011	75

The following graph shows that the daily average Profit & Loss (Actual Average P&L basis) vis-à-vis one day VaR, for the review period.

Backtesting VaR January to December 2011



19. Concentration risk to individuals where the total exposure is in excess of single obligor limit of 15 per cent

	2011	2010
	BD '000	BD '000
Sovereign	570,400	283,000
Total	570,400	283,000

20. Credit derivatives exposure

	2011	2010
	BD '000	BD '000
First to default	-	7,540
Credit derivative swaps and collateral debt obligations	109,115	125,563
Total credit derivatives	109,115	133,103

21. Equity positions in the banking book

	2011	2010
	BD '000	BD '000
Publicly traded equity shares	39,936	40,957
Privately held equity shares	21,930	19,630
Total	61,866	60,587
Capital required	7,424	7,270

22 . Gains on equity instruments

	2011	2010
	BD '000	BD '000
Realised Gains/ Losses in statement of income	(178)	17,360
Unrealised Gains/ Losses in tier 1 Capital (eligible portion)	(3,571)	(4,872)
Unrealised Gains/ Losses in tier 2 Capital (eligible portion)	2,796	1,870