

WE WILL REMEMBER 2009 AS
A REMARKABLE YEAR,
ONE THAT PRESENTED COMPLEX
CHALLENGES
TO THE FINANCIAL SECTOR YET PROVED
TO BE A PERIOD OF RECORD
PERFORMANCE FOR BBK

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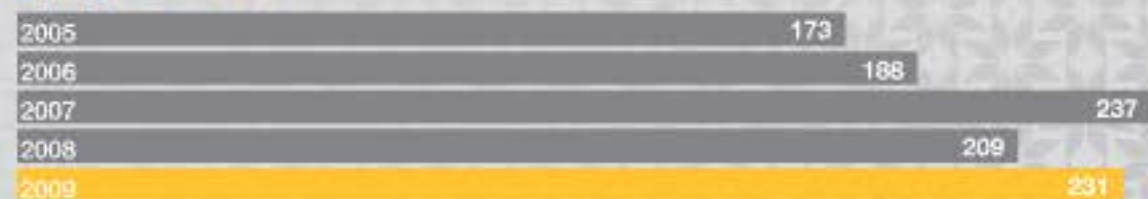
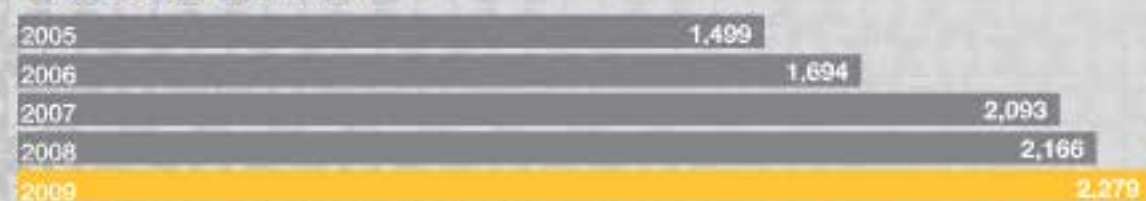
BBK will be the premier regional financial services enterprise in providing superior products and services of high quality through innovation, technology and life-long client relationships.

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

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

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

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

Net Interest Income BD millions**Customer Deposits** BD millions**Fees and Commission Income** BD millions**Equity** BD millions**Total Assets** BD millions

	2005	2006	2007	2008	2009
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Income Statement Highlights (BD millions)

Net interest income	35.7	42.2	50.6	57.0	61.3
Other Income	20.2	22.2	37.0	57.7	31.3
Operating expenses	23.8	26.7	30.6	35.1	42.9
Net profit for the year	29.3	32.8	30.0	27.1	35.0
Dividend	35%	40%	27%	20%	25%

Financial Position Highlights (BD millions)

Total assets	1,499	1,694	2,093	2,166	2,279
Net loans	795	938	1,128	1,352	1,269
Investments	491	495	499	318	446
Deposits	917	1,018	1,269	1,372	1,599
Term borrowings	94	236	339	329	257
Equity	173	188	237	209	231

Profitability

Earnings per share (fils)	46	47	41	32	42
Cost / income	42.57%	41.41%	34.97%	30.62%	46.39%
Return on average assets	1.86%	1.86%	1.51%	1.22%	1.66%
Return on average equity	18.15%	19.13%	16.02%	12.14%	16.38%
Profit per employee (BD)	41,797	43,115	34,405	27,919	32,661

Capital

Capital adequacy	19.57%	16.20%	23.29%	20.06%	17.51%
Equity / total assets	11.55%	11.08%	11.33%	9.66%	10.14%
Debt / equity	56.46%	125.54%	143.09%	157.53%	111.39%

Liquidity & Business Indicators

Loans & advances / total assets	53.04%	55.38%	53.89%	62.44%	55.67%
Investments excluding treasury bills / total assets	31.14%	26.87%	22.62%	14.51%	16.88%
Liquid assets / total assets	32.40%	35.96%	34.43%	25.16%	31.10%
Non inter-bank deposits / loans & investments	76.46%	86.69%	98.85%	101.83%	108.23%
Net yield ratio	2.48%	2.58%	2.60%	2.74%	2.94%
Number of employees	701	761	873	970	1,072



In every respect, 2009 was an exceptional year. The aftermath of the global financial crisis meant that uncertainty was a dominant characteristic, rendering market predictions even more difficult than in less turbulent times.

In normal circumstances, 2009 would have marked the beginning of a new three-year business plan for BBK. However, as the prevailing conditions were not conducive to confident planning, the decision was taken to work to a 12-month business plan until future prospects became clearer.

The new three-year strategic plan was developed internally, using the professional skills of the management team. I believe this will reinforce commitment to the plan – as is already evident in the preparatory groundwork undertaken during 2009. This has seen a more compatible management organisation emerge, with two General Managers now reporting to the Chief Executive, respectively responsible for Business Group and Shared Services Group. I believe the reorganisation will continue to be of dynamic benefit in achieving our plans to expand and diversify in the coming years.

During 2009 the Board of Directors undertook significant initiatives to improve the knowledge and practice of Corporate Governance in the Bank. These included a workshop for Directors and Executive Management in October entitled 'Corporate Governance Beyond Compliance Issues'. Another important initiative was developing a Corporate Governance Code that includes a Board Charter, whistle-blowing procedures, and the closer involvement of a wider range of stakeholders such as regulators, customers and the general public.

Adhering to the rules and guidelines of the Central Bank of Bahrain is another fundamental element of our growth strategy. We are committed to taking all necessary action to ensure compliance.

In this context, I am pleased to report that Hawkamah, the regional institute for corporate governance, ranked our corporate governance practices first among participating financial institutions in the MENA region.

The criteria for the award included structure and functioning of the Board of Directors, control environment and processes, in addition to transparency and disclosures.

The underlying principle was to minimize risk and maximise opportunity. This entailed a change of focus from international markets to increased investment in the Gulf region, reducing the levels of undesired exposure to financial institutions. At the same time, we concentrated on further improving our services to retail banking customers, opening our fifth Financial Mall.

Our strong liquidity enabled us to secure regional funding and investment opportunities – and at better margins – while the emphasis on retail banking produced a correspondingly higher contribution to results.

I am therefore pleased to report that our approach to 2009 proved to be very effective, so much so that profits reached an all-time record at BD 35.0 million, with return on equity of 16.4 per cent compared to 12.1 per cent in 2008. Total assets at the end of the year were BD 2,279 million compared to BD 2,166 million in 2008. The Board has recommended a dividend of 25 fils per share.

In the latter part of the year, work began on formulating the BBK strategic plan for 2010-12. The plan will seek to build on the success of 2009 and capitalise on the opportunities that will arise over the next three years, especially those driven by Bahrain's Economic Vision 2030, the Government's long-term plan to create a diversified and globally competitive economy.

Our new strategic plan is centred on recomposing the Bank's assets, growing our retail activities and our share of the Bahrain corporate market while reducing our involvement in international banking and other sectors. Key elements include continued focus on our Financial Malls, with two more to be opened during the strategic period. Other elements include specific actions to reduce loan to deposit ratios to maintain the regulatory requirement of 75 per cent, and improve the quality of loans by reducing the proportion of non-performing assets.

I am also pleased to announce the decision by World Finance magazine to designate our Chief Executive, Abdulkarim Bucheery, as Banker of the Year for 2009. This is indeed a great honour for Mr Bucheery, and for the Bank as a whole, and I take this opportunity to congratulate him on his distinguished achievement.

The coming year will continue to present challenges, but I am confident that we have the capabilities and the will to meet shareholders' expectations.

I take this opportunity to thank the outgoing Directors, Mrs. Maha Khalid Al Ghunaim and Mr. Omar Mahmood El Quqa, for their contribution during their tenures, wishing them continued achievement in their future endeavours. I also wish the current Board of Directors the best for leading BBK onto continued success.

Finally, I extend my appreciation and gratitude to His Majesty King Hamad bin Isa Al Khalifa, the King of the Kingdom of Bahrain, and His Highness Sheikh Sabah Al Ahmed Al Jaber Al Sabah, the Amir of the State of Kuwait. I thank their respective governments and regulatory authorities for their guidance and support during 2009. I would also like to thank BBK's management team and all employees for their efforts and dedication. Last but not least, I thank our loyal shareholders and customers for their successful partnership with BBK.



Top row, left to right
Murad Ali Murad
 Chairman
Sh. Mohammed bin Isa Al Khalifa
 Deputy Chairman
Khalid Abdulla Janahi
Jamal Ali Al Hazeem



Middle row, left to right
Ali Hasan Mushari Al Bader
Sh. Abdulla bin Khalifa bin Salman Al Khalifa
Sh. Khalifa bin Daij Al Khalifa
Dr. Abdulmohsen Medej Mohammed Al Medej



Bottom row, left to right
Mohamed Abdulrahman Hussain
Aref Saleh Khamis
Ziad Hasan Rawashdeh
Jassem Hasan Ali Zainal

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BBK WON THE HAWKAMAH
CORPORATE
GOVERNANCE
AWARD FOR 2009, PRESENTED IN
CONJUNCTION WITH
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BBK'S 2010-12 STRATEGIC PLAN WILL CAPITALISE ON OPPORTUNITIES THAT ARISE OVER THE NEXT THREE YEARS, ESPECIALLY THOSE DRIVEN BY BAHRAIN'S ECONOMIC VISION 2030



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Achieving record profits during 2009 is cause for a degree of satisfaction, especially during a period when global and regional economies were still coming to terms with the traumatic financial events that had wrought such havoc around the world. BBK's response was to adopt a strategy geared to immediate needs, and flexible enough to cope with a largely unpredictable environment.

The Bank continued to invest in management trainees, recruiting a new intake of graduates for the Management Trainees Development Programme, now in its sixth year. The 12 candidates selected in 2009 bring the total number of graduate members to more than 100. The programme has proved very successful in identifying and fostering future leaders in the Bank, with early entrants now occupying a series of senior positions.

The collaboration with government labour fund Tamkeen, to recruit and train young Bahraini nationals, entered its second year. A second batch of 20 entrants completed an intensive eight-week training programme in retail banking skills, in preparation for employment as client representatives, tellers, and sales representatives. The agreement with Tamkeen will ultimately train 100 new recruits.

Our clients

Retail Banking made a good contribution to 2009 results, and aggressive growth in this sector is a cornerstone of the new Corporate Strategic Plan 2010-12. Opening the new Riffa Financial Mall in the third quarter of the year brought the total number of Financial Malls to five. A further two are planned – in Isa Town and Exhibition Road.

The Financial Mall concept enables BBK to service a wider segment of customers, giving them the benefit of conducting their financial transactions in highly modern and spacious surroundings. Partners in telecommunications, insurance, and travel give the

Financial Malls an extra dimension, linking consumer needs with banking services and preferential personal finance. Customers can take advantage of Priority Banking and Transactional Banking facilities; arrange consumer, auto, and mortgage loans; and conduct business with CrediMax, Secura Insurance, and Western Union. An e-Gov kiosk project is under development, with implementation to follow once connectivity issues are resolved.

As well as five Financial Malls, BBK has 10 branches and a Cash Management Centre in the Kingdom of Bahrain, a branch in the State of Kuwait, a representative office in Dubai, and two branches in the Republic of India. The ATM network now numbers 50, including 15 offsite ATMs and six that accept cash and cheque deposits.

In the coming year, Retail Banking will invest in intensive sales generation and marketing, setting up a direct sales team and pursuing cross-selling opportunities with the Bank's complementary activities. Growth policy will adopt a proactive approach, focusing on enhancements to Priority Banking, market segmentation, and developing all possible avenues to increase market share.

Transactional Banking concentrated on export trade finance during 2009, developing a new product set to complement the existing resources for import business. Export letters of credit, coupled with confirmation of export finance, are now an important new facility for corporate customers and will contribute to the drive towards cross-selling of Bank services. The new products are supported by detailed policy and procedures, and are now being introduced to prospective customers with the aim of establishing a significant market share from a very low starting base.

The second phase of the Transactional Banking programme will focus on liquidity management and will be introduced in 2010. Management of receivables will follow, completing the three-pronged plan to service trade finance payment, liquidity, and receivables.

Corporate Banking continued to be the biggest corporate provider in Bahrain, whether measured by assets or staff numbers. The team is now split into four specialist departments: contracting and building materials; trade and manufacturing; real estate and other service industries; and government, remedial, and Islamic business.

Corporate Banking has also been very active in cross-selling. The division has worked with Transactional Banking in developing and marketing products for the corporate sector; with CrediMax on promoting corporate cards; and generally introducing the Bank's services such as cash management facilities and internet banking.

A new regime of planned customer contact has contributed significantly to building relationships, developing new business, and monitoring customer performance.

Despite intensive competition from the Islamic banking sector in attracting deposits, margins improved during the year due to a revised pricing structure.

International Banking had a successful year, achieving greater penetration of GCC markets – a primary focus of 2009 strategy. Yield levels from International and Offshore Banking improved significantly, and Offshore is now exploring the potential of establishing a presence in Qatar.

The Republic of India is showing excellent growth potential and new branches and agencies are planned, subject to formal approval from regulators and reaching agreement on taxation liabilities. An expanded presence in India would lead to increased capital availability, with potential to enter consumer finance more aggressively, generate new business from the small and medium enterprise sector, and target companies ranked as middle to high capitalisation. Risk management and credit quality were strengthened during the year, and the Indian business's profitability is expected to improve steadily over the next few years.

The **Treasury & Investment** portfolio was restructured during 2009, upgrading and diversifying to shift the bias towards resilience and non-cyclical sectors. Exposure is now weighted towards Bahrain and the other GCC states, with regional assets representing more than 60 per cent of the portfolio. The balance is mainly in the US, Europe, and Asia.

This has also resulted in yields more than doubling as BBK took advantage of its strong liquidity and widening spreads in the market to take on securities at very favourable rates. Fixed-income utilities, parastatals, and high-quality corporates with strong credit ratings now form the core of Treasury & Investment activity.

Our business focus changed from international to local and regional, while the re-designation of the top management and reorganisation of retail banking led to a more collaborative inter-departmental approach with the emphasis on customer relationships rather than product-led marketing.

Despite increasingly tough competition, especially from Islamic banks offering above-market rates to attract customer deposits, BBK's inherent strengths – our large network of delivery channels, advanced internet banking, and loyal customers – proved to be invaluable assets.

The principles that worked so well in 2009 now form the basis of our new Corporate Strategic Plan for the three years 2010-12. BBK is well geared to handle market recovery, and there are already encouraging signs that the worst of the economic crisis is behind us.

Our people

Retaining our talented and experienced personnel is always a top priority for BBK. Following last year's introduction of an additional fixed salary for all staff members, enhanced benefits, and educational allowances for Bahraini employees, the attrition rate was significantly reduced during 2009.

This policy has been extended with the introduction of a proposed share grant scheme to replace the existing employees' share options plan. Effective from 2010, shares will be allocated to employees who are critical to the Bank's continued successful performance. Share grants will be made as a percentage of annual salary, subject to performance conditions intended to serve as a long-term retention scheme for key employees.

The same approach will continue during 2010, replacing maturing assets with higher-yielding alternatives, the main focus being on enhancing liquidity and preserving security.

Our subsidiaries

CrediMax, BBK's wholly-owned subsidiary specialising in credit card business, has now reached virtual saturation point in the Bahrain market and must look to the wider MENA region to secure further growth. Opportunities exist for expansion through joint ventures or acquisitions and these are currently being explored.

Invira, BBK's wholly-owned call centre subsidiary, is also reaching the limits of its domestic growth potential and cross-border expansion is again a possibility.

Sakana is the 50-50 joint venture with Shamil Bank of Bahrain, providing Islamic finance to the real estate sector. It continued to achieve good results, despite the downturn in the property market. Sakana has also extended its reach by adding property consulting and property development to its portfolio.

Secura, the partnership between BBK and Bahrain Kuwait Insurance Company, was affected by easing of demand in the automotive segment, but still maintained a creditable performance in 2009.

Capinnova, BBK's Sharia'a-compliant investment banking subsidiary, is growing steadily. It is now nearing breakeven point and is on track to show profitability in 2010. During 2009, Capinnova committed to co-investing \$50 million in a retail project in Bahrain, and will continue to target opportunities in sectors such as telecommunications, utilities, industrial, services, and financial institutions.

Internal processes

Information Technology showed renewed coordination between business and technology, moving to provide more user-friendly, efficient, and secure services for customers. In line with the directive from the Central Bank of Bahrain, BBK was amongst the first banks to be certified as a chip-card issuer – providing exceptional levels of security for users.

BBK also became the first bank in Bahrain to provide SMS alerts on debit card usage, reinforcing the leading position of its award-winning e-banking platform. For non-resident Indian customers, the Bank introduced 'eRemittance', a service that enables them to transfer money directly to their accounts in India with no delays and at minimal cost.

The Bank has aggressively pursued its Business Continuity Management (BCM) programme, and has now established its own state-of-the-art Business Continuity Centre at the new Financial Mall in Riffa. The BCM programme has also been extended to the entire BBK group, including fully owned subsidiaries, overseas branches, and the Dubai representative office, in the United Arab Emirates.

As more critical applications are added, enhancements to the infrastructure will include acquisition of network storage for both the production and contingency sites.

Moving to the next level of IT maturity, BBK has initiated a comprehensive IT strategy aimed at maintaining the Bank's position as a technology leader and innovator.

Risk Management was extensively engaged in further refining policies, procedures, and controls across every area of operation to proactively manage the adverse market conditions during the year.

Credit Management continued to play a critical role in overall risk management of the Bank's credit and investment portfolio. Greater risk consciousness, high-quality professional credit judgment, and robust credit administration all contributed to reinforcing the Bank's credit culture.

The two Credit Management sections – Credit Review and Credit Administration – played a significant role in achieving major objectives for the year, ensuring efficient customer service and continuing process improvement, boosting credit awareness for better credit decision and conduct, enhancing credit relationship management and control measures, improving validation and monitoring of credit sectioning terms, and maintaining credit administration efficiency and asset quality control.

Operations saw more than 80 per cent of internal transactions converted to straight-through processing (STP), automatically dealing with routine functions such as payrolls and standing orders with minimal human intervention. This has reduced the potential for errors and boosted productivity and efficiency.

Our community

BBK has a long-standing tradition of contributing to the well-being of the communities in which we operate. Typical of this support is the Bank's commitment to donate a health centre to the Ministry of Health, which is being built in Hidd at a cost of BD 3.3 million. Construction work has already started and completion is scheduled for the third quarter of 2010.

As well as this specific gesture, a diverse number of organisations involved in a wide range of humanitarian, medical, social and educational initiatives received extensive financial support during 2009.

Conclusion

We will remember 2009 as a remarkable year, one that presented complex challenges to the financial sector – regionally and internationally – yet proved to be a period of record performance for BBK.

Having weathered the economic tribulations evident since the early part of

PARTNERS IN TELECOMMUNICATIONS,
INSURANCE, AND TRAVEL GIVE
BBK'S FINANCIAL MALLS
AN EXTRA DIMENSION,
LINKING CONSUMER NEEDS WITH
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During the year, one Member of the Executive Management team, Hugo Perez, left the services of the Bank to pursue other career opportunities. The vacancy was filled by an appointment within the Bank.

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