Ibdar Bank B.S.C. (c)
Basel II, Pillar III Disclosures
31 December 2014

Basel II, Pillar III Disclosures
For the year ended 31 December 2014

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1 INTRODUCTION

The Central Bank of Bahrain (the "CBB") Basel II Guidelines, based upon the Bank for International Settlements ("BIS") Revised Framework – 'International Convergence of Capital Measurement and Capital Standards', were introduced on 1 January 2008. Basel II is structured around three 'pillars': Pillar I - Minimum Capital Requirements; Pillar II – the Supervisory Review Process and the Internal Capital Adequacy Assessment Process ("ICAAP"); and Pillar III - Market Discipline.

The public disclosures under this section have been prepared in accordance with the CBB requirements outlined in its Public Disclosure Module ("PD"), Section PD-1: Annual Disclosure requirements, CBB Rule Book, Volume 2 for Islamic Banks. Rules concerning the disclosures under this section are applicable to Ibdar Bank B.S.C. (c) being a locally incorporated bank with a wholesale Islamic Investment banking license, and its branch and subsidiaries (together known as "the Group"). This document should be read in conjuction with audited consolidated financial statements for the year ended 31 December 2014. Information already included in the audited consolidated financial statements are not repeated.

1.1 Pillar I – Minimum Capital Requirements

Pillar I deals with the rules for the computation of regulatory capital requirements in respect of credit, market and operational risk. It defines the various classes of assets and the calculation of Risk Weighted Assets (RWAs) in respect of each class of assets. The capital adequacy ratio is calculated as the ratio of the Bank's regulatory capital to its total risk weighted assets. All locally incorporated banks are required to maintain a minimum capital adequacy ratio of 12% under current rule book requirements. In addition, the CBB requires banks to maintain an additional 0.5% buffer above the minimum capital adequacy ratio.

1.1.1 Credit risk

Basel II provides three approaches to the calculation of credit risk regulatory capital. The Bank has adopted the standardised approach under which on and off-balance sheet credit exposures are assigned to exposure categories based on the type of counterparty or underlying exposure. Under the standardised approach, the risk weightings are provided by the CBB and are determined based on the counterparty's external credit rating. The external credit ratings are derived from eligible external rating agencies approved by the CBB.

1.1.2 Market risk

The Bank has adopted the Standardised Approach for determining the market risk capital requirement.

1.1.3 Operational risk

The Bank has adopted the Basic Indicator Approach for operational risk. It is calculated by applying a coefficient of 15 percent to the average gross income for the preceding three financial years.

1.2 Pillar II – The Supervisory Review and Evaluation Process

Pillar II involves the process of supervisory review of Bank's risk management framework and capital adequacy. It requires banks to hold additional capital for

1 INTRODUCTION (continued)

1.2 Pillar II – The Supervisory Review and Evaluation Process (continued)

risks not covered by Pillar 1. Other risk types which are not covered by the minimum capital requirements in Pillar 1 include liquidity risk, profit rate risk in the banking book, business risk and concentration risk.

Pillar II comprises of an Internal Capital Adequacy Assessment Process (ICAAP) and 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. The Bank has established an ICAAP which quantifies the capital requirements for the key risks that the Bank is exposed to including credit, investment, liquidity, strategic, reputation, operational, and concentration risks. The Bank also conducts comprehensive stress tests for various portfolios and assesses the impact on the capital and profitability. In addition, the Bank's stress testing frameworks and models allow for forward looking scenarios, which are considered for business growth strategies. The ICAAP of the Bank is driven by the Board through the Capital Adequacy Strategy and the ICAAP Policy. In case a plausible stress scenario is identified which may severely affect the capital adequacy of the Bank, the senior management decides an appropriate corrective action to be taken under such a scenario.

1.3 Pillar III – Market Discipline

Pillar III is related to market discipline and requires the Bank to publish detailed qualitative and quantitative information of its risk management and capital adequacy policies and processes to complement the first two pillars and the associated supervisory review process. The disclosures in this report are in addition to the disclosures set out in the audited consolidated financial statements of the Bank for the year ended 31 December 2014.

1.3.1 Pillar II quantitative and qualitative disclosures

For the purpose of computing regulatory minimum capital requirements, the Bank follows the rules as laid out under the CBB Rulebook module PCD: Prudential Consolidation and Deduction Requirements, PCD-1 & PCD-2 and the Capital Adequacy (CA) Module. Accordingly,

a) Unrealized gains arising from fair valuing equities is reported only to the extent of 45%; and
b) Properties revaluation reserve is included under Tier 2 capital to the extent of 45%.

There are no restrictions on the transfer of funds or regulatory capital within the group and all investments are made fully complying with the CBB approval instructions.

1.4 Overall Risk and Capital Management

For the purpose of computing the Capital Adequacy Ratio (""CAR"") the Bank is not consolidating subsidiaries that are Commercial Entities, (Refer to section 4 for the treatment of the Bank's investments for capital adequacy calculation purpose).

1 INTRODUCTION (continued)

1.4 Overall Risk and Capital Management (continued)

In the consolidated financial statements, subsidiaries are fully consolidated from the date of acquisition, being the date on which the Bank obtains control, and continues to be consolidated until the date that control ceases.

The Bank does not hold any interest in insurance entities.

1.5 Compliance with Module (HC) high level control (PD-1.3.10(x))

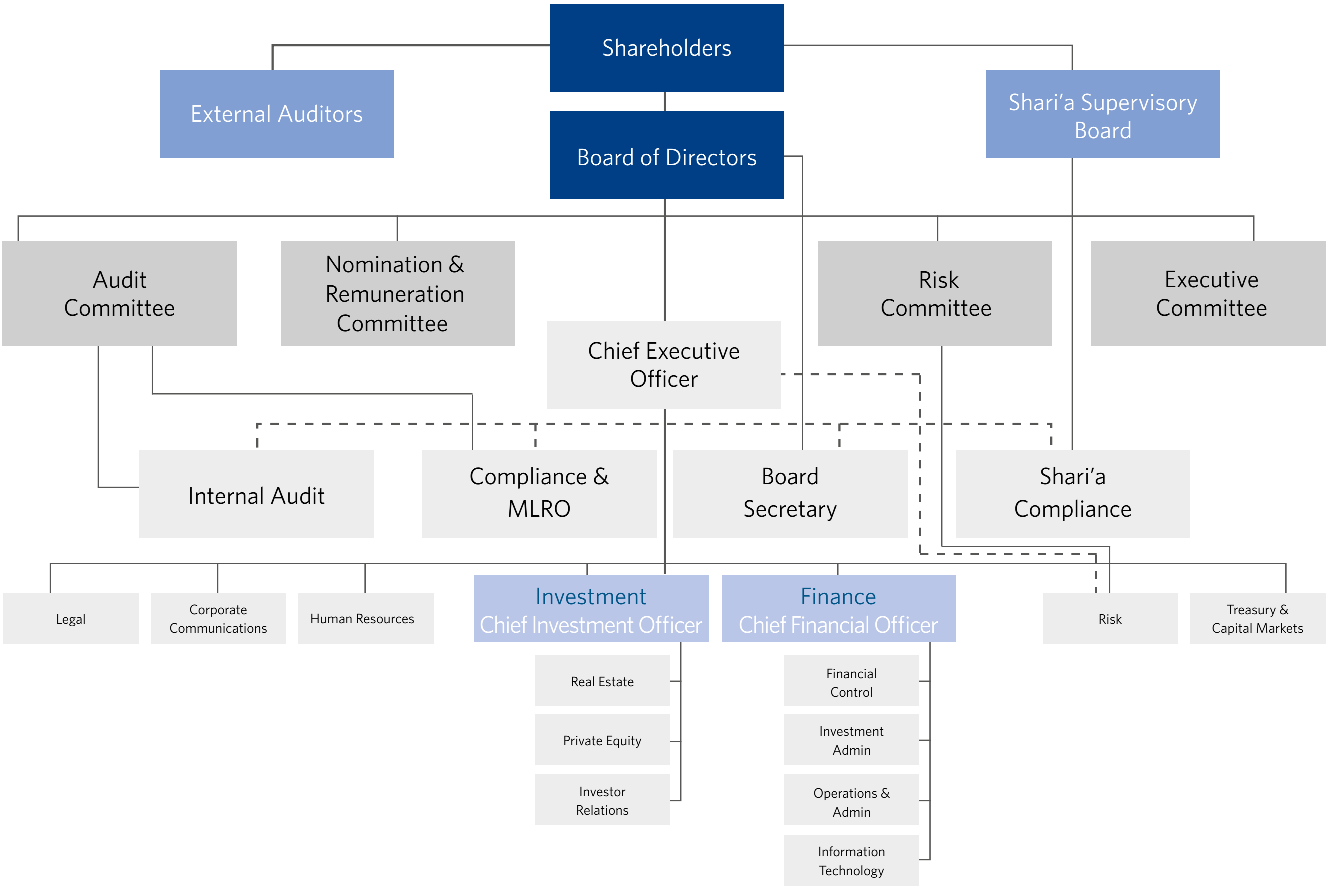
In October 2010, CBB introduced new requirements to Module HC that have to be met by all licensees with respect to, corporate governance principles to be in line with the Principles relating to the Corporate Governance Code issued by the Ministry of Industry and Commerce; International best practice corporate governance standards set by bodies such as the Basel Committee for Banking Supervision; and related high-level controls and policies. The Group made detailed self-assessments on the revised content of Module HC to ensure compliance with the new requirements with specific milestones for implementation of any shortfalls. The Group's Board of Directors and senior management were fully apprised the subject amendments.

2 RISK MANAGEMENT STRUCTURE

The Board has the ultimate responsibility for understanding the nature and level of risk taken by the Bank. The Board is responsible for reviewing the strategy and objectives of the Bank with respect to various risks and ensures that there is a clear guidance regarding the level of risks acceptable to the Bank.

2 RISK MANAGEMENT STRUCTURE (continued)

Figure 1 Group Organisation Structure (PD-1.3.10(a))



As at 31 December 2014 the Chief Financial Officer position is vacant.

2.1 Board of Directors (PD - 1.3.10 (n) and PD - 1.3.10 (o))

The Board is responsible for establishing objectives for the Bank and developing the strategies that direct the ongoing activities of the Bank to achieve those objectives. The Board is in process of reviewing and approving the Bank's strategy document which demonstrates that it is able to proactively identify and understand the risks that the Bank faces in achieving its business objectives through its business strategies and plans.

As part of its strategy review process, the Board at the minimum shall: (PD-1.3.10(n,o)):

a. Review major strategy papers and business plans;
b. Set performance objectives;
c. Oversees major capital expenditures and acquisitions;
d. Reassesses annually the Bank's objectives, strategies and plans;
e. Demonstrates its responsibility to supervisors, shareholders, employees & other stakeholders; and
f. Monitors the control environment and risk profile of the Bank.
g. Approved financial statements of the Bank.

Detailed responsibilities of the Board are provided in the Bank's Articles of Associations and Board Terms of Reference.

2 RISK MANAGEMENT STRUCTURE (continued)

2.1 Board of Directors (PD - 1.3.10 (n) and PD - 1.3.10 (o)) (continued)

The Board has approved a comprehensive authority matrix which outlines the authority of the Board, the Board Committees, Executive and Senior Management for financial and non-financial transactions.

The Board of Directors has delegated the management of the Bank to the Executive Management, comprising of Mr. Basel Al-Hag-Issa - Chief Executive Officer, Mr. Mohammad Aljasim - Chief Investment Officer and Mr. Sameeh Al Khan - Chief Operating Officer, who meet on a regular basis to discuss any issues and updates regarding operations and business of the Bank. December 31, 2014, was the last working day for Mr. Sameeh Al Khan at Ibdar Bank. The following committees are involved in managing the risk and ensuring the compliance with the Bank's policies and risk management framework.

2.2 Board Committees

Board committees with their respective objectives and members are as follows:

2.2.1 Executive Committee

2.2.1.1 Objective/Function

Consider specific matters delegated to it by the full Board and make recommendations thereon to the Board or decisions based on authorities specifically delegated by the Board.

2.2.1.2 Members	Independent / Non Independent
Abdullah AlMarzouq	Non-Independent / Executive
Khalid Najibi	Independent / Non-Executive
Saleh AlAfaleq	Independent / Non-Executive
Zeyad AlMukhaizeem	Non-Independent / Executive

2.2.2 Audit Committee

2.2.2.1 Objective/Function

To review the Banks financial reporting process, internal controls, and process for monitoring compliance with policies, procedures, laws and regulations and the Bank's own Code of Business Conduct.

2.2.2.2 Members	Independent / Non Independent
Abdulhakim Aladhamy	Independent / Non-Executive
Khalid AlBassam	Independent / Non-Executive
Mishari AlKhalid	Non-Independent / Non-Executive

2.2.3 Remuneration & Nomination Committee

2.2.3.1 Objective/Function

The review and approve (according to the guidelines set by the Board) policies and procedures for the remuneration of Board members, Committees members, executive and non-executive employees.

2 RISK MANAGEMENT STRUCTURE (continued)

2.2 Board Committees (continued)

2.2.3 Remuneration & Nomination Committee (continued)

2.2.3.2 Members	Independent / Non Independent
Khalid AlAboodi	Independent / Non-Executive
Khalid Najibi	Independent / Non-Executive
Mishari AlKhalid	Non-Independent / Non-Executive

2.2.4 Risk Committee

2.2.4.1 Objective/Function

To assist the Board of Directors in discharging its accountability and responsibility for risk management of the Bank-wide risk management systems, practices, and procedures including Credit, Market, and Operational Risk, and providing recommendations for improvement.

2.2.4.2 Members	Independent / Non Independent
Abdulhakim Aladhamy	Independent / Non-Executive
Khalid AlBassam	Independent / Non-Executive
Paul Mercer	Non-Independent / Executive

2.3 Management Committees

The following committees are the two management committees at Ibdar which are involved in managing and overseeing the Bank's activities, and in proposing new strategies, policies, and procedures to the Board. These Committees are:

2.3.1 Asset and Liability Committee ("ALCO")

2.3.1.1 Objective/Function

The Asset and Liability Committee determines the appropriate levels of liquidity, and ensures that all future commitments are funded in the most appropriate and cost-efficient manner. The Committee also ensures that the Bank fully adheres to the requirements of the CBB regarding capital, liquidity, and mismatched risk. It ascertains that approved investment deposits limits are not exceeded, and Treasury management and dealing activities are within the policy guidelines set by the Board. Furthermore, it monitors and supervises the overall balance sheet structure.

2.3.1.2 Members Name	Designations	
Mr.Basel Al-Hag-Issa	Chief Executive Officer	Chairman
Mr. Sameeh Abdulla Al-Khan	Chief Operating Officer *	Member
Mr. Mohamed A. Aljasim	Chief Investment Officer	Member

2 RISK MANAGEMENT STRUCTURE (continued)

2.3 Management Committees (continued)

2.3.1 Asset and Liability Committee ("ALCO") (continued)

2.3.1.2 Members Name	Designations (continued)	
Mr. Ahmed Mustafa Abdulla	Head of Financial Control	Member
Ms. Eridani Tutiana Jusat	Head of Treasury & Capital Market	Member
Mr. Rehan Zulqadar Rashid	Head of Risk Management	Member

* December 31, 2014, was the last working day for Mr. Sameeh Al Khan at Ibdar Bank.

2.3.2 Investment, Credit and Risk Committee ("ICRC")

2.3.2.1 Objective/Function

The Investment, Credit and Risk Committee is a senior management committee responsible for managing and supervising all activities related to investments, credit and risk management.

2.3.2.2 Members Name	Designations	
Mr.Basel Al-Hag-Issa	Chief Executive Officer	Chairman
Mr. Sameeh Abdulla Al-Khan	Chief Operating Officer *	Member
Mr. Mohamed A. Aljasim	Chief Investment Officer	Member
Mr. Ahmed Mustafa Abdulla	Head of Financial Control	Member
Ms. Eridani Tutiana Jusat	Head of Treasury & Capital Market	Non Voting Member
Mr. Rehan Zulqadar Rashid	Head of Risk Management	Non Voting Member
Mr. Omar Haydar	Head of Legal	Non Voting Member

* December 31, 2014, was the last working day for Mr. Sameeh Al Khan at Ibdar Bank.

3 LEGAL CONTINGENCIES

The following are the material* current or pending legal actions which involve potential liability to the Bank:

1. Ali Iskandar Ansari and Partners - We are defendants to a claim in a private equity in Qatar whereby the local promoter is claiming approximately USD 1 million due as fees for establishing the joint venture, which we believe they are not entitled to as they have not fulfilled the contractual obligations to earn the fees. The local promoter also raised 3 other claims in court and all three cases have ended in our favor. Our

3 LEGAL CONTINGENCIES (continued)

expectation is this will like wise result in our favor. Additionally, we may be pursuing our own claim against the promoter in the near future to recover our investment in the joint venture.

2. Transweld - Our Libyan investment vehicle TAB Energy's subsidiary Etelaf was sued by a service provider relating to the oil rigs owned by the company.A judgment in the amount of USD 600,000 had been obtained outside of Libya. Transweld is attempting to enforce the judgment in Libya through a local law firm. The case is still following its course in the Libyan court system.

3. Ensign - Our Libyan investment vehicle TAB Energy's subsidiary Etelaf retained Ensign for services, and was not able to pay the fees due to liquidity issues. Claim amount is approximately USD 600,000 - USD 700,000 and a claim has been filed. An agreement was reached between Ensign and Etelaf granting the later a one year grace period and scheduling the repayment over a one-year period. The repayments should start on May 2015.

4. ILIC/Diamondfleet - Ibdar had acquired private equity shares in an entity (Sabaek) from its shareholder ILIC and its affiliate, and said shares have not been transferred to date to Ibdar's direct ownership. ILIC has requested to transfer its shares in Ibdar to a third party, and our board has deferred reviewing the request until the matter of the Sabaek shares is resolved. Settlement talks took place with a preliminary agreement reached. But the counter party has failed to pay or follow up. The claim amount is approximately USD 5 million from the Bank, and ILIC's shares are in the range of USD 700,000.

*materiality involves disputes involving potential liabilities in excess of USD 300,000, or 0.1% of our capital.

3.1 Managing and Controlling Legal Risks

As a general policy, the Bank seeks to resolve any potential conflict amicably to the extent practicable. In cases where we are faced with circumstances in which resolution may not be reached for a variety of reasons, we attempt to mitigate the risks involved by ensuring at the outset that we are fully aware of the risks involved and obtain an expert legal opinion on the matter and expected outcome. The bank also attempts to ensure that disputes are handled efficiently and expeditiously by sophisticated capable arbiters. As such, and in accordance with the guidance of the CBB, our preferred venue for dispute resolution is mediation followed by arbitration and lastly litigation in the traditional courts.

4 CAPITAL ADEQUACY

The primary objective of the Group's capital management is to ensure that the Group maintains adequate risk capital, complies with the capital requirements laid down by the CBB and maintains a healthy capital ratio in order to support its business and maximize shareholder value.

4 CAPITAL ADEQUACY (continued)

The Group manages the capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the CBB in supervising the Bank.

The Group's approach to assessing capital adequacy has been in line with its risk appetite aligned with its current and future activities. To assess its capital adequacy requirements in accordance with the CBB requirements, the Group adopts the Standardised Approaches for its Credit Risk and Market Risk, and the Basic Indicator Approach for its Operational Risk.

The Group's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of expectations for each business group, expected growth in future sources and uses of funds.

Further, the Bank monitors the CAR against an Internal Trigger Ratio of 167% of the CBB minimum required capital adequacy ratio of 12 % (which will currently be 20 %). If the CAR touches the Internal Trigger Ratio, the Bank will initiate action to reduce its risk or increase capital before the Internal Target Ratio is breached.

Basis of Consolidation for Accounting and Regulatory Purposes

The Bank consolidates all subsidiaries which are fully owned or exercises significant control over them. These subsidiaries are consolidated from date of acquisition being the date on which the Group obtains control and continues until the control ceases. Control is achieved when the group has the power to govern the financial and operating policy of an entity to obtain benefits from its activities. For regulatory reporting purposes and according to the CBB rule book the Bank should consolidate all banking and other relevant financial entities which are considered to be subsidiaries of the Bank. However, the Bank de-consolidates non financial entities for Capital adequacy ratio calculation. The regulatory treatment of the Bank's investments in Ijara 9 has resulted in the following accounts to be changed based on CBB directive to consolidate Ijara 9. The treatment of the Bank's investments in various entities for the purpose of regulatory reporting is as follows:

4 CAPITAL ADEQUACY (continued)

Entity name Subsidiaries	Entity classification as per PCD for consolidated capital adequacy	Treatment by the Bank Consolidated Basis
Elaf Bahrain Real Estate Co. B.S.C (c)	Commercial entity	Risk weighting of investment exposure
Elaf Corporate Services Limited	Commercial entity	Risk weighting of investment exposure
Sokouk Exchange Centre – Tadawul Holding W.L.L.	Commercial entity	Risk weighting of investment exposure
Tamkeen Investment Company B.S.C (c)	Financial entity	Consolidated
Suffun Bahrain W.L.L.	Commercial entity	Risk weighting of investment exposure
Suffun Investment Company	Commercial entity	Non-operational, hence, not considered for PIR
GCC Balanced Growth Fund Company B.S.C.(c)	Financial entity	Consolidated
Medical Management Group SPC	Commercial entity	Non-operational subsidiaries, hence, not considered for PIR
Sakan Development Company Limited	Commercial entity	Risk weighting of investment exposure
Palma Ibdar Aviation	Financial entity	Pro rata consolidated

As per the directive received from CBB on 16 February 2009, the Bank consolidates the properties of Ijarah 9 at fair value for PIR purposes and charges a risk weight of 200% as Holding of Real Estate.

The Bank does not hold any interest in insurance entities.

Table – 1. Capital structure (PD-1.3.12, PD-1.3.13, PD-1.3.14 and PD-1.3.15)

The following table summarises the eligible capital after deductions for Capital Adequacy Ratio (CAR) calculation as of:

4 CAPITAL ADEQUACY (continued)

Table - 1. Capital structure (PD-1.3.12, PD-1.3.13, PD-1.3.14 and PD-1.3.15) (continued)

	31 December 2014	
	Tier 1 (USD '000)	**Tier 2 (USD '000)**
Components of capital		
Core Capital - Tier 1		
Issued and fully paid ordinary shares	300,000	
General reserves	4,612	
Legal / statutory reserves	676	
Share Premium	16,385	
Others	-	
Retained profit brought forward	(19,873)	
Total Tier 1 Capital	**301,800**	
Deductions from Tier 1		
Unrealized gross losses arising from fair valuing equity securities	552	
Tier 1 Capital before PCD deductions	**301,248**	
Supplementary Capital - Tier 2		
Current interim profits		-
Asset revaluation reserve - Property, plant, and equipment (45% only)		1,583
Unrealized gains arising from fair valuing equities (45% only)		26
Tier 2 Capital before PCD deductions		**1,609**
Total Available Capital before PCD deductions (Tier 1 and Tier 2)		**302,857**
Deductions		
Capital shortfall of non-consolidated entities subsidiaries *	4	4
Excess amount over maximum permitted large exposure limit **	-	-
Additional deduction from Tier 1 to absorb deficiency in Tier 2	-	
Total Deductions	**4**	4
Net Available Capital (1.10 and 2.9 less 3.11) (Tier 2 up to 100% of Tier 1)	**301,244**	1,605
Total Eligible Capital		**302,849**

* This represents capital shortfall in Medical Management Group SPC.

** This represents aggregate exposure to connected counterparty exceeding 25%.

4 CAPITAL ADEQUACY (continued)

Table – 2. Capital requirement by type of Islamic financing contracts (PD - 1.3.17)

The following table summarises the capital requirements by type of Islamic financing contracts:

	31 December 2014	
	Risk Weighted Amount (USD '000)	Capital requirements (USD '000)
Type of Islamic financing contracts		
Due from financial institutions	**8,975**	**1,077**
Financing receivables	**11,016**	**1,322**
Musharaka financing	**152**	**18**
Ijarah muntahia bittamleek	**1,059**	**127**
Investment in securities - Sukuk	**84,585**	**10,150**
	105,787	**12,694**

	31 December 2014	
	Risk Weighted Amount (USD '000)	Capital requirements (USD '000)
Cash items	**-**	**-**
Claims on Sovereigns	**-**	**-**
Claims on PSE	**4,911**	**589.00**
Claim on banks	**16,830**	**2,020**
Claim on Corporations	**55,473**	**6,657**
Past Due Facilities	**5,090**	**611**
Investment in securities	**101,384**	**12,166**
Holding of Real Estate	**286,718**	**34,406**
Other assets	**56,592**	**6,791**
	526,997	**63,240**

Table – 3. Capital requirement for Market risk (PD–1.3.18)

The following table summarises the amount of exposures subject to the standardized approach of market risk and related capital requirements:

	31 December 2014 (USD '000)
Market Risk - Standardised Approach	
Foreign exchange risk	**1,065**
Total of market risk - Standardised Approach	**1,065**
Multiplier	**12.5**
Total Market Risk Weighted Exposures	**13,315**
Minimum capital requirement (12%)	**1,598**

4 CAPITAL ADEQUACY (continued)

Table - 4. Capital Requirements for Operational risk (PD-1.3.19 and PD-1.3.30)

The following table summarises the amount of exposures subject to the Basic Indicator Approach of operational risk and related capital requirements:

	31 December 2014 (USD '000)
Indicators of operational risk	
Average gross income	**11,660**
Multiplier	**12.5**
	145,746
Eligible Portion for the purpose of the calculation	**15%**
Total operational RWE	**21,862**
Minimum capital requirement (12%)	**2,623**

Table - 5. Capital Adequacy Ratios (PD-1.3.20)

The following are capital adequacy ratios for total capital and tier 1 capital as of:

	31 December 2014	
	Total capital ratio	**Tier 1 capital ratio**
Top consolidated group in Bahrain	**53.87%**	**53.59%**

5 RISK MANAGEMENT

5.1 Overview

5.1.1 Bank-wide Risk Management Objectives

The risk management objective for each area of risk is to adopt the industry best practices and adhere to Basel II and CBB requirements. The Bank identifies, captures, monitors and manages different dimensions of risk with the aim to protect asset values and income streams, and to optimise the Bank's shareholder return, while maintaining its risk exposure within defined parameters. The Bank's management believes in the proactive management of risk in the full cycle of a financial transaction including its operating circumstances from the origination stage to its final disposal from the books of the Bank.

The Bank reviews and redefines its risk appetite according to the evolving business plan of the Bank, which includes fluctuations in economic and market conditions and future forecasts.

5 RISK MANAGEMENT (continued)

5.1 Overview

5.1.2 Strategies Processes and Internal Controls

The Bank's risk strategy, backed by appropriate limit structures, is articulated through risk management policies and procedures. These policies and procedures are an integral part of an enterprise-wide integrated risk management framework at the Bank. These policies and procedures identify risk objectives, processes, strategies and risk governance both at the board and the management level. The capital management policy is aimed at ensuring financial stability by allocating enough capital to cover unexpected losses. Limit structures serve as a key component in articulating risk strategy in quantifiable risk appetite. In addition, the Bank intends to implement various risk systems to help quantify not just the regulatory capital but also the economic capital allocated to various portfolios.

The Bank is exposed to various types of risk, such as market, credit, profit rate, liquidity and operational, all of which require the comprehensive controls and ongoing oversight. The risk management framework encapsulates the spirit behind Basel II, which includes management oversight & control, risk culture & ownership, risk recognition & assessment, control activities, adequate information & communication channels, monitoring risk management activities and correcting deficiencies.

Credit Risk

The Bank manages its credit risk exposures by assessing the credit worthiness of all customers & counterparties. For each new product & activity, the Bank evaluates credit risk introduced by it. The Bank has established a limit structure to avoid concentration of risks for counterparty, sector and geography.

Market Risk

The Bank is not exposed to significant market risk due to the nature of its activities and its limited market risk exposure is managed through combination of limits, internal controls & processes. The Group manages its market risk exposures by evaluating each new product and activity with respect to the market risk introduced by it.

Operational Risk

The Bank has established a Risk Control and Self Assessment ("RCSA") process necessary for identifying and measuring and controlling its operational risks. This exercise covers the Bank's business lines and associated critical activities, exposing the Bank to operational risks.

Equity Risk in the Banking Book

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks.

5 RISK MANAGEMENT (continued)

5.1 Overview (continued)

5.1.2 Strategies Processes and Internal Controls (continued)

The equity price risk exposure arises from the Group's investment portfolio. The Group manages and monitors its equity risk using sector, geography and investment type limits.

The strategy used has been effective throughout the reporting period.

Profit Rate Risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Group manages its profit rate risk using various risk management tools and methodologies.

Displaced Commercial Risk

Displaced Commercial Risk ("DCR") refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with competitor's rates.

The Bank manages DCR through the Assets and Liability Committee. The Bank intends to develop written policies and procedures for Displaced Commercial Risk. In some situations the Bank will forego its fee in case DCR arises based on executive management decision and on case to case basis. The Bank benchmarks its rates with other leading banks in the market.

5.1.3 Risk Measurement and Reporting System

The Group identifies, measures, controls and monitors its material risks on a periodic basis. The Group has established relevant risk limit structures to quantify its risk appetite. Risk Committee ("RC") reviews and recommends the limits, suggested by the Investment, Credit and Risk Committee to the Board which is ultimately responsible for the final approval of the limits. The monitoring and controlling of risks is managed through limits approved by the Board. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept.

The Risk Management Department ("RMD") presents reports to the Board of Directors through ICRC and RC. These reports include risk and investment review of Group's portfolio and its impact on Group's capital adequacy.

As part of the Risk Management reporting framework, tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information. A periodic briefing is given to the Management Committees on the utilisation of market limits, proprietary investments, and liquidity, plus any other risk developments.

5 RISK MANAGEMENT (continued)

5.2 Credit risk

5.2.1 Introduction

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. The Group controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties.

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept in terms of counterparties, product types, geographical and industry. The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions.

Counterparty limits are established by the use of a comprehensive approval process.

All credit proposals undergo a comprehensive risk assessment which examines the customer's financial condition, performance, nature of the business, quality of management, and market position, etc. The credit approval decision is then made and terms and conditions are established.

Exposure limits are based on the aggregate exposure to counterparty and any connected entities across the group. Investments are reviewed on regular basis by the respective departments and ICRC.

5.2.2 Types of Credit Risk

Financing receivables mainly comprise of Murabaha (International Commodity), Mudaraba and Musharaka.

5.2.2.1 Murabaha (International Commodity)

A commodity Murabaha is a contract between the Bank and its client for the sale of goods at a price plus an agreed profit margin for the Bank. The instrument is called an international commodity Murabaha because the profits are made on the international buying and selling of a commodity, usually metal, such as copper, aluminum or lead.

5.2.2.2 Mudaraba

The Group enters into Mudaraba contracts by investing in funds operated by other banks and financial institutions for a definite period of time.

5.2.2.3 Musharaka

Musharaka financing is partnership in which the Group contributes capital. These are stated at the fair value of consideration given less impairment.

5 RISK MANAGEMENT (continued)

5.2 Credit risk (continued)

5.2.3 Past Due and Impaired Islamic Financing

The Group defines non-performing facilities as the facilities that are overdue for a period of 90 days or more. These exposures are placed on a non-accrual status with income being recognised to the extent that it is actually received. It is the Group's policy that when an exposure is overdue for a period of 90 days or more, the whole financing facility extended is considered as past due, not only the overdue installments and payments.

As a policy, the Group has placed on a non-accrual status any facility where there is reasonable doubt about the collectability of the receivable irrespective of whether the customer concerned is currently in arrears or not.

Islamic financing assets are stated at cost less impairment allowances. Specific provisions are created for impairment where losses are expected to arise on non-performing contracts. These assets are written off when they are considered to be uncollectable to reduce all impaired assets to their expected realisable values. Deferred income and provision for impairment are netted off against the related receivables. The Group assesses at each financial position date whether there is objective evidence that a financial asset is impaired. In the case of equity-type instruments at fair value through equity, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired.

If any such evidence exists for equity-type instruments at fair value through equity, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in consolidated statement of income) is removed from owners' equity and recognised in the consolidated statement of income. Impairment losses recognised in the consolidated statement of income on equity instruments are not subsequently reversed through the consolidated statement of income.

Impairment losses on murabaha receivables and debt-type instruments at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses, if any, are recognised in the consolidated statement of income and reflected in an allowance account against murabaha receivables and debt-type instruments at amortised cost. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the consolidated statement of income.

As of 31 December 2014, an amount of USD 27,033 thousands has been outstanding for over 6 months. This amount is receivable from various individuals and corporates based in the GCC region.

5 RISK MANAGEMENT (continued)

5.2 Credit risk (continued)

5.2.4 External Credit Assessment Institutions

To assess the creditworthiness of Financial Institutions ("FI") the Group relies on external ratings by external credit assessment institutions like Standard & Poor's, Fitch and Moody's. In case of unrated FIs, the Group will assess the credit risk on the basis of its internally developed approach & methodology. The Bank uses ECAI's for due from financial institutions and its sukuk portfolio.

5.2.5 Definition of Geographical Area

The Group allocates exposures to a particular geographical area based on the risk domicile concept, which could be either the location of the asset or on the location of the counterparty.

5.2.6 Concentration Risk

Concentration risk is the credit risk stemming from not having a well diversified credit portfolio, i.e. being overexposed to a single customer, industry sector or geographic region. As per CBB's single obligor regulations, Banks incorporated in Bahrain are required to obtain the CBB's approval for any planned exposure to a single counterparty, or group of connected counterparties, exceeding 15% of the regulatory capital base.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. In case any exposure exceeds the CBB's prescribed limits, Group obtains approval from the CBB.

5.2.7 Credit Risk Mitigation

Credit risk mitigation is defined as the utilisation of a number of techniques, such as collaterals and guarantees to mitigate the credit risks that the Group is exposed to. The Group's first priority when establishing Islamic financing is to determine the borrower's capacity to repay and not to rely principally on security or collateral. Nonetheless, the Group intends to develop its collateral management policy which would be in line with its business activities.

5.2.8 Counterparty Credit Risk

5.2.8.1 Introduction

A counterparty is defined as an obligor (individual, company, other legal entity), a guarantor of an obligor, or person receiving funds from the Group. It also includes the issuer of a security in case of a security held by the Group, or a party with whom a contract is made by the Group for financial transactions.

The measure of exposure reflects the maximum loss that the Group may suffer in case the counterparty fails to fulfill its commitments. Group

5 RISK MANAGEMENT (continued)

5.2 Credit risk (continued)

5.2.8 Counterparty Credit Risk (continued)

5.2.8.1 Introduction

exposure is defined as the total exposure to all counterparties closely related or connected to each other. Large exposure is any exposure whether direct, indirect or funded by restricted investment accounts to a counterparty or a group of closely related counterparties which is greater than or equal to 10% of the Group's Capital Base. The Group has adopted Standardised Approach to allocate capital for counterparty credit risk.

5.2.8.2 Credit Limit Structure

The Bank has put in place an internal counterparty limit structure which is based on an approved methodology. The Bank has also set concentration limits as a percentage of shareholders equity. In case of a counterparty rating degrade, the Bank may require further collateral or advise the counter party to reduce its exposure on a case by case basis.

Reporting

The Bank reports large counterparty exposures to CBB and senior management on periodic basis. The Bank reports the exposures on a gross basis without any offset. However, debit balances on accounts may be offset against credit balances where both are related to the same counterparty, provided the Bank has a legally enforceable right to do so.

Early warning indicators

The Bank maintains a strong focus on identification of signs of deterioration in credit quality at an early stage in order to take remedial measures before the facility becomes substandard or doubtful.

5.2.8.3 Connected counterparties

Connected counterparties are companies or individuals connected with the Bank or its subsidiaries and associated companies (whether such association is due to control or shareholding or otherwise), Directors and their associates (whether such association is due to control, family links or otherwise), members of the Shari'a Supervisory Board, management and other staff and shareholders holding more than 10% or more of the equity voting rights in the Bank.

As a Bank's strategy exposure to connected counterparties may be undertaken only when negotiated and agreed on an arm's length basis. The Bank shall not assume any exposure to its external auditors or members of Shari'a Supervisory Board. The disclosure relating to related party transactions has been made in the consolidated financial statements. All related party transactions have been made on arm's length basis.

5 RISK MANAGEMENT (continued)

5.2 Credit risk (continued)

5.2.8 Counterparty Credit Risk (continued)

5.2.8.4 Highly Leveraged Counterparties

The Bank assess counterparties through financial and non-financial due diligence and uses CBB's definition of Highly Leveraged Counterparties to determine exposure to them. Currently, the Bank is not exposed to any Highly Leveraged Counterparties.

5.2.8.5 Restructuring of Credit Facilities

There was no restructuring of credit facilities that took place during the year.

5.2.8.6 Recourse Transactions

The Bank does not currently have any obligations with respect to recourse transactions.

5.2.9 Credit risk mitigation

The credit exposure information presented in table 6 of this report represents gross exposures prior to the application of any credit risk mitigation techniques. Collateral items and guarantees which can be used for credit risk mitigation under the capital adequacy framework are referred to as eligible collateral. However, extending credit facilities is not a part of the Bank's core business activities. The Bank's credit risk mainly arises from its investment transactions.

Nonetheless, the Bank intends to develop its collateral management policy and provisioning policy which would be in line with its business activities.

5 RISK MANAGEMENT (continued)

5.2 Credit risk (continued)

Table - 6. Credit Risk Exposure (PD-1.3.23(a))

The following table summarises the amount of gross funded and unfunded credit exposure and average gross funded and unfunded exposure as of:

	31 December 2014	
	Total gross credit exposure (USD '000)	*Average gross credit exposure over the year (USD '000)
Funded exposure		
Balances with banks	17,015	14,420
Due from financial institutions	8,976	9,191
Assets held-for-sale	95,943	48,166
Financing receivables	11,017	6,616
Musharaka financing	152	655
Receivable from Ijara investors	27,033	27,033
Investment in securities	65,863	63,902
Other assets	2,375	12,515
Unfunded exposure		
Uncalled capital commitments in respect of investment	8,391	12,148
Promise to purchase foreign currency commitment	-	750
Operating lease commitments - expiring within one year	242	201
Operating lease commitments - expiring in one to three years	-	70
Commitment related to project developments	132	133
	237,139	195,798

*Average balances are computed based on quarter-end balances.

5 RISK MANAGEMENT (continued)

5.2 Credit risk (continued)

Table – 7. Credit Risk – Geographic Breakdown (PD-1.3.23(b))

The following table summarises the geographic distribution of funded and unfunded exposures, broken down into significant areas by major types of credit exposure as of:

	31 December 2014				
	Middle East USD (USD '000)	Europe USD (USD '000)	Africa USD (USD '000)	South East Asia & Others USD (USD '000)	Total USD (USD '000)
Funded exposure					
Cash and balances with banks	**14,683**	**2,223**	**-**	**109**	**17,015**
Placements with financial institutions	**4,472**	**4,504**	**-**	**-**	**8,976**
Assets held-for-sale				**95,943**	**95,943**
Financing receivables	**-**	**-**	**11,017**	**152**	**11,169**
Receivable from Ijara investors	**27,033**	**-**	**-**	**-**	**27,033**
Investment in securities	**60,659**	**1,746**	**1,500**	**1,958**	**65,863**
Other assets	**1,484**	**2**	**233**	**656**	**2,375**
Unfunded exposure					
Uncalled capital commitments in respect of investment	**8,391**	**-**	**-**	**-**	**8,391**
Promise to purchase foreign currency commitment	**-**	**-**	**-**	**-**	**-**
Operating lease commitments - expiring within one year	**-**	**-**	**-**	**242**	**242**
Operating lease commitments - expiring in one to three years	**-**	**-**	**-**	**-**	**-**
Commitment related to project developments	**132**	**-**	**-**	**-**	**132**
	116,854	**8,475**	**12,750**	**99,060**	**237,139**

The Group allocates exposures to a particular geographical area based on the risk domicile concept, which could be either the location of the asset or on the location of the counterparty.

5 RISK MANAGEMENT (continued)

5.2 Credit risk (continued)

Table - 8. Credit risk - Industry Sector Breakdown (PD-1.3.23(c))

The following table summarises the distribution of funded and unfunded exposure by industry type broken down by major types of credit exposure as of:

	31 December 2014				
	Trading and manufacturing (USD '000)	Banks and financial institutions (USD '000)	Real Estate (USD '000)	Others (USD '000)	Total (USD '000)
Funded exposure					
Cash and balances with banks	-	17,015	-	-	17,015
Placements with financial institutions	-	8,976	-	-	8,976
Assets held-for-sale	-	-	-	95,943	95,943
Financing receivables	-	-	-	11,169	11,169
Receivable from Ijara investors	-	-	-	27,033	27,033
Investment in securities	-	10,929	26,998	27,936	65,863
Other assets	216	-	402	1,757	2,375
Unfunded exposure					
Uncalled capital commitments in respect of investment	-	-	-	8,391	8,391
Promise to purchase foreign currency commitment	-	-	-	-	-
Operating lease commitments - expiring within one year	-	-	-	242	242
Operating lease commitments - expiring in one to three years	-	-	-	-	-
Commitment related to project developments	-	-	-	132	132
	216	36,920	27,400	172,603	237,139

5 RISK MANAGEMENT (continued)

5.2 Credit risk (continued)

Table – 9. Credit Risk – Concentration of Risk

The Group follows the CBB's guidelines with respect to the definition and measurement of large exposures at the consolidated level as stipulated in the CBB Rulebook for Islamic Banks.

The following are the balances representing the concentration of risk to individual counterparties as of 31 December 2014:

	Own capital and current account Concentration risk
Counterparties	%
Counterparty # 1	**14.05%**
Counterparty # 2	**12.29%**
Counterparty # 3	**11.03%**

There has not been any restructured credit facilities (according to the definition in the Prudential Information Return instructions) during the period.

The Bank does not currently have any obligations with respect to recourse transactions.

No penalties were charged to customers with regards to defaults during the year.

5 RISK MANAGEMENT (continued)

5.2 Credit risk (continued)

Table - 10. Maturity breakdown of credit exposures (PD-1.3.23(g))

The following table summarises the residual contractual maturity breakdown of the whole credit portfolio, broken down by major types of credit exposure as of 31 December 2014:

Funded exposure	**Up to 3 months**	**3 months to 1 year**	**Total up to 1 year**	**1 to 5 years**	**5 to 10 years**	**No fixed maturity**	**Total**
Cash and balances with banks	**(USD '000)**	**(USD '000)**	**(USD '000)**	**(USD '000)**	**(USD '000)**	**(USD '000)**	**(USD '000)**
Placements with financial institutions	**17,015**	**-**	**17,015**	**-**	**-**	**-**	**17,015**
Assets held-for-sale	**8,976**	**-**	**8,976**	**-**	**-**	**-**	**8,976**
Financing receivables	**-**	**95,943**	**95,943**	**-**	**-**	**-**	**95,943**
Receivable from Ijara investors	**7,277**	**3,740**	**11,017**	**152**	**-**	**-**	**11,169**
Investment in securities	**27,033**	**-**	**27,033**	**-**	**-**	**-**	**27,033**
Equity accounted investees	**-**	**4,301**	**4,301**	**32,049**	**29,513**	**-**	**65,863**
Other assets						**12,468**	**12,468**
	514	**373**	**887**	**1,200**	**6**	**282**	**2,375**
Unfunded exposure							
Uncalled capital commitments in respect of investment	**-**	**8,391**	**8,391**	**-**	**-**	**-**	**8,391**
Promise to purchase foreign currency commitment	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Operating lease commitments - expiring within one year	**-**	**242**	**242**	**-**	**-**	**-**	**242**
Operating lease commitments - expiring in one to three years	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Commitment related to project developments	**-**	**132**	**132**	**-**	**-**	**-**	**132**
	60,815	**113,122**	**173,937**	**33,401**	**29,519**	**12,750**	**249,607**

5 RISK MANAGEMENT (continued)

5.2 Credit risk (continued)

Table – 11. Breakup of provision by geographic area (PD-1.3.23(h & i)) and (PD-1.3.24(c))

	Specific impairment provision (USD '000)	Collective impairment (USD '000)	Total (USD '000)
Europe	5,335		**5,335**
South East Asia		38	**38**
	5,335	**38**	**5,373**

Breakup of provision by counterparty (PD-1.3.23(h & i)) and (PD-1.3.24(c))

	Specific		
	OPENING (USD '000)	Charged during the year (USD '000)	Closing (USD '000)
Corporate	278	(27)	**251**

Only an amount of USD (27) thousand of musharaka financing was recovered back as of 31 December 2014 (2013: USD 278 thousand as impairment).

5.3 Market risk

5.3.1 Introduction

Market risk is defined as the risk of losses in on-balance sheet and off-balance-sheet positions arising from movements in market prices. The risks subject to this requirement are:

- The risks pertaining to profit rate related instruments and equities in the trading book; and
- Foreign exchange risk and commodities risk throughout the Bank.

The Group manages its market risk exposures by evaluating each new product and activity with respect to the market risk introduced by it.

5.3.2 Market Risk Factor

For the Bank, market risk may arise from movements in foreign exchange rates. A single transaction or financial product may be subject to foreign exchange risk.

5.3.3 Market Risk Strategy

The Board is responsible for approving and reviewing the market risk strategy. The Bank's senior management is responsible for implementing the market risk strategy .

5 RISK MANAGEMENT (continued)

5.3 Market risk (continued)

5.3.3 Market Risk Strategy (continued)

approved by the Board, and continually enhancing the market policies and procedures for identifying, measuring, monitoring and controlling market risks.

In line with the Bank's Risk Management objectives and risk tolerance levels, the specific strategies for market risk management include:

- Proactively monitoring and managing the market risk in its portfolio using a Board approved limit structure;
- At all times holding sufficient capital in line with the Pillar 1 regulatory capital requirements of the CBB
- Carry out stress testing periodically to assess the effect of extreme movements in market variables which may expose the Bank to high risks;
- Managing the market risk in all foreign currencies in which it has significant exposure; and
- Manage its market risk exposure by evaluating each new product or activity with respect to the market risk introduced by it.

5.3.4 Market Risk Measurement Methodology

The Group is not exposed to significant market risk due to the nature of its activities and hence uses measurements involving a combination of limits to control market risk exposures. For calculating the market risk capital charge, the Group applies the Standardised Approach.

5.3.5 Market Risk Monitoring & Reporting and Limits Structure

The Bank uses a combination of limits to control its market risk exposures. Positionsare monitored on a regular basis to ensure risk is maintained within established limits.

Table – 12. Market Risk Capital Requirements

The following table summarises the capital requirement for each category of market risk as of:

	31 December 2014	
	Weighted risk exposures (USD '000)	**Market risk capital requirement (USD '000)**
Capital requirements - Foreign Exchange Risk	**13,315**	**1,598**
Maximum value of RWE	**17,790**	**2,135**
Minimum value of RWE	**13,315**	**1,598**

5 RISK MANAGEMENT (continued)

5.4 Operational risk

5.4.1 Introduction

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. It is an inherent risk faced by all business and covers a large number of operational risk events including business interruption and systems failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets.

The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

The Board has the ultimate responsibility to manage operational risk. Oversight rests with the RC, ICRC and RMD. Risk and Control Self Assessment ("RCSA") is an annual exercise as per Bank's policy and is a requirement by CBB based on Basel II principles related to operational risk management. The exercise will be completed by 2015.

The Group has developed a Disaster Recovery and Business Continuity Plan ("DR&BCP") to enable the Group to survive a disaster and to re-establish normal business operations. The DR&BCP will enable the Group to minimize interruptions to business service operations, resume critical operations within a specified time after a disaster, minimize financial loss due to disruptions, limit the severity of the disruption, expedite the restoration of services and maintain a positive public image of the Bank.

5.4.2 Sources of Operational Risk

The different sources of operational risks faced by the Bank can be classified broadly into the following categories:

People Risk which arise due to staffing inadequacy, unattractive remuneration structure, lack of staff training, lack in procedures for appointment, unhealthy professional working relationship and unethical environment;

Processes Risk which arise due to inadequate general controls, inadequate application controls, improper business and market practices and procedures, inappropriate or inadequate monitoring and reporting; and

Systems (Technology) Risk which arise due to the Integrity of information, hardware failures due to power surge, obsolescence, low quality and software failure due to unauthorized or incorrect modifications to software programs, computer virus, programming bug.

5 RISK MANAGEMENT (continued)

5.4 Operational risk (continued)

5.4.3 Operational Risk Management Strategy (continued)

The Bank's Board is responsible for approving and reviewing (at least annually), the operational risk strategy and significant amendments to the operational risk policies. The Bank's senior management is responsible for implementing the operational risk strategy approved by the Board to identify, measure, monitor and control the risks faced by the Bank. The Bank continuously monitors the process and controls framework surrounding all business units to assess their effectiveness and efficiency.

As a strategy the Bank will identify the sources of operational risks in coordination with each business unit.

Management and Reporting of KRIs

The Bank plans to integrate the process of KRIs into the RCSA process and then start reporting KRIs to senior management.

Incident reporting

An incident is the occurrence of an operational risk event that has caused, or has the potential to cause a financial, reputation or regulatory impact on the Bank. It includes credit or market risk events, which have been caused by an operational risk event, and non-compliance with any legal or regulatory requirement, license, internal policy or procedure or code.

Operational Loss Database

The Operational Loss Database (OLD) is a key component to quantify past operational risk exposures. The OLD contains a subset of the information captured by the incident reporting process since all incidents involving an actual or potential financial impact (including near misses) is captured.

5.4.4 Operational Risk Monitoring and Reporting

The internal monitoring and reporting process ensures a consistent approach for providing pertinent information to Senior Management and the RC for the quick detection and correction of deficiencies in the policies, processes and procedures for managing operational risk through ongoing, periodic reviews.

The objective of the reporting process is to ensure relevant information is provided to senior management and the Board to enable the proactive management of operational risk. The process ensures a consistent approach for providing information that enables appropriate decision making and action taking.

5.4.5 Operational Risk Mitigation and Control

Control activities are necessary to address the specific operational risks that the Bank has identified through the RCSA process. For the material risks identified by the Bank, the Bank decides whether to use procedures to control, mitigate, transfer, or accept the risks.

5 RISK MANAGEMENT (continued)

5.4 Operational risk (continued)

5.4.5 Operational Risk Mitigation and Control (continued)

The Bank has several options for controlling and/or mitigating these risks:

- Decline to accept the risk (i.e. by avoiding certain business strategies or customers)
- Accept and retain the risk but introduce mitigating internal or external controls
- Accept the risk and transfer it in part or in whole.

Key controls
The Bank aims to control the operational risks it is exposed to by strengthening its internal controls, continuing its efforts to identify, assess, measure and monitor its risks, evolving in its risk management sophistication and promoting a strong control culture within the Bank.

Each business unit head is responsible for ensuring that the internal controls relevant to its operations are complied with on a day to day basis in spirit as well as in letter. The Bank will furthermore establish control processes and procedures and implement a system for ensuring compliance with these internal risk control processes and procedures.

5.4.5 Disaster Recovery and Business Continuity Plan

The Bank has developed a Disaster Recovery and Business Continuity Plan based on risk review of the banks activities. The Bank ensures that business recovery & contingency plans are reviewed and updated periodically. The DR&BCP is in the implementation stage.

In particular, the DR&BCP will satisfy the following:

- it will cover incidents related to IT, communication and premises;
- testing will include critical business processes; and
- testing will cover critical types of plausible scenarios to which the Bank may be vulnerable.

5.5 Equity price risk

5.5.1 Equity price risk management

Equity price risk is the risk that the fair value of equities decreases as the result of adverse changes in equity prices or indices, or fair value in the case of unquoted equities. Equity price risk arises from the Bank's investment portfolio. The Bank does not have an active trading book and all its equities are in the banking book. A 100% risk weight is assigned to listed equities. Unlisted equities and unrated funds are risk weighted at 150%.

5 RISK MANAGEMENT (continued)

5.5 Equity price risk (continued)

5.5.1 Equity price risk management (continued)

The accounting policies, including valuation methodologies and their related key assumptions, are disclosed in the consolidated financial statements.

An assessment is made at each year-end to determine whether there is any objective evidence that equity investments may be impaired. Any impairment for significant and prolonged decline in the value of investments is reflected as a write down of investments. Any subsequent increase in their fair value is recognised directly in equity. Investments are managed within maximum concentration risk limits, approved by the Board of Directors of the Bank.

Table – 13. Equity Position Risk in the Banking Book (PD-1.3.31(b), (c) & (f))

The following table summarises the total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 31 December 2014:

	Total gross exposure (USD '000)	* Average gross exposure over the period (USD '000)	Publicly Traded (USD '000)	Privately held (USD '000)	Capital requirement (USD '000)
Amortized cost	**65,863**	**63,902**	**65,863**	**-**	**7,904**
Fair value through income statement	**22,045**	**20,189**	**13,023**	**9,022**	**2,645**
Fair value through equity	**118,244**	**125,160**	**26,687**	**91,557**	**14,189**
Equity accounted investees	**12,468**	**12,443**	**-**	**12,468**	**1,496**
	218,620	**221,694**	**105,573**	**113,047**	**26,234**

*Average balances are computed based on quarter-end balances.

5 RISK MANAGEMENT (continued)

5.5 Equity price risk (continued)

5.5.1 Equity price risk management (continued)

Table – 14. Equity gains or losses in the Banking Book (PD-1.3.31(d) to (e))

The following table summarises the cumulative realised and unrealised gains or (losses) during the year ended:

	31 December 2014 USD ('000)
Cumulative realised gains arising from sales or liquidations in the reporting year	**-**
Total unrealized gains recognised in the consolidated statement of financial position but not through consolidated statement of income	**-**
Unrealised gross losses included in Tier 1 Capital	**552**
Asset revaluation reserve - Property, plant, and equipment (45% only)	**1,583**
Unrealised gains included in Tier 2 Capital (45% only)	**26**

5.6 Rate of return risk

5.6.1 Rate of return risk management

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of return of the sources of finance. The table below analyses the Group's profit rate risk exposure on non-trading financial assets and liabilities. The Group's assets and liabilities are included at carrying amount and categorised based on contractual repayment arrangements:

5 RISK MANAGEMENT (continued)

5.6 Rate of return risk (continued)

5.6.1 Rate of return risk management (continued)

Table - 14. Equity gains or losses in the Banking Book (PD-1.3.31(d) to (e))

2014	Up to 3 Months (USD '000)	3 months to 1 year (USD '000)	1 to 5 years (USD '000)	Above 5 Years (USD '000)	No fixed maturity (USD '000)	Total (USD '000)
Assets						
Due from financial institutions	8,976	-	-	-	-	**8,976**
Financing receivable	-	7,277	3,892	-	-	**11,169**
Investments in quoted sukuks and equities	-	4,301	45,727	55,544	-	**105,572**
Total profit rate sensitive assets	**8,976**	**11,578**	**49,619**	**55,544**	**-**	**125,717**
Liabilities						
Due to financial institutions	21,208	-	-	-	-	21,208
Total profit rate sensitive liabilities	**21,208**	**-**	**-**	**-**	**-**	**21,208**
Profit rate sensitivity gap	**(12,232)**	**11,578**	**49,619**	**55,544**	**-**	**104,509**

The sensitivity of the Group's consolidated statement of income to a 200 basis points parallel increase (decrease) in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) on floating rate non trading financial assets and liabilities, would be an increase (decrease) of profit by US$ 443 thousand (2013:USD 1,242 thousand).

The rate of return risk is generally associated with overall balance sheet exposures where mismatches arise between assets and balances from fund providers. The Group is not exposed to any significant rate of return risk and is aware of the factors that give rise to rate of return risk. Factors that possibly will affect rate of return may include an increase in long-term fixed rates in the market. The Bank is also aware of the fact that in general, profit rates earned on assets reflect the benchmark of the previous period and do not correspond immediately to changes in increased benchmark rates.

The Bank uses a combination of mismatch gap limits to measure and control its rate of return risk. Mismatched positions are regularly monitored to ensure that mismatch is maintained within established limits.

The profit rate shock will have a negative impact in the case of a downward movement.

The bank benchmarks its rates with other leading banks in the market.

5 RISK MANAGEMENT (continued)

5.7 Liquidity risk

5.7.1 Introduction

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances.

The main action to manage the Group's liquidity is through the adherence to limits on liquidity mismatches. These include the limits of the cumulative excess of maturing liabilities over assets in the short-term and limits on dependence on short-dated funds.

Treasury department is overall responsible for ensuring that the limits enacted are adhered to, on a day-to-day basis and managing excess liquidity of the Group through short term placements and investments. Treasury maintains a constant communication with the banks. The Treasury provides a monthly report to the ALCO regarding the market conditions and the volatilities of the asset prices and as such the exogenous liquidity risk the Group is exposed to.

5.7.2 Sources of Liquidity Risk

Broadly, sources of liquidity risk can be listed as:

Funding Risk – Inability to replace net outflows due to unanticipated withdrawal of capital or deposits;
Call Risk – Crystallisation of a contingent liability; and
Event Risk – Rating downgrades or other negative news leading to a loss of m arket confidence in the Bank.

Liquidity risk may also arise if certain inter-bank funding lines are withdrawn or assets do not realise cash as expected and when anticipated.

5.7.3 Liquidity Risk Strategy

The Board is overall responsible for approving and reviewing (at least annually), the liquidity risk strategy and significant amendments to the liquidity risk policies. The Bank's senior management is responsible for implementing the liquidity risk strategy to identify, measure, monitor and control the risks faced by the Bank.

The Bank monitors the liquidity positions by comparing maturing assets and liabilities in different time buckets.

To mitigate the liquidity risk, the Group works with diversified funding sources, manages its assets with liquidity in mind and closely monitors periodic cash forecasts which take into account the Group's maturity profile.

5.7.4 Liquidity Risk Measurement Tools

The Bank has developed risk management policies and procedures including liquidity risk management framework. The Bank will use a combination of techniques for measurement of its liquidity risk. These include monitoring of liquidity ratios.

5 RISK MANAGEMENT (continued)

5.7 Liquidity risk (continued)

5.7.4 Liquidity Risk Measurement Tools

Table - 16. Liquidity ratios (PD1.3.37-)

The following table summarises the liquidity ratios as of:

	31 December 2014
Liquid assets to total assets	**6.09%**
Short term assets to short term liabilities	**158.67%**

Formula is as follows:
Liquid Assets to total assets =
(Cash and bank balances + placements with financial institutions)/total assets

Short term assets to short term liabilities =
Assets with up to one year maturity/liabilities with up to one year maturity

Table - 17. Quantitative indicators of financial performance and position (PD-1.3.9)

	Dec 2014	Dec 2013	Dec 2012	Dec 2011*	Dec 2010*
Return on average equity (ROAE)	**-4.18%**	0.01%	-5.14%	-2.66%	-11.92%
Return on average assets (ROAA)	**-3.44%**	0.01%	-4.55%	-2.60%	-11.88%
Total cost to Income ratio	**293.60%**	83.32%	76.73%	92.66%	90.39%

* Ratios are based on pre-merger financials

Formula is as follows:
ROAE = Net Income/Average Equity
ROAA= Net profit/ Average Assets

5.7.5 Bank's Financial Performance (PD1.3.9- (a))

2014 was a year of weak economic growth for the global economy with the sovereign debt crisis in Europe and policy uncertainties in the U.S impacting investment and business sentiment. The general challenging environment made it very difficult for the Group to achieve rewarding financial returns. In 2014, the net loss was USD 13.5 million compared to USD 23 thousand income in 2013, the total revenues stood at USD 4.2 million compared to USD 13.7 million in 2013, while total assets summed up to USD 426 million compared to USD 360 million in 2013. Moreover, Shareholders' equity recorded USD 318.3 million compared to USD 328.2 million in 2013.

5 RISK MANAGEMENT (continued)

5.7 Liquidity risk (continued)

5.7.5 Bank's Financial Performance (PD1.3.9- (a))

With an authorized capital of USD 500 million and paid up capital of USD 300 million, the Group is strengthened with a total equity of approximately USD 318 million and total assets in excess of USD 426 million as at 31 December 2014 spanning the Middle East and North Africa (Mena), Europe and Asia.

5.8 Equity of Investment Account Holders

The CBB requires the Group to maintain capital to cover the price risk arising from 30% of the assets funded by equity of investment account holders on a pro-rata basis. The Group intends to develop policies and procedures applicable to equity of investment account holders. Funds are intended to be invested and managed in accordance with Shari'a requirements.

The total equity of investment account holders deposit as at 31 December 2014 is nil compared to USD 497 thousand as of December 31, 2013 . The Group does not maintain PER and IRR for equity of investment account holders. No profit was distributed to equity of investment account holders. No management fee or other administrative expenses was charged during the year 2014 from the equity of investment account holders. No financing was provided to equity of investment account holders. No assets related to equity of investment account holders were pledge during the year 2014. The equity of investment account holders funds have not been invested.

The Bank has not charged any management fee from equity of investment account holders for the past 5 years.

5.9 Off Balance Sheet Equity of Investment Account Holders

The Group holds Investments of portfolio customers under fiduciary relationship and thus RIA assets and liabilities, are held Off- Balance sheet and separate portfolio accounts are maintained for each client.

Although the underlying investments are held in the name of the Bank, these assets are not consolidated in the Group's financial statements and the aggregated exposures as at 31 December 2014 is USD 108,228 thousand. The Group intends to develop policies and procedures applicable to Restricted Investment Accounts.

The Bank arose from merger of three entities in 2012 and has been in existence for three years. The Bank's restricted investment accounts did not generate any returns for the past five years except for two investments whose returns were distributed directly to restricted investments accounts holders, there were no returns shared between the Bank and the restricted investment account holders. Hence, the other disclosures relating to PD 1.3.35 were not applicable.

5 RISK MANAGEMENT (continued)

5.9 Off Balance Sheet Equity of Investment Account Holders (continued)

Table – 18. Maturity Profile (PD-1.3.38) (continued)

The maturity profile of the Group's assets and liabilities are based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the financial position date to the contractual maturity date. The consolidated maturity profile at 31 December 2014 was as follows:

2014	Up to 3 months USD	3 months to 1 year USD	Sub total USD	1 to 5 years USD	5 to 10 years USD	No fixed maturity USD	Total USD
Assets							
Cash and balances with banks	17,015,608	-	17,015,608	-	-	-	17,015,608
Placements with financial institutions	8,975,623	-	8,975,623	-	-	-	8,975,623
Assets held for sale	-	95,943,835	95,943,835	-	-	-	95,943,835
Financing receivables	7,275,865	3,740,102	11,015,967	151,735	-	-	11,167,702
Receivable from ijarah investors	27,033,290	-	27,033,290	-	-	-	27,033,290
Investment in ijarah asset	-	-	-	-	-	-	-
Ijarah muntahia bittamleek	-	-	-	657,534	-	-	657,534
Investment securities	-	4,301,229	4,301,229	45,727,331	15,834,283	140,288,668	206,151,511
Equity-accounted investees	-	-	-	-	-	12,467,524	12,467,524
Investment in real estate	-	-	-	-	-	43,239,030	43,239,030
Development properties	833,719	-	833,719	-	-	-	833,719
Other assets	514,291	372,542	886,833	1,200,554	216,097	669,734	2,973,219
Total assets	**61,648,396**	**104,357,708**	**166,006,104**	**47,737,155**	**16,050,380**	**196,664,956**	**426,458,595**

5 RISK MANAGEMENT (continued)

5.9 Off Balance Sheet Equity of Investment Account Holders (continued)

Table - 18. Maturity Profile (PD-1.3.38) (continued)

2014	Up to 3 months US$	3 months to 1 year US$	Sub total US$	1 to 5 years US$	5 to 10 years US$	No fixed maturity US$	Total US$
Liabilities							
Due to financial institutions	21,208,208	-	21,208,208	-	-	-	21,208,208
Due to investors	-	164,576	164,576	-	-	-	164,576
Liabilities related to assets held for sale	-	75,620,880	75,620,880	-	-	-	75,620,880
Other liabilities	1,507,737	6,123,494	7,631,231	2,549,537	453,480	504,223	11,138,470
Total liabilities	**22,715,945**	**81,908,950**	**104,624,896**	**2,549,537**	**453,480**	**504,223**	**108,132,134**
Equity of investment accountholders	-	-	-	-	-	-	-
Total liabilities and equity of investment accountholders	22,715,945	81,908,950	104,624,896	2,549,537	453,480	504,223	108,132,134
Net liquidity gap	38,932,451	22,448,758	61,381,208	45,187,618	15,596,900	196,160,734	318,326,460
Cumulative net liquidity gap	38,932,451	61,381,208	100,313,659	106,568,826	122,165,727	318,326,460	-
Commitments	-	8,765,448	-	-	-	-	8,765,448

6 CORPORATE GOVERNANCE AND TRANSPARENCY

The Bank is committed to adopting the best international standards and global leading practices in corporate governance. The Bank has established a strong corporate governance framework that is designed to protect the interests of all stakeholders, ensure compliance with regulatory requirements, and enhance organisational efficiency.

The Bank has established a concrete organisational structure that clearly segregates functions and responsibilities, and reflects a division of roles and responsibilities of the Board of Directors and Management. Clear mandates exist for the Board, Chairman of the Board, Board Committees, Chief Executive Officer, the Management, and Senior Management Committees.

The Bank has only one class of equity shares and the shareholders are from the following nationalities (PD-1.3.10(i)):

Country	Percentage
1- State of Kuwait	50.52%
2- Kingdom of Bahrain	23.44%
3- Kingdom of Saudi Arabia	15.06%
4- Qatar	4.71%
5- United Arab Emirates	4.00%
6- Oman	2.03%
7- Jordan	0.13%
8- Yemen	0.05%
9- Philippines	0.02%
10- Sri Lanka	0.01%
11- Canada	0.01%
12- United Kingdom	0.01%
13- India	0.01%

The distribution of ownership of shares by size of shareholder is provided below (PD-1.3.10(l)):

Size of Ownership	No. of Shareholders
30 - 35 %	1
5 - 10 %	1
5 - 1 %	18
Less than 1 %	217
	237

6.1 Board Members' Profile

The primary responsibility of the Board is to provide effective governance over the Bank's affairs and promote and achieve sustainable performance that has long-term growth potential for the benefit of its shareholders. The Board also has the duty of balancing interest of all its stakeholders, including its clientele, business partners, correspondents, employees, suppliers and local communities, all the time maintaining standards of transparency and accountability.

6 CORPORATE GOVERNANCE AND TRANSPARENCY (continued)

6.1 Board Members' Profile (continued)

In all actions taken by the Board, the Directors are expected to exercise their business judgment in what they reasonably believe to be in the Bank's best interest. In discharging this obligation, they may rely on the professional integrity of the Bank's Senior Executives, as well as its external advisors and auditors. The Board of directors members are:

Table – 19. Corporate Governance and Transparency – Board Members' Profile (PD-1.3.10(b,c,p,q))

Ibdar's Board of Directors' structure constitutes of 9 members as of December 31, 2014.

The following table summarises the information about the profession, business title, experience in years, start date and the qualifications of the current Board members;

6 CORPORATE GOVERNANCE AND TRANSPARENCY (continued)

6.1 Board Members' Profile (continued)

Table – 19. Corporate Governance and Transparency – Board Members' Profile (PD-1.3.10(b,c,p,q))

Name of Board Member	Profession	Business Title	Executive / Non Executive Independent / Non Independent	Experience in years	Start date and term	Qualification
Paul Mercer	Lawyer	Executive Manager, Kuwait Finance House – Bahrain	Non-Independent / Executive	Over 17	July 2011, 3 years from January 2013	M.A. Law - Cambridge University
Abdulla A. Al Marzouq	Banker	Deputy Dept Manager, International Investments, Kuwait Finance House - Kuwait	Non-Independent / Executive	Over 18	July 2011, 3 years from January 2013	MBA - MIT Sloan School of Management
Zeyad Tareq Al Mukhaizeem	Banker	Executive Director, International Investments, Aref Investment Group	Non-Independent / Executive	Over 11	January 2013, 3 years	MBA - Depaul University
Mishari Z. Al Khalid	Banker	Deputy Chairman - Kuwait Investment Company	Non-Independent / Non-Executive	Over 28	January 2013, 3 years	Bachelor of Commerce - Business Management - Cairo University
Khalid Mohammed Najibi	Accountant	Executive Director - Najibi Investment Company	Independent / Non-Executive	Over 21	January 2013, 3 years	Bachelor - Schiller International, CPA
Khalid Abdullah Al Bassam	Banker	Chairman - AlBassam Investment Company	Independent / Non-Executive	Over 26	January 2013, 3 years	Bachelor - Eastern New Mexico University
Khalid Mohammed Al Aboodi	Banker	CEO - Islamic Corporation for the Development of the Private Sector	Independent / Non-Executive	Over 26	January 2013, 3 years	Masters - Economics - Northeastern University
Saleh Hassan Al Afaleq	Banker	CEO - AlKifah Holding	Independent / Non-Executive	Over 25	January 2013, 3 years	Masters - Human Resource Development - Seattle University
Abdulhakim Al Adhamy	Accountant	Retired	Independent / Non-Executive	Over 36	September 2013, 3 years	Bachelors - Commerce - Baghdad University, ICA

6 CORPORATE GOVERNANCE AND TRANSPARENCY (continued)

6.1 Board Members' Profile (continued)

The Board shall meet on a quarterly basis, or otherwise at least four times in every financial year. During the year ended 31 December 2014, 5 Board meetings were held. The following table summarises the information about Board of Directors meeting dates and attendance of directors at each meeting;

Table – 20. Corporate Governance and Transparency – Board of Directors meetings in 2014 (PD-1.3.10(t and u))

Date	Names of Directors Present (Physical)	Names of Directors who participated by phone/video link	Names of Directors not Present
9-Jan-14	Paul Mercer, Mohammed AlAdsani Khalid AlAboodi, Abdulhakim Aladhamy, Saleh AlAfaleq, Khalid AlBassam, Mishari AlKhalid, Zeyad AlMukhaizeem, Khalid Najibi	Abdullah AlMarzouq	
19-Feb-14	Paul Mercer, Abdulhakim Aladhamy Saleh AlAfaleq, Khalid AlBassam Zeyad AlMukhaizeem	Khalid AlAboodi Khalid Najibi	Mohammed AlAdsani Mishari AlKhalid Abdullah AlMarzouq
8-May-14	Paul Mercer, Khalid AlAboodi Abdulhakim Aladhamy, Saleh AlAfaleq, Khalid AlBassam, Mishari AlKhalid, Abdullah AlMarzouq, Zeyad AlMukhaizeem, Khalid Najibi	Mohammed AlAdsani	
18-Sep-14	Paul Mercer, Khalid AlAboodi Abdulhakim Aladhamy, Saleh AlAfaleq, Khalid AlBassam, Mishari AlKhalid Abdullah AlMarzouq, Zeyad AlMukhaizeem, Khalid Najibi		
6-Nov-14	Paul Mercer, Khalid AlAboodi Abdulhakim Aladhamy, Saleh AlAfaleq Khalid AlBassam, Mishari AlKhalid, Abdullah AlMarzouq, Zeyad AlMukhaizeem, Khalid Najibi		

6 CORPORATE GOVERNANCE AND TRANSPARENCY (continued)

6.2 Changes in Board Structure

The Board was elected on January 29, 2013 during the Ordinary General Meeting. On July 02, 2014, Mr. Mohammed AlAdsani resigned from the Board.

The following table summarises the information about the directorships held by the directors in other boards:

Table – 21. Information on the directorships held by the directors on other boards

Name of Board Member	Directorship in other companies - based outside Bahrain	Directorship in other companies - based in Bahrain
Paul Mercer	Liberty Aerospace, Inc. Liberty Aerospace Holdings, Inc. Liberty Assets LLC Baytik International Investments Advisory Ltd Fernas Investors Ltd Sunshine Storage Ltd Sinwan Limited	Themar Baytik BSC Turkapital Holdings BSC Menatelecom WLL Bayan Group for Property Investment
Abdulla A. Al Marzouq	Hayat Investment Company, Kuwait Kuwait Finance House, Saudi Arabia	Kuwait Finance House - Bahrain
Zeyad Al Mukhaizeem	Munshaat Real Estate Projects Company Bank of London and Middle East EURX Fund	
Mishari Al Khalid	Kuwait Investment Company Al-Khaled International Holding Co.	National Hotels Company
Saleh Al Afaleq	AlKifah Holding Al-Ahsa Amusement & Tourism Company Arbah Capital Noor Capital General Authority of Civil Aviation Council of Saudi Chambers of Commerce National Cenre of Palm and Dates Al-Ahsa Irrigation and Drainage Authority	

6 CORPORATE GOVERNANCE AND TRANSPARENCY (continued)

6.2 Changes in Board Structure (continued)

Table - 21. Information on the directorships held by the directors on other boards (continued)

Name of Board Member	Directorship in other companies - based outside Bahrain	Directorship in other companies - based in Bahrain
Khalid Najibi	Arbah Capital	Najibi Investment Company Skaugen Gulf Petchem Carriers
Khalid Al Bassam	Gulf Investment Corporation	AlBassam Investment Company WLL Foulath Holding, Bahrain BSC © Sulb BSC © Bahrain Steel BSC ©
Khalid Al Aboodi	Tamweel Africa, Senegal. Kazakhstan Leasing Company. Tijari Leasing Company,Malaysia. Burj Bank, Pakistan. Saudi SME Fund, Saudi Arabia. Alinma Tokyo Marine, Saudi Arabia. South Europe Investment Company, Bosnia.	
Abdulhakim Al Adhamy	Amwaj Property Limited BVI	Ebrahim Khalil Kanoo BSC AlKindi Specialist Hospital

6.2.2 Auditors fees

During the year, the shareholders at the AGM appointed KPMG Fakhro as the external auditors as a good corporate governance.

6.3 Board Committees

The minimum number of Board Committee meetings per year, per committee, should be four as per the Bank's policies and procedures. The following tables summarises the information about Board Committee meeting dates and attendance of directors at each meeting;

6 CORPORATE GOVERNANCE AND TRANSPARENCY (continued)

6.3 Board Committees (continued)

Table - 22. Corporate Governance and Transparency - Audit Committee meetings in 2014 (PD-1.3.10(w))

Date	Names of Directors Present	Names of Directors Not Present
6-Feb-14	Abdulhakim Aladhamy, Khalid AlBassam, Mishari AlKhalid	None
4-May-14	Abdulhakim Aladhamy, Khalid AlBassam, Mishari AlKhalid	None
21-Jul-14	Abdulhakim Aladhamy, Khalid AlBassam, Mishari AlKhalid	None
27-Oct-14	Abdulhakim Aladhamy, Khalid AlBassam, Mishari AlKhalid	None

Table - 23. Corporate Governance and Transparency - Executive Committee meetings in 2013 (PD-1.3.10(w))

Date	Names of Directors Present (Physical)	Names of Directors who participated by phone/video link	Names of Directors not Present
8-Jan-14	Mohammed AlAdsani, Saleh AlAfaleq, Zeyad AlMukhaizeem, Khalid Najibi, Abdullah AlMarzouq		
22-Jan-14	Mohammed AlAdsani, Saleh AlAfaleq, Zeyad AlMukhaizeem, Khalid Najibi, Abdullah AlMarzouq		
9-Mar-14	Mohammed AlAdsani, Zeyad AlMukhaizeem, Khalid Najibi, Abdullah AlMarzouq	Saleh AlAfaleq	
4-May-14	Mohammed AlAdsani, Saleh AlAfaleq, Zeyad AlMukhaizeem, Khalid Najibi, Abdullah AlMarzouq		

6 CORPORATE GOVERNANCE AND TRANSPARENCY (continued)

6.3 Board Committees (continued)

Table - 23. Corporate Governance and Transparency - Executive Committee meetings in 2013 (PD-1.3.10(w)) (continued)

Date	Names of Directors Present (Physical)	Names of Directors who participated by phone/video link	Names of Directors not Present
11-Sep-14	Saleh AlAfaleq, Zeyad AlMukhaizeem, Khalid Najibi, Abdullah AlMarzouq		
17-Sep-14	Saleh AlAfaleq, Zeyad AlMukhaizeem, Khalid Najibi, Abdullah AlMarzouq		
29-Oct-14	Saleh AlAfaleq, Zeyad AlMukhaizeem, Khalid Najibi, Abdullah AlMarzouq		
5-Nov-14	Saleh AlAfaleq, Zeyad AlMukhaizeem, Khalid Najibi, Abdullah AlMarzouq		
13-Nov-14	Zeyad AlMukhaizeem, Khalid Najibi, Abdullah AlMarzouq	Saleh AlAfaleq,	
21-Dec-14	Saleh AlAfaleq, Zeyad AlMukhaizeem, Khalid Najibi, Abdullah AlMarzouq		

6 CORPORATE GOVERNANCE AND TRANSPARENCY (continued)

6.3 Board Committees (continued)

Table – 24. Corporate Governance and Transparency – Risk Committee meetings in 2014 (PD-1.3.10(w))

Date	Names of Directors Present	Names of Directors Not Present
6-Feb-14	Abdulhakim Aladhamy, Paul Mercer, Khalid AlBassam	None
4-May-14	Abdulhakim Aladhamy, Paul Mercer, Khalid AlBassam	None
21-Jul-14	Abdulhakim Aladhamy, Paul Mercer, Khalid AlBassam	None
27-Oct-14	Abdulhakim Aladhamy, Paul Mercer, Khalid AlBassam	None
10-Nov-14	Abdulhakim Aladhamy, Paul Mercer, Khalid AlBassam	None

Table – 25. Corporate Governance and Transparency – Remuneration and Nomination Committee meetings in 2014 (PD-1.3.10(w))

Date	Names of Directors Present	Names of Directors Not Present
9-Jan-14	Khalid AlAboodi, Mishari AlKhalid	None
30-Jan-14	Khalid AlAboodi, Mishari AlKhalid	None
30-Mar-14	Khalid AlAboodi, Mishari AlKhalid, Khalid Najibi	None
14-Sep-14	Khalid AlAboodi, Mishari AlKhalid, Khalid Najibi	None
27-Oct-14	Khalid AlAboodi, Mishari AlKhalid, Khalid Najibi	None
22-Dec-14	Khalid AlAboodi, Mishari AlKhalid, Khalid Najibi	None

6.4 Changes in the Corporate Governance Structures (PD-1.3.10(g))

No changes to the Corporate Governance Structures occurred in 2014.

6 Corporate governance and transparency (continued)

6.5 Remuneration Policy and Aggregate Remuneration Paid to Senior Management and Board (PD-1.3.10(d, ii, jj and kk))

The Bank's remuneration policy for Senior Management is to provide competitive remuneration structure to attract and retain highly skilled personnel.

Aggregate remuneration paid to senior management during 2014 was USD 1,667 thousand (this includes salaries, allowances, other benefit and bonuses paid for the year ended 31 December 2014.

The Bank's remuneration policy for Board Members is to appropriately compensate and remunerate board members for their active participation in board meetings. Based on this policy the Board of Directors remuneration was structured to comprise the following:

(a) Sitting fees
(b) Perdiem for members attending Board and sub-committee meetings
(c) Daily Allowance
(d) First class air tickets

Aggregate remuneration paid to Board Members during 2014 was USD 641 thousand.

6.6 A. Ownership of Shares by government (PD-1.3.10(m))

Name of Government Authority	Country	No. of Shares	Percentage%
Social Insurance Organization	Kingdom of Bahrain	4,693,951	1.565%
The Public Authority for Minor Affairs	State of Kuwait	1,642,877	0.548%
Awqaf Public Foundation	State of Kuwait	1,642,877	0.548%
Directorate of Minors Affairs	Kingdom of Bahrain	259,880	0.087%

B. Director's trading of the bank's shares during the year (PD-6.1.1 (c))

Directors have not made any trade of the bank's shares during the year.

6.7 Ownership of Shares by Directors / Senior Managers (PD-1.3.10(k))

Name of Director / Senior Manager	On Behalf of	No. of Shares	Percentage %
Khalid AlBassam	Al-Bassam Investment Company	11,717,524	3.906%
Saleh AlAfaleq	Al-Kifah Holding Company	6,872,503	2.291%
Khalid Najibi	Najibi Investment Co. W.L.L.	5,328,110	1.776%
Mohamed AlJasim	Individual	322,149	0.107%
Sameeh AlKhan *	Individual	291,561	0.097%

* December 31, 2014, was the last working day for Mr. Sameeh Al Khan at Ibdar.

6 Corporate governance and transparency (continued)

6.8 Type of Material Transactions that require Board approval (PD-1.3.10(o))

The following types of material transactions require Board approval if suggested by the approved policies:

(a) Conclude loan agreements with certain limit;
(b) Sell the company's assets;
(c) Mortgage the Company's properties;
(d) Grant guarantees to third parties;
(e) Discharge the Company's debts; and
(f) Engage in any other acts which may be integral to the company's objects as set out in the Memorandum of Association.

6.9 Induction, Education and Orientation of New Directors (PD-1.3.10(r))

All new Directors participate in an orientation exercise that is administered by the Directors and members of the Management at Ibdar. This orientation includes presentations by the Chairman and senior management to familiarize new Directors with Ibdar's strategic plans, significant financial, accounting and risk management issues, compliance programs, the Code of Conduct, its principal officers, and internal and independent auditors.

In addition, the orientation includes visits to Ibdar headquarter and, to the extent practical, Ibdar's significant facilities. It is emphasized that Directors stay up-to date in relation to matters relevant to the Bank, the industry and the particular areas of expertise for which they have been invited on to the BOD in the first place. In particular the induction/orientation process will aim for a Director to have:

(a) An appropriate level of knowledge of the industry Ibdar operates in.
(b) A clear understanding of Ibdar's business operations.
(c) A clear understanding of Ibdar's financial circumstances.
(d) A clear understanding of Ibdar's strategy and direction.
(e) A high level knowledge of the business risks that may affect its success.
(f) Access to relevant background information on key employees and the other members of the BOD.
(g) In addition, new Directors are provided an Induction Package

The process of director induction is critical to having the new directors effectively and efficiently contributing to the Board of Directors. As part of this process, specifically, the new director shall:

(a) Be welcomed formally by the Chairman of the Board, who shall brief him generally on the Bank, the Board, the other directors, and the culture and operation of the Board.
(b) Meet with the Chief Executive Officer onsite at the Bank office to discuss the Bank strategy and plan and be introduced to key management staff.
(c) Be briefed on the history and legacy of the Bank and its key shareholders, clients, and partners.

6 Corporate governance and transparency (continued)

6.9 Induction, Education and Orientation of New Directors (PD-1.3.10(r)) (continued)

(d) Be briefed by the Board Secretary on the general operations of the Board.

(e) Be provided all of the pertinent documentation, including but not limited to:

- i. Applicable laws and regulations, including the Commercial Companies Law, the CBB Rulebook and regulations
- ii. The Memorandum and Articles of Association
- iii. The Corporate Governance Manual
- iv. Organization Chart
- v. Business Plan
- vi. Schedule for Upcoming Board and Committee Meetings
- vii. The Board Minutes for the last 12 months (including the audio recording of the last meeting, if available)
- viii. The Board Packs for the last 12 months
- ix. The Board Committee Minutes for the respective committee he will be appointed to for the last 12 months (including the audio recording of the last meeting, if available)
- x The Annual Reports for the last 2 years
- xi. The Quarterly Financials for the last 12 months

(f) Be provided any other documentation on the Bank, its products, services, market or competition, upon his request.

(g) Be afforded the opportunity to meet swith any staff, consultants, or advisors, including the external auditor, upon his request.

6.10 Executive Members' Profile

Delegated by the Board with the authority for managing the Bank's operations, the Executive Management Team of the Bank are responsible for implementing decisions, policies, procedures, and strategies approved by the Board of Directors. The Executive Management Team comprises:

6 Corporate governance and transparency (continued)

6.10 Executive Members' Profile (continued)

Table - 26. Corporate Governance and Transparency - Executive Members' Profile (PD-1.3.10(b))

The following table summarises the information about the profession, business title, experience in years and the qualifications of each Executive member;

Name of Executive Member	Designation	Profession	Business Title	Experience in years	Qualification
Mr. Basel Al-Hag-Issa	Chief Executive Officer	Banker	Executive	Over 20	Master degree in Business Administration and Bachelor of Science (Mathematics) from Marshall University, USA
Mr. Mohamed AlJasim	Chief Investment Officer	Banker	Executive	Over 15	B.A. (Hons) Accounting
Mr. Sameeh AlKhan *	Chief Operating Officer	Banker	Executive	Over 30	Advanced Management Diploma

* December 31, 2014, was the last working day for Mr. Sameeh Al Khan at Ibdar Bank.

6.11 Bank's Performance Linked Incentive Structure (PD-1.3.10(d))

The remuneration & incentive structure of the Board Members and Shari'a Members is discussed at the Board level. Remuneration of Board Members is approved in the Annual General Meeting ("AGM"). Bonuses are based on Bank's performance, division or department performance and individual staff performance. The board approves all performance bonus schemes for staff.

6.12 Related Party Transactions (PD-1.3.10(f))

Related party transactions are governed by the Group corporate governance policy. All related party transactions were concluded at arm's length.

Where the Bank proposes to enter into a related party transaction the following procedures apply:

1- The relevant responsible officer involved in the transaction makes appropriate disclosure to the Compliance Officer of the bank. The Compliance Officer will review the transaction and send his/her comments to the Investment, Credit & Risk Committee about the proposed transaction. This disclosure should include the following:

6 Corporate governance and transparency (continued)

6.12 Related Party Transactions (PD-1.3.10(f)) (continued)

(a) Details of the proposed transaction;
(b) Proposed transaction parties and how they are related;
(c) How arm's length may be evidenced

2- The committee will consider the information provided in order to determine whether and how to proceed with the proposed transaction. The committee may confer with risk management and legal department or may take external legal advice, in reaching this determination.

3- The Committee shall review the material facts of the transactions that require the Committee's approval and either approve or disapprove of the entry into the related party transaction.

6.13 Assessment of Board of Directors Effectiveness & Contribution (PD-1.3.10(aa))

The Board and the management of the Bank are committed to the highest standards of corporate governance and risk management, therefore the Bank has developed a methodology which incorporates a process to self-assess the performance of the Board by the Board members on ongoing basis. This methodology and performance criteria is developed and recommended in line with the Board approved corporate governance policy and terms of reference. Self assessment shall help the board to establish clear expectations and goals to measure against these standards. The areas covered by the self assessment process are:

- Objective and strategy
- Selecting and retaining competent management
- Monitoring and assessing operations
- Efficient operations
- General assessment

6.14 Review of internal control processes and procedures (PD-1.3.10(y))

Internal control processes and procedures are regularly reviewed by the Bank's Internal Auditor in line with the internal audit plan approved by the Board's Audit Committee.

6.15 Governance arrangements, systems and controls employed by the bank to ensure Shari'a compliance (PD-1.3.10(ff))

Shari'a compliance department conducts review of all business financing and investment proposals together with audit of all executed transactions of Ibdar Bank and its affiliates to confirm compliance with Shari'a rules and principles, and also with specific rulings and guidelines issued by the Shari'a Supervisory Board.

The Shari'a review and audit are conducted internally by the Shari'a Compliance Department, which includes examining all transactions without exception, with all its the relevant documentation and execution procedures adopted by Ibdar Bank.

6 Corporate governance and transparency (continued)

6.15 Governance arrangements, systems and controls employed by the bank to ensure Shari'a compliance (PD-1.3.10(ff)) (continued)

The Shari'a review and audit are planned and performed after obtaining all the information and explanations which are considered necessary to provide sufficient evidence and give reasonable assurance that Ibdar Bank and its affiliates are in compliance with Islamic Shari'a rules and principles.

The findings are reported to the Shari'a Supervisory Board during the periodic meeting, which is held on quarterly basis or at any other time as the case may require. The Shari'a Supervisory Board reviews the review and audit reports of the Shari'a Compliance Department and provides the necessary recommendations in this regard, if needed, and issues the official opinion by means of the Shari'a Compliance Certificate after each meeting.

6.16 Handling of Non Shari'a compliance earnings and expenditures (PD-1.3.10(gg))

Any amount that has been identified as being non Shari'a compliant are fully reimbursed to a charity organization or a Bahraini Non-Profit organization.

6.17 Information on mediation, advise and complaint procedures at the bank (PD-1.3.10(dd))

The investors may use the Bank's website for logging a query or a complaint, which is managed by the Corporate Communications Department ("CCD") through the info@ibdarbank.com or complaint@ibdarbank.com in the "Contact Us" page on the website.

After receiving a query or a complaint through the email address associated with the "Contact Us" page, CCD/Compliance channel the query or the complaint to the concerned department to follow up with a response. The investor's query is addressed accordingly by the appropriate department or person who was asked to handle the issue. An acknowledgement goes to the customer within 5 working days and a full reply within a maximum of 4 weeks.

6.18 Election system of directors and any termination arrangements (PD-1.3.10(s))

As per the Memorandum and Articles of Association of the Bank, the Board shall be elected by the shareholders for a period of three years. The Board shall meet and elect its Chairman and Vice Chairman for a period equivalent to the term of the Board. The termination arrangements of the Board of Directors are as stated in the Articles of Association (Articles 24, 25 & 27).

6.19 Bank's Communication Strategy (PD-1.3.10(h and cc))

The CCD is responsible for preparing marketing materials in liaison with other Business Departments, which are used to communicate new product information and inform the investors of the Bank's activities. The various channels of communication may include corporate publications, website, direct mailers, electronic mail and local & regional media (through press releases). All marketing materials & corporate documents are approved by Senior Management prior to disclosing to the public.

The Bank adopted an open policy for communication where it uses all available suitable channels to communicate with its stakeholders, in line with the principle of transparency

6 Corporate governance and transparency (continued)

6.19 Bank's Communication Strategy (PD-1.3.10(h and cc))

sand disclosure that is integral to good corporate governance. This includes wide use of the media for the purposes of providing information on the Bank's progress.

Furthermore, the Bank provides information on all events that merit announcement, either on its website or through other communication channels. The Bank's annual report and previous years financial statements are also published on the website, as well as the Corporate Governance reports. The Bank's quarterly results are also published in both Arabic and English newspapers, and are posted on the Bank's website.

The Board attaches a high degree of importance to continuous communication with shareholders, especially direct dialogue with them at the Bank's annual general meetings. Shareholders are therefore encouraged to actively participate at such meetings.

6.20 Bank's Code of Ethical Business Conduct and Conflict of Interest (PD-1.3.10(v) & PD–6.1.1 (j))

The Board establishes corporate values for itself, senior management, and employees. These values have been communicated throughout the Bank, so that the Board and senior management and staff understand their accountabilities to the various stakeholders and fulfill their fiduciary responsibilities to them.

Bank's ethics dictate that a Board Member should:

1 - Not enter competition with the Bank;
2 - Not demand or accept substantial gifts for himself or his associates;
3 - Not take advantage of business opportunities to which the Bank is entitled for himself or his associates;
4 - Report to the Board any conflict of interest in their activities with, and commitments to other organizations. In any case, all Board Members declare in writing all of their other interest in other enterprises or activities (whether as a shareholder, manager, or other form of participation) to the Board (or the Audit Committees / Corporate Officer) on an annual basis;
5 - Absent themselves from any discussions or decision-making that involves a subject where they are incapable of providing objective advise, or which involves a subject or proposed transaction where a conflict of interest exists; and
6 - Ensure, collectively with the Board, that systems are in place to ensure that necessary client confidentiality is maintained and the privacy or the organization itself is not violated, and that clients' rights and assets are properly safeguarded.

During 2014, there has not been any cases of conflict of interest in the Bank.

6.21 Monitoring Compliance to and Enforcement of Code of Conduct

The matters covered in the Code of Conduct are of the utmost importance to the Bank, its stakeholders and its business partners and are essential to the Bank's ability to conduct its business in accordance with its stated values. The Bank clearly communicates to all of its employees that they are expected to adhere to these rules in carrying out their duties for the Bank.

6 Corporate governance and transparency (continued)

6.21 Monitoring Compliance to and Enforcement of Code of Conduct (continued)

The Board, through independent evaluators (i.e. Internal Auditor) and Senior Management, continuously monitor adherence to the set Code of Conduct and take appropriate action against any employee whose actions are found to violate these policies or any other policies of the Bank. Disciplinary actions may include immediate termination of employment or business relationship at the Bank's sole discretion. Employees are prohibited from participating in or concealing criminal activity or illegal behavior. Periodic reports and assessments of compliance to Code of Conduct will be presented to the board to report any incident of non compliance.

6.22 Auditor's Fees and Non-Audit Services

The details of the audit fees charged and non-audit services provided by the Bank's external auditors will be made available to the shareholders as and when requested. Such details will be made available to the Bank's shareholders as per their specific request, provided that these disclosures do not negatively impact the Bank's interest.

6.23 Social Functions and Charitable contributions of the Bank

The Group discharges its social responsibilities through donations to charitable causes and organizations.

6.24 Penalties or Fines by Central Bank of Bahrain

The bank did not pay any penalties to the Central Bank of Bahrain in 2014.

6.25 Penalties charged to Customers for Default

No penalties were charged to customers with regards to defaults during 2014.

7 REMUNERATION RELATED DISCLOSURES

The Bank's total compensation approach, which includes the variable remuneration policy, sets out the Banks's policy on remuneration for Directors and senior management and the key factors that are taken into account in setting the policy.

During the year, the Bank adopted regulations concerning Sound Remuneration Practices issued by the Central Bank of Bahrain and has proposed revisions to its variable remuneration framework. The revised policy framework and incentive components are subject to the approval of the shareholders in the upcoming Annual General Meeting. Once approved, the policy will be effective for the 2014 annual performance incentives and will be fully implemented for future periods.

The key features of the proposed remuneration framework are summarised below.

7.1 Remuneration Strategy

It is the Bank's basic compensation philosophy to provide a competitive level of total compensation to attract and retain qualified and competent employees. The Bank's variable remuneration policy will be driven primarily by a performance based culture that aligns employee interests with those of the shareholders of the Bank.

7 REMUNERATION RELATED DISCLOSURES (continued)

7.1 Remuneration Strategy (continued)

These elements support the achievement of our objectives through balancing rewards for both short-term results and long-term sustainable performance. Our strategy is designed to share our success, and to align employees' incentives with our risk framework and risk outcomes.

The quality and long-term commitment of all of our employees is fundamental to our success. We therefore aim to attract, retain and motivate the very best people who are committed to maintaining a career with the Bank, and who will perform their role in the long-term interests of our shareholders. The Bank's reward package is comprised of the following key elements:

1- Fixed pay
2- Benefits
3- Annual performance bonus
4- Long Term Incentives

A robust and effective governance framework ensures that the Bank operates within clear parameters of its compensation strategy and policy. All compensation matters, and overall compliance with regulatory requirements, are overseen by the Board Nomination & Remuneration Committee (NRC).

The Bank's remuneration policy in particular, considers the role of each employee and has set guidance on whether an employee is a Material Risk Taker and/ or an Approved Person in a business line, control or support function. An Approved Person is an employee whose appointment requires prior regulatory approval because of the significance of the role within the Bank and an employee is considered a Material Risk Taker if they are the Head of a significant business line or any individuals within their control who has a material impact on the Bank's risk profile.

In order to ensure alignment between what we pay our people and our business strategy, we assess individual performance against annual and long-term financial and non-financial objectives summarised in our performance management system. This assessment also takes into account adherence to the Bank's values, risks and compliance measures and above all integrity. Altogether, performance is therefore judged not only on what is achieved over the short and long-term but also importantly on how it is achieved, as the NRC believes the latter contributes to the long-term sustainability of the business.

7.2 NRC Role and Focus

The NRC has oversight of all reward policies for the Bank's employees. The NRC is the supervisory and governing body for compensation policy, practices and plans. It is responsible for determining, reviewing and proposing variable remuneration policy for approval by the Board. It is responsible for setting the principles and governance framework for all compensation decisions. The NRC ensures that all persons must be remunerated fairly and responsibly. The remuneration policy is reviewed on a periodic basis to reflect changes in market practices, the business plan and risk profile of the Bank.

7.2 NRC Role and Focus (continued)

The responsibilities of the NRC with regards to the Bank's variable remuneration policy, as stated in its mandate, include but are not limited to, the following:

- Approve, monitor and review the remuneration system to ensure the system operates as intended.
- Approve the remuneration policy and amounts for each Approved Person and Material Risk-Taker, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits.
- Ensure remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees that earn same short-run profit but take different amount of risk on behalf of the bank.
- Ensure that for Material Risk Takers, variable remuneration forms a substantial part of their total remuneration.
- Review the stress testing and back testing results before approving the total variable remuneration to be distributed including salaries, fees, expenses, bonuses and other employee benefits.
- Carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The NRC will question payouts for income that cannot be realized or whose likelihood of realization remains uncertain at the time of payment.
- Ensure that for approved persons in risk management, internal audit, operations, financial control and compliance functions the mix of fixed and variable remuneration is weighted in favor of fixed remuneration.
- Recommend Board member remuneration based on their attendance and performance and in compliance with Article 188 of the Bahrain Commercial Companies Law.
- Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves not to use personal hedging strategies or remuneration-and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

Table – 28. NRC Membership

NRC Member Name	Appointment date	Number of meetings attended
Khalid Al Aboodi - Chairman	28-Jan-13	6 meetings attended in 2014
Mishari Al Khalid	28-Jan-13	6 meetings attended in 2014
Khalid Najibi	30-Jan-14	4 meetings attended in 2014

The aggregate remuneration paid to NRC members during the year in the form of sitting fees amounted to USD 50,000 [2013: USD 50,000].

7 REMUNERATION RELATED DISCLOSURES (continued)

7.3 External Consultants

Consultants were appointed during the year to advise the Bank on amendments to the variable remuneration policy to be in line with the CBB's Sound Remuneration Practices and industry norms. This included assistance in designing an appropriate Share-based Incentive Scheme for the Bank.

7.4 Scope of Application of the Remuneration Policy

The variable remuneration policy has been adopted on a bank-wide basis.

7.5 Board Remuneration

The Bank's Board remuneration is determined in line with the provisions of Article 188 of the Bahrain Commercial Companies Law, 2001. The Board of Directors' remuneration will be capped so that total remuneration (excluding sitting fees) does not exceed 5% of the Bank's net profit after all required deductions as outlined in Article 188 of the Companies law, in any financial year. Board remuneration is subject to approval of the shareholders in the Annual General Meeting. Remuneration of non-executive Directors does not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits.

7.6 Variable Remuneration for Staff

Variable remuneration is performance related and consists primarily of the annual performance bonus award and long term incentives for future performance. As a part of our staff's variable remuneration, the annual bonus rewards delivery of operational and financial targets set each year, the individual performance of the employees in achieving those targets, and their contribution to delivering the Bank's strategic objectives.

The Bank has adopted a Board approved framework to develop a transparent link between variable remuneration and performance. The framework is designed on the basis of meeting both satisfactory financial performance and the achievement of other non-financial factors, that will, all other things being equal, deliver a target bonus pool for employees, prior to consideration of any allocation to business lines and employees individually. In the framework adopted for determining the variable remuneration pool, the NRC aims to balance the distribution of the Bank's profits between shareholders and employees.

Key performance metrics at the bank level include a combination of short term and long term measures and include profitability, solvency, liquidity and growth indicators. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

In determining the amount of variable remuneration, the Bank starts from setting specific targets and other qualitative performance measures that result in a target bonus pool. The bonus pool is then adjusted to take account of risk via the use of risk-adjusted measures (including forward-looking considerations).

The NRC carefully evaluates practices by which remuneration is paid for potential future

7 REMUNERATION RELATED DISCLOSURES (continued)

revenues whose timing and likelihood remain uncertain. NRC demonstrates that its decisions are consistent with an assessment of the Bank's financial condition and future prospects.

The Bank uses a formalized and transparent process to adjust the bonus pool for quality of earnings. It is the Bank's objective to pay out bonuses out of realized and sustainable profits. If the quality of earnings is not strong, the profit base could be adjusted based on the discretion of the NRC.

For the overall Bank to have any funding for distribution of a bonus pool; threshold financial targets have to be achieved. The performance measures ensure that total variable remuneration is generally, considerably contracted where subdued or negative financial performance of the Bank occurs. Furthermore, the target bonus pool as determined above is subject to risk adjustments in line with the risk assessment and linkage framework."

7.7 Remuneration of Control Functions

The remuneration level of staff in the control and support functions allows the Bank to employ qualified and experienced personnel in these functions. The Bank ensures that the mix of fixed and variable remuneration for control and support function personnel should be weighted in favor of fixed remuneration. The variable remuneration of control functions is to be based on function-specific objectives and is not be determined by the financial performance of the business areas they monitor.

The Bank's performance management system plays a major role in deciding the performance of the support and control units on the basis of the objectives set for them. Such objectives are more focused on non-financial targets that include risk, control, compliance and ethical considerations as well as the market and regulatory environment apart from value adding tasks which are specific to each unit.

7.8 Variable Compensation for Business Units

The variable remuneration of the business units is primarily determined by key performance objectives set through the performance management system of the Bank. Such objectives contain financial and non-financial targets, including risk control, compliance and ethical considerations as well as market and regulatory requirements. The consideration of risk assessments in the performance evaluation of individuals ensures that any two employees who generate the same short-run profits but take different amounts of risk on behalf of the bank are treated differently by the remuneration system.

7.9 Risk Assessment Framework

The purpose of risk linkages is to align variable remuneration to the risk profile of the Bank. In its endeavor to do so, the Bank considers both quantitative measures and qualitative measures in the risk assessment process. Both quantitative measures and human judgment play a role in determining any risk adjustments. The risk assessment process encompasses the need to ensure that the remuneration policy as designed reduces employees' incentives to take excessive and undue risks, is symmetrical with risk outcomes and delivers an appropriate mix of remuneration that is risk aligned.

7 REMUNERATION RELATED DISCLOSURES (continued)

7.9 Risk Assessment Framework (continued)

The Bank's NRC considers whether the variable remuneration policy is in line with the Bank's risk profile and ensures that through the Bank's ex-ante and ex-post risk assessment framework and processes, remuneration practices where potential future revenues whose timing and likelihood remain uncertain are carefully evaluated.

Risk adjustments take into account for all types of risk, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Bank undertakes risk assessments to review financial and operational performance against business strategy and risk performance prior to distribution of the annual bonus. The Bank ensures that total variable remuneration does not limit its ability to strengthen its capital base. The extent to which capital needs to be built up is a function of the bank's current capital position and it's ICAAP.

The bonus pool takes into account the performance of the Bank which is considered within the context of the Bank's risk management framework. This ensures that the variable pay pool is shaped by risk considerations and Bank-wide notable events.

The size of the variable remuneration pool and its allocation within the bank takes into account the full range of current and potential risks, including:

(a) The cost and quantity of capital required to support the risks taken;
(b) The cost and quantity of the liquidity risk assumed in the conduct of business; and
(c) Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

The NRC keeps itself abreast of the Bank's performance against the risk management framework. The NRC will use this information when considering remuneration to ensure returns, risks and remuneration are aligned.

7.10 Risk Adjustments

The Bank has an ex-post risk assessment framework which is a qualitative assessment to back-test actual performance against prior risk assumptions.

In years where the Bank suffers material losses in its financial performance, the risk adjustment framework will work as follows:

- There will be considerable contraction of the Bank's total variable remuneration.
- At an individual level, poor performance by the Bank will mean individual KPIs are not met and hence employee performance ratings will be lower
- Reduction in the value of deferred shares or awards
- Possible changes in vesting periods and additional deferral applied to unvested rewards
- Lastly, if the qualitative and quantitative impact of a loss incident is considered significant, a malus or clawback of previous variable awards may be considered.

7 REMUNERATION RELATED DISCLOSURES (continued)

7.10 Risk Adjustments (continued)

The NRC, with the Board's approval, can rationalize and make the following discretionary decisions:

- Increase/ reduce the ex-post adjustment
- Consider additional deferrals or increase in the quantum of non-cash awards
- Recovery through malus and clawback arrangements

7.11 Malus and Claw Back Framework

The Bank's malus and clawback provisions allow the Bank's Board of Directors to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited/ adjusted or the delivered variable remuneration recovered in certain situations. The intention is to allow the Bank to respond appropriately if the performance factors on which reward decisions were based turn out not to reflect the corresponding performance in the longer term. All deferred compensation awards contain provisions that enable the Bank to reduce or cancel the awards of employees whose individual behavior has had a materially detrimental impact on the Bank during the concerned performance year.

Any decision to take back an individual's award can only be made by the Bank's Board of Directors.

The Bank's malus and clawback provisions allow the Bank's Board to determine that, if appropriate, vested /unvested elements under the deferred bonus plan can be adjusted/ cancelled in certain situations. These events include the following:

- Reasonable evidence of willful misbehavior, material error, negligence or incompetence of the employee causing the Bank/the employee's business unit to suffer material loss in its financial performance, material misstatement of the Bank's financial statements, material risk management failure or reputational loss or risk due to such employee's actions, negligence, misbehavior or incompetence during the concerned performance year.
- The employee deliberately misleads the market and/or shareholders in relation to the financial performance of the Bank during the concerned performance year.

Clawback can be used if the malus adjustment on the unvested portion is insufficient given the nature and magnitude of the issue.

7 REMUNERATION RELATED DISCLOSURES (continued)

7.12 Components of Variable remuneration

Table - 29. Variable remuneration has following main components:

Upfront cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred Cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of 3 years
Upfront share awards	The portion of variable compensation that is awarded and issued in the form of shares on conclusion of the performance evaluation process for each year.
Deferred shares	The portion of variable compensation that is awarded and paid in the form of shares on a pro-rata basis over a period of 3 years
Other Non-Cash Awards	Non-Cash Awards that link rewards to the risk and profitability of individual transactions or transaction portfolios including: - Profit Share in Investments - Carried Interest - Co-Investment in Assets

All deferred awards are subject to malus provisions. All share awards are released to the benefit of the employee after a six month retention period from the date of vesting. The number of equity share awards is linked to the Bank's share price as per the rules of the Bank's Share Incentive Scheme. Any dividend on these shares is released to the employee along with the shares (i.e. after the retention period).

7.13 Deferred Compensation

All staff earning in excess of BHD 100,000 and the CEO, his deputies and 5 most highly paid business line employees are subject to the following deferral rules:

Table - 30. Deferral Rules - Business Line Employees

Element of variable remuneration	Payout percentages	Vesting period	Retention	Malus*	Clawback*
Upfront cash	40%	immediate	-	-	Yes
Deferred cash	10%	3 years	-	Yes	Yes
Deferred Phantom Shares	10-50%	3 years	6 months	Yes	Yes
Other Non-Cash Awards	0-40%	Transaction linked	6 months	Yes	Yes

All other covered staff are subject to the following deferral rules:

7 REMUNERATION RELATED DISCLOSURES (continued)

7.13 Deferred Compensation (continued)

Table - 31. Deferral Rules - Other Covered Staff

Element of variable remuneration	Payout percentages	Vesting period	Retention	Malus*	Clawback*
Upfront cash	50%	immediate	-	-	Yes
Upfront non-cash awards	10%	immediate	6 months	Yes	Yes
Deferred non-cash awards	40%	3 years	6 months	Yes	Yes

The NRC, based on its assessment of role profile and risk taken by an employee could increase the coverage of employees that will be subject to deferral arrangements.

7.14 Details of Remuneration Paid

Table - 32. Board of Directors

	2014	2013
Sitting Fees	475,068	475,959
Remuneration	-	-
Others	165,730	178,724

Table - 33. Employee Remuneration

	2014					
	Number of Staff	Variable Remuneration Cash (BHD)	Variable Remuneration Others (BHD)*	Fixed Remuneration Cash (BHD)	Fixed Remuneration Others (BHD)*	Total
Approved Persons						
- Business Lines	4	7	-	290	147	444
- Control and Support	5	15	-	315	13	343
Other Material Risk Takers	2	8	-	161	81	250
Other Staff	40	70	-	1348	28	1,446
Total	51	100	-	2114	269	2,483

There was no sign on bonuses, guaranteed bonuses, and variable remuneration (upfront shares, deferred cash/ shares/ others) paid during the year 2014. No bonuses were paid during 2013.

* Others include non cash remuneration
There were no deferred awards either for 2013 or 2014.

7 REMUNERATION RELATED DISCLOSURES (continued)

7.13 Deferred Compensation (continued)

Table - 34. Severance Pay

	2014	2013
Number of Staff	1	39
Severance Pay (USD)	447,882	1,904,989
Highest such award to a single person (USD)	447,882	260,958