



REMUNERATION POLICY AND RELATED DISCLOSURES

The Bank's total compensation approach, which includes the variable remuneration policy, sets out the Bank'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.

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. 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; and
4. the long term performance incentive plan

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 Affairs & Remuneration Committee (BARC).

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 BARC believes the latter contributes to the long-term sustainability of the business.

BARC role and focus

The BARC has oversight of all reward policies for the Bank's employees. The BARC 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 BARC 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.

The responsibilities of the BARC 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 BARC 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.

The aggregate remuneration paid to BARC members during the year in the form of sitting fees amounted to US\$ 48,000, (2013: US\$ 45,000). The other details about BARC members can be found earlier in the Corporate Governance Section of the annual report.

External consultants

Consultants were appointed during the year to advise the Bank on amendments to its 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.

Scope of application of the remuneration policy

The remuneration policy has been adopted on a bank-wide basis subject to the approval of AGM.

Board remuneration

The Bank's Board remuneration is determined in line with the provisions of Article 188 of the Bahrain Commercial Companies Law, 2001. 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.

Variable remuneration for staff

Variable remuneration is performance related and consists primarily of the annual performance bonus award. 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 BARC 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 BARC carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. BARC 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 BARC.

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.

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 to 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.

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.

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.

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

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
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- 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.

The BARC, 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

Malus and Clawback 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.

Element of variable remuneration	Deferral	Deferral period	Retention	Malus	Clawback
Upfront cash	40%	immediate	-	-	Yes
Upfront shares	-	immediate	6 months	Yes	Yes
Deferred cash	0%	Over 3 years	-	Yes	Yes
Deferred share awards	60%	After 3 years	6 months	Yes	Yes

The BARC, 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.

- 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.

Components of Variable remuneration

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.

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).

Deferred compensation

All employees earning over BHD 100,000 in total compensation shall be subject to deferral of variable remuneration as follows:

Details of remuneration paid

(a) Board of Directors

	2014	2013
• Sitting Fees	US\$ 456,000	US\$ 423,000
• Remuneration	US\$ 1,500,000*	US\$ 1,000,000
• Others	US\$ 214,655	US\$ 150,692

*To be approved in the forthcoming AGM in March 2015

Others includes the reimbursement of Tickets and per diem for attending Board of Directors and Board Committees meetings.

(b) Employee remuneration

Total fixed remuneration for Approved Persons and Material Risk Takers affected by the policy amounts to USD 3,169,088 (2013: USD 2,762,679) and the number of persons affected: 7 (2013: 6). The total variable remuneration for 2014 will be finalized and approved by shareholders in the forthcoming AGM in March 2015 (2013: cash USD 1,466,170, deferred: Not applicable).

(c) Deferred awards

Selected members of management in the Bank's subsidiaries are entitled to deferred variable remuneration under a Management Incentive Programme based on pre-defined objectives and thresholds of performance. Annual amounts of such variable remuneration, according to the said programme are used to purchase shares in ABCG, which are deferred over a three year period, with annual vesting. Total amounts of deferred variable remuneration amounted to USD 171,443 (2013: USD 157,300).

(d) Severance pay - Nil (2014- 2013)

Appendix:

Details of Remuneration Paid for the Financial Year Ended 31 December 2014 (in US\$)

List of approved and material Risk Taker - 2014												
		Fixed Remunerations			Variable Remunerations							
Categories of Employees	No.	Salaries and Wages and 13th Month Salary	Other Benefits & Allowances	Fixed Remunerations Total	Bonus for 2014	Performance Bonuses (in Cash 40%)	Performance Bonuses (in Shares 60%)	Other Performance Linked	Deferred Compensation paid during	Others	Variable Remunerations Total	Grand Total Remunerations
Approved Persons (Requiring CBB Approval)	0	-	-	-	-	-	-	-	-	-	-	-
Employees engaged in risk taking Activities (Business Areas)	1	1,168,360	114,408	1,282,768	3,873,210	1,549,284	2,323,926	-	-	-	3,873,210	5,155,977
Employees engaged in Control Functions	6	-	-	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-	-	-
		1,590,976	295,344	1,886,320	970,063	388,025	582,038	-	-	-	970,063	2,856,383
Other Employee	0	-	-	-	-	-	-	-	-	-	-	-
Outsourced Employees / Service Providers (engaged in risk taking activities)	0	-	-	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-	-	-
		2,759,336.03	409,751.72	3,169,087.76	4,843,272.55	1,937,309.02	2,905,963.53	-	-	-	4,843,272.55	8,012,360.30