

Annual Report

2014



Laying a new Compass....
For a Better Future.



PROFILE

Established in 1957 as Bahrain's first locally owned Bank, NBB has grown steadily to become the country's leading provider of retail and commercial banking services.

With a major share of the total domestic commercial banking market and the largest network of 25 branches and 59 ATMs, the Bank plays a key role in the local economy.

At the same time, the Bank continues to diversify and develop capabilities to capture business opportunities in the Gulf region and international markets. Our branches in Abu Dhabi and Riyadh lead the way in this initiative.

Publicly listed on the Bahrain Bourse, the Bank is owned 51% by private and institutional shareholders, mainly Bahrainis, and 45% by Bahrain Mumtalakat Holding Company, which is 100% owned by the Government of the Kingdom of Bahrain.

Market driven and customer led, the Bank harnesses the latest technology to people skills, enabling its 557 employees to deliver highly professional services for retail and corporate customers.



**His Royal Highness
Prince Khalifa bin Salman
Al Khalifa**
Prime Minister



**His Royal Majesty
King Hamad bin Isa
Al Khalifa**
King of The Kingdom of Bahrain



**His Royal Highness
Prince Salman bin Hamad
Al Khalifa**
Crown Prince, Deputy
Supreme Commander and
First Deputy Prime Minister

CONTENTS

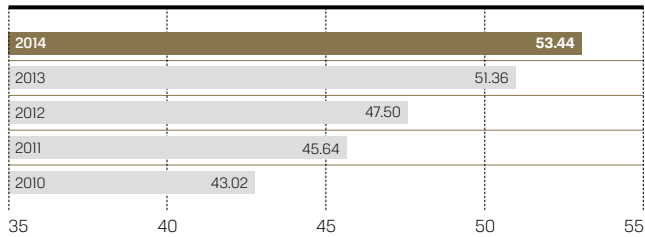
Financial Summary	04
Board of Directors	08
Board of Directors' Report	10
Statement of the Chief Executive Officer	12
Corporate Governance	14
Executive Management	24
Review of Operations	28
Financial Review	38
Risk Management	42
Remuneration Report	48
Financial Statements	
Report of the Auditors to the Shareholders	55
Statement of Financial Position	56
Statement of Profit or Loss	57
Statement of Comprehensive Income	58
Statement of Changes in Equity	59
Statement of Cash Flows	60
Notes to Financial Statements	61
Risk and Capital Management Disclosures	99
Contact Directory	112

FINANCIAL SUMMARY

	2014	2013	2012	2011	2010
Earnings (BD millions)					
Net interest income	59.58	59.82	61.92	55.37	48.70
Other income	29.63	24.83	24.69	24.55	23.18
Operating expenses	29.19	27.45	27.34	26.61	25.83
Profit for the year	53.44	51.36	47.50	45.64	43.02
Cash Dividend	23.52	32.93	21.38	25.66	23.33
Financial Positions (BD millions)					
Total assets	2,738.46	2,749.23	2,654.56	2,388.65	2,274.05
Loans and advances	780.97	859.39	888.25	972.07	950.80
Investment securities	999.49	997.72	757.83	650.21	656.22
Earning Assets	2,580.92	2,596.84	2,515.83	2,259.50	2,151.00
Total deposits	2,321.34	2,366.25	2,321.85	2,103.10	2,000.30
Customers' deposits	2,154.85	2,083.54	2,077.90	1,905.49	1,768.47
Shareholders' equity	378.02	363.14	318.94	274.73	262.97
Key Performance Indicators					
Earnings					
Return on average equity	14.42%	15.06%	16.00%	16.98%	17.06%
Return on average assets	1.95%	1.90%	1.88%	1.96%	1.96%
Earnings per share (fils)	57	55	50	49	46
Cost-to-income ratio	32.72%	32.43%	31.57%	33.30%	35.93%
Earnings per employee (BD 000's)	96	92	85	80	74
Capital					
Shareholders' equity as per cent of total assets	13.80%	13.21%	12.01%	11.50%	11.56%
Total liabilities to shareholders' equity (times)	6.24	6.57	7.32	6.61	6.91
Average total liabilities to average equity (times)	6.40	6.92	6.99	6.76	7.20
Capital adequacy	34.29	31.22	27.86	25.05	22.85

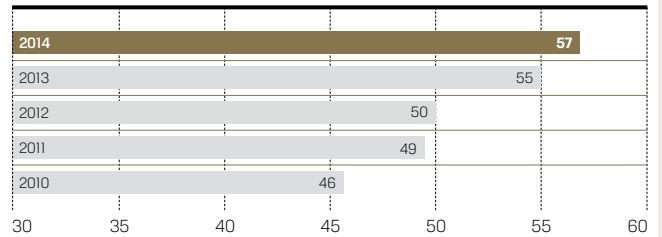
PROFIT FOR THE YEAR

BD millions



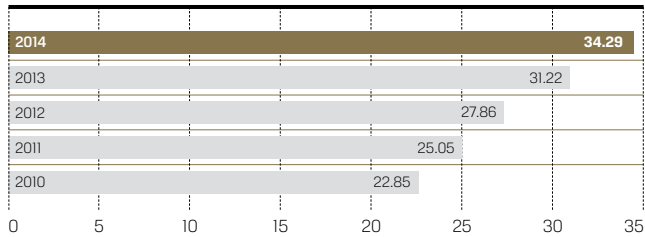
EARNINGS PER SHARE

Bahraini fils



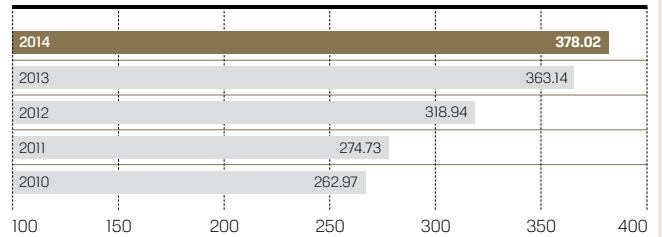
CAPITAL ADEQUACY

Per cent



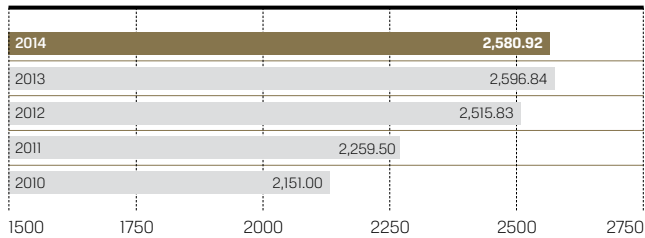
EQUITY

BD millions



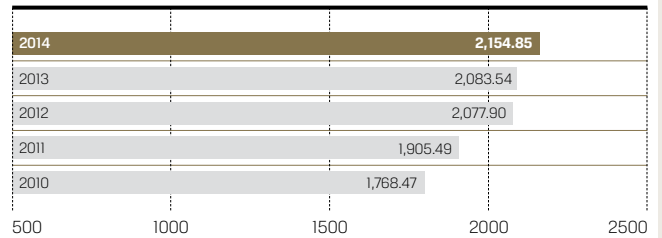
EARNINGS ASSETS

BD millions



CUSTOMERS' DEPOSITS

BD millions



RATINGS

FOREIGN CURRENCY

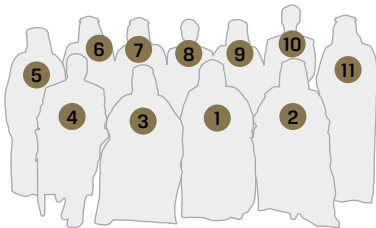
Moody's	FSR D+	Long Term Baa2	Short Term P2	
FITCH	Viability Rating bbb	Long Term BBB	Short Term F3	Support 2
Capital Intelligence	Financial Strength A	Long Term BBB	Short Term A2	Support 1

utilising our deep-rooted
local knowledge to
venture forth into new
regions of opportunities





BOARD OF DIRECTORS



1. FAROUK YOUSUF KHALIL ALMOAYYED
Chairman

2. Dr. ESSAM ABDULLA FAKHRO
Deputy Chairman

3. ABDULLA YOUSIF AKBAR ALIREZA
Deputy Chairman

4. ALI HUSSAIN YATEEM
Director

5. HUSSAIN SULTAN AL GHANEM
Director

**6. SH. RASHID BIN SALMAN MOHAMED
AL KHALIFA**
Director

7. KHALID YOUSIF ABDUL RAHMAN
Director

**8. ABDUL RAZAK ABDULLA
HASSAN AL QASSIM**
Director

9. FAWZI AHMED KANOO
Director

10. MIR ZULFEKAR ALI
Director

11. KHALID OMAR AL ROMAIHI
Director

FAROUK YOUSUF KHALIL ALMOAYYED**Chairman**

Non-independent and Non-executive
Appointed to the Board in 1997
Chairman : Nomination & Remuneration
Committee

Chairman: Y. K. Al Moayyed & Sons; Al Moayyed
International Group; Ashrafs; Bahrain Duty
Free; Bahrain Hotels Company; Ahlia University;
National Finance House;
Bahrain Insurance Holding Company.
Director: Investcorp Bank B.S.C.

DR. ESSAM ABDULLA FAKHRO**Deputy Chairman**

Non-independent and Non-executive
Appointed to the Board in 2008
Chairman: Executive Committee
Member: Nomination & Remuneration
Committee

Chairman: Bahrain Cinema Company, Abdulla
Yousif Fakhro & Sons Group.
Director: Bahrain Mumtalakat Holding
Company BSC (c).

ABDULLA YOUSIF AKBAR ALIREZA**Deputy Chairman**

Independent and Non-executive
Appointed to the Board in 1984
Chairman: Audit Committee
Member: Nomination & Remuneration
Committee

Chairman: Yousuf Akbar Alireza and Sons.
Director: Bahrain Ship Repair and Engineering.
Company Co BSC.

ALI HUSSAIN YATEEM**Director**

Independent and Non-executive
Appointed to the Board in 1985
Deputy Chairman: Executive Committee
Member: Nomination & Remuneration
Committee

Vice Chairman: Ali & Mohamed Yateem Group
of Companies W.L.L.

KHALID YOUSIF ABDUL RAHMAN**Director**

Independent and Non-executive
Appointed to the Board in 2001
Deputy Chairman: Audit Committee

Deputy Chairman: Awal Dairy Company.
Director and Member of the Executive
Committee: Bahrain Ship Repair and
Engineering Company.
Director: Bahrain Saudi Transport Company.

HUSSAIN SULTAN AL GHANEM**Director**

Non-independent and Non-executive
Appointed to the Board in 2004
Member: Audit Committee

Undersecretary, Human Resources; Prime
Minister's Court

ABDUL RAZAK ABDULLA HASSAN AL QASSIM**Director**

Non-independent and Executive
Appointed to the Board in 2009
Member: Executive Committee

Chairman: Bahrain Islamic Bank (BisB); Benefit
Company; Bahrain Association of Banks.
Deputy Chairman, Chairman of Executive
Committee and Member of Nomination
& Remuneration Committee: Bahrain
Telecommunication Company (Batelco)
Deputy Chairman: Umniah Mobile Company
(Jordan); Dhivehi Raajeyge Gulhn plc.
(Dhiraagu), Maldives; Sure Guernsey Limited;
Sure Jersey Limited; Sure Isle of Man Limited
Board Member: The Crown Prince International
Scholarship Programme; Deposit and URIA
Protection Board at Central Bank of Bahrain.

FAWZI AHMED KANOO**Director**

Independent and Non-executive
Appointed to the Board in 2010
Member: Executive Committee

Chairman: Abdulrahman Jassim Kanoo Co WLL.
Deputy Chairman: Yusuf Bin Ahmed Kanoo
Group, Bahrain.
Executive Director: Bahrain Ship Repairing &
Engineering Co BSC.
Director: Bahrain Hotels Company.

KHALID OMAR AL ROMAIHI**Director**

Non-independent and Non-executive
Appointed to the Board in 2014
Member: Audit Committee

Managing Director and Owner of The Palace
Boutique Hotel in Kingdom of Bahrain.
Chairman: Bahrain Airport Company (BAC).
Director: Economic Development Board (EDB).

MIR ZULFEKAR ALI**Director**

Non-independent and Non-executive
Appointed to the Board in 2014
Member: Executive Committee

Chief Investment Officer, Bahrain Mumtalakat
Holding Company BSC (c).

Director: GEMS MENASA Holding Ltd and Gulf
Air Holding Company.

**SH. RASHID BIN SALMAN MOHAMED
AL KHALIFA****Director**

Non-independent and Non-executive
Appointed to the Board in 2014
Member: Executive Committee

Retired Banker and Independent Consultant
for Investment and Banking Services.



FAROUK YOUSUF KHALIL ALMOAYYED
Chairman

The Board of Directors of National Bank of Bahrain takes pleasure in presenting the 58th Annual Report of the Bank together with the financial statements for the year ended 31 December 2014.

GENERAL OPERATING ENVIRONMENT

The performance of the global economy has been volatile during 2014 due to geo political situation and the sharp decline in the oil prices towards the end of the year. While the year started on a positive note, significant uncertainties resulted in doubts about the strength and speed of economic recovery. The pattern of growth was uneven with widening differences between various regions. While the U.S economy continues to show strong and steady growth, Euro zone is facing real growth challenges while Asia and emerging market growth has slowed down considerably.

The GCC economies are expected to show a relatively strong growth in excess of 4.0 percent in 2014 largely driven by strong momentum in the non oil sector with moderate growth in the oil sector. However, the sharp decline in oil prices towards the later part of the year is likely to result in significant challenges as we head into 2015.

Bahrain's economic growth for 2014 is expected to be boosted by numerous infrastructure projects initiated during the year. According to the Economic Development Board, the annual pace of headline growth for the first three quarters of year taken together was 4.6 percent with the oil sector recording a growth rate of 6.0 percent and non oil sector achieving a growth of 4.3 percent. The growth during the first three quarters have been broad based with all sectors of the oil and more importantly non oil economy showing pronounced pickup in growth rates. The Economic Development Board forecasts a full year growth of 4.2 percent.

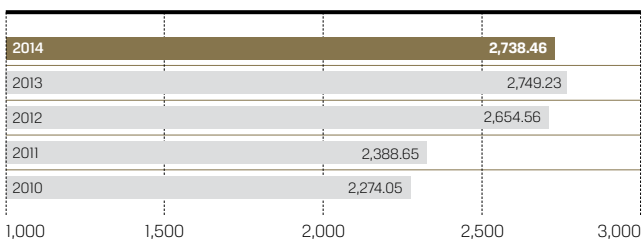
OVERALL PERFORMANCE

Against this background, National Bank of Bahrain maintained growth momentum and achieved a Net Profit of BD 53.44 million (US\$ 142.12 million) for the year 2014 compared to BD 51.36 million (US\$ 136.60 million) for the previous year, an increase of 4.0 percent. These results reflect the sustained progress made by the Bank and our ability to enhance returns to our shareholders. Return on Equity at 14.42 percent and Return on Assets at 1.95 percent remains strong by regional and international standards. The Bank is well capitalized with strong liquidity and a diversified asset portfolio.

Customer deposits continue to show steady growth and stands at BD 2,154.85 million (US\$ 5,730.98 million) as at 31 December 2014 compared to BD 2,083.54 million (US\$ 5,541.33 million) as at 31 December 2013, reflecting a growth of 3.4%. Total Earning Assets stood at BD 2,580.92 million (US\$ 6,864.16 million) as at 31 December 2014 compared to BD 2,596.84 million (US\$ 6,906.45 million) as at the previous year end. The Bank continues to have a well diversified portfolio of assets. Capital Adequacy continues to remain at a healthy level of 34.3 percent before the proposed appropriations.

TOTAL ASSETS

BD millions



NBB's continues to actively support the development of the Kingdom's economy. In meeting with this objective, the Bank took several initiatives during the year. The focus of Personal Banking was to expand the distribution network and offer products and services in line with the changing preferences of our customers mainly in the area of technology initiatives besides strengthening customer relationships. The focus of the Business Banking was to support the corporate and commercial business segments by structuring suitable products and services to meet their business requirements. Regionally, the Bank's strategy of selective expansion at Abu Dhabi and Riyadh is progressing as planned. Treasury & Investment Group played a major role during the year by deploying the surplus liquidity in several domestic and regional issues.

The prospects for 2015 appear to be challenging given the current global economic situation and the significant drop in the oil prices in the last few months. The Board of Directors take this opportunity to reaffirm their commitment to meet the expectations of all stakeholders while maintaining the highest standards of corporate governance in all its business dealings.

Details of the Bank's financial position and performance are elaborated in the Financial Review section and the Financial Statements.

RECOMMENDED APPROPRIATIONS

Based on the results, the Board of Directors has recommended for approval by the shareholders the following appropriations:

	Bahraini Dinars
Adjusted retained earnings as at 1 January 2014	121,795,869
2013 appropriations	(35,499,518)
2014 Net income	53,437,706
Total	139,734,057
Cash Dividend (25 %)	23,522,400
Donations and contributions	2,671,885
Transfer to general reserve	14,113,440
Retained earnings carried forward after 2014 appropriations	99,426,332
Total	139,734,057

DONATIONS AND CONTRIBUTIONS

The Board is recommending the allocation of BD 2.67 million to the Donations and Contributions programme, representing 5 per cent of 2014 profits available for distribution. The cumulative allocation under the programme, since its inception in 1980, is now BD 37.01 million.

Details of the Bank's Donations & Contribution programme are contained in the Corporate Social Responsibility section of the Annual Report.

CORPORATE GOVERNANCE

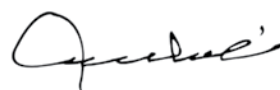
The Board recognizes that good governance is a vital ingredient in the success of any organization and is fully committed to protect the interest of all its stakeholders. The Bank is in compliance with the requirements of the Code of Corporate Governance issued by the Ministry of Industry and Commerce and the CBB's Rulebook. A detailed report on the Bank's compliance with the Corporate Governance Code is elaborated in the Corporate Governance Report section of the Annual Report.

ACKNOWLEDGEMENTS

The Directors, on behalf of the shareholders, take this opportunity to express their gratitude and sincere appreciation to His Majesty King Hamad bin Isa Al Khalifa - the King of Bahrain, to His Royal Highness Shaikh Khalifa bin Salman Al Khalifa - the Prime Minister, to His Royal Highness Shaikh Salman bin Hamad Al Khalifa - the Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister, Government ministries and institutions - especially the Ministry of Finance and the Central Bank of Bahrain, for their guidance, kind consideration and support.

The Directors would like to take this opportunity to welcome Sheikh Rashid Bin Salman Mohamed Al Khalifa as a member of the Board of Directors and look forward to his contribution towards the continued success of the Bank.

The Directors also extend their thanks and appreciation to the staff of the Bank whose dedicated service and commitment has played a vital role in the achievements of the Bank over the years and to all our valued customers and friends for their continuous support and the confidence reposed by them in the National Bank of Bahrain.



FAROUK YOUSUF KHALIL ALMOAYED

Chairman
21 January 2015

STATEMENT OF THE CHIEF EXECUTIVE OFFICER



ABDUL RAZAK ABDULLA HASSAN AL QASSIM
Chief Executive Officer & Director

2014 was another successful year for National Bank of Bahrain with record profitability backed by steady progress in the underlying business of the Bank. Key performance indicators continue to be healthy as the Bank progresses with implementation of its strategic plan by offering enhanced products and services to its customers.

2014 was another successful year for the Bank and we continue to maintain growth momentum backed by a healthy balance sheet and a strong capital position. We are pleased to report a Net Profit of BD 53.44 million (US\$ 142.12 million), the highest ever achieved by the Bank, compared to BD 51.36 million (US\$ 136.60 million) for the previous year, an increase of 4.0 percent. Return on Average Equity of 14.42 %, Return on Average Assets of 1.95 % and Cost to Income Ratio of 32.7 % remain healthy by international and regional standards. The results for 2014 is a clear reflection of the Bank's continued ability to generate steady revenue streams while efficiently managing operating costs backed by prudent business practices.

The Total Balance Sheet of the Bank stood at to BD 2,738.46 million (US\$ 7,283.13 million) as at 31st December 2014 compared to BD 2,749.23 million (US\$ 7,311.76 million) as at 31st December 2013. Total Earning Assets stood at BD 2,580.92 million (US\$ 6,864.16 million) in a well diversified portfolio of loans, investments, Treasury Bills and Bank placements. Liquidity position remains comfortable with Liquid Assets (Cash and balances with central banks, Treasury Bills and Placements) representing 32.4 percent of Total Assets. Capital Adequacy Ratio at 34.3 % before the proposed appropriations is among the strongest and well above the regulatory requirements.

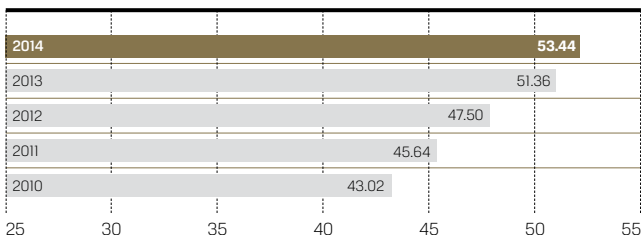
During the year 2014 the Bank continued to strengthen its position in the domestic market through several initiatives targeted towards the Bank's diversified and growing customer base.

Personal Banking witnessed improvement in both lending and deposit business as the Bank initiated several targeted marketing campaigns to further increase its dominant position in this segment. Another area of focus was expanding product offerings on card business. With the largest distribution network of branches and ATMs, the Bank continues to capitalize on its footprint besides taking several technology initiatives to meet the changing preferences of its customers.

Business Banking focused on expanding its product and services to the corporate and commercial segments by structuring various packages to meet the specific requirements of its customers. In general, Business Banking adopted a segmented approach where preferred sectors within the market were penetrated, to diversify the Bank's loan portfolio and risk.

NET PROFIT FOR THE YEAR

BD millions



The Bank's selective regional expansion is progressing as per plan. In Abu Dhabi, the focus is on developing bilateral relationship with strong local corporates. In Riyadh, the Bank's focus is on developing business with the middle market segment that meets our risk appetite. In line with our medium term strategic plan, we will strengthen our attention on further developing business in these two largest economies in the GCC. The Bank also participated in several syndications and bilateral deals to top tier financial institutions in the region.

The Treasury, Overseas Branches & Operations Group played an important role during the year in efficiently deploying the Bank's surplus liquidity in primary bond issues by the Government of Bahrain and other short term securities at attractive yields. The Division was also successful in generating capital gains from the tightening of spreads in the GCC markets and increased revenue through gapping activities in GCC / international markets and higher FX business.

The Bank acquired 25.8 percent stake in Bahrain Islamic Bank (BisB) during 2013 to have a footprint in the Islamic banking space. As a key shareholder, NBB plays an active role in the strategic positioning of BisB and the results have been encouraging with BisB reporting steady profitability during the year.

Human Capital continues to be a crucial pillar of the Bank while growing the business in a highly competitive market. Hence, the Bank continues to give top priority to staff development. Several development initiatives were undertaken during the year to address differing developmental needs at various levels of the staff. The Executive Management development continued by nominating the executives to international Leadership Development Programs at Darden Business School and Harvard Business School. Career planning program focused on high potential middle management and junior management staff with a clear horizon linked with specific development objectives. In order to enhance technical banking skills of the staff at operational level, delivery of various training programs also continued in a steadfast manner. The Bank also implemented the directives of the Central Bank of Bahrain regarding Sound Remuneration Practices with an objective of aligning employees' interest with the Bank's shareholders' interest. Such alignment will go a long way in creating value for all the stakeholders of the Bank in a balanced manner.

Looking ahead, there are significant uncertainties particularly for the region with lower oil prices challenging growth prospects. We are hopeful the regional authorities will effectively utilise the surplus funds accumulated over the years along with the required policy initiatives to maintain growth. Bahrain's economy is expected to benefit from increased government spending and deployment of GCC Development Fund. The Economic Development Board forecasts 4.5 percent non-oil sector growth and 3.6 percent headline growth in 2015. The increased focus on infrastructure and other social development projects will provide additional business opportunities for the domestic financial institutions. NBB with a strong capital base, adequate liquidity and the largest distribution network is well positioned to capitalize on such increased business opportunities. We reaffirm our strong commitment to meet the expectations of our customers while reassuring our shareholders of continued progress in the years ahead.



ABDUL RAZAK ABDULLA HASSAN AL QASSIM

Chief Executive Officer & Director

The Board of Directors is responsible for the overall governance of National Bank of Bahrain. The Board ensures that high ethical standards are established across the Bank and regularly reviews the Bank's compliance with the Central Bank of Bahrain (CBB) regulations regarding corporate governance. The Board recognizes that good corporate governance is a vital ingredient in the creation of sustainable shareholder value and protecting the interests of all stakeholders

Maintaining the best standards of corporate governance has provided the Bank's customers, counterparties, shareholders, regulators, employees and rating agencies with a high degree of confidence in our institution; achieved an appropriate balance between long-term growth and short-term objectives; created a sound portfolio of assets, a stable customer base, income diversity as well as the ability and resources to face economic cycles and uncertainties. The Board has set the moral tone for the Bank with a high degree of intolerance for any instances of malpractice, fraud and unethical behaviour and ensured the highest degree of adherence to laws, rules and regulations.

BOARD OF DIRECTORS

The Board comprises of eleven members and its composition is governed by the Bank's Memorandum and Articles of Association. Four members of the Board of Directors are appointed by Bahrain Mumtalakat Holding Company, which holds 45% of the Bank's share capital and one member by Social Insurance Organization, which holds 11.1% of the Bank's share capital. The remaining six members of the Board of Directors are elected by secret ballot at the ordinary general meeting of the shareholders, by a simple majority of valid votes. The six members of the Board of Directors elected by the shareholders remain in office for a term not exceeding three years, which may be renewed. In order to be eligible for being nominated for directorship, the individuals concerned should meet the 'fit and proper' criteria established by the Central Bank of Bahrain and their appointment is subject to prior approval by the Central Bank of Bahrain. The present Board of Directors was elected at the Annual General Meeting in 2012 and their term expires at the Annual General Meeting to be held in 2015.

On joining NBB's Board, all Directors are provided with a "Directors Kit" which includes the Bank's Memorandum and Articles of Association, key policies, terms of reference of the Board and its sub-committees and Corporate Governance guidelines. Induction sessions are also held with the Chairman and Chief Executive Officer which focuses on business profile, opportunities, challenges and risks faced by the Bank.

In accordance with the definitions stipulated by the CBB, Directors are categorised as executive, non-executive, independent and non-independent. The Board currently comprises of ten non-executive Directors, out of which four are independent, and one executive director who is designated as the Chief Executive Officer and Director. The roles of the Chairman and the Chief Executive Officer are separate and exercised by different persons.

The Board's primary responsibility is to deliver sustainable value to all stakeholders by charting the strategic direction of the Bank as well as setting the risk appetite and the overall capital structure of the Bank. The Board is also responsible for monitoring Management's running of the business within the agreed framework. The Board seeks to ensure that the Management strikes an appropriate balance between long-term growth and the short-term objectives. The Board is ultimately accountable and responsible for the affairs and performance of the Bank. Accordingly, the main functions of the Board are:

- Maintain an appropriate Board Structure.
- Maintain an appropriate management and organization structure in line with the Bank's business requirements.
- Plan the strategic future of the Bank, approve annual business plans, approve and monitor major initiatives.
- Monitor the operations framework of the Bank and the integrity of internal controls.
- Ensure compliance with laws and regulations.
- Monitor the Bank's performance and approve financial results, ensure transparency and integrity in stakeholders reporting including financial statements.
- Evaluate periodically the Board's own performance including that of Board sub-committees.
- Assure equitable treatment of all shareholders including minority shareholders.

The Chairman is mainly responsible for the leadership of the Board, ensuring that it operates effectively and fully discharges its legal and regulatory responsibilities.

The Board of Directors meets regularly throughout the year and maintains full and effective control over strategic, financial, operational, internal control and compliance issues. As per its terms of reference, the Board shall meet at least once every calendar quarter.

In its role as the primary governing body, the Board of Directors provides oversight for the Bank's affairs and constantly strives to improve and build on the Bank's strong corporate governance practices. The business performance of the Bank is reported regularly to the Board of Directors. Performance trends as well as performance against budget and prior periods are closely monitored. Financial information is prepared using appropriate accounting policies, in accordance with International Financial Reporting Standards as promulgated by the International Accounting Standards Board and are consistently applied. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets.

The Board of Directors has unlimited authority within the overall regulatory framework. The Board has delegated approval authorities to its sub-committees and members of Management; all transactions falling outside the delegated limits are referred to the Board for approval. In addition, the Board approves on a yearly basis the annual budget, risk strategy and operating limits for various activities of the Bank.

COMMITTEE OF THE BOARD OF DIRECTORS

The Board has set up several sub-committees which provide effective support to the full Board in carrying out its responsibilities. These include the Executive Committee, the Audit Committee and the Nomination & Remuneration Committee.

EXECUTIVE COMMITTEE

The Executive Committee comprises of not more than six Board members selected and appointed by the Board, with at least two of the members being independent directors. The Committee shall meet at least four times a year. The role of the Committee is to assist the Board of Directors in fulfilling its responsibilities with regard to lending, investment, as well as any other matters not delegated to a specific Board Committee. Accordingly, the Committee is empowered to approve specific credit and investment proposals, review budgets, plans, major initiatives for eventual submission to the Board for approval, and to monitor the Bank's performance against business plan objectives.

AUDIT COMMITTEE

The Audit Committee comprises of four non-executive Board members selected and appointed by the Board, two of which are independent directors. The Committee shall meet at least four times a year. The primary function of the Committee is to reinforce the internal and external audit process and assist the Board of Directors in fulfilling its responsibility in ensuring an effective system of internal control and risk management. In addition, the Committee is also responsible for reviewing and recommending changes to the Bank's corporate governance policy framework based on regulatory requirements or industry best practices. The Audit Committee is responsible for overseeing the selection of the external auditors for appointment and approval at the shareholders' meeting, reviewing the integrity of the Bank's financial reporting, reviewing the activities and performance of internal audit function and reviewing compliance with relevant laws, regulations and code of conduct.

The Audit Committee is supported by the Internal Audit Department, which regularly monitors the system of internal controls. Monitoring includes an assessment of the risks and controls in each operating unit and matters arising therefrom are reported to the Audit Committee on a regular basis.

CORPORATE GOVERNANCE

NOMINATION & REMUNERATION COMMITTEE

The Nomination & Remuneration Committee comprises of four Board members selected and appointed by the Board, two of which are independent directors. The Committee shall meet at least twice a year. The role of the Committee is to assist the Board in fulfilling its responsibilities with regard to the nomination and remuneration policy of the Bank. The Nomination & Remuneration Committee has the mandate for identifying persons qualified to become members of the Board, CEO, CFO, corporate secretary, and any other officers as considered appropriate by the Board and recommending them to the Board. The Committee also has the responsibility of reviewing and

recommending the remuneration policies for the board of directors and senior management.

BOARD MEETINGS AND ATTENDANCE

The Board of Directors and the sub-committees of the Board meet regularly to effectively discharge their responsibilities. For meeting the requirements of the Corporate Governance Code and the CBB Rulebook, the Bank considers attendance of Directors at Board and sub-committee meetings. A summary of the Board meetings and sub-committee meetings held during the year 2014 and attendance are detailed below:

Name of the Director	Board		Executive Committee		Audit Committee		N & RC		Total		
	Total No. of meetings	Meetings Attended	Total No. of meetings	Meetings Attended	Total No. of meetings	Meetings Attended	Total No. of meetings	Meetings Attended	Total No. of meetings	Meetings Attended	% of Meetings attended
Farouk Y K Almoayyed Chairman	6	6					4	4	10	10	100%
Dr. Essam A Fakhro Deputy Chairman	6	5	4	4			2	2	12	11	92%
Abdulla Y Akbar Alireza Deputy Chairman	6	4			5	3	4	3	15	10	67%
Ali Hussain Yateem Director	6	6	4	4			4	4	14	14	100%
Khalid Y Abdul Rahman Director	6	6			5	5			11	11	100%
Hussain S A Ghanem Director	6	6			5	5			11	11	100%
Abdul Razak Al Qassim Chief Executive Officer & Director	6	6	4	4					10	10	100%
Fawzi Ahmed Kanoo Director	6	5	4	4	1	1			11	10	91%
Khaled Omar Al Romaihi Director	6	5			4	4			10	9	90%
Mir Zulfekar Ali Director	6	6	4	4					10	10	100%
Sh.Rashid Bin Salman Mohamed Al Khalifa Director	3	3	2	2					5	5	100%

Includes attendance through conference calls

DATES OF MEETINGS AND ATTENDANCE DETAILS:

Board Meeting: Total number of meetings held: 6

Members	Meeting Dates					
	21/1/2014	10/03/2014	15/04/2014	21/07/2014	30/10/2014	18/11/2014
Farouk Y K Almoayyed Chairman	✓	✓	✓	✓	✓	✓
Dr. Essam A Fakhro Deputy Chairman	✓	✓	X	✓	✓	✓
Abdulla Y Akbar Alireza Deputy Chairman	✓	✓	X	X	✓	✓
Ali Hussain Yateem Director	✓	✓	✓	✓	✓	✓
Khalid Y Abdul Rahman Director	✓	✓	✓	✓	✓	✓
Hussain S A Ghanem Director	✓	✓	✓	✓	✓	✓
Abdul Razak Al Qassim Chief Executive Officer & Director	✓	✓	✓	✓	✓	✓
Fawzi Ahmed Kanoo Director	✓	✓	X	✓	✓	✓
Khaled Omar Al Romaihi Director	✓	✓	✓	✓	✓	X
Mir Zulfekar Ali Director	✓	✓	✓	✓	✓	✓
Sh.Rashid Bin Salman Mohamed Al Khalifa Director (from July 2014)				✓	✓	✓

Includes attendance through conference calls

CORPORATE GOVERNANCE

EXECUTIVE COMMITTEE MEETINGS

Total number of meetings held: 4

Members	Meeting Dates			
	10/02/2014	15/06/2014	9/10/2014	9/12/2014
Dr. Essam Abdulla Fakhro, Deputy Chairman & Chairman of Executive Committee	✓	✓	✓	✓
Ali Hussain Yateem, Director & Deputy Chairman of Executive Committee	✓	✓	✓	✓
Abdul Razak Al Qassim, Chief Executive Officer & Director	✓	✓	✓	✓
Fawzi Ahmed Kanoo, Director	✓	✓	✓	✓
Mir Zulfekar Ali, Director	✓	✓	✓	✓
Sh. Rashid Bin Salman Mohamed Al Khalifa, Director (member of Executive Committee from July 2014)			✓	✓

Includes attendance through conference calls

AUDIT COMMITTEE MEETINGS

Total number of meetings held: 5

Members	Meeting Dates				
	21/1/2014	15/04/2014	21/07/2014	23/10/2014	30/10/2014
Abdulla Yousif Akbar Alireza, Deputy Chairman & Chairman of Audit Committee	✓	X	X	✓	✓
Khalid Yousif Abdul Rahman, Director & Deputy Chairman of Audit Committee	✓	✓	✓	✓	✓
Hussain Sultan Al Ghanem, Director	✓	✓	✓	✓	✓
Fawzi Ahmed Kanoo, Director	✓				
Khalid Omar Mohammed Al Romaihi, Director		✓	✓	✓	✓

During January 2014, the Board of Directors has approved the reconstitution of the Audit Committee to include Khalid Omar Mohammed Al Romaihi as a new Audit Committee Member replacing Fawzi Ahmed Kanoo.

NOMINATION & REMUNERATION COMMITTEE MEETINGS

Total number of meetings held: 4

Members	Meeting Dates			
	21/1/2014	15/4/2014	28/10/2014	7/12/2014
Farouk Yousuf Khalil Almoayyed, Chairman of the Board and Chairman of the NRC	✓	✓	✓	✓
Dr. Essam Abdulla Fakhro, Deputy Chairman (member of NRC from July 2014)			✓	✓
Abdulla Yousif Akbar Alireza, Deputy Chairman	✓	X	✓	✓
Ali Hussain Yateem, Director	✓	✓	✓	✓

MANAGEMENT STRUCTURE

The Board has established a management structure that clearly defines roles, responsibilities and reporting lines, the details of which are annexed to this report.

Within the management structure there are separate committees responsible for Business Review, Development and Planning; Credit; Asset/Liability Management; Human Resources; Operational Risk Management and Business Continuity Planning. These committees, comprising of members of the senior management, meet on a regular basis to discuss and decide on the various strategic and tactical issues within their respective areas.

The Compliance Officer reports directly to the CEO and has direct access to the Board of Directors through the Audit Committee. The

Corporate Secretary has direct access to the Board of Directors as per the requirements of Corporate Governance.

PERFORMANCE EVALUATION OF BOARD AND SUB-COMMITTEES

The Board of Directors has conducted a self evaluation of the performance of the Board and its sub-committees for the year 2014. This was carried out through the completion of a structured questionnaire on the effectiveness and contribution of each member against certain pre-defined criteria as per the mandate of the Board and each Board sub-committee. The Nomination and Remuneration Committee is responsible for overseeing the process and the findings were presented to the Board of Directors in Jan 2015 which confirms that NBB's Board and its sub-committees continue to operate with a high level of effectiveness.

RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST

Directors have a duty under CBB regulations as well as the Bank's corporate governance policy to avoid situations in which they may have conflicts of interest with those of the Bank, unless they are specifically authorized by the Board of Directors. This includes potential conflicts that may arise when a Director takes up a position with another company or has any material transactions with the Bank.

The Bank has policies and procedures for handling related party transactions including loans and advances to directors, senior management and their related parties, as well as transactions and agreements in which a director or an employee has a material interest. In addition, exposures to directors and senior management are governed by the regulations of the CBB. Details of related party transactions are disclosed in Note 27 of the financial statements.

As per the Bank's policy, the Directors concerned do not participate in decisions in which they have or may have a potential conflict of interest. Having reviewed all such transactions during 2014, it was concluded that there were no transactions involving potential conflict of interest which need to be brought to the attention of the shareholders.

CODE OF CONDUCT

The Board has adopted a comprehensive Code of Conduct that provides a framework for directors, officers and employees on the conduct and ethical decision making integral to their work. All officers and employees subscribe to this Code and are expected to observe high standards of integrity and fairness in their dealings with customers, regulators and other stakeholders.

WHISTLE BLOWER POLICY

The Board has adopted a Whistle blower policy which provides all employees with the opportunity to report in good faith, any instances they observe regarding unethical and improper practices or any other wrongful conduct of a financial or legal nature in the Bank. The policy is available on the website of the Bank.

COMMUNICATION STRATEGY

The Bank has a public disclosure policy approved by the Board of Directors. The Bank is committed to support the timely and accurate disclosure of material information in accordance with the requirements set out in the rules and regulations of the CBB and the Bahrain Bourse as well as other applicable laws, to facilitate efficient capital market activities. The Bank believes in the principle of transparency about its financial performance thus enabling all stakeholders to have access to such information on a timely basis. The external auditors review the system of internal controls considered necessary for them to form an opinion on the financial statements. In addition to the annual audit, the external auditors conduct reviews on the Bank's quarterly financial statements. These statements are subsequently published in the newspapers and posted on the Bank's website in accordance with regulatory requirements. The annual report including the complete financial statements for the current financial year and a minimum of three preceding financial years are provided on the Bank's website.

DIRECTORS AND SENIOR MANAGEMENT INTERESTS

The number of shares held by directors, senior management and their related parties as at 31 December 2014 is as follows:

Name	Type of shares	31 Dec 2014	31 Dec 2013
Farouk Yousuf Khalil Almoayyed, Chairman.	Ordinary	15,470,893	15,470,893
Dr. Essam Abdulla Fakhro, Deputy Chairman*	Ordinary	6,739,764	8,172,620
Abdulla Yousif Akbar Alireza, Deputy Chairman	Ordinary	9,993,037	9,993,037
Ali Hussain Yateem, Director	Ordinary	32,709,485	32,709,485
Khalid Yousif Abdul Rahman, Director	Ordinary	14,306,685	14,306,685
Hussain Sultan Al Ghanem, Director	Ordinary	-	-
Abdul Razak Abdulla Hassan Al Qassim, Director and Chief Executive Officer	Ordinary	139,174	139,174
Fawzi Ahmed Kanoo, Director	Ordinary	56,127	54,127
Khalid Omar Al Romaihi, Director	Ordinary	-	-
Mir Zulfekar Ali, Director	Ordinary	-	-
Sh. Rashid Salman Mohamed Al Khalifa , Director	Ordinary	-	-
Total		79,415,165	80,946,021
As a % of the total number of shares		8.4%	8.6%

* The reduction in the holdings of Dr. Essam Abdulla Fakhro, Deputy Chairman by 1,432,856 shares since he is no longer Chairman in a related company which holds shares in NBB.

DIRECTORS AND SENIOR MANAGEMENT TRADING DURING THE YEAR 2013

The details of trading in the Bank's shares during the year by Directors, senior management and their related parties are as follows:

Name	Type of shares	Purchase / Sale	No of shares	Date of transaction
Fawzi Ahmed Kanoo , Director	Ordinary	Purchase	2,000	15/09/2014

REMUNERATION

Board of Directors Remuneration Policy

The Board of Directors is paid an annual remuneration as approved by the shareholders at the Annual General Meeting. While the amount of remuneration is not directly linked to the performance of the Bank, factors such as the Bank's performance, industry comparison and the time and effort committed by the directors to the Bank, are considered for determining the total remuneration. Directors remuneration is accounted as an expense as per International Accounting Standards and CBB regulations, the payment of which is subject to approval by the shareholders at the Annual General Meeting. In addition, the members are paid sitting fees for the various sub-committees of the Board of Directors.

Employees Remuneration Policy

The employees of the Bank are critical for the Bank's success and future business sustenance. Hence, it is imperative to recruit and retain talented resources from the competitive employment market. In order to achieve this objective, the Bank's remuneration policy is developed to attract, retain and motivate the best talent. Accordingly, employee remuneration and benefits are reviewed and revised in the context of business performance, industry and local practices.

A detailed report on employee remuneration is elaborated in the Remuneration Report section of the Annual Report.

Remuneration of Board Members, Senior Management and Fees Paid to External Auditors

The aggregate remuneration paid to board members and senior management personnel are disclosed in the Remuneration Report.

KPMG Fakhro was the Bank's external auditors for the financial year ended 31 December 2014. The details of fee paid to the auditors during the year 2014 for audit and other services are held at the Bank's premises, which is available to eligible shareholders upon specific request.

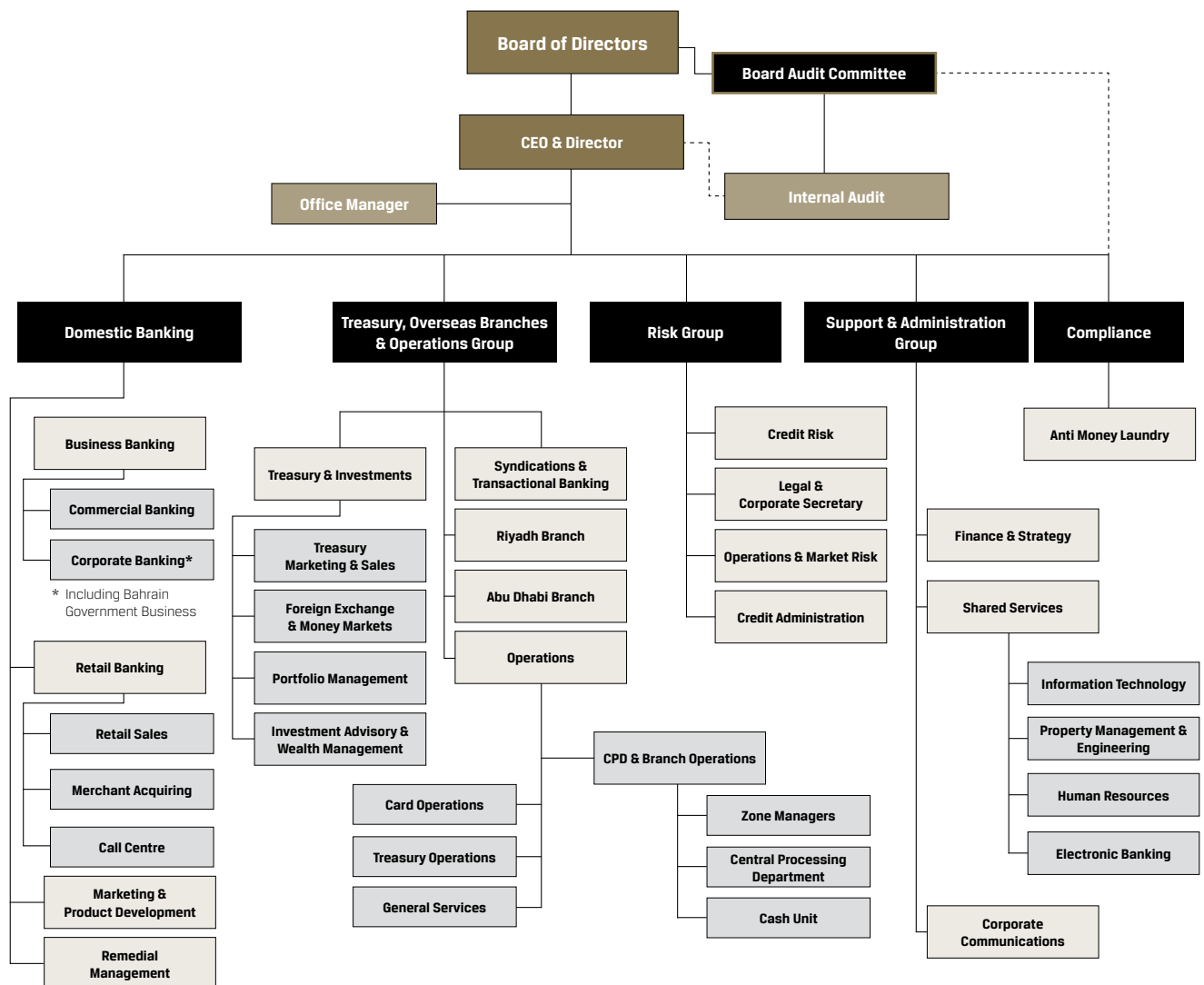
Status of Compliance with CBB's Corporate Governance Guidelines (High Level Controls Module)

Banks are required to comply with the High Level Controls (HC) Module of the CBB Rulebook, which became effective from 01 January 2011 with full compliance mandated by the financial year end 2012. The HC Module contains both Rules and Guidance; Rules must be complied with, but Guidance may either be complied with or non-compliance explained by way of an annual report to the shareholders and to the CBB.

Guidance

1. HC 1.3.13 states that no director of a bank should hold more than 3 directorships in public companies in Bahrain, with the provision that no conflict of interest may exist, and the Board should not propose the election or re-election of any director who does. Two of the Bank's Directors, Mr. Farouk Almoayyed and Mr. Fawzi Kanoo hold more than 3 directorships in public companies in Bahrain. However, the Bank is of the opinion that this does not impact the effectiveness and efficiency of the Board of Directors, as the Directors concerned provide adequate attention to their responsibilities as Directors of the Bank, and there are no conflicts of interest between their other directorships and that of the Bank.
2. HC 1.4.6 states that the Chairman of the Board of Directors should be an independent director. The Bank's Chairman, Mr. Farouk Almoayyed is not treated as an independent director, taking into account the business transactions that the Bank has with the Almoayyed Group controlled by Mr. Farouk Almoayyed. The Bank is of the view that this does not compromise the high standards of corporate governance that the Bank maintains as (i) the business transactions are entered into on 'arms length' basis following transparent tendering and approval processes (ii) the Bank follows strict policies to manage conflicts of interest in Board decisions (iii) Directors who are interested parties in business proposals considered by the Bank do not participate in decisions related to such proposals.

ORGANISATION STRUCTURE



EXECUTIVE MANAGEMENT

ABDUL RAZAK ABDULLA HASSAN AL QASSIM

Chief Executive Officer and Director

Master's degree in Management Sciences and a Sloan Fellowship from MIT (Massachusetts Institute of Technology, USA). Mr. Al Qassim joined NBB in 1977 after seven years with Chase Manhattan Bank and Standard Chartered Bank. Member of Asset/Liability Committee, Business Review, Development and Planning Committee, Credit Committee and Human Resources Committee. Chairman of the Board of Directors of Bahrain Islamic Bank (BisB); Chairman of Benefit Company; Chairman of Bahrain Association of Banks; Deputy Chairman, Chairman of Executive Committee and Member of Nomination & Remuneration Committee at Bahrain Telecommunication Company (Batelco); Deputy Chairman of Umniah Mobile Company (Jordan); Deputy Chairman of Dhivehi Raajeyge Gulhn plc. (Dhiraagu), Maldives; Deputy Chairman of Sure Guernsey Limited; Sure Jersey Limited and of Sure Isle of Man Limited; Board Member of the Crown Prince International Scholarship Programme; Board Member of Deposit and URIA Protection Board at Central Bank of Bahrain. He assumed his present position in 2008.

KHALID ALI JUMA

General Manager – Support & Administration Group

Executive Diploma from University of Virginia, USA. He also attended a number of training courses inside the Kingdom of Bahrain and abroad. Mr. Juma joined NBB in 1972. Chairman of Operations Risk Management Committee, Chairman of Business Continuity Planning Committee, Member of Asset/Liability Committee, Member of Business Review, Development & Planning Committee and Member of Human Resources Committee. Board Director of Benefit Company. He assumed his present position in 2014.

ABDUL AZIZ ABDULLA AL AHMED

General Manager
Domestic Banking Group

Executive Diploma from University of Virginia, USA. He also attended a number of training courses inside the Kingdom of Bahrain and abroad. Mr. Abdul Aziz joined NBB in 1974. Member of Asset/Liability Committee, Business Review, Development and Planning Committee and Credit Committee. Board Member of Bahrain Commercial Facilities Company (BCFC) and Board Member of National Motor Company. Mr. Abdul Aziz has over 41 years of banking experience. He assumed his present position in 2011.

HUSSAIN SAYED ALI AL HUSSAINI

General Manager – Treasury & Overseas Branches & Operations Group

MBA in Marketing and Management, DePaul University, USA; PMD (Programme for Management Development) from Harvard Business School, Boston, USA; B.A. in Economics, Concordia University, Canada. Mr. Al Hussaini joined NBB in 1982. Member of Asset/Liability Committee, Business Review, Development and Planning Committee, Business Continuity Planning Committee and Credit Committee. Vice Chairman of the Board of Directors and Vice Chairman of the Investment Committee of the Securities and Investment Company (SICO), Board Member and Executive Committee Chairman of Esterad Investment Company. Member of Delta Mu Delta - Chicago USA, Interarab Cambist Associations, International Securities Market Association, Harvard Business School – Alumni Club, USA, Bahrain Financial Market Association. He assumed his present position in 2014.

BRUCE CHARLES WADE

General Manager
Risk Group

Master of Business Administration and Bachelor of Applied Science from Queensland University of Technology, Australia and Graduate Diploma, Applied Finance and Investment, Securities Institute of Australia. Mr. Wade joined NBB in 2014 after more than 30 years banking experience including Saudi Hollandi Bank, Riyadh Bank, nine years with Citibank

and eleven years with Bank of Tokyo Group. Member Asset/Liability Committee, Business Review, Development and Planning Committee, Business Continuity Planning Committee, Operational Risk Management Committee and Credit Committee. Fellow Australian Institute of Company Directors, Fellow Financial Services Institute of Australasia, Member Finance and Treasury Association Limited and Senior Certified Treasury Professional. He assumed his present position in 2014.

ABDULLA ABDUL RAHMAN HUSSAIN Executive Assistant General Manager Shared Services

Harvard Business School Graduate of Advanced Management Programme, Boston, USA; Master of Business Administration in Marketing from University of Bahrain, Post Graduate Diploma in Finance from University of Bahrain, Bachelor of Science in Computer Sciences from US. Mr. Hussain joined NBB in 2008 after more than 23 years of experience in Banking, professional services, technology, program management and e-Business. Member of Asset/Liability Committee, Business Review, Development and Planning Committee, Business Continuity Planning Committee and Operational Risk Management Committee. Board member and Chairman of Executive Committee of Benefit Company. He assumed his present position in 2014.

ABDUL MONEM YOUSIF AL BANNA Executive Assistant General Manager Internal Audit

CPA from Illinois, USA; BS in Accounting, University of Bahrain. Mr. Al Banna joined NBB in 1989. Member of Business Review, Development and Planning Committee, Business Continuity Planning Committee and Operational Risk Management Committee. Secretary of the Audit Committee of NBB's Board of Directors. Member of Board of Directors and Member of the Audit and Risk Committee of Oasis Capital B.S.C (closed) He assumed his present position in 2011.

JASSIM MOHAMED AL HAMMADI

Executive Assistant General Manager
Operations

Master of Business Administration, University of Glamorgan, UK, Executive Diploma from University of Bahrain, Advance and Intermediate Diploma from BIBF, Bahrain. Mr. Al Hammadi joined NBB in 1974. He has several years of experience in Financial Control, Customer Services, Card Business, Retail Banking, Operations and Anti-money laundering. Member of Business Review, Development and Planning Committee, Business Continuity Planning Committee and Operational Risk Management Committee. Member of the Bankers Society of Bahrain- ATM Security Committee. He assumed his present position in 2014

AHMED JASIM MURAD

Executive Assistant General Manager
Business Banking

Executive Management Diploma from Darden Graduate School of Business. Bachelor of Business Marketing, St. Edward's University – Austin, Texas, USA. Associate Diploma in Commercial Studies, University of Bahrain. Moreover, he attended number of training courses inside the Kingdom of Bahrain and abroad. Mr. Murad joined NBB in 1997 and has acquired working experience in different departments such as Retail, Commercial, and Corporate Banking. Member of the NBB Credit Committee. Director of Ghetha Fund Company B.S.C (c). He assumed his present position in 2014.

FAROUK ABDULLA KHALAF

Executive Assistant General Manager -
Riyadh Branch, KSA

Member of the Chartered Institute of Management Accountants, U.K. Mr. Farouk joined NBB in 1986 after several years experience with Gulf International Bank, Aluminum Bahrain (ALBA) and British Bank of the Middle East, Bahrain. Member of the Credit Committee. He assumed his present position in 2012.

NADER KARIM AL MASKATI

Assistant General Manager –
Syndications & Transactional Banking

Executive Management Diploma from Darden Graduate School of Business Administration, USA. Master Degree in Finance and Post Graduate Diploma in Marketing from Bahrain University. B.Sc in Economics & Political Sciences from Cairo University. Mr. Al Maskati joined NBB in 1993 after several years experience with National Bank of Abu Dhabi. Member of the Credit Committee. He assumed his present position in 2009.

REYAD NASSER AL NASSER

Assistant General Manager – Central
Processing & Branch Operations

Master of Business Administration from Dublin University, USA and Accounting Diploma from University of Bahrain. Advance Diploma in Banking from BIBF. Mr. Al Nasser joined NBB in 1981 and worked extensively in various NBB branches in the capacity of Branch Manager. He assumed his present position in 2014.

FATIMA ABDULLA BUDHAISH

Assistant General Manager
Credit Risk

Executive Management Diploma from Darden Graduate School of Business; Certified Public Accountant, (USA); Executive MBA from University of Bahrain. Mrs. Budhaish joined NBB in 2004 after five years with BBK and has over 16 years' professional experience. Member of Asset/Liability Committee, Business Continuity Planning Committee and Credit Committee. Board member of Bahrain Islamic Bank and Chairman of Risk Management Committee. She assumed her present position in 2013.

KHALIFA MOHAMED AL ANSARI

Assistant General Manager
Information Technology

Executive Management Diploma from Darden Graduate School of Business. MSc in Management Information Technology from University of Sunderland UK. Mr. Al Ansari joined NBB in 1997 after 3 years with Reuters, 4 years with Gulf Air and has over 23 years of professional experience. Member of Business Continuity Planning Committee and Operational Risk Management Committee. He assumed his present position in 2014.

VENKATA SUBRAMANIAM RAJU

Assistant General Manager
Finance & Strategy

Chartered Accountant from the Institute of Chartered Accounts of India. Mr. Raju joined NBB in 2008 after several years of experience with Oman International Bank (Oman), and has over 30 years of professional experience. Member of Asset/Liability Committee, Business Review, Development and Planning Committee and Operational Risk Management Committee. He assumed his present position in 2014

HASSAN HUSSAIN HAMAD


Assistant General Manager – Legal
Department and Corporate Secretary

LLB, University of Khartoum 1981, Legal Profession Certificate (Bar Examination) 1982, Proper Advocate since 1983. Mr. Hamad joined NBB in 2003 after one and a half years with Trowers & Hamlins (Muscat), and 4 years with National Bank of Umm Al Qaiwain UAE. He has over 30 years experience covering all major legal disciplines including but not limited to corporate, commercial and banking laws. He assumed his present position in 2014.

GHANEYA MOHSIN AL DERAZI

Assistant General Manager
Commercial Banking

MBA from University of Wales, UK and an Executive Management Diploma from Darden Graduate School of Business, USA. Ms. Al Derazi joined NBB in 1994. She has several years of experience in Trade Finance, Financial Institutions, Corporate Banking and Commercial Banking. She assumed her present position in 2014



building strong
bonds as we seek
out long-lasting
regional partnerships





KHALID ALI JUMA
General Manager
Support & Administration Group

NBB Mobile Banking product has been awarded the 2014 ICT Award by CNME in recognition of delivering ground-breaking business value through innovative application of technologies in the banking and financial services sector for the entire Middle East.

INFORMATION TECHNOLOGY

The year 2014 has been a very active year for Information Technology department with multiple initiatives being embarked upon to introduce new banking channels and improve customer experience on the existing services. In addition, various projects were carried out to improve internal efficiency and the security posture of the bank. Furthermore, adequate resources and efforts were invested to ensure compliance regulatory projects and internal controls.

The Bank has successfully implemented an innovative and state-of-the-art Mobile Banking Service(MBS) which was well received by our customers. This product was developed and delivered with advanced and unique functionality and features to improve the customer experience. NBB Mobile Banking product has been awarded the 2014 ICT Award by CNME in recognition of delivering ground-breaking business value through innovative application of technologies in the banking and financial services sector for the entire Middle East.

To facilitate our Corporate and SME customers to process payment to their Merchant customers, IT department designed and implemented a vendor payment automation system that was developed in-house. This solution enables and automates the central processing department to efficiently manage vendor payment processes by both internal transfer and through Swift for other bank account holders. In addition, this product instantly updates the Merchant's customer about their payment status.

CBB mandated banks to be Foreign Account Tax Compliance Act (FATCA) compliance this year. IT department developed and implemented a compliance solution called the FATCA Manager. This solution was fully developed in-house with real-time integration with the core-banking systems to retrieve seamlessly, information about the bank customers. IT department successfully executed the 'Re-carding of Debit Card' for our NBB customers that were expiring on Dec-2014. Around 150,000 new cards were issued and migrated to new card verification method that has an enhanced security feature to enforce PIN when used in a PIN entry capable terminals. Moreover, to protect the bank card customers from fraud attacks, the bank proactively implemented transaction denial services based on various conditions such as country, currency and transaction type.

To keep in line with Industry standards and to meet the payment card industry (PCI) pin standards, merchants were provided with more efficient and secure POS terminals. These POS machines have enhanced security features with unique key per terminal. In addition, to encourage green environment, we have enhanced our ATM services to provide option on whether to print receipt or otherwise and we have received positive customer response in this regard. Some of the other key cards projects include KSA switchware migration and ATM upgrade for optional receipt.

NBB core network infrastructure components underwent a major technological upgrade in an effort to focus on enhancing network and systems performances, resulting in an improved and efficient service to our customers. As a part of this upgrade the underlying software system platforms were also upgraded. This has made NBB's core infrastructure more secured, resilient and scalable.

Throughout the year our cyber security efforts were sustained in performing Cyber security vulnerability assessment (PT), security monitoring on key application & infrastructure, Anti-phishing and other project based security controls in line with CBB requirement. Beside this, the disaster recovery capabilities were periodically tested to assess bank's readiness to switch to the Disaster Recovery site in case of an unforeseen disastrous situation.

HUMAN RESOURCES

During 2014, NBB recruited more than 70 Bahraini graduates from the market and provided them an opportunity to become able professionals in the Banking & Finance industry. With the conscious efforts to focus on Bahraini recruitment, the Bank has increased Bahrainization to 93.7% during 2014.

While doing so, NBB stayed committed towards development of existing staff members through the Internal Job Opportunities (IJO) program. This program, on a continuous basis, reviews the abilities and competencies of existing staff members and the most deserving candidates are offered higher level positions in the Bank, rather than recruiting for such positions from the market.

In addition to the above, NBB remained focused on the career development of high potential Bahraini employees through the Career Planning program and Executive Trainee program. This year, 14 young and deserving Bahraini employees have been enrolled in to the Executive Trainee program with an objective to provide them fast track career growth towards middle management positions. This program relies on "on-the-job" (OJT) development balanced with class room training sessions.

In order to stay competitive in changing business environment, while at the same time giving opportunity for career growth to capable senior level staff, NBB restructured its organization. The new structure is aligned with the strategic initiatives of the Bank and is effective in creating succession layers for the leadership roles which are essential to ensure sustainability of business in the longer term.

Numerous training programs were conducted during the year in order to build functional and leadership competencies of the staff, resulting in average training of 5.94 man-days per employee covering 80% of eligible staff under training.

Continuing with the legacy of community development and corporate social responsibility, NBB enrolled 18 university students in its Summer Internship Program. These students were placed in various departments of the Bank for a period of 2 months in order to gain hands-on experience of banking field through on-the-job training. This program has proved to a valued mechanism for bridging the gap between the banking industry and academic institutions.

In addition to the above, 2014 saw substantial changes in the CBB's approach towards regulating variable remuneration of executives in the Bank. The CBB deployed new rules for the licensed banks regarding Sound Remuneration Practices. These rules, being comprehensive in nature, have substantially impacted the Bank's earlier policy on Variable Remuneration i.e. Bonus. To this effect, the Bank has developed a new policy for deciding variable remuneration of senior executives in the Bank in order to fully comply with the regulations of the CBB.

The rules have also mandated the Bank to design and implement entirely new policy on Share Incentive Scheme. The objective behind Share Incentive Scheme is to align the senior management's interests with share holders. A part of the variable compensation of senior management will now be delivered through shares of the Bank, which will have deferred vesting and retention periods in order to ensure that the risk taken by the Bank while achieving profit targets does not go unnoticed while compensating the senior management of the Bank who is involved in critical business decisions.

Multiple approaches undertaken in both the Variable Remuneration Policy and Share Incentive Scheme policy have made the overall compensation policy of the Bank much more robust and effective by balancing its objectives with those of the Shareholders.

REVIEW OF OPERATIONS

CORPORATE SOCIAL RESPONSIBILITY

Since the Bank opened its doors in January 1957, it has remained at the heart of the community and taken the community to heart. Several decades on, our commitment to supporting our country's social welfare and contributing to the betterment of people's lives continues undiminished. The community was where NBB began its voyage and the community would always be the root of our organization.

NBB has a long history, dating back to 1980, of involvement in community affairs and supporting noble and worthwhile causes in the Kingdom. We believe in building prosperity by extending support to a broad range of causes, which would enhance the life of the community in general, and the people in particular.

We are determined that the community we serve also benefits from our success and translate that determination to practice by setting aside five per cent of the Bank's annual net profit for allocation among various programmes and foundations/projects aimed at social welfare, health care and the underprivileged sections of our society.

We know that NBB ultimately owes its success to its customers and to the communities in which it operates. Society is demanding even more vigorously that businesses work in a sustainable way. We have the same opinion. Just as we are proud to be a successful part of the social fabric, we are determined to promote public inclusion, helping to bring vulnerable and under privileged groups into the vibrant social and economic interaction, the rest of us take for granted.

Our employees also make significant contributions as volunteers sharing their skills, financial and business knowledge and the benefit of their experience with the student community. This includes participating in a broad range of training seminars and work shops, for the benefit of students from educational establishments, particularly those enrolled in H.H. The Crown Prince's Scholarship programme that is aimed at the development of vision and leadership capabilities among Bahrain's future government and business leaders.

It has been the Bank's priority to develop its business in a socially and environmentally way while simultaneously addressing the business interests of our stakeholders. The Bank has also taken an active role and responsibility in assisting local communities to achieve their aspirations. This is done through a combined effort of philanthropy and volunteer work.

In 2014 we contributed over BD 0.95 million, through our donations and contributions programme, primarily directed towards health care, social welfare, supporting educational institutions including government schools, research studies and in ensuring that the less privileged among us are put on the path to a more secure future. The Bank has set aside BD 37 million since the inception of the Donation and Contributions programme in 1980.

We consider it an honour, our duty and our privilege, to be able to serve the community in more ways than just providing banking services.

PROJECTS

Charity Funds Support

2014 was the nineteenth consecutive year that the Bank has provided assistance to all the local charity funds registered with the Ministry of Social Development. During the past eighteenth years about BD 1.73 million has been contributed by the Bank to the local charity funds that provide basic sustenance to poor families and under privileged people across the Kingdom. This year, during the Holy Month of Ramadan, the Bank distributed nearly 7,700 coupons to purchase foodstuffs totaling BD 150,000. The amount was allocated to local charitable societies and organization, who in turn distributed these coupons to those families who are in dire need for help and support during the month of Ramdan.

On the occasion of Eid Al Fitr and Eid Al Adha, the Bank organised the purchase and distribution of gift items for occupants and staff of the NBB Home for the Aged, NBB Home for Disabled Children, Bahrain Mobility International as well as for the children in the Hope Institute for the Blind and the Bahraini Institute for the Blind.

SUPPORT TO GOVERNMENT SCHOOL STUDENTS

In 2014, more than 20,000 needy government school students benefited from the annual winter clothing donation programme. NBB allocated BD 150,000 this year for the programme, which covered all government schools in the Kingdom of Bahrain.

SPONSORSHIP

NBB has demonstrated a leading role in supporting a unique number of important activities and events. Major activities in which the Bank participated as a key sponsor during 2014 were:

- Support the Bahrain International Garden Show
- Support the Bahrain International Airshow
- Support to the National Campaign for Aiding the People in Gaza organized by the Royal Charity Organization
- IMF/World Bank Meetings- Washington DC. (Banks in Bahrain Showcase Reception) organized by the Banker's Society of Bahrain and Economic Development of Bahrain
- Supporting the event for highlighting what Bahrain can offer as a cosmopolitan, peace-loving country, in London
- Support the Euromoney Bahrain Conference
- Sponsor The 2nd Turkey-GCC Business & Investment Forum organized by the Bahrain Chamber of Commerce and Industry
- Support the "Bahrain Noor Elain Quiz" organized by Ministry of Information

- Support Al Basta Market organized by the Southern Governorate
- Support Spring of Culture Festival
- Sponsor the 6th Information Technology Forum organized by the University of Bahrain
- Sponsor the International Poetry Day organized by the Writers & Literature Association
- Sponsoring The 11th Gulf Heart Association (GHA) conference
- Support the National Campaign of Cancer Awareness

Included among the major beneficiaries of the Donations and Contributions programme this year were:

- Beit Al Qur'an
- Umm Al-Darda' Al-Sughra Center For Quranic Studies
- Rehabilitation Centre for Handicapped Children
- Bahrain Cancer society
- Children & Mother Welfare Society
- Hope Institute for Handicapped
- Women & Child Information Centre
- Bahrain Society for Child Development
- Sultan Bin A. Aziz Centre for Hearing & Speech
- The Saudi Bahraini Institute for The Blind
- Bahrain National Heredity Anemia Society
- Bahraini disabled Sports Committee
- Bahrain Down Syndrome Society
- Al Rahma Centre
- Bahrain Diabetes Society
- Bahraini Association for Intellectual Disability & Autism
- The Bahrain Young Ladies Assn/Aisha Yateem Family Counseling Center
- Migrant Workers protection Society
- Minors Estate Directorate
- Child Care Home
- Al Sanable Orphans Care
- NBB Home for the Aged
- Muharraq Social Welfare Centre
- UCO Parents Care Centre
- Al Manar Parents Care Centre
- Bahrain Philanthropic Society
- Bahrain Red Crescent Society
- Al Noor Charity Welfare
- Husan Al Jawar Society

MAJOR PROJECTS

Major projects financed and charity contributions made since the beginning of the donations and contributions programme:

Health Services:

- Building and equipping NBB Dair health centre.
- Financing and furnishing the NBB Arad health centre and physiotherapy wing.
- Providing Salmaneya Medical Centre with two advanced general purpose x-rays, an ambulance, dialysis machines and a urology endoscopy system.
- New ECO cardiogram machine for Shaikh Mohamed Bin Khalifa cardiac centre.
- Annual financial support to Shaikh Mohammed Bin Khalifa Cardiac Centre at the Bahrain defence force hospital.
- Upgradation of BDF's computer systems.

Social Welfare Schemes

- Building and furnishing the NBB home for the aged.
- Building and furnishing the friendship Kindergarten for the Blind.
- Building and furnishing the NBB home for disabled children and providing a bus with special equipment.
- Supplying 2 specially manufactured buses for Bahrain mobility international and Muharraq Social Welfare Centre.
- Annual financial support to all the facilities built by the Bank.

Educational facilities

- Construction of administration and registration buildings for the University of Bahrain
- Building and furnishing the NBB public library in Muharraq.
- Providing the University of Bahrain with "horizon", a fully automated library system and 2 PC laboratories, the e-learning centre in addition to annual financial support for many years.
- Contribution to the new Shaikh Isa library.
- Installation of air conditioning in all government primary schools.
- Annual financial support to the university student fund.
- Computerised library system for Women and children information centre.
- Renovation of Abdulla Al Zayed House in Muharraq in coordination with Shaikh Ebrahim bin Mohamed Al Khalifa Centre for Culture & Research



ABDUL AZIZ ABDULLA AL AHMED
General Manager
Domestic Banking

Business Banking adopted a segmented approach where preferred sectors within the market were penetrated, to diversify the Bank's loan portfolio and risk.

DOMESTIC BANKING GROUP

BUSINESS BANKING

Year 2014 has been a demanding year for Business Banking due to the growing competition from traditional and non-traditional institutions in the local market, the slow pace of business within the SME sector and the real estate sector not yet fully normalized. While the Bank remained prudent and continued to be very selective regarding exposures to certain sectors, the same was compensated by maximizing business in other areas / segments.

By monitoring the market closely, selecting acceptable projects that suit NBB lending criteria and focusing on projects that add value to the Bahrain economy, we were able to streamline our business, maintain our strong financial position and sustain our market leadership position by serving our valued customers for all their requirements.

Several strategies were adopted to reach our goal. Focus remained on Commercial banking which continued to target the middle-market segment. In general, Business Banking adopted a segmented approach where preferred sectors within the market were penetrated, to diversify the Bank's loan portfolio and risk. The focus was on sectors where the Bank lacked presence, by structuring products that suited both parties i.e. the clients and the Bank. This resulted in enhancing the loan book through strengthening ties with its valued clients.

Business Banking also focused on understanding the business and operational cycle of existing clients to customize products that suited their business model and cash flow, which was fruitful in terms of increasing business with existing clients and increasing market presence through acquisition of new names.

As a result, new assets were booked, underlying NBB's commitment to the local economy in general and firm belief that the Kingdom is well positioned to withstand the prevailing economic conditions. Moreover, the units were successful in attracting new deposits, where depositors preferred to keep their deposits with the bank for its well-established reputation for both safety and stability.

We are confident that the economy of Bahrain will show strong growth next year and 2015 will be an eventful year in which many large ticket Corporate projects will start to materialize, with companies like Alba, Bapco, Bahrain Airport all looking to expand their production / capacity. Anticipating this growth, NBB Business Banking is already taking the necessary steps to sustain its position in funding the upcoming new projects.

Business Banking will continue to improve its products and services for the benefit of the customers of the Bank. The unit also looks forward to 2015 with optimism, based on improving market situation, strong deal flows in the pipeline and kick-starting of major projects and support of the Government. We are confident that we are strongly positioned to meet our customers' needs in 2015 and beyond.

PERSONAL BANKING

The economy grew during the year, but growth was not uniform across sectors. With all retail banks focusing their resources on select sectors, the operating environment was extremely challenging. Banks reduced pricing on retail loans as a relatively lower risk option. Working within difficult operating conditions, new packages and campaigns were launched for retail customers. We built on our strengths of door-step service through sales channels, improved turnaround times through automation and the largest branch network channel in the Kingdom. In line with our objective of supporting retail customers, very competitive loan rates were introduced which was well received by customers. This strategy was supported through below the line campaigns like branch merchandising, bulk messaging and data mining to cross-sell to existing customer base, which helped the division in enhancing booking volumes and income.

In line with the Bank's objective of encouraging savings habit among customers, the bank's flagship saving scheme "Al Watani Savings" was revamped and relaunched with a catchy prize package, to engage the attention and establish high recall among customers. Attractive cash prizes were offered, including monthly, grand and mega prizes, which were designed to change the lives of many of the winners. A creative campaign was designed and launched through various media including innovative channels like the Bahrain Bourse ticker. In order to enable the widest participation and encourage all customers to save, enrolment in the campaign continued to be extremely customer friendly wherein all savings and Savewave accounts with the minimum balance were automatically included in the draws.

The Taabeya card continued its successful run with the portfolio increasing significantly. Campaigns were run to enhance the cardholder base, especially for Taabeya cards. Sales campaigns were held at college campuses where students were targeted for the cards, with an incentive of pre-paid credit to the card account. A cross-sell campaign was also conducted wherein customers with high usage were issued a pre-approved Mastercard Taabeya card with a bonus credited to the card account. We had discussions with various Government and semi-Govt organizations to encourage the pre-paid card as a viable alternative to cash payments, and we believe that it will have increasing usage in the future for this purpose.

The Titanium card portfolio was significantly enhanced by proactively offering the Titanium card to select cardholders, as an upgrade on their existing card. The Bank tied up with various merchant partners to bring special offers and add value to its cardholders, for example a promotion with Gulf Air wherein cardholders would receive attractive discount on their purchase through NBB card on GF website.

In an effort to bring banking services nearer to customers, the direct sales distribution channel was strengthened and used as an effective sales tool. By offering customers service at their door-step, the direct sales team was able to canvass business from a growing number of customers. Sales promotions were implemented in various Ministries and Government offices to interact directly with customers and potential customers.

Technology is being leveraged to significantly enhance service levels for customers. Mobile Banking service is being augmented currently to offer better and innovative functionalities and convenience to customers, with focus on enabling more payment channels through the mobile medium. Discussions are on with eGov Authority to integrate our on-line banking to the eGov site for payment services, which we expect to finalise shortly. The Bank also extended the facility of the credit card 'payment gateway' to new merchants, which will enhance business for both merchant partner and the Bank as well as facilitating on-line payments for customers.

Focus on Customer service continues to be a priority area for the business and in line with this objective our 24x7 Call center continued to focus on its core function of handling customer queries and complaints, to ensure that resolution of the same was done to the customer's satisfaction within agreed time lines. We will continue to streamline the Call center workflow and processes to ensure high levels of customer satisfaction. In addition to its service role, Call Center put in additional efforts to contribute to the Bank's business and be a revenue generator. Throughout the year, outbound calling program was maintained wherein potential customers were proactively called to canvass for the bank products and create sales leads. Call center also conducted cross-selling campaign for inbound calls, where sales efforts were made on customers who called in regarding queries or complaints. Call Center resources were also utilised for monitoring card transactions during non working hours, providing warning in case of suspicious transactions and taking appropriate action.

Personal Banking units will continue to enhance their products and services and we are optimistic about 2015. The multiplier effect of various major projects expected to be launched during the year by the public sector as well as Government sector is expected to create opportunities in the retail space also. We are therefore confident of enhancing the base of our valued clients and meeting our objectives in 2015 and beyond.



HUSSAIN SAYED ALI AL HUSSAINI

General Manager

Treasury, Overseas Branches & Operations

We will continue to devote resources to bolster existing business and will continue efforts in finding and offering the best of breed investment products, creating value for and delivering better returns to our investors, emphasizing capital preservation and risk-adjusted returns.

TREASURY, OVERSEAS BRANCHES & OPERATIONS GROUP

Global growth slowed more than expected from an annualized rate of 3.9% in the second half of 2013 to 2.7% in 2014. The downside surprise was mainly due to weaker recovery in Europe as the region continues to overcome legacies from the crisis and in Japan where negative effects on demand can be traced to an increase in consumption tax. Among emerging markets, China picked up in the second half of the year due to stimulus measures by the government but domestic demand remained weak in many major economies, particularly Latin America.

Activity in the GCC economies accelerated slightly in mid-2014, driven by higher oil production and government spending. Average growth for the GCC is projected to be around 4.5% in 2014-2015. Turmoil in Iraq has thus far had little effect on the rest of the region.

Sub-par growth and low inflation continued to allow global central banks to keep benchmark interest rates at historically low levels and implement nontraditional stimulus programs. While the U.S. has officially ended quantitative easing, Europe has just begun its fight against deflation. Global equity markets continue to rally as the unprecedented liquidity in the financial system benefits risky assets. Credit spreads benefited as well and are 40-50bps tighter on the year.

Markets have handled the end of Federal Reserve QE program quite well and interest rates in the United States are expected to move higher in the second half of 2015. Main concerns for 2015 will be whether the growth in U.S. is strong enough to decouple from the rest of the world. Geopolitical factors in Ukraine and Mideast will remain in focus also.

PORTFOLIO MANAGEMENT UNIT

Interest rates remained at historically low levels globally with rates in the Eurozone trading below zero. The unit took advantage of continued tightening of spreads by booking capital gains in GCC papers which were deemed historically expensive and reallocating into undervalued paper particularly Bahrain government.

We carried forward our strategy of effectively hedging the portfolios long term fixed rate risk and replace it with floating risk. This strategy should be effective as the Federal Reserve begins to raise short term interest rates next year and our funding begins to rise. Over 70% of

the investment portfolio is currently floating or less than one year maturity. We continue to hedge with liquid plain vanilla swaps with very strong counterparties. Liquid G-7 bonds were added to the portfolio throughout the year at attractive levels for diversification. Market timing strategies were utilized to take advantage of the limited volatility producing capital gains throughout the year. These strategies coupled with a high level of diversification provided the unit with above average returns.

FOREIGN EXCHANGE & MONEY MARKETS UNIT

The historical trend of low global money market interest rates and slow economic growth persisted in 2014 and continued to prove to be challenging for the unit. Despite that fact, the FX & Money Market unit managed to surpass its budgeted targets by focusing on prudent arbitrage investments opportunities in GCC and major foreign currency markets. In addition to, implementing profitable FX spot and forward transactions, as well as FX derivatives strategies.

Furthermore, during the year the unit instigated a number of short term securities investments, as well as aggressively participating in the short term Government of Bahrain conventional and Islamic issues that enhanced overall profitability.

TREASURY MARKETING & SALES UNIT

The Unit has efficiently captured excellent level of FX transactions during the year that enabled it to achieve its budgeted income for 2014.

Additionally, the unit has continued to offer competitive deposit rates compared to our affiliates to maintain high volumes of customers' deposits. Good part of these deposits was booked for long term tenors. Aspiring to accomplish its objective of providing Total Treasury Solutions, the unit continued to coordinate with Business Banking & Investment Unit to structure long term investment products to satisfy clients' hedging requirements.

Through its new work force structure, the unit is fully equipped with the required skills to extend its efforts towards serving the bank's clients and fulfill their requirements.

INVESTMENT ADVISORY & WEALTH MANAGEMENT UNIT

The Investment Advisory and Wealth Management Unit provides asset management services with a primary focus on mutual funds and custody services. The Unit's customer base includes institutions, corporates, financials & insurance companies and high net worth individuals.

In the area of mutual funds, the MEDA Fund, which is available for local and GCC investors has achieved almost 29.3% as of October-end 2014, outperforming the benchmark of 19.1%. However, with the great challenges that occurred in the capital markets, the demand on mutual investment funds was lackluster.

In the area of custody services, despite the competition in what is generally a hotly contested market and negative environment in the capital markets, the unit continues to gain more market share capitalising upon its competitive edge in terms of competitive fees structure, providing clients with market access and trade execution services on various types of fixed income securities (bonds and sukuks) across local and regional markets. Assets Under Management (AUM) grew by 21% in 2014.

On the proprietary book side, the Bank continues to stick to its cautious approach in its investment activities and hence has not deployed any new funds for proprietary book during 2014. Despite adopting a conservative approach due to increasing markets uncertainty, the Bank will remain open for any investment opportunities in local and regional markets.

Moving forward, we will continue to devote resources to bolster existing business and the Unit will continue its efforts in finding and offering the best of breed investment products, creating value for and delivering better returns to our investors, emphasizing capital preservation and risk-adjusted returns.

In recognition of its consistent, high-quality performance and standard in the fund transfer operations, the Bank was awarded the JP Morgan Quality Recognition Award 2014 for excellence in US Dollar processing. This is the 13th consecutive year that NBB has earned this recognition, which not only illustrates NBB's leading presence in the global financial services market but also aptly demonstrates the Bank's long-term commitment to maintain highest standard of quality.

SYNDICATIONS & TRANSACTIONAL BANKING

During 2014, the name of the Unit has been changed to Syndications & Transactional Banking to demonstrate our focus on Syndicated transactions, both through origination and participation in primary deals, and also by being active in secondary markets to purchase good quality loans. As a result, we succeeded by participating in several new facilities in the Kingdom of Bahrain and the Gulf region such as term loans to Arab Banking Corporation, Commercial Bank of Qatar, Mashreq Bank and Ahli Bank Q.S.C. In addition, we continued to pursue bilateral facilities to top tier financial institutions in GCC countries.

A particular focus of the Unit this year was on Know Your Customer (KYC) aspect in terms of securing transactions involving other financial institutions to ensure that such transactions comply with different rules and regulations. One of the major achievements of the Unit was to register NBB on the international Swaps & Derivatives Association (ISDA) website as an Adherent Entity to European Market Infrastructure Regulations (EMIR). This was an important step to ensure a smooth operation of our activities with different European Financial Institutions.

Also NBB became compliant during the year with FATCA regulations and we have communicated with other banks that NBB's name has been included in the first list of participant's foreign financial institutions on the IRS website.

On the corporate finance side, NBB joined a group of an international bank and a regional bank to submit a proposal to a key corporate client for assuming the financial advisory role with respect to a new major industrial project.

CENTRAL OPERATIONS

NBB has always strived to maintain the highest standards of services in funds transfer operations and in 2014, the Bank remained committed to this strategic initiative. In recognition of its consistent, high-quality performance and standard in the fund transfer operations, the Bank was awarded the JP Morgan Quality Recognition Award 2014 for

excellence in US Dollar processing. JP Morgan presents this award to selected U.S. Dollar clearing clients who achieve outstanding straight-through results by properly formatting their Swift payments. Less than one percent of JP Morgan's total funds transfer clients are able to meet the criteria for this award. This is the 13th consecutive year that NBB has earned this recognition, which not only illustrates NBB's leading presence in the global financial services market but also aptly demonstrates the Bank's long-term commitment to maintain highest standard of quality.

In 2014 the Central Operations had a key role in the successful implementation and launching of NBB's Mobile Banking initiative, adding more service channels to the existing services for our customers, who can now enjoy remote access to their accounts and do banking at any time from any place. The bank participated as a key player in the initiation of the EFTS - Electronic Funds Transfer System as national project owned by Central Bank of Bahrain and hosted by BENEFIT. EFTS is scheduled to be implemented in the 3rd quarter of 2015.

RIYADH BRANCH

2014 was a year of consolidation with a focus on further building the strong business profile built over the past two years. In this regard, a revised Target Market and Asset Acceptance Criteria was introduced, all existing relationships were reviewed and a more vigilant and prudent scrutiny measures introduced on new proposals in order to strengthen the overall asset profile of the branch.

A strategic plan for the branch calls for Saudi Operations to be the second most contributor to the Bank's Asset and Income with significant growth planned in the coming years. To meet this objective, the branch has invested significantly in a new core system, introduced limited Islamic Banking Products and developed Riyadh Branch staff. The branch also managed to attract talented and qualified Saudis to fill positions of Relationship Managers, Review Officer and Compliance Officer.

During 2014, Compliance Section reviewed all accounts to ensure full compliance with SAMA and CBB rules and regulations. In addition, several in-house training modules were organized for staff to alert them on new rules, amendments and directives of SAMA with regards to account opening, fees, charges and commissions and FATCA regulations. Selective members of staff were also sent for training at the Head Office in Bahrain and to Institute of Bankers in Riyadh.

Overall, the branch established a strong foundation which would be leveraged in the years ahead.

ABU DHABI BRANCH

Abu Dhabi branch continued its focus on growing bilateral business in the corporate banking space. Customer-centricity and high service levels saw Forex profits soar as more business was sourced through existing relationships. The integration of LC module with our existing core banking system streamlined processing and enhanced service levels to our clients. Trade finance still makes up a major portion of the business pipeline and continues to generate a steady commission income stream.

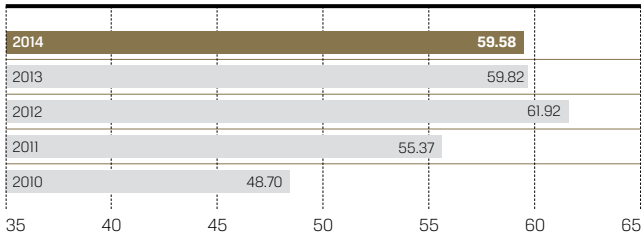
The UAE approved a draft federal budget of AED 49.1 billion (\$13.4 billion) for 2015. GDP is expected to grow at 4.6% in 2014 and 4.5% in 2015, with non-oil sector expected to be the main contributor. Oil-fuelled growth is expected to slow down due to weakening oil prices, while non-oil growth is expected to grow by 5.9% this year with megaprojects in the construction sector leading to such non oil growth.

The UAE economy is generally believed to have recovered from the 2008 crisis. In line with the positive economic environment Abu Dhabi branch put in place an aggressive three-year plan to exploit business opportunities in niche sectors contributing to the UAE's growth including contracting, manufacturing, trading. NBB Abu Dhabi is optimistic it can capitalize on opportunities in these sectors and grow the business in 2015.

FINANCIAL REVIEW

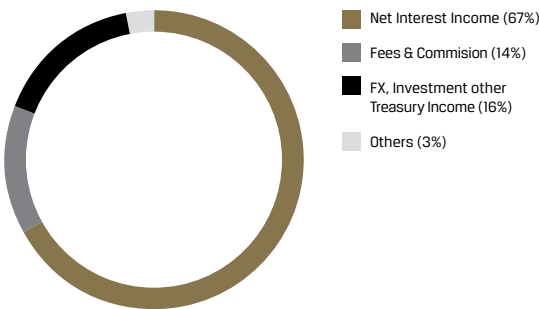
NET INTEREST INCOME

BD millions

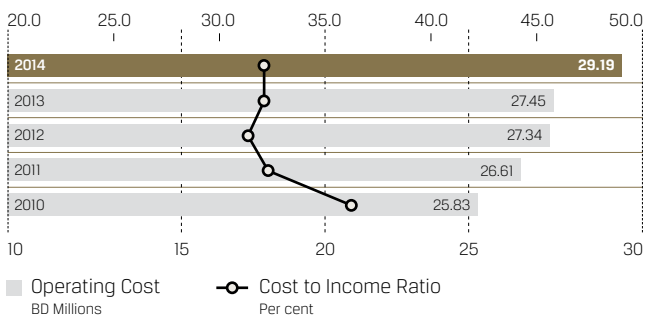


COMPOSITION OF TOTAL INCOME

Per cent



OPERATING COST AND COST TO INCOME RATIO



OVERVIEW

The financial position of the Bank remains strong with a steady and consistent improvement in the overall performance during the year 2014. The Bank focused on a balanced growth within the overall prudent risk management framework. This resulted in the Bank delivering a net Profit of BD 53.44 million for 2014, the highest ever achieved by the Bank, compared to BD 51.36 million for 2013, an increase of 4.0 percent.

At year-end 2014, the Bank's Total Balance Sheet stood at BD 2,738.46 million, compared to BD 2,749.23 million at year-end 2013. While Loans and advances showed a decline due to certain major repayments and lack of quality lending opportunities, the available funds were efficiently deployed in Investment securities and Treasury Bills to maintain the overall interest margin. As a result, the total Earning Assets stood at to BD 2,580.92 million at year-end 2014 compared to BD 2,596.84 million at year-end 2013.

Key performance indicators continue to remain strong with Return on Average Equity at 14.42 per cent and a Return on Assets of 1.95 percent for the year 2014. Earnings Per Share improved from 54.6 fils in 2013 to 56.8 fils for 2014. Efficiency Ratio for 2014 was 32.7 percent compared to 32.4 percent for the previous year. The Bank continues to have a strong capital adequacy ratio of 34.3 percent before the proposed appropriations calculated in accordance with Basel 2 and Central Bank of Bahrain guidelines. Liquidity continues to be comfortable with liquid assets (Cash and balances with central banks, Treasury bills and Placement with financial institutions) representing 32.4 per cent of total assets.

NET INTEREST INCOME

Net Interest Income at BD 59.58 million for the year reflects a marginal decrease of 0.4 percent over 2013. The decrease is largely attributable to the lack of growth in commercial lending opportunities and reduced returns on deployment of surplus liquidity due to very low short term interest rates. As a result, the net interest margin, on average total assets, was 2.17 per cent in 2014 compared to 2.21 per cent in 2013.

OTHER INCOME

Total Other Income for the year of BD 29.63 million showed a strong growth of 19.3 percent compared to what was recorded in the previous year of BD 24.83 million. The growth was attributable to increased business volumes resulting in higher Commission and Exchange Income, besides higher Dividend Income on the Bank's equity and increased contribution from the Bank's Associates.

Details of Other Income, with comparative figures for the previous year, are set out in Note 24 to the Financial Statements.

OPERATING EXPENSES

Operating Expenses at BD 29.19 million showed an increase of 6.3 percent over the previous year actual of BD 27.45 million. Staff Expenses were maintained with a minimum increase from BD 19.58 million in 2013 to BD 19.60 million in 2014. Other Operating Expenses increased

to BD 9.59 million in 2014 from BD 7.87 million in 2013, this is largely on account of Bank's contribution to the Deposit Protection Fund effective 2014 as mandated by the Central Bank of Bahrain, in addition to various initiatives to improve operational efficiency and enhance customer service. Operating efficiency ratio increased marginally from 32.4 percent in 2013 to 32.7 percent for the year 2014 due to the contribution to Deposit Protection Fund.

PROVISIONS

The Bank follows International Accounting Standard 39 and Central Bank of Bahrain regulations for assessing the adequacy of provisions for loan losses. Provisions for individually impaired credit exposures are determined by discounting expected future cash flows. Impairment and uncollectability is also measured on a portfolio basis, for a homogenous group of loans and advances not individually identified as impaired, on the basis of estimates of incurred losses inherent within the loans and advances portfolio that have not been specifically identified at the balance sheet date. The estimates are based on internal risk ratings, historical default rates adjusted considering current observable data, rating migrations, loss severity, macroeconomic outlook and other relevant factors that reflect the effect of current conditions on the loan book. Based on the ongoing assessment of the provision requirement and the Bank's continued emphasis on having a strong balance sheet, an amount of BD 6.08 million was provided towards impairment on loans and advances during the year. Further, a provision of BD 0.50 million was made for impairment on equity investments due to decrease in the market value of the investments.

Non-performing loans continue to be closely monitored which amounted to BD 85.69 million at the end of 2014 compared to BD 66.74 million at the end of 2013. This includes one large exposure where scheduled repayments have not been met and for which the Bank holds adequate security. Details of the Bank's non-performing loans, provisions and movements therein during the year are detailed in Note 7 to the Financial Statements

ASSETS

Total Assets stood at BD 2,738.46 million as at 31 December 2014, reflecting a marginal decrease of 0.4 percent over BD 2,749.23 million recorded in the previous year. Total Earning Assets stood at BD 2,580.92 million as at 31 December 2014 compared to BD 2,596.84 million as at the previous year end, reflecting a marginal decrease of 0.6 percent. Loans & Advances decreased during the year due to certain major repayments and lack of quality lending opportunities. This reduction in loans was deployed in liquid assets such as Placements with Banks & Financial Institutions. The Bank has a well diversified asset profile with Loans and Advances representing 28.5 percent of the total assets, while Treasury Bills represents 17.9 percent, Placements with Banks & Financial Institutions represent 10.4 percent; Investment securities represent 36.5 percent and Others 6.7 percent of the total assets.

The loan portfolio is diversified with widespread participation in domestic market and broadening of business relationships in Bahrain

in line with the Bank's strategy of focusing on the active sectors of the domestic economy. Loans and Advances portfolio is concentrated principally in Bahrain and other GCC countries. Based on contractual maturity terms, 40.0 per cent of the current portfolio matures within one year and 71.9 per cent is due to mature within 3 years of the balance sheet date.

At the year-end, the Bank's Investment portfolio of BD 999.49 million (2013: BD 997.72 million) consisted mainly of debt and equity securities while a small portion represents investments in mutual funds designated at Fair Value Through Profit or Loss. A substantial portion i.e. 99.4 per cent of the total debt portfolio is in investment grade securities.

Notes 29 and 30 to the Financial Statements provide details of the distribution of Total Assets by geographical region and industry.

LIABILITIES

Customer Deposits at year-end 2014 stood at BD 2,154.85 million compared to BD 2,083.54 million at previous year-end. The Bank continues to be successful in generating customer deposits resulting from its dominant position in the domestic market and leveraging its image as a safe and sound financial institution in the Kingdom of Bahrain.

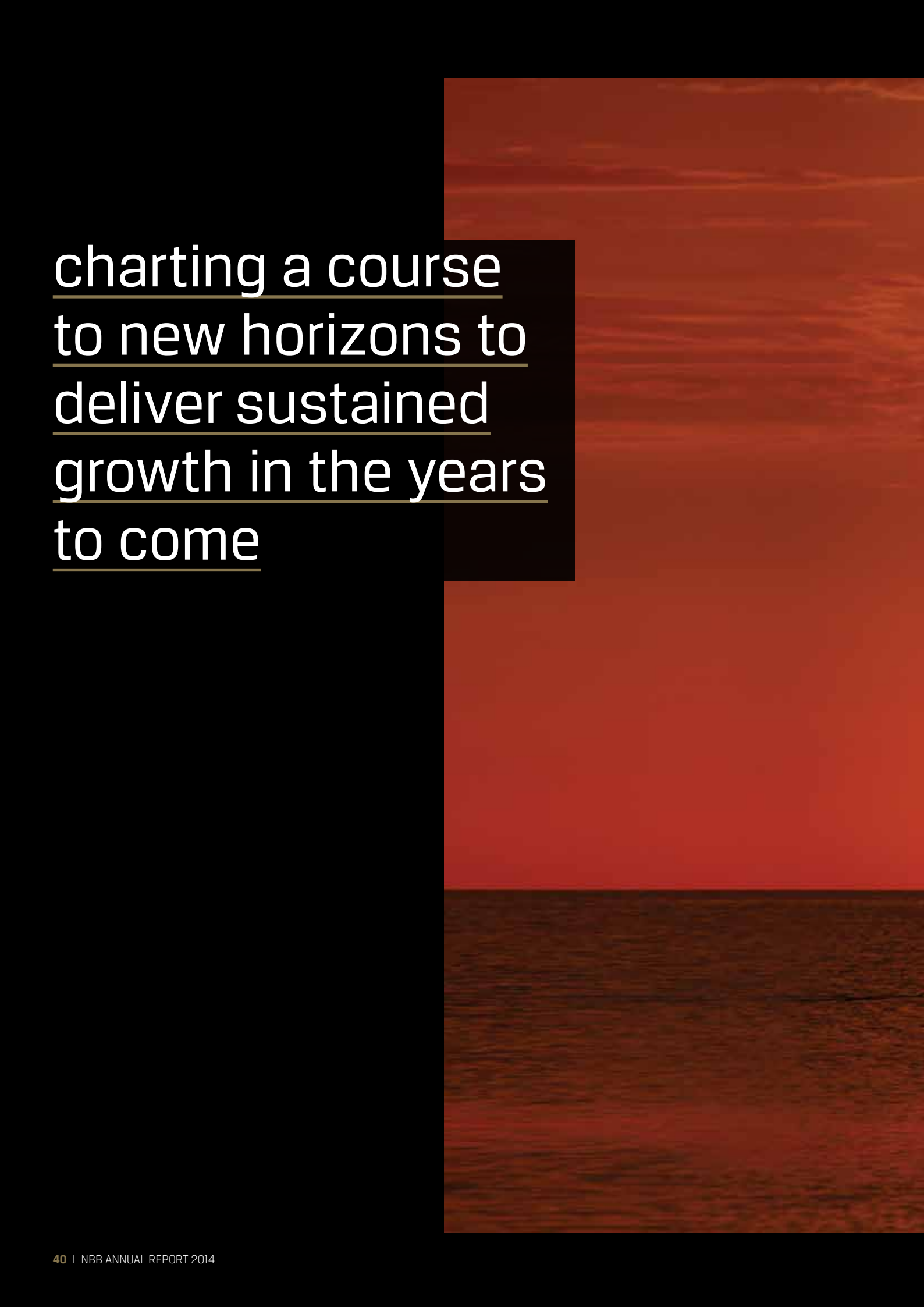
Borrowings under repurchase agreements and Due to banks and financial institutions stood at BD 166.49 million at year-end 2014, compared to BD 282.71 million as at year-end 2013. Customers Deposits continue to be the major source of funding with the ratio of Customers' Deposits to Total Liabilities at 91.3 percent at year-end 2014.

CAPITAL STRENGTH

Shareholders' Equity, inclusive of proposed appropriations, reflected a balance of BD 378.02 million as at year-end 2014, compared to BD 363.14 million as at the previous year, an increase of 4.1 percent. At the year-end, Shareholders' Equity as a percentage of Total Assets was 13.8 per cent.

The Bank's capital adequacy ratio at the balance sheet date was 34.3 per cent with Tier 1 ratio at 32.0 per cent before the proposed appropriations. The ratios have been calculated in accordance with the Basel 2 and Central Bank of Bahrain guidelines.

The Bank's capital adequacy ratio, encompassing credit, operational and market risk, is well above the Basel requirement of 8 per cent and also comfortably above the minimum level of 12 per cent set by the Central Bank of Bahrain. Note 41 to the Financial Statements and Risk and Capital Management disclosures provide further details on capital adequacy. The main factors that contribute to the Bank's strong capital adequacy ratio are high capital base, low risk profile of on-balance sheet and off-balance sheet exposures which includes significant exposures to low risk weighted assets namely governments, public sector undertakings, banks and financial institutions.



charting a course
to new horizons to
deliver sustained
growth in the years
to come

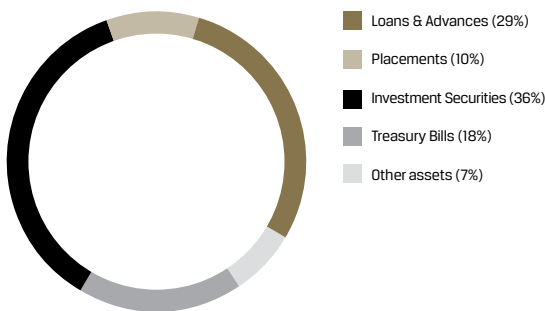




BRUCE WADE
General Manager
Risk

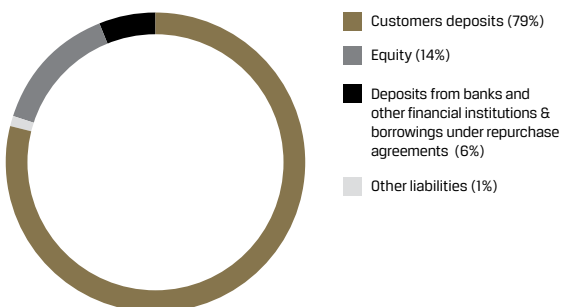
COMPOSITION OF TOTAL ASSETS

Per cent



COMPOSITION OF TOTAL LIABILITIES AND EQUITY

Per cent



RISK MANAGEMENT

In a world characterised by high integration of global financial markets, innovation in financial products, extensive use of derivatives, market volatility, large scale regulatory changes and focus on governance and remuneration structures, the management of risk is a key issue for every bank. NBB has over the years, developed risk management into a core competence and remains well positioned to meet these challenges. The Bank evaluates risk in terms of the impact on income and asset values. The evaluation reflects the Bank's assessment of the potential impact on its business on account of changes in political, economic and market conditions and in the credit worthiness of its clients. Risk management at NBB has always been prudent and proactive with the objective of achieving the optimum balance between risk and expected returns.

Risk arises from the Bank's lending and investment activities as carried out by the various units. Corporate Banking is responsible for lending to large corporate entities in Bahrain. Regional Banking handles credit facilities to leading corporate entities in other countries of the GCC. The Trade Finance and Financial Institutions unit is involved in identifying and financing trade flows between the GCC region and the rest of the world. Commercial Banking's responsibilities cover the borrowing requirements of small to medium-sized companies based in Bahrain. Personal Banking handles lending to individuals in Bahrain and other retail services. Treasury and Investments is responsible for all the treasury and capital market related activities of the Bank, and the Abu Dhabi and Riyadh Branches serve the UAE and Saudi Arabian markets respectively.

The overall authority for risk management in the Bank is vested in the Board of Directors. The Board authorises appropriate Credit, Operational and Market risk policies as well as suitable operational guidelines based on the recommendation of Management. Approval authorities are delegated to different functionaries in the hierarchy depending on the amount, type of risk and collateral security. The Bank has established committees that decide on all risk issues and authorities are properly structured.

Integral to the Bank's risk management system is the internal audit department that plays a role in evaluating the independence and overall effectiveness of the Bank's risk management functions. A periodic review of risk assets is conducted by the department to confirm that established policies, procedures and approved terms are complied with, and to review asset quality and highlight areas of concern so that corrective action can be taken in time.

The Risk Group (RG) of the Bank provides the necessary support to the business units in all areas of risk management. This division functions independently of the business units to analyse risks and put forth its recommendations prior to approval by the delegated authorities. The

Bank promotes healthy debate among the business units and RG to achieve an optimum balance between risk and return.

The Bank's risk management process encompasses the various dimensions of risk as follows:

CREDIT RISK

Credit Risk represents the potential financial loss as a consequence of a customer's inability to honour the terms and conditions of the credit facility. Such risk is measured with respect to counterparties for both on-balance sheet assets and off-balance sheet items.

The Bank has well laid out procedures, not only to appraise but also to regularly monitor credit risk. Regular reviews are carried out for each account and risks identified are mitigated in a number of ways, which include obtaining collateral and counter-guarantees from shareholders and/or third parties. Adequate margins are maintained on the collateral to provide a cushion against adverse movement in the market price of collateral.

In addition to rigorous credit analysis, the terms and conditions of all credit facilities are strictly implemented by the Credit Administration Department. An internal grading system and review process ensures prompt identification of any deterioration in credit risk and consequent implementation of corrective action. The Bank's internal ratings are based on a 10-point scale that takes into account the financial strength of a borrower as well as qualitative aspects, to arrive at a comprehensive snapshot of the risk of default associated with the borrower. Ratings are further sub-divided into categories which reflect estimates of the potential maximum loss if default occurs. Risk Ratings assigned to each borrower are reviewed at least on an annual basis. Regular monitoring of the portfolio enables the Bank to exit accounts that evidence deterioration in risk profile.

The Bank follows stringent criteria in setting credit limits for countries and financial institutions. Prudent norms have also been implemented to govern the Bank's investment activities. Not only are regular appraisals conducted to judge the credit worthiness of the counterparty but day-to-day monitoring of financial developments across the globe ensures timely identification of any event affecting the risk profile.

The Bank enters into derivative contracts in the normal course of business to meet customer requirements and to manage its own exposure to fluctuations in interest and exchange rates. The credit risk arising from a derivative contract is calculated by taking the cost of replacing the contract, where its mark to market value is positive, together with an estimate for the potential future change in the value of the contract. The credit risk on contracts with a negative mark to market value is restricted to the potential future change in their market value. Details of derivative contracts are contained in Note 17 to the Financial Statements.

The Bank has systems and procedures in place to generate alerts in case of past dues in any account. A stringent classification process is followed for all accounts with past dues of over 89 days. The Bank applies rigorous standards for provisioning and monitoring of non-performing loans. Level of provisions required is determined based on the security position, repayment source, discounted values of cash flows, etc. Adequate provisions are carried to guard against inherent risks in the portfolio.

LEGAL RISK

Legal Risk manages and mitigates the legal risks of the Bank through prompt review and advice on transaction documents; regular review of standard documentation to ensure the Bank's interests are protected; negotiate with counterparties/lawyers; keep abreast of latest developments in domestic and international banking, corporate and other laws and regulations and initiate corrective action when the Bank's business is likely to be affected.

In-house expertise independently ensures the above objectives are properly maintained. In addition, firms of international repute have been retained by the Bank to advise on foreign law related matters and represent the Bank in legal proceedings before foreign legal authorities as and when such representation is required.

LIQUIDITY RISK

Liquidity Risk is classified as the potential inability of the bank to meet its financial obligations on account of a maturity mismatch between assets and liabilities. Liquidity risk management ensures that funds are available at all times to meet the funding requirements of the Bank.

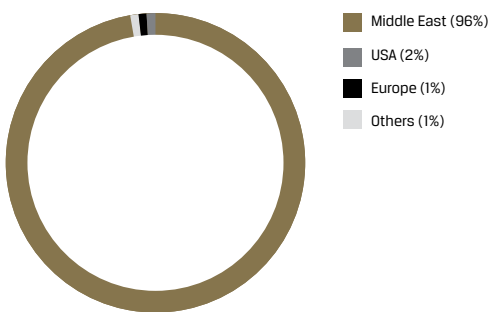
The asset/liabilities management of the Bank ensures various liquidity criteria that need to be complied with, such as minimum level of liquid assets, gap limits, ratio of liquid assets to total assets, etc.

The Bank maintains adequate Cash and Balances with Central Banks in liquid assets such as inter-bank placements and treasury bills. The ratio of liquid assets to total assets as at 31 December 2014 was 32.4 per cent. The high level of liquidity enables the Bank to meet fluctuating customer borrowings and drawdowns comfortably.

The Bank's ability to maintain a stable liquidity profile is primarily on account of its success in retaining and growing its customer deposit base. The marketing strategy of the Bank has ensured a balanced mix of demand and time deposits. As a result of its successful deposit and asset-liability management strategies, the Bank is a net placer of funds in the interbank market and is not dependent on volatile short-term borrowings.

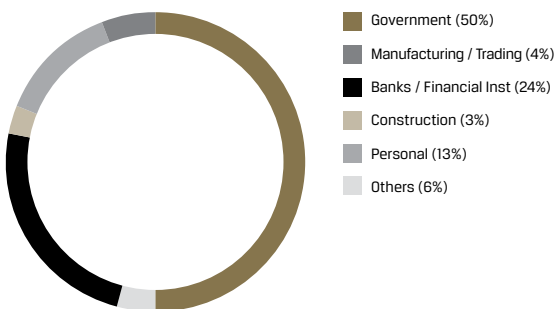
GEOGRAPHICAL DISTRIBUTION OF ASSETS

Per cent



SECTOR DISTRIBUTION OF ASSETS

Per cent



The Treasurer closely monitors the maturity profile of assets and liabilities so that adequate liquidity is maintained at all times. The asset and liability maturity profile by individual asset and liability category based on contractual repayment arrangements is detailed in Note 35 to the Financial Statements. As at 31 December 2014, 49.12 per cent of assets were scheduled to mature within three months. Substantial investment securities with contractual maturities of more than three months can also be readily liquidated. Considering the effective maturities of deposits based on retention history and in view of the ready availability of liquid investments, the Bank is able to ensure that sufficient liquidity is always available. Proper contingency plans exist and can be implemented on a timely basis to minimise the risk associated with dramatic changes in market conditions. The Asset Liability Committee (ALCO) chaired by the Chief Executive Officer, reviews the liquidity gap profile, liquidity scenarios and projections, and addresses strategic issues concerning liquidity.

INTEREST RATE RISK

Interest Rate Risk is measured by the extent to which changes in market interest rates impact margins, net interest income and the economic

value of the Bank's equity. The Bank's asset and liability management process is utilised to manage interest rate risk through the structuring of on-balance sheet and off-balance sheet portfolios. Net interest income will be affected as a result of volatility in interest rates to the extent that the re-pricing structure of interest bearing assets differs from that of liabilities. The Bank's goal is to achieve stable earnings growth through active management of the assets and liabilities mix while selectively positioning itself to benefit from near-term changes in interest rate levels.

The Bank uses interest rate gap analysis to measure the interest rate sensitivity of its annual earnings due to re-pricing mismatches between rate sensitive assets, liabilities and derivatives positions. The interest rate sensitivity graph illustrates the Bank's re-pricing gap structure as at 31 December 2014. A negative gap denotes liability sensitivity and a positive gap denotes asset sensitivity. Note 32 to the Financial Statements gives details of the Bank's exposure to interest rate risk.

Modified Duration analysis is used to measure the interest rate sensitivity of the fixed income portfolio. Modified Duration gives the percentage change in value of the portfolio following a 1% change in yield. Modified Duration of the Bank's fixed income portfolio was 2.35 per cent on 31 December 2014. This implies that a 1% parallel upward shift in the yield curve could result in a drop in the value of the portfolio by BD 10.76 Million. Interest rate swaps and forward rate agreements are used to manage the interest rate risk. The Treasurer is primarily responsible for managing interest rate risk. Reports on overall positions and risks are submitted to senior management for review and positions are adjusted if deemed necessary. In addition, ALCO regularly reviews the interest rate sensitivity profile and its impact on earnings. Strategic decisions are made with the objective of producing a strong and stable interest income over time.

MARKET RISK

Market Risk is classified as the risk to the value of the trading portfolio arising from changes in interest rates, foreign exchange, commodity and equity prices. The Bank's trading activities are governed by conservative policies, stringent adherence to controls and limits, strict segregation of front and back office duties, regular reporting of positions, regular independent review of all controls and limits and rigorous testing of pricing, trading and risk management systems. The limits are set annually and regularly reviewed. Quality and rating are the main criteria in selecting a trading asset.

The Bank uses the Standardised Method to calculate Capital Charge for Market Risk, the capital that is required to be held on account of the various risk factors affecting the trading book and currency positions. Capital requirement on account of interest rate risk, foreign exchange risk, equity risk, commodity risk and options risk are calculated separately and then summed up to arrive at the total market risk

capital requirement of the Bank. The following table shows the capital charges as at 31 December 2014:

Particulars (BD'000)	Capital Charge
Interest Rate Risk	380.79
Equities Risk	89.98
Foreign Exchange Risk	30.74
Commodities Risk	-
Options Risk	-
Total minimum capital required for market risk	501.51
Multiplier	12.5
Market Risk weighted exposure under the Standardized Method	6,268.89

During the period January to December 2014, the maximum capital requirement as per Standardized Method was BD 1.46 Million on 17/09/2014 while the minimum capital requirement was BD 0.26 Million on 25/10/2014.

OPERATIONAL RISK

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Bank has well laid out procedures and systems that set out the methodologies for carrying out specific tasks. These systems and procedures are constantly reviewed and revised to address potential risks.

The Operational Risk management department within the Risk Group independently monitors and manages all aspects of operational risk on a bank wide basis. The Bank has established an Operational Risk Management Committee (ORMC) to supervise, monitor and review operational risk issues and ensure that adequate mitigants are developed and implemented for all operational risk issues. The Risk and Control Self Assessment (RCSA) programme provides the ORMC with a compact, comparative view of operational risks, along with their measure in terms of likelihood of occurrence and probable impact across various units of the Bank, and also provides a basis to evaluate and prioritise the requirement of control enhancements and new mitigation approaches in a structured manner.

In addition to the RCSA programme, the Bank also uses Key Risk Indicators (KRIs) as a tool to monitor operational risk. KRIs are statistics and/or metrics which provide insight into the Bank's operational risk position. KRIs have been designed with thresholds that indicate increasing level of risk, thereby providing an indication of severity

and the requirement to take corrective action. KRI results are tracked regularly by the Operational Risk management department and reviewed by the ORMC. Further, Operational Risk Department assess risks in all new products, services, products processes and agreement before the same are implemented.

The scope of the Bank's internal audit department encompasses audits and reviews of all business units, support services and branches. The internal audit process focuses primarily on assessing risks and controls and ensuring compliance with established policies, procedures and delegated authorities. New products and services are also reviewed by the internal audit department and assessed for operational risk prior to their implementation. The internal audit department is operationally independent and reports significant internal control deficiencies to the Audit Committee.

The Bank has a well-established Business Continuity Plan as well as an off-site computer back-up centre that provides full system support to the Bank's operations in case of an emergency in the information technology systems. The Business Continuity Plan and the computer back-up centre are regularly tested to ensure readiness for seamless switchover in case of any emergency.

Necessary procedures and systems have been put in place to protect the Bank from money laundering activities.

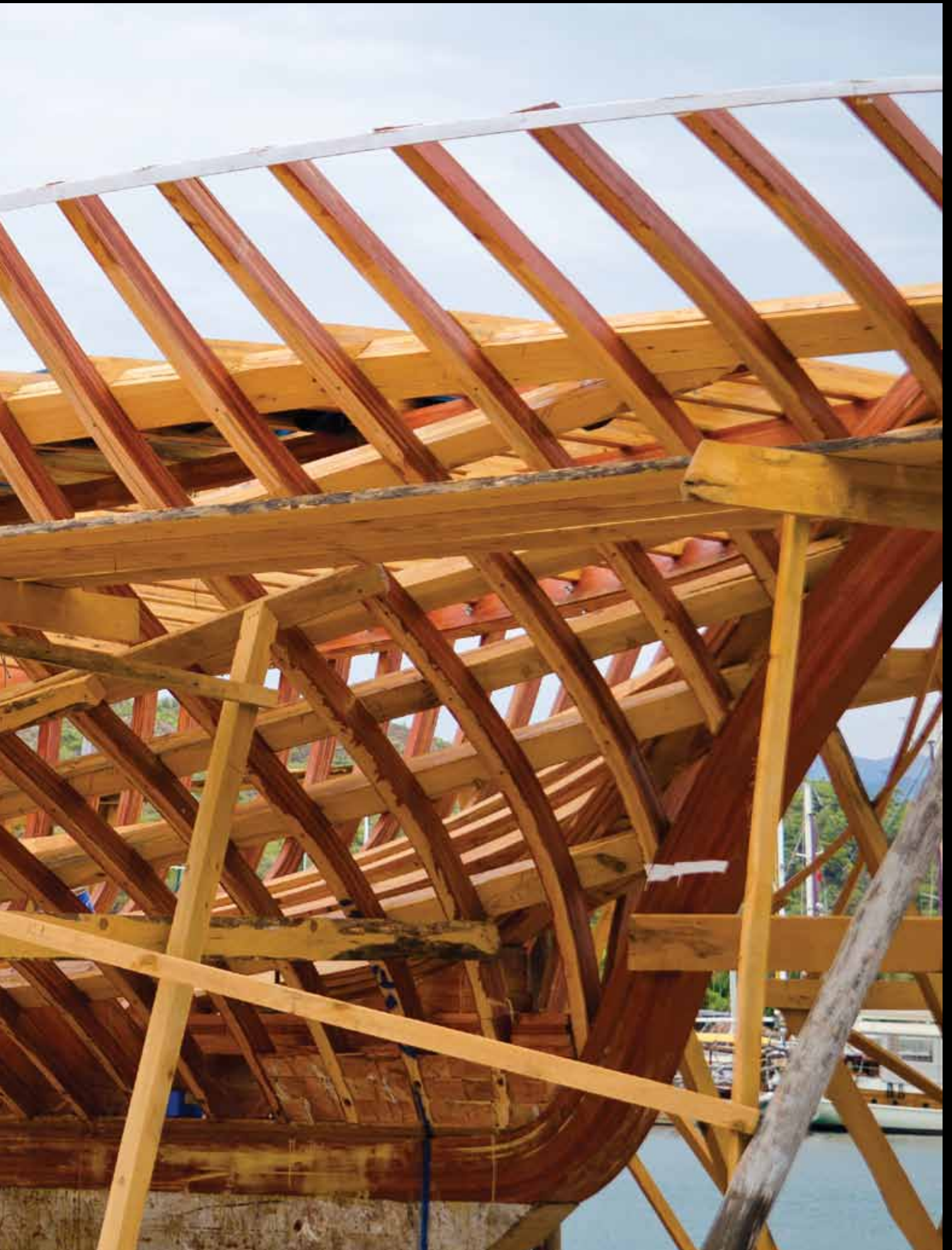
REPUTATION AND FIDUCIARY RISK

Reputation risk is defined as the current and prospective impact on earnings and capital arising from negative public opinion that would impact the ability to establish new relationships or services or to continue servicing existing relationships. Management of reputation risk is an inherent feature of the Bank's corporate culture which is embedded as an integral part of the internal control systems. Besides identification and management of risks, the internal control system also incorporates as an ethos the maintenance of business practices of the highest quality towards its customers, shareholders, regulators and general public and fiduciary and non-fiduciary clients. Through its policies and practices, NBB ensures that proper screening of clients' risk profiles and performance expectations are conducted prior to making investment products or services available to them. Furthermore, once a product or service is sold, appropriate risk and performance projections are clearly communicated and funds placed under management are treated with due care and professionalism.

All the aspects of risk mentioned above are reviewed regularly at each meeting of the Board of Directors and the Executive Committee based on a comprehensive risk report. This integrated approach to risk management also serves the Bank in achieving its objective of protecting the interests of shareholders and customers.

leveraging our solid
business structure to
confidently expand
into new territories





REMUNERATION REPORT

REMUNERATION REPORT

The Bank's total compensation policy, which includes Variable Remuneration, sets out the Bank's policy on remuneration for directors and senior management and the key factors that were taken into account in setting the policy.

During the year, the Bank has adopted the 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 would be fully implemented for future periods.

The key features of the proposed remuneration framework have been summarized 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 objectives through balancing reward for both short-term results and long-term sustainable performance. The policy is designed to share success, and to align employees' incentives with risk framework and risk outcomes.

The quality and long-term commitment of all employees is fundamental to the Bank's success. The Bank therefore aims 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 shareholders. The Bank's reward package consists of the following key elements:

1. Fixed pay
2. Benefits
3. Annual performance bonus

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 Nomination and Remuneration Committee of the Board (NRC).

The Bank's remuneration policy in particular, considers the role of each employee and has set guidance depending on whether an employee is a Material Risk Taker and/or an Approved Person in business line, control or support functions. 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 head significant business line or any individuals within their control have a material impact on the Bank's risk profile.

In order to ensure alignment between what we pay the employees and the Bank's business strategy, we assess employees' performance against annual and long-term financial and non-financial objectives summarized in line with our performance management system. This assessment also takes into account adherence to the Bank's values, risk, compliance measures and above all acting with 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 Bank believes the latter contributes to the long-term sustainability of the business.

NRC ROLE AND FOCUS

The NRC has oversight of all compensation 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 and the business plan and risk profile of the Bank.

The responsibilities of the NRC as regards the variable remuneration policy of the Bank, 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 are treated differently.
- 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 controls 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 Board of Directors has established the Nomination & Remuneration Committee in order to address the above mentioned objectives. Details of the committee, including the meeting dates, are included under the Corporate Governance Report. The aggregate remuneration paid to the NRC members during the year in the form of sitting fees amounted to BHD 6,500/-.

EXTERNAL CONSULTANTS

Consultants were appointed during the year to advise the Bank on amendments to its 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-Incentive Scheme for the Bank.

SCOPE OF APPLICATION OF THE REMUNERATION POLICY

The remuneration policy has been adopted on a Bank-wide basis and shall apply to its overseas branches and subsidiaries.

BOARD REMUNERATION

The Bank's Board's 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 the total remuneration (excluding sitting fees) does not exceed 5% of the Bank's net profit, after all the required deductions outlined in Article 188 of the Companies law, in any financial year. The 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.

REMUNERATION REPORT

VARIABLE REMUNERATION FOR STAFF

The variable remuneration is performance related and consists primarily of the annual performance bonus award. The variable remuneration reward is linked to achieving the financial and operational targets set each year, the individual performance of the employees in achieving those targets, and their contribution to the Bank's strategic objectives.

The Bank has a Board approved framework to develop a transparent link between performance and variable remuneration. The framework is designed on the basis that the combination of financial performance and achievement of other non-financial factors, would, all other things being equal, deliver a target bonus pool for the employees. The bonus pool is then adjusted to take account of risk via the use of risk-adjusted measures (including forward-looking considerations). In the framework adopted in determining the variable remuneration pool, the NRC aims to balance the distribution of the Bank's profits between shareholders and employees.

The 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 NRC carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. NRC demonstrates that its decisions are consistent with the 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 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 bonus pool; thresholds of financial targets have to be achieved. The performance measures ensure that the total variable remuneration is generally considerably reduced 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 adjustment and linkage framework. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

The total variable remuneration paid to all employees including the Share Incentive Scheme is within the range of 10% to 10.5% of the net profit before bonus.

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 is weighted in favor of fixed remuneration. The variable remuneration of control functions is based on function-specific objectives and is not determined by the individual financial performance of the business area 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 compensation for the business units is primarily decided by the 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 environment. The consideration of risk assessment in the performance evaluation of individuals ensures that any two employees who generate the same short-run profit but take different amounts of risk on behalf of the bank are treated differently by the remuneration system.

RISK ASSESSMENT FRAMEWORK

The purpose of the 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 judgement play a role in determining risk adjustments. The risk assessment process encompasses the need to ensure that the remuneration policy is designed to reduce employees' incentives to take excessive and undue risk, is symmetrical with risk outcomes and has an appropriate mix of remuneration that is consistent with risk alignment.

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 all types of risks, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Bank undertakes risk assessment to review financial and operational performance against the 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 NRC keeps itself abreast with the Bank's performance against the risk management framework. The NRC will use this information when considering remuneration to ensure the return, risk and remuneration are aligned.

In years where the Bank suffers material losses in the financial performance, the risk adjustment framework includes several adjustments, viz., reduction of Bonus pool, possible changes to vesting period, additional deferrals and malus or clawback provisions.

The NRC, with 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 share awards
- Recovery through malus and clawback arrangements

MALUS AND CLAWBACK FRAMEWORK

The Bank's malus and clawback provisions allows 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 compensation could be 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 taken by the Bank's Board of Directors.

The Bank's malus and clawback provisions allows 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.

REMUNERATION REPORT

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

Employees in the grade of Senior Manager and above shall be subject to deferral of variable remuneration as follows:

Element of variable remuneration	GMs and above	5 highest paid business emp.	SMs, AGMs and EAGMs	Deferral period	Retention	Malus	Clawback
Upfront cash	40%	40%	50%	immediate	-	-	Yes
Upfront shares	-	-	10%	immediate	6 months	Yes	Yes
Deferred cash	10%	10%	-	3 years*	-	Yes	Yes
Deferred share awards	50%	50%	40%	3 years*	6 months	Yes	Yes

* the deferral vests on a pro-rata basis over a 3 year period

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

DETAILS OF REMUNERATION PAID

(a) Board of Directors:

(BD '000)	2014
• Sitting Fees	27
• Remuneration	440
• Others	-

(b) Employee remuneration

2014

(BD '000)	Number of Staff	Fixed Remuneration		Sign on Bonuses	Guaranteed Bonuses	Variable Remuneration					Total	
		Cash	Others	(Cash / Shares)	(Cash / Shares)	Upfront		Deferred				
						Cash	Shares	Cash	Shares	Others		
Approved Persons												
- Business Lines	7	1,463	307	0	0	636	3	155	787	0	3,351	
- Control & Support	12	1,181	270	0	0	375	61	18	332	0	2,237	
Other Material Risk Takers	5	266	78	0	0	121	24	0	97	0	586	
Other Staff	503	6,655	2,877	0	0	2,931	19	0	76	0	12,558	
Overseas Staff	30	588	246	0	0	30	0	0	0	0	864	
TOTAL	557	10,153	3,778	0	0	4,093	107	173	1,292	0	19,596	

FINANCIAL STATEMENTS

Report of the Auditors to the Shareholders	55
Statement of Financial Position	56
Statement of Profit or Loss	57
Statement of Comprehensive Income	58
Statement of Changes in Equity	59
Statement of Cash Flows	60
Notes to Financial Statements	61