

KHALEEJI COMMERCIAL BANK BSC

RISK MANAGEMENT DISCLOSURES *(Based on Basel 2 and IFSB guidelines)*

31 DECEMBER 2013

These disclosures have been prepared in accordance with the Public Disclosure Module ("PD"), Section PD-1.3: Disclosures in Annual Reports, CBB Rule Book, and Volume II for Islamic Banks. To avoid any duplication, information required under PD module but already disclosed in other sections of annual report has not been reproduced. These disclosures are part of the annual report for the year ended 31 December 2013 and should be read in conjunction with the consolidated financial statements for the year ended 31 December 2013 and other sections of the annual report.

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Khaleeji Commercial Bank BSC Risk Management Disclosures

EXECUTIVE SUMMARY

The Central Bank of Bahrain's ("CBB") Basel II guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1 January 2008. These disclosures have been prepared in accordance with the CBB requirements outlined in the Public Disclosure Module ("PD"), Section PD-1.3: Disclosures in Annual Reports, of the CBB Rule Book, Volume II for Islamic Banks. Section PD-1.3 reflects the requirements of Basel II - Pillar III and the Islamic Financial Services Board's ("IFSB") recommended disclosures for Islamic banks.

The disclosures in this report are in addition to or in some cases, serve to clarify the disclosures set out in the consolidated financial statements for the year ended 31 December 2013, presented in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"). To avoid any duplication, information required under PD module but already disclosed in other sections of the annual report has not been reproduced in these disclosures.

All figures presented in this section are reported in Bahraini Dinars (in thousands) and are as of 31 December 2013 unless otherwise stated.

Khaleeji Commercial Bank BSC ("the Bank" or "KHCB") has adopted the Standardised Approach for Credit Risk and Market Risk and the Basic Indicator Approach for Operational Risk to determine its capital requirements, details of which are given in section 2. This section contains a description of the Bank's risk management and capital adequacy policies and practices including detailed quantitative information on risk components and capital adequacy.

The Bank's Tier I and total capital adequacy ratios comply with the minimum capital requirements under the CBB's Basel II framework.

The Bank's total risk weighted assets as at 31 December 2013 amounted to BD 439,220 thousand. Credit risk accounted for 89.9%, market risk 3.7%, and operational risk 6.4% of the total risk weighted assets. Tier I and total regulatory capital were BD 98,331 thousand and BD 100,807 thousand respectively as at 31 December 2013.

At 31 December 2013, Bank's Tier I and total adequacy ratios were 22.39% and 22.95% respectively.

1 GROUP STRUCTURE

The Bank operates under a retail banking license granted by the CBB on 20 October 2003. The Bank does not have significant operating subsidiaries. The subsidiaries set-up is primarily special purpose entities with nominal capital to execute specific investment transactions. The subsidiaries qualify as commercial entities as per the CBB guidelines and are risk weighted as investments for capital adequacy computation purposes.

2 INTRODUCTION TO BASEL II & RISK MANAGEMENT

The CBB has mandated that the Basel Committee on Banking Supervision's ("Basel Committee"). Basel II capital adequacy framework is applicable to all banks incorporated in the Kingdom of Bahrain from 1 January 2008. The Bank has accordingly taken steps to comply with these requirements. The Basel II framework is intended to strengthen risk management practices and processes within the financial institutions.

CBB's capital adequacy framework is based on three pillars, consistent with the Basel II framework adopted by the Basel Committee, as follows:

- Pillar I: calculation of the risk weighted assets ("RWA" or "RWA's") and capital requirement.
- Pillar II: the supervisory review process, including the Internal Capital Adequacy Assessment Process ("ICAAP").
- Pillar III: rules for disclosure of risk management and capital adequacy information.

Pillar I

Pillar I defines the regulatory minimum capital requirements for each bank to cover the credit risk, market risk and operational risk inherent in its business model. It also defines the methodology for measurement of these risks and the various elements of qualifying capital. The capital adequacy ratio is calculated by dividing the regulatory capital base by total RWA's. CBB has mandated that the ratio be maintained at a minimum of 12% and has set a trigger ratio of 12.5%. If the capital adequacy ratio falls below 12.5%, additional prudential reporting requirements apply, and a formal action plan to restore the ratio above the trigger level is to be formulated and submitted to the CBB.

The table below summarizes the Pillar I risks and the approach used by the Bank to calculate the RWA's in each case in accordance with the CBB's Basel II capital adequacy framework:

Risk Type	Approach used by the Bank
Credit Risk	Standardised Approach
Market Risk	Standardised Approach
Operational Risk	Basic Indicator Approach

Pillar II

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

Pillar II comprises two processes:

- An Internal Capital Adequacy Assessment Process ("ICAAP"), and
- A supervisory review and evaluation process.

The Bank has in place ICAAP procedures for computation of economic capital for all risks including those not covered under Pillar I. The Bank regularly monitors its internal capital adequacy ratio to ensure that there is adequate cover for all risks faced by the Bank.

Under the supervisory review and evaluation process, each bank is individually assessed by the CBB and an individual minimum capital adequacy ratio is to be determined for each bank, depending on their overall risk profile. For this purpose, the Bank had (at the instance of CBB) appointed an external consultant to carry out a gap analysis of compliance with Basel II requirements and report to CBB. The Bank has addressed all the gaps identified in this report. In the meanwhile, Banks in Bahrain are required to maintain minimum regulatory capital adequacy ratio of 12%.

2 INTRODUCTION TO BASEL II & RISK MANAGEMENT (continued)

Pillar III

Pillar III complements the other two pillars and focuses on enhanced transparency in disclosure of information by the Banks to promote better market discipline. The information to be disclosed covers all areas including business performance, capital adequacy, risk management, etc. The disclosures are designed to enable stakeholders and market participants to assess an institution's risk appetite and risk exposures and to encourage all banks, via market pressures, to move towards more advanced forms of risk management.

In April 2008, CBB published a paper covering the detailed disclosure requirements to be followed by licensed banks in Bahrain to be in compliance with Pillar III under the Basel II framework. This document is prepared in accordance with these directives.

2.1 The risk management function

The Board of Directors has overall responsibility for risk management in the Bank. The Board lays down the risk management policies of the Bank and quantifies its risk appetite through appropriate definitions of various risk limits and tolerances. The Board discharges its risk management responsibilities through the Board Risk Management Committee ("BRMC").

The Board has established an Executive Risk Management Committee ("ERMC"), which is responsible for developing and monitoring Bank risk management policies in the specified areas. The committee consists of heads of business and other functional units in the Bank and reports regularly to the BRMC.

The day to day risk management functions are performed by the Risk Management Department ("RMD") of the Bank. RMD is responsible to ensure that the policies laid down by the Board are consistently implemented across the Bank and to review the adequacy of these policies periodically. It monitors all risk taking activities and ensures that the risk limits defined by the Board are complied with. The department has specialized personnel dealing with Credit, Market, and Operational Risks. It is independent of all risk taking functions in the Bank and reports to the BRMC through the ERMC chaired by the CEO.

The Asset Liability Management Committee ("ALCO") of the Bank acting through the Treasury Department monitors the Bank's liquidity position and recommends appropriate action to the Board where necessary. There is a high level of coordination between the RMD, ERMC and ALCO.

The RMD prepares a risk overview report which covers in detail the various risks faced by the Bank and the same is discussed at the ERMC, BRMC and the Board on a quarterly basis.

The Bank considers that its overall risk management strategies have been effective throughout the reporting period.

The RMD, together with the Internal Audit and Compliance Departments, provides independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board of Directors.

3 CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO

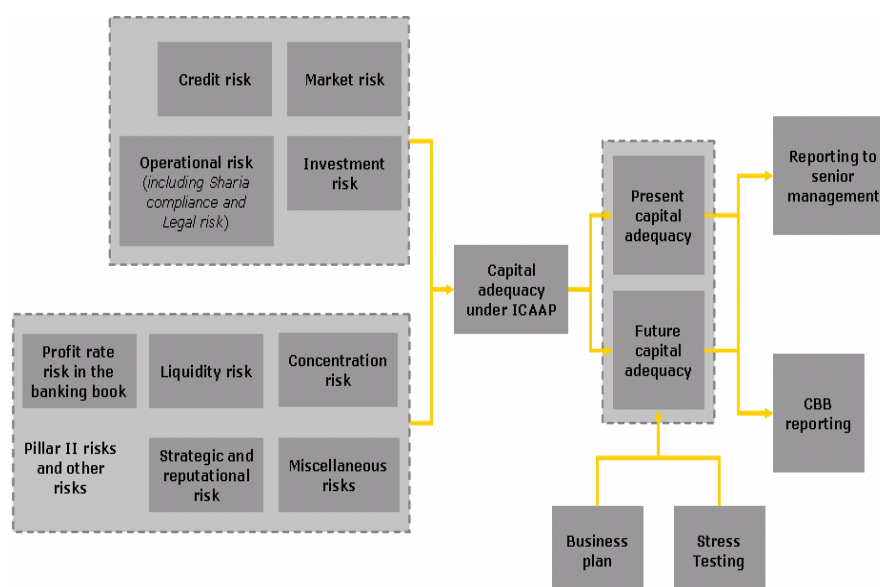
3.1 Capital management

The Bank's policy is to maintain a strong capital base to develop and retain investor, creditor and market confidence and to sustain business growth. The Bank recognises the impact of a high level of capital on shareholders' returns, while not losing sight of the security and market confidence afforded by a sound capital base. The Bank aims to maintain a minimum total capital adequacy ratio significantly in excess of that mandated by the CBB.

3.2 Internal Capital Adequacy Assessment Process ("ICAAP")

The Bank has an established ICAAP as per the requirements under Pillar II of Basel II. ICAAP prescribes procedures and measures designed to ensure appropriate identification, measurement, aggregation and monitoring of the Bank's risks. It also defines an appropriate level of internal capital in relation to the Bank's overall risk profile and business plan.

ICAAP framework at the Bank



3.2.1 Risk addressed by the ICAAP

Risk Type	Metrics based on which internal capital is allocated
Credit risk Market risk Investment risk Operational risk	Regulatory capital adequacy guidelines to be used as proxy for internal capital for Pillar I risks
Liquidity risk	Maximum cumulative maturity gap, Liquidity ratio, Financing to deposit ratio
Profit rate risk (banking book)	Revaluation / sensitivity of the re-pricing gaps
Credit concentration risk	Thresholds for counterparty, country, sector exposures
Fiduciary Risk	Size of off balance sheet vehicles (RIA's) & Large Investment Products
Reputational risk	Credit quality, Operational risk, Reputation related loss
Other Risks (strategic, Shari'a/ regulatory compliance, business cycle)	Additional capital based on Pillar I risk weighted exposures

3 CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO (continued)

3.3 Capital structure, minimum capital requirements and capital adequacy

During the year, the paid up capital of the Bank has remained the same amounting to BD 115,416 thousand. Following is the break-up of capital structure as at 31 December 2013:

NET AVAILABLE CAPITAL	31 December 2013
Issued and fully paid ordinary shares	115,416
Less: Treasury shares	(6,351)
Statutory reserve	6,425
Share premium	1,535
Accumulated losses	(17,014)
50% of excess amount over maximum permitted large exposure limit	(1,680)
Tier I capital	98,331
Collective impairment loss provision	4,156
50% of excess amount over maximum permitted large exposure limit	(1,680)
Tier II capital	2,476
Net available capital	100,807
RISK WEIGHTED ASSETS	31 December 2013
Credit risk weight exposures	394,656
Market risk weight exposures	16,408
Operational risk weight exposures	28,156
Total risk weighted assets	439,220
Capital adequacy ratio (Tier I)	22.39%
Capital adequacy ratio (Total capital)	22.95%

The above capital adequacy ratios are calculated by dividing the respective regulatory capital base by the total RWA's.

Regulatory capital components

The above components of Tier I and Tier II capital are as per the relevant CBB guidelines. According to these, Tier II capital is restricted to 100% of Tier I capital after all deductions of investments pursuant to PCD module of CBB rule book. As at 31 December 2013, the Bank was required to make prudential deduction from its regulatory capital base of BD 3,360 thousands related to excess amount over maximum permitted large exposure limit.

Risk weighted assets

Credit risk

For regulatory reporting purposes, the Bank calculates the capital requirements for credit risk based on the standardised approach. Under this approach, the on and off-balance sheet credit exposures are assigned risk weights based on the type of counterparty, type of the exposure, and source of funding (equity of investment account holders ("IAH") or own funds). Further for capital adequacy computations, 100% of the RWA's is reckoned for self-financed assets while only 30% is considered for assets funded through equity of IAH. The risk weights for types of counterparties and exposures are prescribed by CBB.

3 CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO (continued)

3.3 Capital structure, minimum capital requirements and capital adequacy (continued)

Market risk

The Bank uses the standardised approach to measure market risk. Market risk at the Bank is primarily on account of the foreign exchange exposures that are considered as specific risks. As per the CBB guidelines, capital for foreign exchange risk is computed at 8% of overall net open foreign currency positions of the Bank and this is multiplied by 12.5 to derive the market RWA's.

The Bank has recently started trading in Sukuk on a very selective basis. The size of the portfolio is still very small and the market risk on this account negligible. The Bank is in the process of formulating the policy framework and monitoring mechanism for control of the trading risk and expects this to be completed by the first quarter of 2014.

Operational risk

The Bank adopts the Basic Indicator Approach to evaluate operational risk charge in accordance with the CBB Capital Adequacy Module for Islamic Banks. According to this approach, the Bank's average gross income for the past three financial years is multiplied by a fixed coefficient alpha of 15% set by the CBB to arrive at the capital required and a multiple of 12.5 is used to arrive at the RWA's that are subject to capital charge.

Break-up of capital requirement in accordance with the Capital Adequacy Module of the CBB for the year ended 31 December 2013 is as follows:

Exposure classification	Exposure			Risk Weighted Assets *			Capital requirement @ 12%		
	Self-financed	IAH	Total	Self-financed	IAH	Total	Self-financed	IAH	Total
Cash and collection items	2,963	-	2,963	-	-	-	-	-	-
Sovereigns	8,054	29,421	37,475	-	-	-	-	-	-
Banks	434	95,046	95,480	217	9,590	9,807	26	1,151	1,177
Corporates	85,266	152,026	237,292	85,266	45,607	130,873	10,232	5,473	15,705
Residential mortgage	30,828	-	30,828	23,121	-	23,121	2,775	-	2,775
Past due facilities	33,131	-	33,131	45,958	-	45,958	5,515	-	5,515
Investment in equities/sukuks	26,753	9,776	36,529	40,130	4,399	44,529	4,816	528	5,344
Holdings of real estate	72,797	-	72,797	138,415	-	138,415	16,609	-	16,609
Other assets	1,953	-	1,953	1,953	-	1,953	234	-	234
Credit Risk	262,179	286,269	548,448	335,060	59,596	394,656	40,207	7,152	47,359
Market Risk	14,075	5,780	19,855	14,075	2,333	16,408	1,689	280	1,969
Operational Risk	28,156	-	28,156	28,156	-	28,156	3,379	-	3,379
Total	304,410	292,049	596,459	377,291	61,929	439,220	45,275	7,432	52,707

* For capital adequacy computations, 100% of the RWA's is reckoned for self-financed assets while only 30% is considered for assets funded through equity of IAH.

4 CREDIT RISK

4.1 Credit risk management

Credit Risk is the risk that counterparty fails to meet its obligations in accordance with agreed terms and conditions. The major sources of credit risk in the Bank are under the following classes of assets:

- Placements with financial institutions,
- Financing assets,
- Assets acquired for leasing (including lease rentals receivable),
- Investments in Sukuk.

For the purpose of capital adequacy computation (as well as certain other tables below) the following have also been considered as a part of credit risk:

- Investments in quoted and unquoted equity,
- Investment in associates,
- Investment property,
- Other assets (including property and equipment).

The Bank has the necessary internal processes for assessing, monitoring and controlling credit risk both at the individual credit and portfolio levels. Credit limits are approved after a thorough assessment which takes into account the financial strength of the counterparty, the technical feasibility and economic viability of the business being financed, the adequacy and quality of the cash flow available for repayment, etc. in addition to availability of collateral security by way of physical assets or guarantees. The RMD reviews every credit proposal and incorporates its remarks on the proposal before the same is considered by the appropriate authority as per delegated approval levels granted by the Bank's Board of Directors.

At the portfolio level, the Board has established risk concentration limits for single counterparties and related counterparties forming a business group, geographical and economic sectors as well as exposures to counterparties related to the Bank and/or its major shareholders. The RMD regularly monitors compliance with these limits and deviations if any are reported regularly to the Senior Management, Risk Management Committees and the Board of Directors.

4.2 Levels of exposure

The year 2013 saw a modest growth in overall credit exposure levels. The table below shows gross credit exposure along with average credit exposure broken down under different exposure classes as at 31 December 2013:

Gross/ Average Credit Exposures	Average Exposure ¹	Gross Exposure		
		Self-financed	IAH	Total
Cash and bank balances ²	22,464	11,012	27,836	38,848
Placement with financial institutions	49,536	-	82,745	82,745
Financing assets	227,503	101,299	152,336	253,635
Investment securities – Equity securities	90,310	61,265	4,765	66,030
Investment securities – Sukuks	13,278	-	24,367	24,367
Assets acquired for leasing (including lease rentals receivable)	20,078	35,630	-	35,630
Investments in associates	3,139	2,681	-	2,681
Investment property	6,583	6,583	-	6,583
Other assets, including property and equipment	11,303	31,723	-	31,723
Total funded exposures	444,194	250,193	292,049	542,242
Guarantees	11,542	8,272	-	8,272
Undrawn financing facilities	13,394	35,897	-	35,897
Total unfunded exposures	30,591	44,169	-	44,169

¹ Represents quarterly average balances for the year ended 31 December 2013.

² Includes cash balance of BD 2,963 thousand.

4 CREDIT RISK (continued)

4.3 Concentration of credit risk

4.3.1 Geographic distribution

The geographical exposure profile as at 31 December 2013 was as follows:

31 December 2013	GCC Countries	Europe	USA	Asia	Australia	Total
Assets						
Cash and bank balances	32,532	485	5,796	35	-	38,848
Placement with financial institutions	76,473	3,771	-	2,501	-	82,745
Financing assets	242,145	11,490	-	-	-	253,635
Investment securities	64,030	-	-	22,226	4,141	90,397
Assets acquired for leasing (including lease rentals receivable)	35,630	-	-	-	-	35,630
Investment in associates	2,681	-	-	-	-	2,681
Investment property	6,583	-	-	-	-	6,583
Other assets	21,937	908	-	454	43	23,342
Property and equipment	8,381	-	-	-	-	8,381
Total funded exposures	492,893	16,654	5,796	22,715	4,184	542,242
Guarantees	8,272	-	-	-	-	8,272
Undrawn financing facilities	35,445	452	-	-	-	35,897
Total unfunded exposures	43,717	452	-	-	-	44,169

4.3.2 Industry/ sector-wise distribution

The Board of Directors has stipulated maximum exposures to various industry sectors. The industry/ sector wise exposure as at 31 December 2013 was as follows:

31 December 2013	Banks and financial institutions	Real estate	Others	Total
Assets				
Cash and bank balances	38,848	-	-	38,848
Placements with financial institutions	82,745	-	-	82,745
Financing assets *	38,680	59,551	155,404	253,635
Investment securities	26,601	35,954	27,842	90,397
Assets acquired for leasing (including lease rentals receivable)	1,060	33,549	1,021	35,630
Investment in associates	-	2,681	-	2,681
Investment property	-	6,583	-	6,583
Other assets	434	20,973	1,935	23,342
Property and equipment	-	7,179	1,202	8,381
Total funded exposure	188,368	166,470	187,405	542,242
Guarantees	-	778	7,494	8,272
Undrawn financing facilities	-	1,242	34,655	35,897
Total unfunded exposures	-	2,020	42,149	44,169

* Financing asset exposures have been classified based on the purpose of financing.

4 CREDIT RISK (continued)

4.3 Concentration of credit risk (continued)

4.3.3 Transactions with related counterparties

Related counterparties are those entities which are related to the Bank through significant shareholding, control, or both. Wherever the Bank has entered into business transactions with such counterparties, such transactions have been done at an arm's length basis and on commercial terms that bring no disadvantage to the Bank. For the purpose of identification of related counterparties, the Bank strictly follows the guidelines issued by CBB for the purpose. Detailed break up is presented in note 23 of the consolidated financial statements for the year ended 31 December 2013.

4.3.4 Exposures in excess of 15% of capital base

Single exposures in excess of 15% of the Bank's capital base on individual counterparties require prior approval of the CBB except where exempted under Para. CM 4.5 of the rule book. As at 31 December 2013, the Bank had two large exposures that have communicated to CBB.

4.3.5 Exposures in highly leveraged counterparties

The Bank has no exposure to highly leverage and other high risk counterparties as per definition provided in the CBB rule book PD 1.3.24.

4.3.6 Residual contractual maturity of the credit portfolio and investment in sukuks

The Bank's policy allows exposures up to a maximum period of 7 years for corporate customers and 25 years for retail customers with any exceptions to be approved by the Board of directors. The Bank constantly monitors the residual maturity profile of its assets to ensure that any mismatch with the maturity of its liabilities is kept within acceptable limits. The contractual residual maturity profile by type of financing contract of the Bank's credit portfolio and investment in sukuks is given in the table below:

Maturity Scale	< 1 M	1 - 3 M	3 - 6 M	6M - 1Y	1 - 3Y	3 - 5Y	5 - 10Y	10 - 20Y	Over 20Y	Total
Credit portfolio:										
Murabaha	6,145	23,558	12,477	5,200	56,783	43,014	22,885	-	-	170,062
Musharaka	5,980	-	-	1,237	27,095	20,233	512	-	-	55,057
Wakala	4,280	6,452	1,051	-	6,314	1,859	-	-	-	19,956
Istisna	-	-	-	-	670	-	-	-	-	670
Ijarah	-	-	-	22	3,571	1,306	5,643	10,456	2,975	23,973
Total	16,405	30,010	13,528	6,459	93,763	67,082	29,040	10,456	2,975	269,718
Investment in Sukuk – banking book	-	2,574	-	905	-	3,732	283	-	-	7,494
Grand Total	16,405	32,584	13,528	7,364	93,763	70,814	29,323	10,456	2,975	277,212

The Board approved internal cap for real estate exposure has been 40% of total assets. During the first quarter, the concentration risk to real estate has gone up to 42% from 40% (which was approved by the Board), due to reduction in balance sheet size. The position has moved to 41% in the second quarter and less than 40% thereafter.

4 CREDIT RISK (continued)

4.4 Equity risk in banking book

The Bank has certain equity investments classified in the banking book and are subject to credit risk weighting under the capital adequacy framework. For regulatory capital computation purposes, the Bank's equity investments in the banking book include quoted/unquoted equity investments, and investments in associates being non-financial entities.

Please refer to notes 2 and 21 of the consolidated financial statements for policies covering the accounting of equity holdings, including the accounting policies and valuation methodologies used, key assumptions and practices affecting valuation.

The RMD works alongside the Investment Department at all stages of the deal cycle, from pre-investment due diligence to exit, and provides an independent review of every transaction. An impairment assessment of investments takes place every quarter with inputs from the Investment department and RMD. Quarterly updates of investments are reviewed by the Board of Directors and are submitted to the CBB.

The Bank's equity investments are predominantly in its own products, which includes private equity and infrastructure development projects. The intent of such investments is a later stage exit along with the investors, by means of strategic sell outs at the project level or through initial public offerings. The Bank also has a strategic investment portfolio which is aligned with the long term investment objectives of the Bank.

Information on equity investments

Privately held

Realised loss during the year

61,265
(1,165)

The following are the categories under which equity investments are included in the capital adequacy computations as per the requirements of the CBB rules:

Equity investments in banking book	Gross exposure		Risk weighted exposure		Capital charge (@12%)	
	Self-financed	IAH	Self-financed	IAH	Self-financed	IAH
Unquoted equity investment	26,753	-	40,130	-	4,816	-
Real estate investment	34,512	-	69,024	-	8,283	-
Total	61,265	-	109,154	-	13,099	-

4.5 Risk grading of exposures

The Bank has an internal risk grading system for credit exposures based on a 10 point scale in which grades 8 through 10 are non-performing with grades 9 and 10 classified as impaired exposures. Each counterparty credit exposure is assigned a risk grade based on several quantitative and qualitative factors, including financial strength, past record and availability of collateral security. The grading is done at the time of assuming an exposure and on each renewal of the same. The grading sheets are prepared by the Business Department and reviewed by the RMD. Grades are continuously monitored by the Bank's Credit Administration Unit within RMD and exposures are downgraded as and when the quality of the exposure is found to have deteriorated, based on clear criteria laid out in the Bank's credit policy. Movement of grades for credit exposures is reported quarterly to the Board.

4 CREDIT RISK (continued)

4.5 Risk grading of exposures (continued)

For exposures or potential exposures on banks and financial institutions, the Bank has established internal ratings with a six point scale from A to F, in descending order of creditworthiness. These ratings are derived on the basis of the external credit ratings provided by Moody's, Standard & Poor (S&P), Capital Intelligence (CI) & Fitch. When the ratings of S&P and/or Moody's are available, those ratings will be used. In case of differences in ratings from these agencies, the more conservative rating is used for classification. The ratings of these agencies have been mapped to internal categories as follows:

External rating agencies	Internal Rating					
	A	B	C	D	E	F
S & P	>= AA-	>=A-	>=BBB-	>=B-	Below B-	Unrated
Moody's	>=aa3	>=A3	>=Baa3	>=B3	C & D	
CI	>= AA-	>=A-	>=BBB-	>=B-	C & D	
Fitch	>= AA-	>=A-	>=BBB-	>=B-	Below B-	

Please refer to note 31 of the consolidated financial statements for the year ended 31 December 2013, for details of the rating profile of exposures of the Bank.

4.6 Past dues, impaired accounts, provisions

Customers may occasionally fail to meet their obligations to the Bank on due dates. Any amount not paid when due is classified as past due and the Bank initiates focused recovery efforts on such accounts. Any account which is past due for 30 days or more is classified as "Watch List"/ Grade 7 and clearly defined procedures are in place for follow-up and monitoring of such accounts.

However, if the account remains past due for a continuous period of 90 days it is considered as non-performing and classified as Grade 8. The Bank conducts a comprehensive review of all such accounts on a quarterly basis and where provisions are necessary; those exposures are classified as impaired (Grade 9/10). Provisions are created through income statement where necessary. Such provisions are made on the basis of expected shortfall in present value of projected future cash flows from the assets / securities and the estimates of such cash flows are done on a conservative basis.

On each year-end, the Bank reviews all financial assets classified at fair value through equity for any objective evidence that the financial assets are impaired. In case of any such evidence, the asset is revalued at lower of cost of acquisition and its estimated recoverable amount and a provision is created for the difference amount through the income statement.

For a detailed policy on impairment of financial assets, please refer to note 2 (l) of the consolidated financial statements for the year ended 31 December 2013.

For the quantitative disclosures relating to exposures which were past due or impaired as of 31 December 2013, please refer to note 31 of the consolidated financial statement for the year ended 31 December 2013.

During the year 2013, the Bank has undertaken a detailed assessment of its credit portfolio and has considered specific impairment allowances where necessary. In addition, the Bank has maintained a collective provision at a certain percentage of unimpaired assets based on the internal risk grades assigned to counterparties. The total provision thus maintained works out to approximately 1.1% of its financing assets, assets acquired for leasing, lease rentals receivable and Sukuk portfolios. This practice is in line with the CBB requirements and the industry best practice in Bahrain.

For movement in provisions on financing assets and investment securities, please refer to notes 5 and 6, respectively, of the consolidated financial statement for the year ended 31 December 2013.

4 CREDIT RISK (continued)

4.6 Past dues, impaired accounts, provisions (continued)

4.6.1 Geographical and sector-wise break-up of impairment allowances and impaired/ past due accounts

	GCC Countries	Europe	USA	Total
Impaired:				
90 – 365 days	9,771	-	-	9,771
365 – 1,095 days	12,294	-	-	12,294
Over 1,095 days	-	-	6,518	6,518
	22,065	-	6,518	28,583
Specific impairment allowance	7,127	-	6,518	13,645
Carrying amount	14,938	-	-	14,938
Past due but not impaired:				
0 – 90 days	24,536	-	-	24,536
90 – 365 days	14,962	-	-	14,962
365 – 1,095 days	9,451	-	-	9,451
	48,949	-	-	48,949
Collective impairment allowance *	2,862	120	-	2,982

	Banks and financial institutions	Real estate	Others	Total
Impaired:				
90 – 365 days	3,543	5,981	247	9,771
365 – 1,095 days	1,722	6,379	4,193	12,294
Over 1,095 days	-	6,518	-	6,518
	5,265	18,878	4,440	28,583
Specific impairment allowance	650	10,617	2,378	13,645
Carrying amount	4,615	8,261	2,062	14,938
Past due but not impaired:				
0 – 90 days	-	14,061	10,475	24,536
90 – 365 days	-	4,875	10,087	14,962
365 – 1,095 days	1,747	7,704	-	9,451
	1,747	26,640	20,562	48,949
Collective impairment allowance *	510	1,090	1,382	2,982

* Collective impairment allowance is allocated based on gross exposure excluding impaired exposures on which specific provision is maintained.

4.7 Renegotiated facilities

For disclosure of renegotiated loans, please refer to note 31 of the consolidated financial statements for the year ended 31 December 2013.

4.8 Legal action and write-off of exposures

The Bank has policies for initiation and prosecution of legal action when all amicable avenues for settlement of dues from a customer have been exhausted. The Bank as of 31 December 2013 was involved in six litigations for recovery of dues from clients amounting to BD 2.95 million. In addition, there were claims by two of the clients against the Bank amounting to BD 37 thousands in relation to investment products.

4 CREDIT RISK (continued)

4.8 Legal action and write-off of exposures (continued)

In addition, there is one case where SPV of the Bank is involved. This is not expected to bring any liabilities to the Bank.

The Bank has a policy that permits write-off of exposures when there is no possibility of recovery of the dues through legal and other means. During the year, the bank wrote-off an amount of BD 1.6 million against provisions, as part of an out of court settlement with a client against whom litigation was going on for over two years.

4.9 Penalties for delayed payments

In cases where customers delay the payment of dues to the Bank, the Bank has the right to collect penalties, subject to the provisions of the agreement between the customer and the Bank. The Bank recovers such penalties from customers when the amounts are significant. As per policy, such penalties are maintained in a separate account and used for charity purposes approved by the Bank's Shari'a Board.

The Bank has a policy of creating a contribution for Charity and Zakah fund for any non-Islamic income earned. During the year ended 31 December 2013, an amount of BD 52 thousands was thus transferred to Charity and Zakah fund.

For quantitative disclosures, please refer to consolidated statement of sources and uses of charity and Zakah fund in the consolidated financial statements for the year ended 31 December 2013.

4.10 Credit risk mitigation

The Bank uses a variety of tools to mitigate its credit risk, the primary one being that of securing the exposure by suitable collateral security. While existence of collateral security is not a policy precondition for financing, in practice a large part of existing exposures are at least partially supported by collateralised security. The Bank has clear policies on the type of assets that can be accepted as collateral security and the mode of valuation of these assets. In general, all assets accepted as collateral are valued at least once in a year. The legal validity and enforceability of the documents used for creating these collaterals have been established by external legal experts.

The position of collateral cover for all credit exposures categorised on the basis of the type of security as on 31 December 2013 is given in the table below:

Collateral Type	Murabaha	Musharaka	Wakala	Istisna	Ijara	Value of collateral ¹	Gross Exposure ²	% of cover	% of Total
Real estate	149,697	84,946	7,882	2,612	40,645	285,782	154,419	185%	77%
Listed securities	542	3,638	-	-	-	4,180	2,024	207%	1%
Unlisted securities	7,988	-	-	-	-	7,988	5,808	138%	2%
Bank guarantee	36,527	-	-	-	-	36,527	32,334	113%	10%
Cash collateral	24,705	-	346	-	-	25,051	35,902	70%	7%
Others	8,454	1,716	-	-	-	10,170	7,922	128%	3%
Unsecured	-	-	-	-	-	-	47,936	0%	0%
Total	227,913	90,300	8,228	2,612	40,645	369,698	286,345	129%	100%

¹ Represents collateral values based on the last valuation carried out based on the Bank's valuation policy including collaterals which exceed the book value of facility.

² The amounts are gross of collective impairment allowance of BD 4,156 thousand and specific impairment allowance of BD 12,529 thousand.

4 CREDIT RISK (continued)

4.10 Credit risk mitigation (continued)

Real estate properties are reckoned at values certified by qualified valuers. Other physical assets like machinery are valued at book value, invoice value or as certified by an outside expert. Listed securities are valued at market price while un-listed ones are carried at cost less impairment. The Bank has an approved panel of valuers for real estate property. Valuation exercise is supervised by RMD, independent of the business units.

Facilities are also often secured by personal/ corporate guarantees, assignment of contract proceeds, assignment of insurance policies, etc. However under the Bank's credit policy these are not treated as tangible securities and the value of such guarantees/ assignments, though significant in many cases, are taken as nil for the purpose of the above analysis.

Assets financed under Ijara Muntahia Bittamleek are considered at par with physical collateral and included under Real Estate or Others in the above calculations.

The declared value of exposures in all cases is the gross exposure net of specific provision. The Bank does not carry out any on or off balance sheet netting for the securities held. The Bank has not claimed any capital relief for Credit Risk Mitigation under Section CA 4.7 of the Capital Adequacy Module of CBB rule book and hence all exposures are risk weighted at their gross values for the purpose of computation of capital adequacy ratio.

The Bank has a policy of disposal of asset held as collateral not readily convertible into cash, after completion of necessary legal formalities. During the year ended 31 December 2012, one real estate collateral was disposed-off for a net recovery of BD 561 thousand and the proceeds were used to partially settle the respective customer exposure.

4.11 Regulatory capital requirements by type of financing contracts

Financing contract	Exposure		Credit Risk Weighted Assets		Capital Requirement @ 12%	
	Self-financed	IAH	Self-financed	IAH	Self-financed	IAH
Murabaha	29,505	151,942	31,206	45,583	3,745	5,470
Ijara assets (including lease rentals receivable)	35,630	-	27,923	-	3,351	-
Musharaka	47,121	-	47,121	-	5,655	-
Wakala	24,673	-	25,011	-	3,001	-
Istisna	-	394	-	118	-	14
Total	136,929	152,336	131,261	45,701	15,752	5,484

5 MARKET RISK

5.1 Market risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates, profit rates, equity prices, and commodity prices will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Khaleeji Commercial Bank BSC

Risk Management Disclosures

5 MARKET RISK (continued)

5.1 Market risk management (continued)

CBB rules require that the Bank separates its exposure to market risk between trading and non-trading portfolios. The Bank has no trading positions in equity or commodities and the main source of market risk for the Bank is its foreign exchange exposure, although this is quite limited. There is also an extent of profit rate risk arising out of mismatches in its asset liability structure. The Bank has well-defined policies approved by the Board with clear risk limits and thresholds to effectively manage its market risk.

During 2013, the Bank has commenced trading in Sukuks on a very selective basis. To begin with trading will be restricted to Sukuks issued by sovereign/ quasi sovereign entities or by other GCC issuers with an investment grade rating from Moody's or S&P. The size of the trading book at the end of the year was BD 5,780 thousand.

For now, the risk is monitored by marking to market of the portfolio on a daily basis. The size of the portfolio and more importantly the number of instruments is too small for any statistical model to be reliable. The Bank is in the process of creating a detailed policy and monitoring framework for control of market risk arising from trading operations.

Details on market risk management, net exposures and sensitivities are given as part of note 31 of the consolidated financial statements for the year ended 31 December 2013.

5.2 Regulatory capital allocation against market rate risk

The table below shows the market risk position for each category of the market risk as at 31 December 2013 along with the maximum and minimum values during the period:

	As at 31 December	Max	Min
Equity position risk	-	-	-
Market risk on trading positions in sukuk *	187	345	187
Foreign exchange risk	1,126	1,170	1,090
Commodity risk	-	-	-
Total (A)	1,313	1,515	1,277
Risk Weighted Assets (A x 12.5)	16,413	18,938	15,963
Capital requirement @ 12%	1,970	2,273	1,916

* represents 30% of the exposure since these sukuk investments are allocated from IAH pool.

6 OPERATIONAL RISK

6.1 Operational risk management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, systems, and/ or from external events which includes but is not limited to, legal risk and Shari'a compliance risk. Operational risk is an inherent part of normal business operations. Whilst operational risk cannot be eliminated entirely, the Bank endeavors to minimise it by ensuring that a strong control infrastructure is in place throughout the organisation. Various procedures and processes used to manage operational risk including effective staff training, appropriate controls to safeguard assets and records, regular reconciliation of accounts and transactions, close monitoring of risk limits, segregation of duties, and financial management and reporting.

Details on operational risk management are given as part of note 31 of the consolidated financial statements for the year ended 31 December 2013.

Khaleeji Commercial Bank BSC

Risk Management Disclosures

6 OPERATIONAL RISK (continued)

6.1 Operational risk management (continued)

RMD monitors all operational processes to ensure that the Board directives are fully implemented and also reports deviations if any to the Senior Management and to the Board. The department has specialised personnel engaged in this process. The Bank has implemented an Operational Risk Management System which monitors Key Risk Indicators and controls across all major areas of operation and generates appropriate triggers as and when pre-defined risk events occur (through breach of triggers set) and also generates periodical update report to the Board and to the Management. In addition, the Bank's policy dictates that the operational functions of booking, recording and monitoring of transactions are carried out by staff that are independent of the individuals initiating the transactions. During 2012, in line with international best practices (of independent review of internal audit process once in every 5 years), the Bank engaged an external firm to review the internal audit process and implemented the suggested improvements to the process.

The Bank's operational risk management framework includes components such as Key Risk Indicators ("KRI's"), operational loss data and Risk & Control Self-Assessment across the Bank. These are monitored periodically which helps in quickly detecting and correcting deficiencies in processes and procedures. The collected data is maintained to create a loss database which could be the starting point for a more advanced operational risk measurement approach in future.

6.2 Litigation

As of the reporting date, the Bank has no material legal contingencies including pending legal actions except as reported in Para 4.8 above. The Bank has a dedicated legal team which provides legal advice and services to all units of the Bank.

6.3 Shari'a compliance

The Shari'a Supervisory Board ("SSB") is entrusted with the duty of directing, reviewing and supervising the activities of the Bank in order to ensure that they are in compliance with the rules and principles of Islamic Shari'a. The Bank also has a dedicated internal Shari'a reviewer, who performs an ongoing review of the compliance with the fatwas and rulings of the SSB on products and processes and also reviews compliance with the requirements of the Shari'a standards prescribed by AAOIFI. The SSB reviews and approves all products and services before launching and offering to the customers and also conducts periodic reviews of the transactions of the Bank. An annual audit report is issued by the SSB confirming the Bank's compliance with Shari'a rules and principles.

6.4 Regulatory capital allocation against operational risk

The Bank uses the Basic Indicator Approach in calculating its regulatory capital requirement for operational risk.

The risk weighted assets and capital requirement for operational risk as at 31 December 2013 is as given below:

Average gross income for 3 years (A)
Operational Risk Weighted Assets (B) = A x 15% x 12.5
Capital requirement = B x 12%

15,016
28,155
3,379

7 OTHER RISKS

7.1 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting its financial obligations on account of a maturity mismatch between assets and liabilities. The Bank's approach to manage liquidity is to ensure that it will always have sufficient funds to meet its liabilities when due without incurring unacceptable losses or risking damage to the Bank's reputation.

Khaleeji Commercial Bank BSC

Risk Management Disclosures

7 OTHER RISKS (continued)

7.1 Liquidity risk (continued)

The Bank has a liquidity risk policy in place, which describes the roles and responsibilities of the Asset Liability Management Committee ("ALCO"), Treasury and other concerned departments in management of liquidity. It also stipulates various liquidity ratios to be maintained by the bank, as well as gap limits under each time bucket of the maturity ladder. It is the Bank's policy to keep adequate level of high quality liquid assets such as inter-bank placements, CBB sukuk and trading sukuk to ensure that funds are available to meet maturing Mudharaba deposits and other liabilities, as and when they fall due. The day to day management of liquidity risk is the responsibility of the Treasury Department, which monitors the sources and maturities of assets and liabilities closely, and ensures that limits stipulated by the ALCO are complied with. RMD and Financial Control Department ("FCD") monitors the liquidity position and any violations are reported to ALCO, ERM and the Board of Directors.

For maturity profile of assets and liabilities, please refer to note 28 of the consolidated financial statements for the year ended 31 December 2013.

The following are the key liquidity ratios which reflect the liquidity position of the Bank:

Figures in %

	2013	2012	2011	2010	2009
Interbank assets to interbank liabilities	283.17	95.70	189.43	113.72	137.02
Liquid assets to total assets	24.93	19.21	26.04	20.81	30.02
Liquid assets to total deposits	34.49	32.31	42.01	41.72	59.56
Net liquid assets to total deposits	23.53	8.23	25.63	10.50	22.00

7.2 Profit rate risk in the banking book

The other principal risk to which the banking book is exposed, is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market profit rates. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for re-pricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by the RMD in its day-to-day monitoring activities.

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis points (bps) parallel fall or rise across all yield curves and a 50 bps rise or fall of all yield curves. An analysis of the Bank's sensitivity to an increase or decrease in market profit rates has been disclosed in note 31 of the consolidated financial statements for the year ended 31 December 2013.

7.3 Counterparty credit risk

Counterparty credit risk is the risk that a counterparty to a contract in the profit rate, foreign exchange, equity and credit markets defaults prior to maturity of the contract. The Bank does not engage in proprietary trading of equity, foreign exchange or its derivatives. However, the Bank enters into Shari'a compliant foreign exchange risk/ profit rate risk transactions to hedge its risks arising out of mismatch in its asset liability portfolios. Clear policies for such transactions are in place. For other credit market transactions (primarily interbank placements), the Bank has established a matrix of counterparty limits based on external credit rating of such counterparties. Such limits are constantly monitored by the RMD. As at 31 December 2013, the Bank did not have any open position in foreign currency risk management instruments.

7 OTHER RISKS (continued)

7.4 Concentration risk

Concentration risks arises when a number of obligors, counterparties or investees are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Accordingly, such concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or region. To manage this risk, the Bank has established exposure limits to various geographic regions and industry sectors. Such limits are monitored by the RMD and deviations, if any, are reported to the Board on quarterly basis. As at 31December 2013, there has been no violation of the Board approved limits under any head. For break-up of exposure geography and industry/ sector wise, please refer to notes 4.3.1 and 4.3.2 above.

7.5 Reputational risk

Reputation risk is the risk that negative perception regarding the Bank's business practices or internal controls, whether true or not, will cause a decline in the Bank's investor base that could have an adverse impact on liquidity or capital of the Bank. This may also lead to litigation against the bank which apart from avoidable legal expenses will also damage Bank's credibility which in turn will adversely affect business growth and profitability. Being an Islamic Bank, reputation is an important asset and among the issues that could affect the Bank's reputation is the inability to exit from investments, lower than expected returns on investments, growth of non-performing asset portfolio and poor communication to investors. The Bank has a well-developed and coherently implemented communication strategy to cover such contingencies. The Bank also allocates additional capital for such risks under its ICAAP.

7.6 Displaced commercial risk

Displaced Commercial Risk refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by equity of investment account holders. This can be due to the return on such assets being lower than that of competitors. The Bank has adequate policies and procedures in place to identify, monitor and address all potential risks that may arise from such activities. Please refer to the section on IAH for further details.

7.7 Other risks

Other risks include strategic risk, fiduciary risks, and regulatory risks, etc. which are inherent in all business and are not easily measurable or quantifiable. The Bank's Board has overall responsibility for approving and reviewing the risk strategies and amendments to the risk policies. The Bank senior management is responsible for implementing the risk strategy approved by the Board. The management also ensures that internal systems of corporate governance and regulatory compliance for management of fiduciary and reputational risks are robust and effective. The Bank also allocates additional capital for such risks under its ICAAP.

8 PRODUCT DISCLOSURES

8.1 Product descriptions & consumer awareness

The Bank has a disclosure policy which applies to all modes of communication to the public including written, oral and electronic communications. These disclosures are made on a timely basis in a manner required by applicable local and regulatory requirements.

The Bank offers a comprehensive mix of Shari'a compliant commercial and investment banking products. This include, apart from traditional financing products, a range of innovative structured investment products like funds, repackaged investments and restricted Mudharaba's. The Investment Department of the Bank has expertise in creating innovative high-end and value added products offering a wide range of structures, expected returns, tenors and risk profiles.

8 *PRODUCT DISCLOSURES (continued)*

8.1 *Product description & consumer awareness (continued)*

Proposal for any new product is initiated by individual business lines within the Bank. The Executive Risk Management Committee (“ERMC”) of the Bank reviews such proposal to ensure that the new product/ business are in line with the Bank’s business and risk strategy. All new products will need the approval of the Board of Directors and the Shari’a Supervisory Board of the Bank.

Information on new products or any change in existing products will be placed on the Bank’s website www.khcbonline.com and/or published in the media. Product details are also shared with customers and the general public through brochures and/ or, advertisements.

8.2 Complaint handling

The Bank takes disputes and complaints from all customers very seriously. These have the potential for a breakdown in relationships and can adversely affect the Bank’s reputation. Left unattended these can also lead to litigation and possible censure by the regulatory authorities. The Bank has a comprehensive policy on handling of external complaints, approved by the Board. All employees of the Bank are aware of and abide by this policy.

The Bank has a designated nodal officer for handling of all external complaints and his contact details are displayed on the website and also at the Branch and in all printed publicity materials. Complaints are normally investigated by persons not directly related to the subject matter of the complaint. The Bank endeavors to address all complaints within five working days. Wherever this is not possible, the customer is contacted directly and a time frame for rectification of his complaint is advised. A periodical report on status of complaints is also submitted to the Board.

8.3 Equity of investment account holders (IAH’s)

The Bank accepts funds in the form of Mudaraba from small investors and high net worth individuals. Equity of investment account holders (“IAH”) represents funds offered by customers to the Bank to be invested in a Shari’a compliant manner, at the Bank’s discretion as Mudarib. All IAH accounts are on profit sharing basis, but the Bank does not guarantee any particular level of return. Any loss arising from the investment will be borne by the customer except in the case of the Bank’s negligence. The Bank charges a Mudarib fee as its share of profit.

The Bank accepts IAH funds in Bahraini Dinar, US Dollar and other international and GCC currencies for maturity periods ranging from 1 month to 24 months. The Bank completes its full range of KYC due diligence prior to accepting any investment. The customer also signs a written agreement covering all terms and conditions of the investment including tenor, basis of profit allocation, early withdrawal, etc.

Since 2009, the Bank offers a savings account product called “Al-Waffer” which entitles the investors to certain cash prizes, decided based on a raffle draws held on monthly, quarterly and annual basis apart from the normal share of profits declared and distributed after reducing the Mudarib fees.

IAH is a significant funding source for the Bank and the returns offered to investors are in line with the market. However, any shortfall in yield on the investments made out of these funds exposes the Bank to displaced commercial risk. The Bank regularly monitors rate of return offered by competitors to evaluate the expectations of its IAH’s. Bank’s policy also provides for whole or partial waiver of the Mudarib share of income from investments due to it, to provide a reasonable return to its investors. Bank further mitigates this risk by setting up and maintaining an appropriate level of Profit Equalisation Reserve (“PER”) and Investment Risk Reserve (“IRR”) to smoothen return to IAH holders.

The Bank commingles its own funds and IAH funds which are invested together. The Bank has an identified pool of assets where the IAH funds are invested and the income from which is allocated to such accounts. Out of the gross income the investor’s share is computed after deducting the Mudarib share and contribution to PER and IRR. The profit allocation schedule signed by the customer prior to investment contains the scheme of allocation of the Mudarib share and reserves. Administrative expenses incurred for management of the funds are borne directly by the Bank and are not charged separately to investment accounts.

8 **PRODUCT DISCLOSURES** (continued)

8.3 **Equity of investment account holders (IAH's)** (continued)

Equity of IAH's are carried at their book values and include amounts retained towards PER and IRR. Creation of these reserves results in an increase in the liability towards the pool of IAH's.

Subject to the provisions thereof, deposits held with the Bank are covered by the Deposit Protection Scheme established by the CBB regulation concerning the establishment of a Deposit Protection Scheme and a Deposit Protection Board.

The details of income distribution to IAH holders for the last five years are given below:

	2013	2012	2011	2010	2009
Allocated income to IAH	13,315	9,923	9,022	8,254	11,103
Distributed profit	8,719	6,297	6,629	5,785	9,331
Mudarib fees	4,596	3,626	2,393	2,469	1,772
As at 31 December					
IAH ¹	304,547	193,245	183,915	192,439	184,394
Profit Equalisation Reserve (PER)	-	-	-	169	1,209
Investment Risk Reserve (IRR)	-	-	-	-	925
Profit Equalisation Reserve-to-IAH (%)	-	-	-	0.09%	0.66%
Investment Risk Reserve-to-IAH (%)	-	-	-	-	0.50%

¹ Represents average balance.

Ratio of profit distributed to PSIA by type of IAH (based on tenor):

Mudaraba Tenor	Profit distribution amount in BD					Ratio of profit paid as a percentage of total				
	2013	2012	2011	2010	2009	2013	2012	2011	2010	2009
1 Month ¹	1,488	1,629	1,824	3,107	4,271	17.1	25.9	27.5	53.7	45.8
3 Months	680	655	1,489	1,843	1,443	7.8	10.4	22.5	31.9	15.5
6 Months	1,100	474	764	641	736	12.6	7.5	11.5	11.1	7.9
12 Months	3,606	2,998	2,014	1,452	1,196	41.4	47.6	30.4	25.1	12.8
24 Months	228	30	-	-	-	2.6	0.5	-	-	-
VIP	1,617	511	707	729	673	18.5	8.1	10.7	12.6	7.2
PER and IRR expenses	-	-	(169)	(1,987)	1,012	-	-	(2.6)	(34.4)	10.8
Total	8,719	6,297	6,629	5,785	9,331	100.0	100.0	100.0	100.0	100.0

¹ Includes saving account and Al-Wafer account.

Distribution of profits by type of IAH products:

Year	Avg. profit earned from IAH assets (%age of asset)	PER set aside as a %age of IAH assets	IRR set aside as a %age of IAH assets	Mudarib fees as a %age of IAH assets	Profit paid as a %age of IAH assets
2013	4.37	-	-	1.51	2.86
2012	5.13	-	-	1.88	3.26
2011	4.99	-	-	1.22	3.69
2010	4.03	(0.54)	(0.49)	1.28	4.04
2009	6.09	0.30	0.24	0.96	4.58

8 **PRODUCT DISCLOSURES** (continued)

8.3 **Equity of investment account holders (IAH's)** (continued)

Following are the average profit rates declared and distributed to the investors by the Bank:

	2013	2012	2011	2010	2009
1 Month Mudaraba ¹	1.12%	2.25%	2.51%	3.66%	4.00%
3 Months Mudaraba	2.98%	3.08%	4.25%	4.13%	4.94%
6 Months Mudaraba	3.64%	3.55%	4.52%	3.38%	5.30%
12 Months Mudaraba	4.27%	4.46%	5.01%	4.94%	5.79%
18 Months Mudaraba	3.30%	-	-	-	-
24 Months Mudaraba	5.07%	5.07%	-	-	-
VIP Mudaraba	4.09%	2.79%	3.67%	4.35%	4.20%

¹ Includes saving account and Al-Wafer account.

The Bank refers to the group of commercial Islamic banks incorporated in the Kingdom of Bahrain so as to benchmark the rate of return on IAH.

IAH account by type of assets:

The following table summarises the movement in type of assets in which the IAH funds are invested and allocated among various type of assets for the year ended 31 December 2013:

Particular	Opening allocation	Movement	Closing allocation	Proportion of total assets (%)
Cash and bank balances	17,589	10,247	27,836	71.7%
Placements with financial institutions	57,525	25,220	82,745	100.0%
Financing assets ¹	128,948	23,388	152,336	60.1%
Investment securities - Sukuk	12,367	16,765	29,132	100.0%
Total	216,429	75,620	292,049	

¹ Includes Murabaha and Istisna contracts.

8.4 **Restricted Investment Accounts (RIA's)**

The Bank offers Restricted Investment Accounts ("RIA's") to both small investors and high net worth individuals in the GCC. The Bank structures its RIA products to offer its customers an opportunity to choose from a wide range of returns, maturity periods, sectors, asset classes and risk levels. No RIA product was introduced/ marketed by the Bank in 2013.

All RIA offering documents ("Offering Document") are drafted and issued with input from the Bank's Investment Banking, Shari'a, Financial Control, Legal and Risk Management Departments to ensure that the Investors have sufficient information to make an informed decision after considering all relevant risk factors.

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8 *PRODUCT DISCLOSURES (continued)*

8.4 *Restricted Investment Accounts (RIA's) (continued)*

The Board of Directors is responsible for providing clear guidelines for the development, management and risk mitigation of its RIA investments and to ensure that there exist sound management and internal control systems to ensure that the interests of the IAH's are protected at all times. Wherever it is necessary for the Bank to establish Special Purpose Vehicles ("SPV's") for management of the investment, the Board ensures that the management of such SPV's is conducted in a professional and transparent manner by a duly appointed Board.

The Bank is aware of its fiduciary responsibilities in management of the RIA investments and has clear policies on discharge of these responsibilities. The Bank's Policy regarding its fiduciary responsibilities to the RIA investors and their funds, includes the following:

- Ensuring that the investment structure, Offering Documents and the investment itself are fully compliant with Islamic Shari'a principles and the CBB regulations;
- Appropriately advising investors, as part of the RIA Offering Document, of all the relevant and known risk factors and making it clear that the investment risk is to be borne by the investor before accepting the investment funds;
- Completing all necessary legal and financial due diligence on investments undertaken on behalf of the investors with the same level of rigor as the Bank requires for its own investments;
- Ensuring that the funds are invested strictly in accordance with the provisions outlined in the Offering Documents;
- Putting in place suitable resources and systems to manage and administer the investment and any necessary RIA SPV(s) and to proactively manage all risks;
- Preparing and disseminating periodical investment updates to investors on a regular basis during the tenor of the investment;
- Distributing the capital and profits to the investor in a just and equitable manner as Mudarib; and
- In all matters related to the RIA, RIA SPV(s) and the investment, act with the same level of care, good faith and diligence as the Bank would apply in managing its own investments.

Within the Bank, the abovementioned responsibilities and functions are provided, managed and monitored by qualified and experienced professionals from the Investment Banking, Shari'a, Financial Control, Legal, Investment Administration and the Risk Management Departments.

Investment update reports are prepared and disseminated by the Bank to the RIA Investors on a periodic (at least on a half yearly) basis outlining any material contracts/decisions, investment performance, distribution (if any) or exit criteria/information.

RIA name	Details	Launch date	Projected returns	Return frequency	Return annualized (%)				
					2013	2012	2011	2010	2009
Al-Hareth French Property Fund	An investment product designed to deliver attractive return from income producing properties in France. Approximate capital redemption of 30% was completed in April 2007 with a capital gain of 6% on the redeemed portion.	2005	9.0%	Annual	-	-	-	-	1.75

Khaleeji Commercial Bank BSC
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8 *PRODUCT DISCLOSURES (continued)*

8.4 *Restricted Investment Accounts (RIA's) (continued)*

RIA name	Details	Launch date	Projected returns	Return frequency	Return annualized (%)				
					2013	2012	2011	2010	2009
RIA 1 – Safana	An investment structure designed to participate in the equity interest of Safana Investment WLL. A company established for the purpose of acquiring reclaimed land to subdivide and sell, the Bank made an offer to buy back < BD 20,000 of each investors funds in RIA 1 at par. This offer was formalized in a letter to investors dated 25 May 2011. A total of 74 of the 95 RIA 1 investors accepted the offer at a cost of BD 1,220,000 to the Bank and resulting in a total of 39 investors being fully exited from the RIA. As a result, total investors funds have reduced to BD 8.34 million.	2007	61.78% over product tenor	Bullet payment on maturity	-	-	-	-	-
RIA 4 - Janayen	A restricted investment product designed to invest in growth and income generating real estate assets in the GCC and MENA regions. . To date, RIA4 has made distributions and redemptions to depositors amounting to approximately 29.8% of the Depositors' initial capital. These distributions were in the form of yields amounting to ≈ 21.1% plus 8.74% of redeemed capital.	2007	44.33%	Quarterly	-	-	-	0.27	9.62

Khaleeji Commercial Bank BSC
Risk Management Disclosures

8 *PRODUCT DISCLOSURES (continued)*

8.4 *Restricted Investment Accounts (RIA's) (continued)*

RIA name	Details	Launch date	Projected returns	Return frequency	Return annualized (%)				
					2013	2012	2011	2010	2009
RIA 5 - North Gate	A restricted investment product which owns a 6.0% stake in Shaden Real Estate Investment WLL which in turn (through its subsidiaries), holds a parcel of reclaimed land measuring approximately 3.875 million Sq. Meters (located in Al-Hidd, Muharraq). The mixed-use plot will be sold to end users subsequent to the completion of infrastructure works.	2008	90.66% over product tenor	Bullet return at maturity	-	-	-	-	-
RIA 6 – Locata	A Restricted Mudaraba product which entitles the investors beneficial ownership of 25% equity share capital of Locata Corporation Pty Ltd., a company incorporated in Australia. The Company has invented a new and patented wireless radiolocation technology and shall use this funding to scale up its production capacity, sales/marketing channels and further product enhancement capabilities.	2009	110.54% over product tenor	Bullet return at maturity	-	-	-	-	-

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES

9.1 Corporate governance structure

The Bank is governed by the Commercial Companies Law No. 21 of 2001 (the “Companies Law”), the Kingdom of Bahrain Corporate Governance Code (the “CGC”), volume 2 of the Rulebook of the CBB (and in particular the High-Level Controls (“HC Module”)), and the Bahrain Stock Exchange Law of 1987 (collectively, the “Regulations”).

The Bank acknowledges its responsibility to all of its stakeholders and is committed to the highest standards of corporate governance. The Bank believes good corporate governance enhances stakeholder value and provides an appropriate guidance to the Board, its committees, and the Bank’s executive management to carry out their duties in the best interest of the Bank and its stakeholders. The Bank maintains the highest levels of transparency, accountability and good management through the adoption and monitoring of corporate strategies, goals and policies to comply with its regulatory and ethical responsibilities.

In 2012, the Bank has adopted the CGC which is effective from January 2011. The Bank has also aligned its corporate governance policies with the HC Module of the CBB Rulebook which was introduced in October 2010 (built on the provisions of the CGC).

9.2 Board of directors

As at 31 December 2013, the Board of the Bank comprised **ten members**. Members of the Board are elected for a three year renewable term. The current composition of the Board complies with the requirements of the Regulations.

The Board Nominations, Remunerations and Governance Committee (“BNRGC”) reviews the skills and qualifications required of directors on periodic basis for potential nominee director. A nominee director may be elected by the shareholders upon receiving majority of votes during the election process. Positions at the Board are filled in compliance with the Bank’s Articles of Association and the Commercial Companies Law. A Director’s membership to the Board shall terminate in the event that, amongst other things, the Director is convicted of an offence of dishonor or breach of trust or is declared bankrupt.

The Chairman of the Board of Directors is charged with regular supervision and assessment of executive management and is responsible for leading the Board, ensuring its effectiveness, monitoring the performance of the CEO and maintaining a dialogue with the Bank’s stakeholders. The Board has constituted certain committees with specific delegated authorities to oversee and guide the management in specific areas of the Bank’s operations and decision-making. The Board, either directly or through its various committees, will oversee the management of the Bank.

The Board has formalized the division of work responsibilities between the Board and the Bank’s management. Working in consultation with the Bank’s management team, the Board provides oversight for the overall management of the Bank’s business. The Board reviews and approves the corporate strategy for the Bank and has overall responsibility for risk management, financial reporting and corporate governance issues. Matters that specifically require Board approval include, amongst other things, the financial statements and the acquisition and disposal of companies. The Board also ensures that the Bank upholds the Bank’s core values including the values set out in the Bank’s internal policies.

Khaleeji Commercial Bank BSC

Risk Management Disclosures

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.2 Board of directors (continued)

The Board Risk Management Committee (“BRMC”) ensures that all policies prescribed are reviewed and updated on annual basis. . The Risk management department in conjunction with the Internal Control unit ensures the policies and procedures are updated and adhered to under the oversight of the related management committees. The Board is also responsible for approving any related party transaction as per the Bank’s authority matrix. Related party transactions concerning a Board member should be minimally approved by the Board Investment and Credit Committee (“BICC”). In addition, any material transaction defined by the Bank (10% of the Banks’ capital) should be approved by the Board. The preparation of the consolidated financial statements of the Bank is the responsibility of the Board of Directors. The duties, functions, and responsibilities are detailed in the Bank’s Corporate Governance Framework.

Members of the Board have access to the Bank’s management at all times. The CEO together with the Bank’s senior management monitors the Bank’s performance against pre-set corporate objectives and manages the Bank’s day-to-day affairs based upon the policies, objectives, strategies and guidelines lay down and approved by the Board from time to time.

The Board of Directors of the Bank comprises of Non-Executive Directors. The Board has three independent members (including the Chairman) out of a total of ten Directors. This is to ensure compliance with the CGC requirement that requires at least one third of the Bank’s Board to comprise independent and non-executive Directors.

Upon appointment, each Director is provided with a comprehensive, formal and tailored induction which includes, amongst other things, a review of the Board’s role and duties and the relevant Director’s roles and duties to the Bank; meetings with the bank’s senior management; visits to the Bank’s branches and other sites; presentations to explain the Bank’s strategic plans and significant financial, accounting, risk and legal issues and compliance programs; and meetings with internal and external auditors and legal counsel. The Board and its committees are also individually evaluated and assessed for their performance effectiveness. In accordance with HC 1.9.1 of the CBB Rulebook and during 2012, the Board has conducted an evaluation of its performance and the performance of each committee and each individual director.

Each independent Director of the bank is a professional in their field and possesses a background in the financial and banking field.

Khaleeji Commercial Bank BSC ***Risk Management Disclosures***

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.2 Board of directors (continued)

The names, title, and other positions held by the Board of Directors are set out below:

Dr. Fuad Abdulla Al-Omar **Chairman**

- **Experience:**
 - Director since 2004 (Independent and Non-Executive).
 - Over 32 years of experience in financial and commercial sector.
 - Chairman of MENA Real Estate Company – Kuwait.
 - Vice Chairman of Gulf Real Estate Development Co. – Saudi Arabia.
 - Director of Gulf North Africa Holding Company – Kuwait.
- **Qualification:**
 - Ph.D. in Public Administration from University of Leicester – UK.
 - Master in Business Administration from University of Boston College – USA.
 - Bachelor of Science in Chemical Engineering from Worcester Polytechnic Ins. – USA.

Abdulla Abdulkarim Showaiter **Board Member**

- **Experience:**
 - Director since February 2008 (Non-Independent and Non-Executive).
 - Over 34 years' experience in the banking industry.
 - Deputy CEO, Wholesale Banking, Emirates Islamic Bank – Dubai.
 - Board Member of First Energy Bank – Bahrain.
 - Board Member of Ethmar Real Estate Company – Dubai.
 - Board member of Al-Salam Bank – Sudan.
 - Board member of Al-Mahraab Real Estate Company – Kuwait.
- **Qualification:**
 - Attended several courses in the field of banking and finance.

Abdulrahman Mohammed Jamsheer **Vice Chairman**

- **Experience:**
 - Director since March 2011 (Independent and Non-Executive).
 - Shura Council member.
 - Over 41 years of experience in financial and commercial sector.
 - Chairman of Fortuna CO. W.L.L.
 - Vice Chairman of Lona Real Estate BSC Closed.
 - Board Member and Managing Director of Esterad Investment Company.
 - Board Member and Managing Director of United Cement Company.
 - Board Member of Delmon Poultry Company.
 - Board Member of Banz Group Company.
 - Board Member of Daih Real Estate Development Co. W.L.L.
- **Qualification:**
 - Bachelor of Science in Engineering Agricole from the American University of Beirut – Lebanon.

Ebrahim Hussain Ebrahim **Board Member**

- **Experience:**
 - Director since February 2008 (Non-Independent and Non-Executive).
 - Over 30 years of experience in banking sector.
 - Board member of First Energy Bank – Bahrain.
 - Board member of Gulf Real Estate Development Co. – Saudi Arabia.
- **Qualification:**
 - Master in Business Administration from University of Bahrain.
 - Bachelor of Science in Economics from University of Kuwait.
 - Advanced Diploma in Islamic Banking from Bahrain Institute of Banking and Finance (BIBF).

Khaleeji Commercial Bank BSC

Risk Management Disclosures

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.2 Board of directors (continued)

Hisham Ahmed Al-Rayes **Board Member**

- **Experience:**
 - Director since June 2012 (Non-Independent and Non-Executive).
 - Over 10 years of experience in the financial and banking sector.
 - Nominated by Gulf Finance House BSC.
 - Acting Chief Executive Officer of Gulf Finance House BSC.
 - Board Member of Balexco House Limited – Bahrain.
 - Board Member of Cemena Holding Company (Closed) & Affiliated Companies – Bahrain.
 - Board Member of Energy City Libya Company – Libya.
 - Board Member of Energy City Qatar Holding Company – Qatar.
 - Board Member of G-Capital Limited – UAE.
 - Board Member of Royal Ranches Marrakesh S.A – Morocco.
 - Board Member of Tunisia Bay S.A.R.I. – Luxembourg.
 - Board Member of Mumbai IT & Telecom Technology Company – Moriches.
 - Board Member of Energy City Navi Mumbai Holding Company & Affiliated Companies– Moriches.
 - Board Member of Al-Khaleej Fund and Investment Company (closed) – Bahrain.
 - Board Member of Gulf Holding Company K.S.C.C. – Kuwait.
 - Board Member of BFH Real Estate SPC x9 – Bahrain.
 - Board Member of Naseej Properties – Bahrain
- **Qualification:**
 - Master in Business Administration from University of DePaul – USA.
 - Bachelor of Science in Electrical/ Electronic Engineering from University of Bahrain.

Dr. Ahmed Khalil Al-Mutawa **Board Member**

- **Experience:**
 - Director since June 2012 (Non-Independent and Non-Executive).
 - Over 15 years of experience in economics and financial sector.
 - Nominated by Gulf Finance House BSC.
 - Chief Executive Officer of Khalifa Fund for Enterprise Development.
 - Vice Chairman of Gulf Finance House BSC.
 - Board Member of Dubai University College – UAE.
 - Board Member of Dunia Finance – UAE.
 - Board Member of Summit Bank – Pakistan
- **Qualification:**
 - Ph.D. in Economics from Georgetown University – USA.
 - Master in Economics from University of North Carolina – USA.
 - Bachelor in Economics from University of Cairo – Egypt.

Khaleeji Commercial Bank BSC

Risk Management Disclosures

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.2 Board of directors (continued)

Khalid Rashid Al-Thani

Board Member

- **Experience:**
 - Director since February 2009 (Independent and Non-Executive).
 - Over 21 years of experience in financial and commercial sector.
 - Deputy General Secretary of Awqaf and Minors Affairs Foundation – Dubai.
 - Head of Finance Department, Dubai Land Department, from 1999 to 2004 – Dubai.
 - Board Member of Dubai International Holy Quran Award 1997 to 2004 – Dubai.
- **Qualification:**
 - Bachelor in Business Accounting from University of United Arab Emirates.

Mohammed Barak Al-Mutair

Board Member

- **Experience:**
 - Director since August 2010 (Non-Independent and Non-Executive).
 - Over 14 years of experience in Government & Business sector.
 - Nominated by Al-Imtiaz Investment Company KSC – Kuwait.
 - Chairman of Kuwait Real Estate Holding Company – Kuwait.
 - Board member of Gulf Real Estate Development Co. – Saudi Arabia.
 - Board Member of Al-Imtiaz Investment Company KSC – Kuwait.
- **Qualification:**
 - Bachelor Degree in Business Administration from San Diego University – USA.

Mosobah Saif Al-Mutairy

Board Member

- **Experience:**
 - Director since March 2011 (Non-Independent and Non-Executive).
 - Over 16 years of experience in Financial and Investment sector.
 - Nominated by Gulf Finance House BSC.
 - Board member of Gulf Finance House BSC.
 - Accounts Manager of Royal Guards of Oman.
 - Acting Manager of Royal Guards of Oman Pension Fund.
- **Qualification:**
 - Master in Business Administration from University of Lincolnshire & Humberside – UK.
 - Postgraduate qualification in Accounting from South Bank University, London – UK.
 - Degree in Accounting from South West College, London – UK.
 - National Diploma in Business and Finance from Bradford & Ilkley Community College – UK.

Tariq Qassim Fakhroo

Board Member

- **Experience:**
 - Director since March 2011 (Non-Independent and Non-Executive).
 - Over 15 years of experience in Business, Commercial, Telecom & IT sector.
 - Nominated by Gulf Finance House BSC.
 - Deputy Chief Executive, Mohammed Fakhroo & Bros. – Bahrain.
 - General Manager, Fakhroo IT Services – Bahrain.
- **Qualification:**
 - Master of Science in Electrical Engineering from University of Central Florida – USA.
 - Master in Business Administration from University of Bahrain.
 - Bachelor of Science in Electrical Engineering from University of Bahrain.

* The qualifying criteria for 'Independent' Directors are as per the Corporate Governance guidelines of the CBB.

The Chairman, the Board of Directors, and the Board Committees have direct access to the heads of Internal Audit, Risk Management, Regulatory Compliance and Shari'a Compliance.

Khaleeji Commercial Bank BSC Risk Management Disclosures

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.3 Board of directors' interests

The non-executive members of the Board collectively held 28,844,469 shares in the Bank as of the year ended 31 December 2013 (2011: 28,844,469 shares). This significant increase in the number of shares held by non-executive members was due to the re-classification of Mr. Ebrahim Hussain Ebrahim to a non-executive member in 2012 (who was previously classified as an executive member):

Director's name	Number of outstanding shares at 31 December 2012	Number of outstanding shares at 31 December 2013	Movement during the year	% of outstanding shares
Dr. Fuad Abdulla Al-Omar	1	1	-	-
Abdulrahman Mohamed Jamsheer	Nil	Nil	-	-
Abdulla Abdulkarim Showaiter	1,155,000	1,155,000	-	0.10%
Ebrahim Hussain Ebrahim	20,486,219	20,486,219	2,874,264 ¹	1.78%
Hisham Ahmed Al-Rayes	Nil	Nil	-	-
Dr. Ahmed Khalil Al-Mutawa	Nil	Nil	-	-
Khalid Rashid Al-Thani	100,000	100,000	-	0.01%
Mohammed Barak Al-Mutair	7,103,249	7,103,249	-	0.62%
Mosobah Saif Al-Mutairy	Nil	Nil	-	-
Tariq Qassim Fakhroo	Nil	Nil	-	-
Total	28,844,469	28,844,469	2,874,264	2.51%

¹ The change is due to vesting of shares under the share-based employee incentive scheme.

9.4 Distribution of ownership shares by nationality

The Bank's Register of Shareholders as at 31 December 2013 indicates a total of 535 shareholders who collectively owned 1,154,161,084 (One Billion One Hundred Fifty Four Million One Hundred Sixty One Thousand and Eighty Four) shares with a nominal value of BD 0.100 (One Hundred Fils) each. The breakdown of shareholders in the Bank by nationality is as follows:

Nationality	No. of equity shares held	No. of shareholders	% of shareholders
Bahraini	669,675,562	399	58.02
Non-Bahraini	484,485,522	136	41.98
Total	1,154,161,084	535	100.00

As at 31 December 2013, none of the Bank's shares were held by the Government of the Kingdom of Bahrain.

Khaleeji Commercial Bank BSC

Risk Management Disclosures

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.5 Board committees

The Board of Directors has constituted four Committees with specific delegated authorities.

Committee	Members	Primary responsibilities
Board Nominations, Remunerations and Governance Committee (BNRGC)	<ul style="list-style-type: none"> Abdulla Abdulkarim Showaiter. Mohammed Barrak Al-Mutair. Khalid Rashid Al-Thani. 	<ul style="list-style-type: none"> Human Resources. Compensation and incentives. Administration. Corporate Governance.
Board Audit Committee (BAC)	<ul style="list-style-type: none"> Khalid Rashid Al-Thani. Tariq Qassim Fakhroo. Dr. Ahmed Khalil Al-Mutawa 	<ul style="list-style-type: none"> Internal Audit. External Audit. Compliance. Anti-Money Laundering.
Board Investment and Credit Committee (BICC)	<ul style="list-style-type: none"> Dr. Fuad Abdulla Al-Omar. Abdulla Abdulkarim Showaiter. Ebrahim Hussain Ebrahim. Mohammed Barrak Al-Mutair. Mosobah Saif Al-Mutairy. Hisham Ahmed Al-Rayes 	<ul style="list-style-type: none"> Investment & credit approval. Setting limits. Investment policies. Asset Liability Management. Banking relationship. Oversight of Off-Balance Sheet Vehicles.
Board Risk Management Committee (BRMC)	<ul style="list-style-type: none"> Abdulrahman Mohamed Jamsheer. Tariq Qassim Fakhroo. Dr. Ahmed Khalil Al-Mutawa 	<ul style="list-style-type: none"> Risk management. Policies related to risk management.

Meetings of the Board and its committees are held as and when required but in accordance with the Regulations the Board meets at least once a quarter. The Board of Directors met six times in 2013 (including a Brain Storming Session). The Bank held its Annual General Meeting ("AGM") on 4 March 2012. In addition to physical meetings, several written resolutions were circulated to the Directors during 2013 for approval by mail and facsimile.

In addition, the Board Audit Committee (BAC) held 2 meetings, the Board Investment and Credit Committee (BICC) held 7 meetings, the Board Nominations, Remunerations and Governance Committee (BNRGC) held 4 meetings and the Board Risk Management Committee (BRMC) held 2 meetings.

The Board of Directors and its committees receive regular reports on various aspects of the Bank's business from senior management as well as from Internal Audit, Risk Management, Financial Control, and Operations Departments.

Khaleeji Commercial Bank BSC Risk Management Disclosures

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.6 Board committees meeting dates

- Board meetings: a total number of 6 meetings were held.

Director's name	Meeting dates during the year 2013						Attendance % *
	26 th Jan	23 rd Feb	10 th May	24 th Sep	8 th Nov	13 th Dec	
Dr. Fuad Abdulla Al-Omar	✓	✓	✓	✓	✓	✓	100%
Abdulrahman Mohamed Jamsheer	✓	✓	✓	✓	✓	✓	100%
Abdulla Abdulkarim Showaiter	✓	✓	✓	✓	✓	✓	100%
Ebrahim Hussain Ebrahim	✓	✓	✓	✓	✓	✓	100%
Hisham Ahmed Al-Rayes	N/A	N/A	N/A	✓	✓	✓	100%
Dr. Ahmed Khalil Al-Mutawa	N/A	N/A	N/A	-	✓	✓	Less than 75%
Khalid Rashid Al-Thani	✓	✓	✓	✓	✓	✓	100%
Mohammed Barak Al-Mutair	✓	✓	✓	✓	✓	✓	100%
Mosobah Saif Al-Mutairy	✓	✓	✓	✓	✓	✓	100%
Tariq Qassim Fakhroo	✓	✓	✓	✓	✓	✓	100%

* The following were the changes in the board members in 2013:

- Mr. Hisham Ahmed Al-Rayes, who is representing Gulf Finance House B.S.C. (GFH), he replaced Mr. Abdulrahman Al-Kooheji who was also representing GFH (effective July 2012).
- Dr. Ahmed Khalil Al-Mutawa, who is representing Gulf Finance House B.S.C. (GFH), he replaced Mr. Khalid Al-Maskati who was also representing GFH (effective July 2012).

* Both Mr. Khalid Al Maskati and Mr. Abdulrahman Al Kooheji attended the Board meetings held on 26th January, 23rd February, and 10th May 2012.

In accordance with Article (179) of the Commercial Companies Law No. 21 of 2001, the new Directors will complete the unexpired term of their predecessors.

- BICC meetings: a total number of 7 meetings were held (minimum of 4 meetings a year).

Director's name	Meeting dates during the year 2013						
	26 th Jan	10 th May	31 st May	5 th July	24 th Sep	8 th Nov	13 th Dec
Dr. Fuad Abdulla Al-Omar	✓	✓	✓	✓	✓	✓	✓
Abdulla Abdulkarim Showaiter	✓	✓	✓	✓	✓	✓	✓
Ebrahim Hussain Ebrahim	✓	✓	✓	✓	✓	✓	✓
Hisham Ahmed Al-Rayes *	N/A	N/A	N/A	N/A	N/A	N/A	✓
Mohammed Barak Al-Mutair	✓	✓	-	-	✓	✓	✓
Mosobah Saif Al-Mutairy	✓	✓	-	✓	✓	✓	✓

* Mr. Hisham Al-Rayes joined the Committee officially on 13 December 2012 replacing Mr. Abdulrahman Jamsheer. Mr. Jamsheer attended all BICC meetings held up to 8th November 2012.

- BRMC meetings: a total number of 2 meetings were held (minimum of 4 meetings a year).

Director's name	Meeting dates during the year 2013	
	26 th Jan	9 th May
Abdulrahman Mohamed Jamsheer *	N/A	N/A
Tariq Qassim Fakhroo	✓	✓
Dr. Ahmed Khalil Al-Mutawa *	N/A	N/A

* The following members joined the Board officially on November 2012:

- Abdulrahman Mohamed Jamsheer,
- Dr. Ahmed Khalil Al-Mutawa.

* Mr. Abdulrahman Al-Kooheji and Mr. Khalid Al-Maskati were replaced by Mr. Abdulrahman Jamsheer and Dr. Ahmed Al-Mutawa. Both Mr. Khalid Al-Maskati and Mr. Abdulrahman Al-Kooheji attended all BRMC meetings held during 2012.

Khaleeji Commercial Bank BSC Risk Management Disclosures

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.6 Board committees meeting dates (continued)

- o BNRGC meetings: a total number of 4 meetings were held (minimum 2 meetings a year).

Director's name	Meeting dates during the year 2013			
	26 th Jan	28 th Mar	10 th May	24 th Sep
Abdulla Abdulkarim Showaiter	✓	✓	✓	✓
Khalid Rashid Al-Thani	✓	✓	✓	✓
Mohammed Barak Al-Mutair	✓	✓	✓	✓

- o BAC meetings: a total number of 2 meetings were held (minimum of 4 meetings a year).

Director's name	Meeting dates during the year 2013	
	25 th Jan	9 th May
Khalid Rashid Al-Thani		✓
Tariq Qassim Fakhroo *	N/A	N/A
Dr. Ahmed Khalil Al-Mutawa *	N/A	N/A

* The following members joined the committee officially on November 2012:

- o Tariq Qassim Fakhroo,
- o Dr. Ahmed Khalil Al-Mutawa.

* Mr. Abdulrahman Al-Kooheji and Mr. Khalid Al-Maskati were replaced by Mr. Tariq Fakhroo and Dr. Ahmed Al-Mutawa. Both Mr. Khalid Al-Maskati and Mr. Abdulrahman Al-Kooheji attended all BAC meetings held during 2012.

9.7 Code of conduct

The Board has approved a code of conduct for all staff of the Bank and the Board members. The Code includes the process of dealing with conflict of interests. It also binds the Directors, Executive Management and staff to the highest standard of professionalism and diligence on discharging their duties. All Board members and senior management of the Bank have affirmed compliance with the Code of Conduct. A declaration is made by the Board members prior to each Board meeting confirming that they have disclosed all external appointments and notified the Chairman if there have been any changes to their external appointments since the previous meeting. Board members are excluded from dealings in matters related to an external entity where they hold an appointment at that entity.

9.8 Compliance with regulators

The Bank ensures compliance with the regulators as an Islamic licensed bank at all times. It would report any non-compliance with the guidelines should there be any. The Bank's obligations to comply with the Regulations have been addressed through enhancing the current Corporate Governance Framework and the adoption of a new comprehensive Corporate Governance Handbook in accordance with the corporate governance ("CG") and the High-Level Controls Module of the CBB Rulebook. The new CG Handbook was developed to manage the Board and committees Charter, Management Committee Charters, Board and Management Code of Conduct, Conflict of Interest Policy, Whistle Blowing Policy, Corporate Governance Guidelines, Social Responsibility, Directors' Appointment Agreement, Board and Directors' Evaluation, and a Key Persons' Dealing Policy.

The Bank is committed to continuously review and develop its corporate governance policies to ensure compliance with the changing requirements of the Regulations and to ensure compliance with the international corporate governance best practice. The Bank, through its Board and Board Committees, endeavors to deliver the highest standards of governance for the benefit of its stakeholders.

Khaleeji Commercial Bank BSC

Risk Management Disclosures

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.9 Shari'a Supervisory Board

The Bank's Shari'a Supervisory Board consists of three Islamic scholars who review the Bank's compliance with general Shari'a principles and specific fatwas, rulings and guidelines issued. Their review includes examination of evidence relating to the documentation and procedures adopted by the Bank to ensure that its activities are conducted in accordance with Islamic Shari'a principles.

Dr. Fareed Yaqoob Al-Miftah **Chairman**

- **Experience:**
 - Member of the Supreme Council of Islamic Affairs.
 - Undersecretary of the Ministry of Justice & Islamic Affairs – Bahrain.
 - Former judge of the high Shari'a Court.
 - Former Lecturer at the University of Bahrain.
- **Qualification:**
 - Ph.D. from the University of Edinburgh – United Kingdom.

Sh. Nizam Mohammed Saleh Yaqoobi **Member**

- **Experience:**
 - Member of the Shari'a council of Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI).
 - Member of the Shari'a Board of the Central Bank of Bahrain – Bahrain.
 - Member of Shari'a Supervisory Board of the Dow Jones Islamic index.
 - Member of Shari'a Supervisory Board of a number of Islamic banks & insurance companies.

Dr. Fareed Mohammed Hadi **Executive Member**

- **Experience:**
 - Assistant Professor of Jurisprudence (Fiqh) and Hadeeth at the College of Arts, Department of Arabic and Islamic studies, University of Bahrain.
 - Bachelor program Manager in Shari'a for Banking and Finance, University of Bahrain.
 - Vice President of the Association of Shari'a scholars in GCC.
 - Member of Shari'a Supervisory Board of a number of Islamic banks.
- **Qualification:**
 - Ph.D. in Ibn Hazm's Methodology of Jahala, University of Edinburgh – UK.
 - Ph.D. in Al-Bukhari's Methodology, University of Mohammed V – Morocco.

9.10 Executive management committees

The Board of Directors delegates the authority for day-to-day management of the business to the Chief Executive Officer (CEO)/ Acting CEO who is responsible for implementing the Bank's strategic plan. The CEO/ Acting CEO manage the Bank through the following management committees:

Committee	Primary responsibilities
Management Committee	Strategy, Performance review, Budget, Human Resources, Administration
Asset Liability Management Committee	Balance sheet management, Funding, Liquidity, Banking Relationships
Executive Credit & Investment Committee	Review of investments, Exit and credit proposals, Monitoring of investments
Executive Risk Management Committee	Risk Management policies, Risk review, Provisions and impairment

Khaleeji Commercial Bank BSC

Risk Management Disclosures

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.10 Executive management committees (continued)

Executive management & other senior management

The only significant change in the executive management during 2012 was the resignation of the Chief Executive Officer, Mr. Ebrahim Hussain Ebrahim effective from 12 May 2012. As per the Bank's Succession Plan, Mr. Silvan Varghese (the DGM & COO) took over the duties of the CEO and continues to be the acting CEO as at year ended 31 December 2012.

The names and title of each member of executive and other Senior Management are set out below:

Silvan Varghese **COO & Acting Chief Executive Officer**

- **Experience:**
 - Over 22 years of experience in the banking industry in India and Middle East in several areas like Risk and Credit Management, Compliance, Project Finance and Corporate Banking.
 - Joined the Bank in 2007.
- **Qualification:**
 - B. Sc. in Chemical Engineering from BITS, Pilani, India.
 - MBA from the Indian Institute of Management (IIM), Lucknow.
 - General Management Program (GMP) at the Harvard Business School.
 - Certified Financial Risk Manager (FRM) by Global Association of Risk Professionals (GARP).

Mahdi Abdulnabi Mohammed **Assistant General Manager – Head of Operations & Administration**

- **Experience:**
 - Over 32 years of banking experience.
 - Joined the Bank in 2005.
- **Qualification:**
 - Certified Diploma in Accounting & Finance from The Chartered Association of Certified Accountants (ACCA).
 - MBA from the University of Strathclyde – United Kingdom.

Ahmed Ali Bucheeri **Head of Internal Audit**

- **Experience:**
 - Over 24 years of experience in both internal and external audit mainly in banks.
 - Joined the Bank in 2007.
- **Qualification:**
 - Certified Internal Auditor (CIA) from the Institute of Internal Audit – USA.
 - B.Sc. in Accounting from King Fahad University of Petroleum and Minerals – Saudi Arabia.

Fuad Ali Taqi **Deputy General Manager, Commercial Banking**

- **Experience:**
 - Over 31 years of banking experience in Islamic and conventional banks.
 - Joined the Bank in 2006.
- **Qualification:**
 - Business Studies Diploma.
 - MBA from the University of Glamorgan – United Kingdom.

T. N. Ramesan **Assistant General Manager – Head of Risk & Credit Management**

- **Experience:**
 - Over 33 years of banking experience.
 - Joined the Bank in 2007.
- **Qualification:**
 - M. Sc. in Physics from the Indian Institute of Technology, Madras – India.
 - Diploma in International Finance & Investment from Hong Kong Management Association.
 - Certified Associate of the Indian Institute of Bankers.

Hussam Ghanem Saif **Head of Treasury & Capital Markets**

- **Experience:**
 - Over 23 years of experience in treasury and Islamic banking.
 - Joined the Bank in 2007.
- **Qualification:**
 - Graduate with a degree in Business Administration & Management from Western International University, London – UK.

Khaleeji Commercial Bank BSC

Risk Management Disclosures

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.10 Executive management committees (continued)

Executive management & other senior management (continued)

Yaser Ismaeel Mudhafar **Head of Financial Control**

- **Experience:**
 - Over 15 years of extensive experience in the Islamic banking industry and Audit.
 - Joined the Bank in 2006.
- **Qualification:**
 - Certified Public Accountant (CPA) from the American Institute of Certified Public Accountants.
 - Certified Islamic Professional Accountant (CIPA) from the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).
 - Executive MBA from University of Bahrain.

Ozan Benlioglu **Head of Investment Banking**

- **Experience:**
 - Over 15 years of experience in Investment and Corporate Finance.
 - Joined the Bank in 2008.
- **Qualification:**
 - Master of Finance and Accounting, Macquarie University, Sydney Australia.
 - Bachelor of Economics, University of Istanbul, Turkey

Abdul-Nasser Omar Al-Mahmood **Head of Shari'a Compliance**

- **Experience:**
 - Over 21 years of experience in Shari'a Audit and Islamic banking.
 - Joined the Bank in 2008.
- **Qualification:**
 - Master's in Business Administration with thesis in Shari'a Control and Review in Islamic Banks.
 - B. Sc. in Shari'a and Islamic studies.
 - Associate Diploma in Shari'a Control.

Fatooh Yusuf Al-Mannai **Head of Human Resources**

- **Experience:**
 - Over 17 years of experience in human resources, training and administration.
 - Joined the Bank in 2007.
- **Qualification:**
 - MBA and a BA (Hons.) in Human Resource Management.
 - Fellow of the Chartered Institute of Personnel & Development (Chartered FCIPD).
 - Member of Society of Human Resource Management (SHRM).
 - Member of Bahrain Society for Training and Development (BSTD).

Mohammed Abdulla Ebrahim **Corporate Secretary, Head of Compliance and MLRO**

- **Experience:**
 - Over 11 years of experience in Management, Islamic Banking, Corporate Governance, Compliance and Anti-money Laundering.
 - Joined the Bank in 2009.
- **Qualification:**
 - Master's in IT, Media and E-Commerce Law from the University of Essex – UK.
 - B.Sc. in Law from Dubai Police Academy – UAE.
 - Advanced Diploma in Islamic Finance from Bahrain Institute of Banking and Finance (BIBF).
 - Diploma in Business Management from the University of Bahrain.
 - ICA International Diploma in Compliance from the International Compliance Association ICA.

Sanjay Narkar **Head of Information Technology**

- **Experience:**
 - Over 27 years of experience in the banking and financial industry in India and Bahrain.
 - Joined the Bank in 2011.
- **Qualification:**
 - Postgraduate Diploma in Computer Applications.
 - Bachelor of Commerce from Mumbai University with IT as secondary curriculum.
 - Certified DBA (Module I & II) course by ORACLE Corporation Development System.

Khaleeji Commercial Bank BSC

Risk Management Disclosures

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.11 Executive and senior management interests

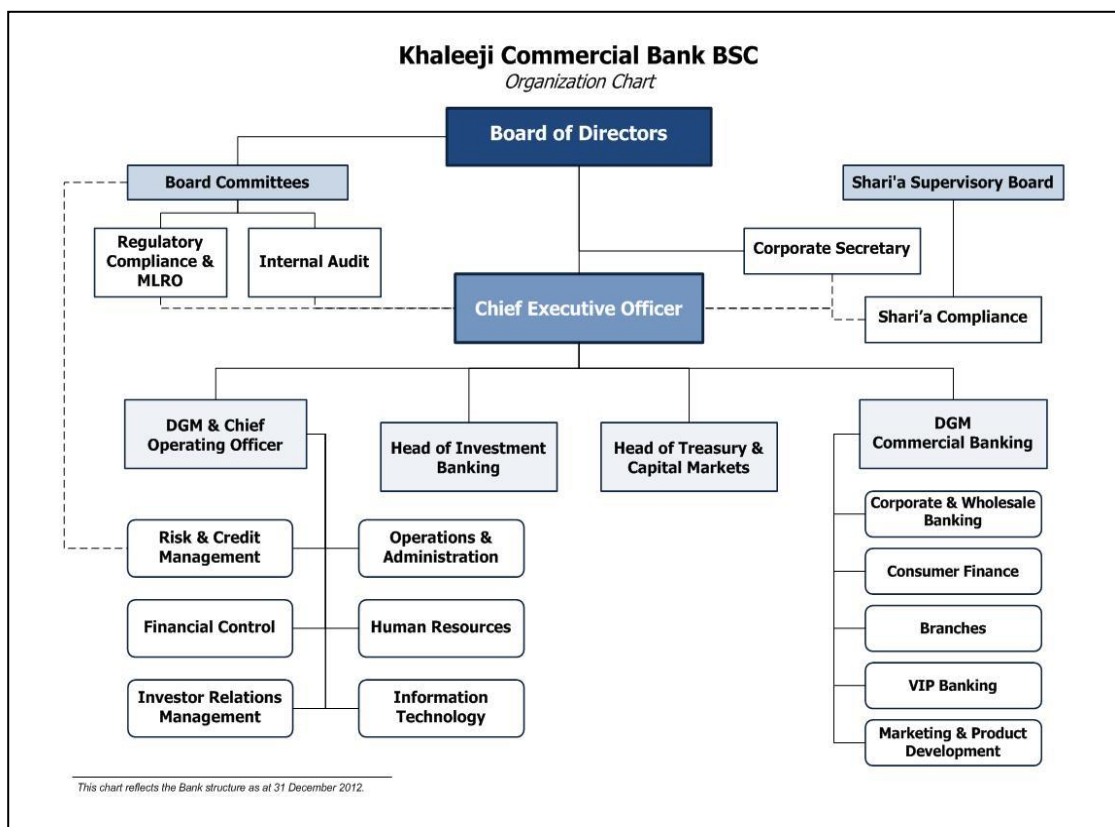
The following table indicates the executive and senior management shareholding as 31 December 2013:

Executive and senior management	Number of outstanding shares at 31 December 2012	Number of outstanding shares at 31 December 2013
Silvan Varghese	1,976,240	1,976,240
Fuad Ali Taqi	1,975,017	1,975,017
Mahdi Abdulnabi Mohammed	1,535,897	1,535,897
T. N. Ramesan	195,877	195,877
Ahmed Ali Bucheeri	392,413	392,413
Hussam Ghanem Saif	607,690	607,690
Yaser Ismail Mudhafar	482,048	482,048
Fatooh Yusuf Al-Mannai	114,137	114,137
Ozan Benlioglu	45,996	45,996
Mohammed Abdulla Ebrahim	60,000	60,000
Abdul-Nasser Omar Al-Mahmood	Nil	Nil
Sanjay Narkar	Nil	Nil
Total	7,385,315	7,385,315

* The change in the above number of shares is due to vesting of shares under the share-based employee incentive scheme. There was no Senior Management's trading of the Bank's shares during the year.

9.12 Organizational chart

Set out below is the Bank's organization chart, which outlines the different committees and the lines of reporting.



There have been no major structural changes to the organisation chart from the previous year.

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.13 Executive compensation

The Bank has both a short-term and long-term compensation structure for its executive management which has been developed based on current market surveys and industry norms. The Bank also operates an incentive scheme where in eligible employees are awarded a combination of shares and cash incentives on achievement of pre-determined performance targets. For further details please refer note 23 of the consolidated financial statements for the year ended 31 December 2013. The Board of Directors is entitled to sitting fees and their annual remuneration is subject to the approval of the shareholders at the end of each year.

9.14 Shari'a compliance, regulatory compliance and anti-money laundering

Compliance with Shari'a laws, regulatory and statutory requirements is an ongoing process and the Bank is conscious of its responsibilities in observing all applicable provisions and best international practices in its functioning. The Bank has established the Shari'a Compliance Function and the Regulatory Compliance Function in keeping with Basel and CBB guidelines. The respective units act as a focal point for all Shari'a and regulatory compliance and for adapting other best practice compliance principles.

Anti-Money Laundering measures form an important area of the Compliance Function. The Bank has an Anti-Money Laundering and Combating Terrorist Financing Policy and Procedure approved by the Board, which contains sound Customer due diligence measures, procedure for identifying and reporting suspicious transactions, a program for periodic awareness training to staff, record-keeping, and a designated Money Laundering Reporting Officer (MLRO). The Bank's Anti-Money Laundering measures are reviewed by independent external auditors every year and their report is submitted to the CBB. The Bank is committed to combating money laundering and is in compliance with the guidelines issued by the CBB in relation to Anti-Money Laundering requirements.

The Bank is in compliance with the HC Module of the CBB Rulebook. However, due to the limited number of independent board members to chair the BNRGC and the BAC, the Bank has not been able to completely comply with following requirements:

- HC 1.8.2: that requires a constitution of a corporate governance committee with at least three independent members;
- HC 3.2.1: which sets out a development of a board audit committee of at least three directors with a majority of independent directors including the chairman;
- HC 4.2.2: in which the Board must establish a nominating committee which would include only independent directors or only non-executive directors of whom a majority must be independent directors including the chairman;
- HC 5.3.2: in which it is requires to include only independent directors for the remuneration committee or, alternatively, only non-executive directors of whom a majority are independent directors including the chairman.

In addition, the Bank is also non-compliant to HC 9.2.4 (b) where it requires including a Shari'a scholar who is a SSB member to the Corporate Governance Committee.

The Bank is currently working on the compliance with the above mentioned requirements.

Khaleeji Commercial Bank BSC

Risk Management Disclosures

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (continued)

9.15 Audit fees charged by the external auditor and other non-audit services provided by the external auditor and fees paid

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

9.16 Penalties paid to the Central Bank of Bahrain

During 2013, the Bank was subject to two penalties of BD 50 each, imposed by the CBB. These were on account of failure to clean up erroneously opened accounts in Bahrain Credit Reference Bureau system.

10 FINANCIAL PERFORMANCE

Following are basic quantitative indicators of the financial performance:

	2013	2012	2011	2010	2009
Return on average equity	-0.16%	0.64%	0.44%	- 5.24%	2.39%
Return on average assets	-0.04%	0.18%	0.13%	- 1.67%	0.70%
Finance income to finance expense	147.77%	201.89%	208.06%	240.21%	155.66%
Cost-to-income *	156.56%	84.54%	72.11%	83.79%	48.30%

* Cost has been considered excluding impairment allowances.

For detailed discussion on the performance for the year, kindly refer to Chairman's report on the consolidated financial statement for the year ended 31 December 2013.