



SUPPLEMENTARY INFORMATION
APPENDIX HC-(i)
Agreed-upon Procedures re Compliance with
HC-5 (Remuneration)

PRIVATE AND CONFIDENTIAL

Date

The Board of Directors
XYZ Bank B.S.C
P O Box xxx
Manama
Kingdom of Bahrain

XYZ Bank B.S.C. (the "Bank")

Agreed-upon procedures relating to compliance with Chapter HC-5 of the Rule Book on sound remuneration practices issued by the Central Bank of Bahrain

Dear Sirs

We have performed the procedures agreed with you, and enumerated in the attached Appendix A relating to the Bank's compliance with Chapter HC-5 (Volume 1) of the Central Bank of Bahrain Rule Book (the Rule Book) on sound remuneration practices issued by the Central Bank of Bahrain (the CBB) The procedures were performed pursuant to the Bank's obligation under Section HC- 5.4 of Module HC and paragraph BR - 4A.3.1 of Module BR of Volume 1 of the CBB Rule Book (the Rule Book) applicable to conventional banks. The procedures performed cover the period from 1 January to 31 December 2014.

Our engagement was undertaken in accordance with the International Standard on Related Services 4400 applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating whether the Bank is in compliance with Chapter HC-5 of the Rule Book.

Because these procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the disclosures made for the six-month period ended 30 June 2013.

Had we performed additional procedures or had we performed an audit or review of the Bank's compliance with sound remuneration practices in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and is for the information of the Bank and the CBB and is not to be used for any other purpose or to be distributed in whole or in part to any other parties. This report relates only to matter specified in the first paragraph of this report and does not extend to any financial statements of the Bank, taken as a whole.

Yours faithfully

Manama, Kingdom of Bahrain

Attachment: Appendix A

Appendix A to Auditors' report dated xxxxx on Agreed-upon procedures relating to compliance with Chapter HC-5 of the Rule Book on sound remuneration practices issued by the Central Bank of Bahrain

<i>Sr. No.</i>	<i>Reference</i>	<i>Procedures</i>	<i>Findings based on procedures performed</i>
<i>Role of the Board and Remuneration Committee</i>			
1	HC - 5.2.1.AA	<p>Check that the board or/ and the board remuneration committee has approved the bank's remuneration policy and any amendments by reference to board/ committee resolutions.</p> <p>Also check that the list of approved persons and material risk takers have been identified and approved by the Board as per the approved policy of the Bank.</p>	
2	HC - 5.2.1	<p>Check that the Remuneration committee (RC) consist of at least three directors and that the mandate of the RC include:</p> <ul style="list-style-type: none"> (a) review of the Bank's remuneration policy (approved by shareholders) for approved persons and material risk-takers; (b) approval of the amounts of remuneration for each approved person and material risk-taker; (c) approval, monitoring and review of the remuneration system of the Bank; and (d) making recommendations regarding board member remuneration based on their attendance and performance and in compliance with Article 188 of the Bahrain Commercial Companies Law and subject to the 5% limit in line with HC-5.5.2. 	
3	HC - 5.2.1A and 5.2.1B	<p>Check that the Bank has performed effectiveness testing of the remuneration policy and has submitted the results to the RC for its approval. In addition, check whether the effectiveness assessments include:</p> <ul style="list-style-type: none"> - review of remuneration outcomes, risk measurements and risk outcomes for consistency with the Board's approved risk appetite; - stress testing of the policies using plausible scenarios to help ex-ante risk adjustments to the remuneration assessments; and back testing to actual performance against risk adjustments for ex-post adjustments on pay-offs. 	
4	HC - 5.2.1C	<p>Enquire with the Bank's remuneration committee whether the Bank remunerates employees for potential future revenues whose timing and likelihood remain uncertain (eg. fair value gains on a private equity portfolio, product acquisition/ placement related fees/ commissions etc). Read the minutes of the RC meetings and hold discussions with the Chairman of the RC to assess how such practices are evaluated by the RC considering the bank's financial condition and future prospects.</p>	

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<i>Sr. No.</i>	<i>Reference</i>	<i>Procedures</i>	<i>Findings based on procedures performed</i>
<i>Remuneration Committee charter</i>			
5	HC - 5.3.1	Obtain a copy of the Board approved charter of the RC and check that the charter sets out the roles and responsibilities of the RC.	
6	HC - 5.3.1A HC-5.3.2	Check the members of the remuneration committee are independent of any risk-taking function or committees. Check the composition of the RC to assess whether it comprises only independent directors or only non-executive directors, the majority of whom are independent directors and the chairman is an independent director.	
<i>Remuneration rules and policy</i>			
7	HC - 5.4.3	Check whether the performance-based incentive policy of the Bank, and any amendments thereto, have been approved by the shareholders before its implementation.	
8	HC - 5.2.1	Check that the remuneration policy approved by the shareholders covers all types of remuneration plans/programs for all approved persons and material risk takers.	
<i>Overseas conventional banks and branches/subsidiaries of Bahraini banks</i>			
9	HC - 5.4.4	For overseas conventional banks, inquire with the management as to whether they have compared the requirements imposed by their home supervisor and head office with the CBB Remuneration Guidelines. Inquire with management on whether they have applied the most stringent set of remuneration rules for the Bahrain Branch.	
10	HC - 5.4.5	For foreign branches and foreign subsidiaries of Bahrain licensed banks, we inquired whether the remuneration policies applicable at these locations correspond to those set out at the Group/HO level.	
<i>Approved persons in risk management, internal audit, operations, financial control, internal Shari'a review/audit, AML and compliance functions</i>			
11	HC - 5.4.7 HC - 5.4.8	Read the remuneration policy, to check that approved persons in risk management, internal audit, operations, financial control, internal Shari'a review/audit, AML and compliance functions are remunerated independent of the business areas that they oversee. Read the performance measurement indicators for such employees to check whether the targets and objectives relate only to their functions.	
12	HC - 5.4.9	Check the incentive allocation for control functions identified in procedure 11 and report the mix of fixed and variable components within total remuneration.	
13	HC - 5.4.9	We reviewed employees from each of these functions and agreed their remuneration to the	

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Sr. No.	Reference	Procedures	Findings based on procedures performed
		bank's remuneration policies.	
Alignment of remuneration with prudent risk taking			
14	HC – 5.4.10 to HC – 5.4.16	We have inquired with the management on how the Bank's remuneration policies ensure : <ul style="list-style-type: none"> - distinguishing the remuneration of employees for different risks assumed; - risk adjustments for different types of risks including reputation risk, liquidity risk and cost of capital; - reduction in employees' incentives for excessive and undue risk taking; and - remuneration outcomes are symmetric with risk outcomes. 	
15	HC – 5.4.17	Inquire of the Bank's management of any employees for whom contractual remuneration is payable on termination. And if so, the basis for concluding that such payment is aligned to long-term value creation and prudent risk taking. Check employment contracts for any contractual remuneration payable on termination.	
16	HC – 5.4.18	Check that Bank's code of ethics or other procedures ensure the employees commit themselves not to use personal hedging strategies or remuneration and liability linked insurance to undermine the risk alignment effects embedded in their remuneration arrangements.	
Variable remuneration			
17	HC - 5.4.19, HC – 5.4.20	Check whether the Bank's remuneration policy determines the variable bonus pool based on the performance of the Bank (e.g. a % of profits or financial measure linked to a performance measure) Inquire with the Head of HR as to whether the employees' incentive payment set each year is linked to the contribution of the individual and business to the overall performance of the Bank.	
18	HC – 5.4.26, HC – 5.4.27	Check that Bank's remuneration policy provides for clawback or deferral of both current and previously earned remuneration in the event of poor performance. For all employees subject to the BD100,000 floor, check claw backs/deferral clauses are included in employment contracts.	
19	HC – 5.4.30	Check the incentive allocation for approved persons (other than control and back-office functions and board members) and material risk takers and report the mix of fixed and variable components within total remuneration.	
20	HC 5.4.31(a)	For all employees subject to the BD100,000 floor, except for the CEO, his deputies and the 5 most highly paid business line employees, check that at least 40% of the variable	

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Sr. No.	Reference	Procedures	Findings based on procedures performed
		remuneration is subject to deferral arrangements over a period of at least 3 years.	
21	HC 5.4.31(b)	For the CEO, his deputies and the 5 most highly paid business line employees, check that at least 60% of the variable remuneration is subject to deferral arrangements over a period of at least 3 years.	
Variable remuneration (continued)			
22	HC - 5.4.33 HC - 5.4.34 HC - 5.4.34A HC - 5.4.36	Check that the Bank's remuneration policy requires: <ul style="list-style-type: none"> (a) at least 50% of the variable remuneration to be awarded in the form of shares or share-linked instruments or other non-cash instruments; (b) the remaining portion of the deferred remuneration to be paid in cash over a minimum period of 3 years (except in the case of death of the employee); and (c) awards in shares are subject to a minimum retention policy of 6 months from the time the shares are awarded 	
23	HC - 5.4.35	Read the Bank's remuneration policy to check whether it allows for any form of guaranteed remuneration to be paid as a part of the overall remuneration package. Confirm with the HR that there are no existing or new contracts that provide for minimum guaranteed bonuses after the first year.	
24	HC - 5.4.37	Check that the aggregate limit of share awards is capped at 10% of the Bank's issued outstanding shares, at all times.	
25	HC - 5.4.38	Check that the Annual General Meeting approved the Bank's share incentive plans by reference to the minutes of the meeting.	
26	HC - 5.4.39	Obtain a list of approved persons who are appointed to projects or investments managed by the Bank and inquire with the Head of HR whether any remuneration has been paid to such approved persons by the projects or investments (including SPV's) managed by the Bank.	

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<i>Sr. No.</i>	<i>Reference</i>	<i>Procedures</i>	<i>Findings based on procedures performed</i>
<i>Board of Directors' remuneration</i>			
27	HC - 5.5.1	Obtain details of remuneration paid to non-executive directors and check whether it excluded performance related elements such as share grants, share options, deferred stock-related incentives, bonus or pension benefits.	
28	HC - 5.5.2 to 5.5.4	Check that remuneration paid to directors is in line with the maximum allowed under the Bahrain Commercial Companies Law and subject to the 5% limit of the bank's net profit.	
29	HC - 5.5.5	We read the Bank's articles of association to check whether references to directors' remuneration if any, is in line with requirements of this Module and subject to the 5% limit of the bank's net profit.	
<i>Disclosure of remuneration policies</i>			
30	PD - 1.3.8	Check that the Bank's annual public disclosure document discloses: (a) the aggregate remuneration paid to board members; (b) key features of the Bank's remuneration policies for board members and senior management; (c) Frequency of review of the remuneration structure; and (d) Extent to which the Bank's remuneration policies apply to overseas subsidiaries and branches.	
31	PD - 1.3.8	Check that the Bank's annual report disclosures is as prescribed by PD 1.3.8 B to PD 1.3.8.F	
<i>Regular reporting – annual requirements</i>			
33	BR - 1.1.3 and AU - 3.6.1, BR - 4A3.1 and BR - 4A 3.2	Check that the Bank submit to the CBB, within three (3) months from the end of the financial year, the agreed upon procedures report issued by the external auditor under AU-3.6.2.	
34	BR - 1.3.1	Check that the Bank has submitted within three months of the end of the financial year end, the details of total remuneration segregated between fixed and variable components as required by Appendix BR -14 to the Rulebook.	
35	BR - 4A.4.1	Check that the Bank has completed the information required under Appendix BR -15 within two weeks from the end of the financial year.	