Corporate governance statement

"The Board establishes the objectives of the Bank, the adoption and annual review of strategy, the management structure and responsibilities, and the systems and controls framework."

SOUND GOVERNANCE PRACTICES

When Gulf International Bank B.S.C. ("GIB" or the "Bank") was established in 1975, its Agreement of Establishment and Articles of Association ("AoA"), executed at the time by the GCC Governments that created it, set the foundation of solid governance practices for the Bank. From the start, sound corporate governance has been essential at GIB, both in achieving organisational integrity and efficiency as well as in attaining fairness for all stakeholders.

Over the years, GIB has progressively adopted and implemented standards of corporate governance relevant to publicly-traded financial institutions although it is not a listed company, and since 2003 GIB has regularly published a statement on corporate governance in its Annual Reports.

In 2010, when the Central Bank of Bahrain ("CBB") introduced new corporate governance requirements for banks in Bahrain, GIB had already put in place many measures that are hallmarks of good corporate governance practices, such as comprehensive mandates for the Board of Directors ("Board"), for directors and for Board committees, a Code of Conduct (Code on Conduct, Ethics and Avoiding Conflicts of Interest) in both English and Arabic published on the Bank's website, a detailed Corporate Policy Manual and operating policies that anticipated the CBB's new requirements.

In 2011, GIB adopted additional measures that included, amongst other things, a new Board Charter, updated mandates for the Board committees, a new Whistle Blowing Program that enhances the whistle-blowing provisions already existing in the GIB's Code of Conduct, a review of the classification of directors and a realignment of Board committees.

In 2012, when the Board reassessed its composition and reconstituted its committees, the corporate governance responsibilities vested under the Audit Committee was no longer meeting the minimum independent membership requirements. As a result, a dedicated Corporate Governance Committee was established by the Board in February 2013. The Corporate Governance Committee mandate was later approved by the Board in April 2013.

In 2014, the CBB introduced new requirements on sound remuneration of approved persons and material risk-takers and were effective from 1st July 2014. GIB arranged to take the necessary steps to fully comply with these new requirements.

The Board and its respective committees' mandates are subject to an annual review to ensure that they continue to reflect the current processes, best practices and any new regulatory requirements. The last updates were initiated and approved by the Board in December 2014.

The Board Charter is posted in its entirety on the Bank's website (www.gib.com) and by itself largely reflects the corporate governance requirements contained in the HC (High Level Controls) Module of the CBB Rulebook Volume 1.

The measures adopted by GIB formally entrenched a culture of professional corporate governance in the organisation. They also demonstrated GIB's commitment to financial transparency, fairness and disclosure of financial information that will benefit all users of such information, including regulators, customers, counterparties, rating agencies and other stakeholders.

In March of every year, the Board prepares for its shareholders' Annual General Meeting ("AGM") and for the CBB a report on GIB's compliance with the CBB rules on corporate governance, which explains any non-compliance. The explanations contained in this year's "Comply or Explain" report are reproduced at the end of this section of the Annual Report.

GIB discloses in the Annual Report the additional information required to be disclosed in accordance with Section PD-1.3.8 of the CBB Rulebook Volume 1, and the Board is also disclosing to the shareholders the information to be disclosed to them annually under Section PD-6.1.1 of the Rulebook.

SHAREHOLDERS

The current shareholding structure of GIB is as follows:-

Shareholder	Percentage of shareholding
Public Investment Fund Kingdom of Saudi Arabia	97.226%
Kuwait Investment Authority State of Kuwait	0.730%
Qatar Holding Company State of Qatar	0.730%
Bahrain Mumtalakat Holding Company Kingdom of Bahrain	0.438%
Ministry of Finance Sultanate of Oman	0.438%
Emirates Investment Authority United Arab Emirates	0.438%

ORGANISATION – RULES AND ROLES

GIB maintains a corporate governance structure that delineates and segregates the functions, roles and responsibilities of the Board and management, and ensures that the requisite separate attribution of responsibilities between them is maintained:-

- There is an effective and appropriately constituted Board responsible for the stewardship of the Bank and the supervision of its business; it receives from management all information required to properly fulfil its duties and the duties of the committees that assist it, and it delegates to management the authority and responsibility for managing the day-to-day business of the Bank.
- There is an effective and appropriately organised management structure responsible for the day-to-day management of the Bank and the implementation of Board-approved strategy, policies and controls.
- There is a clear division of roles and responsibilities between the Board and management, and between the Chairman and the Chief Executive Officer (CEO).
- There are defined and documented mandates and responsibilities (as well as delegated authorities where applicable) for senior management.

The Bank's corporate governance structure and organisation chart is set out on page 47 of this Annual Report.

BOARD OF DIRECTORS

Under GIB's AoA the Board is comprised of up to ten members to be appointed or elected every three years. The AoA gives the right to each shareholder holding 10 per cent of the share capital to appoint one member on the Board. The shareholders exercising this right also have the right to terminate such appointment and replace the relevant directors. The appointment of directors is subject to prior approval from the CBB. In 2012, the shareholders re-appointed the directors for a new three year term.

GIB has a written appointment agreement with each director. This agreement describes the directors' powers, duties, responsibilities and accountabilities, as well as other matters relating to their appointment including their term, the time commitment envisaged, their assignment on the Board Committees, their remuneration and expense reimbursement entitlement and their access to independent professional advice when needed.

At the year end, the Board comprised seven non-executive directors, including the Chairman and Vice-Chairman, who together bring a wide range of skills and experience to the Board. Their biographies are set out on page 48 of this Annual Report.

INDEPENDENCE OF DIRECTORS

The independence or non-independence of the directors is subject to an annual review by the Board. As at 31st December 2014, two (2) directors of the Bank were classified as non-independent in accordance with the CBB regulations, and the other directors were classified as independent (see table on page 36).

BOARD RESPONSIBILITIES

The Board is responsible for the overall business performance and strategy of the Bank.

The Board establishes the objectives of the Bank, the adoption and annual review of strategy, the management structure and responsibilities, and the systems and controls framework. It monitors management performance, and the implementation of strategy by management, keeps watch over conflicts of interest and prevents abusive related party transactions.

The Board is also responsible for the preparation and fair representation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal controls as the Board determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The Board also convenes and prepares the agenda for shareholders meetings, and assures equitable treatment of shareholders including minority shareholders.

Finally, the Board delegates to management the responsibility for the day-to-day management of the Bank in accordance with policies, guidelines and parameters set by the Board.

In preparation for Board and committees meetings, the directors receive, in a timely manner, regular reports and all other information required for such meetings, supplemented by any additional information specifically requested by the directors from time to time. The directors also receive monthly financial reports and other regular management reports that enable them to evaluate the Bank's and management's performance against agreed objectives. As prescribed in GIB's Articles of Association, the Board plans at least four meetings per year, with further meetings to occur at the discretion of the Board.

The Board did not consider any issues that were outside the ordinary course of business during 2014.

The details of Board membership and directors' attendance during 2014 are set out in the following table.

DIRECTORS' ATTENDANCE JANUARY – DECEMBER 2014

Board members	Board meetings	Executive Committee meetings	Audit Committee meetings	Nomination & Remuneration Committee meetings	Risk Policy Committee meetings	Corporate Governance Committee meetings	Executive / Non-executive	Independent/ Non-independent
H.E. Jammaz bin Abdullah Al-Suhaimi, Chairman	6(6)	1(1)*					Non-executive	Independent
H.E. Dr. Hamad bin Sulaiman Al-Bazai, Vice Chairman	6(6)	1(1)			4(4)*		Non-executive	Non-independent
Professor Abdullah bin Hassan Alabdulgader	6(6)	1(1)	6(6)*			2(2)*	Non-executive	Independent
H.E. Sulaiman bin Abdullah Al-Hamdan	6(6)	1(1)		6(6)*			Non-executive	Independent
Mr. Abdulla bin Mohammed Al Zamil	6(6)			6(6)	4(4)	2(2)	Non-executive	Independent
Mr. Khaled bin Saleh Al-Mudaifer	6(6)		6(6)	5(6)		2(2)	Non-executive	Independent
Mr. Omar Hadir Al-Farisi	6(6)		6(6)		4(4)		Non-executive	Non-independent

* Committee Chairman
Figures in brackets indicate the maximum number of meetings during the year

BOARD COMMITTEES

The committees of the Board of Directors derive their authorities and powers from the Board. Details of committees' memberships and attendance are listed in the tables below:-

BOARD COMMITTEES' MEMBERSHIPS

Board committees	Member name	Member position
Executive Committee	H.E. Jammaz bin Abdullah Al-Suhaimi H.E. Dr. Hamad bin Sulaiman Al-Bazai H.E. Sulaiman bin Abdullah Al-Hamdan Professor Abdullah bin Hassan Alabdulgader	Chairman Member Member Member
Audit Committee	Professor Abdullah bin Hassan Alabdulgader Mr. Khaled bin Saleh Al-Mudaifer Mr. Omar Hadir Al-Farisi	Chairman Member Member
Nomination & Remuneration Committee	H.E. Sulaiman bin Abdullah Al-Hamdan Mr. Abdulla bin Mohammed Al Zamil Mr. Khaled bin Saleh Al-Mudaifer	Chairman Member Member
Risk Policy Committee	H.E. Dr. Hamad bin Sulaiman Al-Bazai Mr. Abdulla bin Mohammed Al Zamil Mr. Omar Hadir Al-Farisi	Chairman Member Member
Corporate Governance Committee	Professor Abdullah bin Hassan Alabdulgader Mr. Abdulla bin Mohammed Al Zamil Mr. Khaled bin Saleh Al-Mudaifer	Chairman Member Member

BOARD AND COMMITTEES MEETINGS DURING 2014

Type of meeting	Meeting dates
Board of Directors	1. 15th February 2014 2. 19th March 2014 3. 26th April 2014 4. 18th July 2014 5. 16th October 2014 6. 12th December 2014
Executive Committee	1. 16th October 2014
Audit Committee	1. 14th February 2014 2. 18th April 2014 3. 17th July 2014 4. 15th October 2014 5. 2nd November 2014 6. 12th December 2014
Nomination & Remuneration Committee	1. 11th January 2014 2. 25th February 2014 3. 18th March 2014 4. 17th April 2014 5. 18th July 2014 6. 29th September 2014
Risk Policy Committee	1. 15th February 2014 2. 17th April 2014 3. 17th July 2014 4. 15th October 2014
Corporate Governance Committee	1. 14th February 2014 2. 11th December 2014

EXECUTIVE COMMITTEE

The mandate of the Executive Committee requires it, among other things, to:-

- Assist the Board in formulating the executive policy of the Bank and controlling its implementation.
- Assist the Board by reviewing, evaluating, and making recommendations to the Board with regard to key strategic issues or material changes in key strategic objectives or direction.
- Approve credit limits that exceed the authority of the CEO subject to the limits approved by the Board.
- Carry out additional responsibilities specifically mandated to it by the Board.
- Exercise the powers of the Board on matters for which the Board has not otherwise given specific direction in circumstances in which it is impossible or impractical to convene a meeting of the Board (and subject to applicable law and GIB's Agreement of Establishment & Articles of Association). However, the Board may, acting unanimously, modify or amend any decision of the committee on such matters.

In all cases, the members of the committee must exercise their business judgement to act in what they reasonably believe to be in the best interests of the Bank and its shareholders.

AUDIT COMMITTEE

The role of the Audit Committee is to review the Group's financial position and make recommendations to the Board on financial matter, internal controls, compliance and legal requirements. Its responsibilities include:-

- Assisting the Board in its oversight of (i) the integrity and reporting of the Bank's quarterly and annual financial statements, (ii) compliance with legal and regulatory requirements; (iii) the Bank's systems of internal controls; and (iv) the qualifications, independence and performance of the Bank's internal and external auditors.
- Overseeing performance of the Bank's internal audit function and independent audits.

The mandate of the Audit Committee provides further particulars on financial reporting processes, process improvements, and additional ethical and legal compliance overview responsibilities. The Group Chief Auditor reports functionally to the Audit Committee and administratively to the CEO.

RISK POLICY COMMITTEE

The committee assists the Board in fulfilling its oversight responsibilities in respect of setting the overall risk appetite, parameters and limits within which the Bank conducts its activities. On an on-going basis, the committee:-

- Ensures that realistic policies in respect of management of all significant risks are drafted and approved appropriately.
- Receives, reviews, challenges and recommends for approval by the Board any proposed amendments to the overall risk appetite of the Bank.
- Monitors whether management maintains a culture that rewards the recognition, communication and management of risks.
- Ensures that roles and responsibilities for risk management are clearly defined, with Group and/or division heads directly responsible, and that heads of risk management and the control functions are in supporting or monitoring roles, independent of business development.
- Ensures that management reports significant excesses and exceptions, as and when they arise, to the committee for information and review.
- Ensures that, on a timely basis, management informs the committee of all significant risks arising and that it is comfortable with management's responses and actions taken to address such findings.
- Reviews the Bank's risk profile and significant risk positions and in so doing:-
  - Receives reports on credit exposure by country, credit grade, industry/concentration and credit stress tests.
  - Receives reports on liquidity and market risk positions (VaR).
  - Receives updates on operational risk management.
  - Receives reports on changes to credit approvals or extension processes, credit risk measurement, market risk measurement and risk control measures.

NOMINATION & REMUNERATION COMMITTEE

The principal objective of the committee is to help the Board with ensuring that the Bank's remuneration levels remain competitive for the Bank to continue to attract, retain and motivate competent staff to achieve the strategy and objectives of the Bank. The responsibilities of the committee, as stated in its mandate, also include, but are not limited to, the following:-

Nomination matters:-

- Assessing the skills and competencies required on the Board, the committees of the Board and senior management.
- Assessing from time to time the extent to which the required skills are represented on the Board and senior management.
- Establishing processes for reviewing the performance of the individual directors and the Board as a whole.
- Establishing processes for reviewing the performance of the individual senior executives and senior management as a whole.
- Overseeing directors' corporate governance educational activities.
- Establishing processes for the identification of suitable candidates for senior management and identifying and recommending individuals qualified to become members of senior management.
- Establishing a succession plan for members of senior management.

Remuneration matters:-

Reviewing and making recommendations to the Board in respect of:-

- The executive remuneration and incentive policy which includes the fixed and variable remuneration for approved persons, and material risk-takers.
- Policies relating to recruitment, retention, performance measurement and termination for the directors, the Chief Executive Officer and members of senior management.
- Approve, monitor and review the remuneration system to ensure the system operates as intended.
- Approve the remuneration amounts for each approved person and material risk-taker, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits.
- Review the stress testing and back testing results before approving the total variable remuneration to be distributed including salaries, fees, expenses, bonuses and other employee benefits.

CORPORATE GOVERNANCE COMMITTEE

The role of the committee is to assist the Board in shaping and monitoring the corporate governance policies. Its responsibilities include:-

- Overseeing the development and maintenance of corporate governance policies.
- Monitoring the Bank's compliance with regulatory requirements relating to corporate governance.
- Review mandates and performance evaluations of the Board and its committees, and recommend to the Board any improvements deemed necessary or desirable to the mandates.
- Review classification of individual directors and declaration of directors and members of senior management regarding their outside activities and interest to determine whether any conflict of interest exists and take appropriate steps in that regard.
- Overseeing the Bank's public reporting on corporate governance matters.

EVALUATION OF THE BOARD OF DIRECTORS

The mandates of the Corporate Governance and the Nomination & Remuneration committees, as well as the Board Charter, reflect the requirement that the Board must conduct an evaluation of its performance and the performance of each committee and of each individual director at least annually. The Board reviewed independent performance reports from each of its committees as well as a report on its own performance by evaluating the major activities undertaken during the year in comparison with the respective mandates. The evaluation of individual directors included measurable rating scales, self-evaluations and the Chairman's input. A report on the evaluations conducted each year is also provided to shareholders at each AGM.

INDUCTION & THE CONTINUING EDUCATION OF DIRECTORS

In April 2014, the Board was provided a refresher session in the form of a workshop on corporate governance covering key local regulations and the latest development impacting the Bank and its board members. Furthermore, the Board and its committees regularly receive updates on key development in the regulatory and other areas that fall under their responsibilities (such as the update on the International Accounting Standards and the remuneration regulations issued by the CBB).

Also, in December 2014, the Board received an update in key development in the regulations in jurisdictions where the Bank has physical presence (Bahrain, Saudi Arabia and United Kingdom).

The Board also stresses the importance of providing training and development opportunities for the directors. The Board has passed a resolution to encourage directors to seek any training they deem necessary (with the Bank bearing the expenses of such training), and the directors are frequently briefed on the availability of training opportunities.

MANAGEMENT

The senior management team is responsible for the day-to-day management of the Bank entrusted to it by the Board. It is headed by the CEO, who is assisted by the Managing Director-Chief Financial Officer, the Managing Director-Chief Risk Officer, the Senior Managing Director-Chief Operating Officer, the Managing Director-Wholesale Banking Head, the Retail Banking Head, the Chief Investment and Treasury Officer, the Chief Information Officer and the Chief Human Resources Officer. The biographies of the key members of the senior management team are set out on page 50 of this Annual Report.

Six committees assist the CEO in the management of the Bank, which are:-

- Management Committee
- Group Risk Committee
- Assets and Liabilities Committee (ALCO)
- Human Resources Committee
- Information Security Committee
- Operational Risk Committee

These committees derive their authorities from the CEO, based on the authorities and limits delegated by the Board.

In fulfilling its principal responsibility for the day-to-day management of the Bank, the senior management team is required to implement Board-approved policies and effective controls, within the strategy and objectives set by the Board.

Letters of appointment are issued to members of the senior management team setting out their specific responsibilities and accountabilities that include assisting with and contributing to the following:-

- Formulation of the Bank's strategic objectives and direction.
- Formulation of the Bank's annual budget and business plan.
- Ensuring that high-level policies are in place for all areas and that such policies are fully applied.
- The setting and management of risk/return targets in line with the Bank's overall risk appetite.
- Determining the Bank's overall risk-based performance measurement standards.
- Reviewing business units' performance and initiating appropriate action.
- Ensuring that the Bank operates to the highest ethical standards and complies with both the letter and spirit of the law, applicable regulations and codes of conduct.
- Ensuring that the Bank is an exemplar of good business practice and customer service.

Their attention is also drawn to the fact that these obligations are in addition to their specific functional responsibilities and objectives, and those set out in the Bank's Corporate Policy Manual.

REMUNERATION

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

During the year, the Bank has adopted the Sound Remuneration Practices issued by the CBB and has updated its variable remuneration framework. The Board has approved the revised policy framework and incentive components for submission to shareholders approval at the 2015 AGM. The key features of the remuneration framework have been summarized below.

Remuneration strategy

It is the Bank's basic compensation philosophy to provide a competitive level of total compensation to attract, retain and motivate qualified and competent employees. The Bank's variable remuneration policy is driven primarily by a performance based culture that aligns employee interests with those of the shareholders of the Bank. These elements support the achievement of set objectives through balancing reward for both short-term results and long-term sustainable performance. The strategy is designed to share its success, and to align employees' incentives with the risk framework and risk outcomes.

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

- fixed pay;
- benefits;
- annual performance bonus; and
- deferred bonus share plan.

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

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

In order to ensure alignment between what is paid to employees and the business strategy, GIB assess bank-wide, divisional and individual performance against annual and long-term financial and non-financial objectives summarised in line with the business planning and performance management process. This takes into account adherence to the Bank's values, risk and compliance measures and above all acting with integrity. Altogether, performance is therefore judged not only on what is achieved over the short and long-term but also importantly on how it is achieved, as the latter contributes to the long-term sustainability of the business.

NRC role and focus

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

The aggregate remuneration paid to the NRC members during the year in the form of sitting fees amounted to US$51,000 [2013: US$36,000].

External consultants

Consultants were appointed during the year to advise the Bank on amendments to its variable remuneration policy to be in line with the CBB's Sound Remuneration Practices and industry norms. This included assistance in designing an appropriate Share-based Incentive Scheme for the Bank. The NRC also appointed consultants during the year to perform a pay benchmarking exercise to assist them in reviewing the total compensation offered by the Bank.

Scope of application of the remuneration policy

The principles of this remuneration policy apply on a group-wide basis. However, application of deferral requirements and issue of non-cash instruments for foreign branches and subsidiaries of the Bank is determined by applicable local regulations and market norms.

Board remuneration

The Bank's board remuneration is determined by its shareholders in line with its Articles of Association. The compensation is linked to actual attendance of meetings. The structure and level of the compensation for the members of the Board are approved by the AGM and consist of the following:-

- Attendance fees payable to members attending different Board-related committees meetings.
- Allowance to cover travelling, accommodation and subsistence, while attending Board and related committees meetings.
- A pre-defined fixed amount representing an annual remuneration fees.

In 2014, the aggregate remuneration paid to Board members and key management personnel was US$8.5 million [2013: US$9.0 million] of which US$2.5 million [2013: US$2.4 million] was paid to the Board members.

Variable remuneration for staff

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

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

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

In determining the amount of variable remuneration, the Bank starts from setting specific targets, establishing market comparable bottom-up, setting a profit target and other qualitative performance measures that would result in a target top-down bonus pool. The bonus pool is then adjusted to take account of risk via the use of risk-adjusted measures.

The NRC carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. NRC demonstrates that its decisions are consistent with an assessment of the Bank's financial condition and future prospects.

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

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

Remuneration of control functions

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

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

Variable compensation for business units

The variable compensation for the business units is primarily decided by the key performance objectives set through the performance management system of the Bank. Such objectives contain financial and non-financial targets, including risk control, compliance and ethical considerations as well as market and regulatory environment.

Risk assessment framework

The risk assessment framework of the Bank aligns variable remuneration to the risk profile of the Bank and also ensures that the Bank's remuneration policy reduces employees' incentives to take excessive and undue risk. The Bank considers both quantitative measures and qualitative measures in the risk assessment process and risk adjustments are applied to ensure that the Bank's remuneration policies are aligned to its risk appetite.

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

Risk adjustments take into account for all types of risks, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Bank undertakes risk assessment to review financial and operational performance against the business strategy and risk performance prior distribution of the annual bonus. The Bank ensures that total variable remuneration does not limit its ability to strengthen its capital base.

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

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

- The capital required to support the risks taken;
- The level of liquidity risk assumed in the conduct of business; and
- Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

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

Risk adjustments

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

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

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

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

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

Malus and Clawback framework

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

The Bank's malus and clawback provisions allows the Bank's Board to determine that, if appropriate, vested/unvested elements under the deferred bonus plan can be adjusted/cancelled in certain situations. These events includes but not limited to the following:-

- Reasonable evidence of misbehaviour or material error by the employee causing harm to the Bank's reputation or where the employee's actions have amounted to misconduct, incompetence or negligence.
- The employee's business unit suffers a material downturn in its financial performance or a material risk management failure or a material restatement of the financial statements of the Bank.
- The employee deliberately misleading the market and/or shareholders in relation to the financial performance of the Bank.
- A significant deterioration in the financial health of the Bank or relevant line of business incurring losses.

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

Components of variable remuneration

Variable remuneration has following main components:-

Upfront cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of 3 years.
Upfront share awards	The portion of variable compensation that is awarded and issued in the form of shares on conclusion of the performance evaluation process for each year.
Deferred shares	The portion of variable compensation that is awarded and paid in the form of shares on a pro-rata basis over a period of 3 years.

All deferred awards are subject to malus provisions. All share awards are released to the benefit of the employee after a six (6) month retention period from the date of vesting. The number of equity share awards is linked to the Bank's share price as per the rules of the Bank's Share Incentive Scheme. Any dividend on these shares is released to the employee along with the shares (i.e. after the retention period).

Deferred remuneration

All employees from the grade of Senior Vice-President ("SVP") and higher shall be subject to deferral of variable remuneration as follows:-

	Allocation of variable remuneration					
Element of variable remuneration	**CEO, MDs and 5 highest paid business line employees**	**SVP and higher**	**Deferral period**	**Retention**	**Malus**	**Clawback**
Upfront cash	40%	50%	none	-	-	Yes
Upfront shares	-	10%	none	6 months	Yes	Yes
Deferred cash	10%	-	3 years*	-	Yes	Yes
Deferred share awards	50%	40%	3 years*	6 months	Yes	Yes

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

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

Details of remuneration

(a) Board of Directors

US$ thousands	2014	2013
Sitting fees	343	377
Remuneration fees	1,191	1,179
Others*	936	825
	2,470	**2,381**

* Represents allowance to cover travelling and accommodation while attending Board and related committees meetings including fees paid to a member for providing advisory services to the Bank US$360,000 (2013: US$360,000).

(b) Employee remuneration

2014

US$ thousands	Number of staff	Fixed remuneration – Cash	Fixed remuneration – Others	Sign on bonuses (Cash / shares)	Guaranteed bonuses (Cash / shares)	Variable remuneration – Upfront – Cash	Variable remuneration – Upfront – Shares	Variable remuneration – Deferred – Cash	Variable remuneration – Deferred – Shares	Variable remuneration – Deferred – Others	Total
Approved persons											
- Business Lines	7	2,880	331	-	-	793	8	188	972	-	5,172
- Control & Support	9	2,740	297	-	-	407	55	33	384	-	3,916
Other material risk takers	8	1,617	227	-	-	188	38	-	150	-	2,220
Other staff	241	24,452	4,563	-	-	2,697	36	-	145	-	31,893
Overseas staff	665	46,764	8,908	-	-	8,105	-	-	-	-	63,777
	930	**78,453**	**14,326**	**-**	**-**	**12,190**	**137**	**221**	**1,651**	**-**	**106,978**

Other staff expenses reported in the consolidated statement of income that have not been included in the table above, amounting to US$8.4 million, comprise indirect staff costs including training, recruitment expenses, life assurance contributions, and differences between accrued staff expenses and the amounts actually paid.

2013

US$ thousands	Number of staff	Fixed remuneration – Cash	Fixed remuneration – Others	Sign on bonuses (Cash / shares)	Guaranteed bonuses (Cash / shares)	Variable remuneration – Upfront – Cash	Variable remuneration – Upfront – Shares	Variable remuneration – Deferred – Cash	Variable remuneration – Deferred – Shares	Variable remuneration – Deferred – Others	Total
Approved persons											
- Business Lines	8	3,136	364	-	-	2,117	-	-	-	-	5,617
- Control & Support	9	2,508	274	-	-	1,091	-	-	-	-	3,873
Other material risk takers	14	2,558	308	-	-	596	-	-	-	-	3,462
Other staff	258	30,458	5,472	-	-	3,585	-	-	-	-	39,515
Overseas staff	452	28,240	6,696	-	-	7,711	-	-	-	-	42,647
	741	**66,900**	**13,114**	**-**	**-**	**15,100**	**-**	**-**	**-**	**-**	**95,114**

Other staff expenses reported in the consolidated statement of income that have not been included in the table above, amounting to US$6.2 million, comprise indirect staff costs including training, recruitment expenses, life assurance contributions, and differences between accrued staff expenses and the amounts actually paid.

(c) Severance pay

The severance payments during the year amounted to US$410,117 [2013: US$191,210] of which the highest paid to a single person amounted to US$152,403 [2013: US$125,798].

CORPORATE COMMUNICATIONS

The Bank has in place a Corporate Communications Policy which ensures that the disclosures made by GIB are fair, transparent, comprehensive and timely, and reflect the character of the Bank and the nature, complexity and risks inherent in its business activities. Main communications channels include the Annual Report, corporate brochures, staff newsletters, and announcements in the appropriate media.

This transparency is also reflected in the Bank's website (www.gib.com) that provides substantial information on the Bank, including its profile and milestones; vision, mission, values, strategy and objectives; its financial statements; and its press releases.

CODE OF CONDUCT

The Bank's website also contains the Board-approved Code of Conduct that contains rules on conduct, ethics and on avoiding conflicts of interest, applicable to all the employees and directors of the Bank. The Code of Conduct is designed to guide all employees and directors through best practices to fulfil their responsibilities and obligations towards the Bank's stakeholders (shareholders, clients, staff, regulators, suppliers, the public, the host countries in which the Bank conducts business, etc.), in compliance with all applicable laws and regulations.

The Code addresses such issues as upholding the law and following best practices; acting responsibly, honestly, fairly and ethically; avoiding conflicts of interest; protecting Bank property and data; protecting client confidential information and safeguarding the information of others; complying with inside information rules and with the prohibition on insider trading; preventing money laundering and terrorism financing; rejecting bribery and corruption; avoiding compromising gifts; as well as speaking up and 'whistle blowing'.

All employees and directors of the Bank are reminded every year of their obligations under the Code of Conduct by means of an email from the Bank that includes a copy of the Code of Conduct (in English and Arabic) and everyone is required to sign an Acknowledgment and Declaration confirming that they have received and read the Code of Conduct, understand its requirements, have followed and will continue to follow these requirements, and agree that if they have any concern about any possible misconduct or breach of the Code of Conduct they will raise the concern with the appropriate persons within the Bank as per the Code.

In addition, all employees of the Bank must sign an annual Declaration on outside employment and other activities, to ensure that no conflicts of interest exist. These Declarations are addressed to the Bank's Human Resources department. Similarly, all directors and members of the Management Committee must complete and sign a similar annual Declaration, addressed to the Corporate Governance Committee of the Board.

DISCLOSURES

The Bank's website also provides access to GIB's Annual Reports, and all the information contained in these reports is therefore accessible globally. That information includes management discussion on the business activities of the Bank, as well as discussion and analysis of the financial statements and risk management. The financial information reflects the latest international accounting standards requirements, including the revised employee benefits standard issued under International Accounting Standard No. 19 as well as increased level of disclosure resulting from the adoption of International Financial Reporting Standard No. 13 – Fair Value Measurement.

The Board-approved Disclosure Policy is in accordance with the requirements of Basel 2 Pillar 3, in compliance with CBB rules. The objective of this Policy is to ensure transparency in the disclosure of the financial and risk profiles of the Bank to all interested parties.

POLICY ON CONNECTED COUNTERPARTIES

The Board-approved Policy on Connected Counterparties governs GIB's dealings with such parties. The Policy defines which parties are considered to be connected with GIB within the criteria set by the CBB and imposes not only the limitations placed by the CBB but also additional criteria imposed by GIB. The policy sets out the internal responsibilities for reporting GIB's connected counterparties exposures to the CBB, and the disclosures to be made in GIB's financial statements and Annual Reports, in line with applicable disclosure requirements.

POLICY ON RELATED PARTY TRANSACTIONS

GIB has a Board-approved Policy for the approval of related party transactions. The Bank's dealings with its shareholders are conducted on an arms-length basis in respect of its exposure to and deposits received from them. If loans are extended to related parties, these are approved on the basis of authorities delegated by the Board to the CEO. If the loans exceed these authorities, then further approval from the Executive Committee or the Board is requested. The Bank will not deal with any of its directors in a lending capacity. It should be noted that Article 16 of the Articles of Association prevents directors of the Bank from having any interest, directly or indirectly, in any contract with the Bank.

All loans to senior management members (including the CEO and his direct reports), as well as staff of GIB, are governed by the policies applicable to staff. These policies are reviewed by the Nomination & Remuneration Committee of the Board at least annually. All dealings with companies associated with a GIB director or member of the senior management are referred to the Board for approval.

MATERIAL TRANSACTIONS THAT REQUIRE BOARD APPROVAL

The Bank has delegated credit authority to the CEO based on a risk-rating matrix. When considering transactions, any exposure to an entity that exceeds the CEO's limit will require the approval of the Board Executive Committee or the Board.

COMPLIANCE

The Compliance framework adopted by the Board reflects the principles for promoting sound compliance practices at GIB. It also demonstrates the Bank's adherence to applicable legal and regulatory requirements and to high professional standards. The role of the Compliance function is to assist senior management to ensure that the activities of GIB and its staff are conducted in conformity with applicable laws and regulations, and generally with sound practices pertinent to those activities. The Head of Compliance (Bahrain), who reports directly to the CEO, also has access to the Board through the Audit Committee, if required.

In ensuring that the tone emanates from the top, the CEO issues a yearly message to all of GIB employees reminding everyone of the importance of complying with all laws and regulations applicable to GIB's operations; good compliance behaviour is also rewarded by making it a mandatory measurement item in staff evaluations.

ANTI-MONEY LAUNDERING

The Bank's current anti-money laundering and combating the financing of terrorism (AML/CFT) procedures and guidelines in place at GIB conform to the legal and regulatory requirements of the Kingdom of Bahrain. These legal and regulatory requirements largely reflect the FATF recommendations on Money Laundering. The GIB AML/CFT procedures and guidelines apply to all of the Bank's offices, branches and subsidiaries, wherever located. In addition, the GIB entities located outside Bahrain are subject to the laws and requirements of the jurisdictions where they operate, and if local standards differ, the higher standards apply.

Systems are in place to ensure that business relationships are commenced with clients whose identity and activities can reasonably be established to be legitimate, to collect and record all relevant client information, to monitor and report suspicious transactions, to provide periodic AML/CFT training to employees, and to review with external auditors the effectiveness of the AML/CFT procedures and controls. The GIB AML/CFT procedures prohibit dealing with shell banks. A proactive structure of officers is in place to ensure group-wide compliance with AML/CFT procedures, and the timely update of the same to reflect the changes in regulatory requirements. This structure consists of the Head of Compliance (Bahrain) and the Group Money Laundering Reporting Officer, MLROs, and Deputy MLROs.

CORPORATE GOVERNANCE FRAMEWORK – AUDIT

The Internal Audit review of the Bank's Corporate Governance framework is conducted annually as a separate project since the introduction of the corporate governance rules in 2010. Accordingly, the latest audit was undertaken in May 2014. The purpose of the audit was to provide a level of assurance over the processes of corporate governance within the Bank. The scope of the audit included reviewing the existing policies, procedures and current practices followed by GIB in light of the CBB rules contained in the HC Module of the CBB Rulebook.

The overall conclusion of the audit was that the Corporate Governance framework of GIB appears to be operating effectively and is providing a sound framework to control the risks inherent in GIB's current business activities.

STATUS OF COMPLIANCE WITH THE CBB RULES (MODULE HC)

GIB is in compliance with the CBB rules on Corporate Governance outlined in Module HC of the CBB Rulebook, and instances of non-compliance in 2014 are explained as follows:-

- Module HC 7.2.2 requires all directors to attend and be available to answer questions from shareholders at any shareholder meeting. The Chairman of the Board of Directors did not attend the Annual General Meeting ("AGM") that was held on 19th March 2014. The Vice-Chairman of the Board chaired the AGM.
- Under Article 2 of GIB's Agreement of Establishment approved by Decree Law No. (30) for the year 1975 (as amended from time to time) (the "Agreement of Establishment"), GIB is subject to the Agreement of Establishment and its AoA (together the "GIB Constitutional Documents"), and in the event of any conflict between the GIB Constitutional Documents and the internal law of the Kingdom of Bahrain, the terms of the Constitutional Documents shall prevail. As a result, certain Corporate Governance requirements under HC-1, HC-4 and HC-5 that are in conflict with the AoA such as the nomination of Directors, the attendance requirements for Directors, the prohibition against proxies at Board Meetings and the Board of Directors total remuneration, have not been adopted.