



Corporate governance report

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 considered essential at GIB, both in achieving organisational integrity and efficiency, as well as in attaining fairness to all stakeholders.

SOUND GOVERNANCE PRACTICE

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. Since 2003, the Bank has regularly published a statement on corporate governance in its annual reports.

Currently, GIB has in place many measures that are hallmarks of good corporate governance practices, such as comprehensive mandates for the Board of Directors (Board) and for Directors and for Board Committees; a Code of Conduct (Code of Conduct, Ethics and Avoiding Conflicts of Interest) in both English and Arabic published on the Bank’s website; and a detailed operating policy that anticipated the new requirements of the Central Bank of Bahrain (CBB). Subsequently, GIB adopted additional measures that included, among other things, an updated Board Charter and updated mandates of the Board Committees; an enhanced Whistle Blowing Policy; a Board Corporate Governance Committee; the establishment of a dedicated Corporate Governance Unit within the Compliance department; and an update of its variable remuneration framework to fully comply with the Sound Remuneration Practices issued by the CBB.

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 shared with the Board on its meeting of 16th December 2018.

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

Corporate governance report (continued)

The measures adopted by GIB formally entrenched a culture of professional corporate governance across 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) 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 Report.

GIB discloses in the Annual Report additional information required to be disclosed in accordance with Section PD-1.3.8 of the CBB Rulebook Volume 1, and the Board also discloses to the Shareholders the information required to be disclosed to them annually in accordance with 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%
State General Reserve Fund 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 Group 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 64 of this Annual Report.

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BOARD OF DIRECTORS

Under GIB's AoA, the Board comprises up to 10 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 August 2018, the Public Investment Fund (PIF), as holder of 97.226 per cent shareholding percentage, appointed the new Board of Directors for the period from August 2018 till August 2021. During the first Board meeting in October 2018, Dr Abdullah Alabdulgader was appointed as the Chairman of the Board, and Mr. Abdulla Al Zamil as the Vice Chairman of the Board.

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 to Board Committees, their remuneration and expense reimbursement entitlement, and their access to independent professional advice when needed.

At the year end, the Board comprised eight Directors of whom seven are non-executive directors, including the Chairman and Vice Chairman, and one executive Director, who together bring a wide range of skills and experience to the Board. Their biographies are set out on page 57 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 31 December 2018, one Director of the Bank was classified as non-independent in accordance with CBB regulations, and the other Directors were classified as independent (see table on page 43).

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 Committee 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 AoA, the Board plans at least four meetings per year, with further meetings to occur at the discretion of the Board.

The details of Board membership and Directors' attendance during 2018 are set out in the following table:

Corporate governance report (continued)

DIRECTORS' ATTENDANCE JANUARY - AUGUST 2018 MEETINGS

Board members	Board	Executive Committee	Audit Committee	Nomination Remuneration Committee	Risk Policy Committee	Corporate Governance Committee	Executive / Non-Executive	Independent / Non-independent
Dr Abdullah bin Hassan Al-Abdul-Gader	5(5)	5(5)				1(1)	Non-Executive	Independent
Mr. Abdulla bin Mohammed Al Zamil	5(5)			3(3)	3(3)	1(1)	Non-Executive	Independent
Mr. Khaled bin Saleh Al-Mudaifer	5(5)		3(3)	3(3)		1(1)	Non-Executive	Independent
Mr. Omar Hadir Al-Farisi	5(5)		3(3)	3(3)	3(3)		Non-Executive	Independent
Dr. Yahya Abdullah Alyahya	5(5)	5(5)	3(3)		3(3)		Non-Executive	Independent
Mr. Abdulaziz Al-Helaissi	5(5)	5(5)					Executive	Non-Independent

DIRECTORS' ATTENDANCE AUGUST - DECEMBER 2018 MEETINGS

Board members	Board	Executive Committee	Audit Committee	Nomination Remuneration Committee	Risk Policy Committee	Corporate Governance Committee	Innovation Committee	Executive / Non-Executive	Independent / Non-independent
Dr. Abdullah bin Hassan Al-Abdul-Gader	2(2)	1(1)						Non-Executive	Independent
Mr. Abdulla bin Mohammed Al Zamil	2(2)		1(1)	1(1)		1(1)		Non-Executive	Independent
Mr. Abdulaziz bin Abdulrahman Al-Helaissi	2(2)	1(1)					1(1)	Executive	Non-Independent
Dr. Najem bin Abdulla Al Zaid	2(2)			1(1)	1(1)	1(1)		Non-Executive	Independent
Mr. Sultan bin Abdul Malik Al-Sheikh	2(2)	1(1)	1(1)				1(1)	Non-Executive	Independent
Mr. Bander bin Abdulrahman bin Mogren	1(2)			1(1)		1(1)		Non-Executive	Independent
Mr. Frank Schwab	2(2)	1(1)			1(1)		1(1)	Non-Executive	Independent
Mr. Rajeev Kakar	2(2)	1(1)	1(1)		1(1)			Non-Executive	Independent

Figures in (brackets) indicate the maximum number of meetings during the year.

Corporate governance report (continued)

BOARD COMMITTEES

The Committees of the Board derive their authorities and powers from the Board. Details of Committees' membership and attendance are listed in the tables below:

BOARD COMMITTEES' MEMBERSHIP (JANUARY – AUGUST 2018)

Board committees	Member name	Member position
Executive Committee	Dr. Abdullah bin Hassan Alabdulgader	Chairman
	Dr. Yahya bin Abdulla Alyahya	Member
	Mr. Abdulaziz Al-Helaissi	Member
Audit Committee	Dr. Yahya bin Abdulla Alyahya	Chairman
	Mr. Khaled bin Saleh Al-Mudaifer	Member
	Mr. Omar Hadir Al-Farisi	Member
Nomination & Remuneration Committee	Mr. Khaled bin Saleh Al-Mudaifer	Chairman
	Mr. Abdulla bin Mohammed Al Zamil	Member
	Mr. Omar Hadir Al-Farisi	Member
Risk Policy Committee	Mr. Omar Hadir Al-Farisi	Chairman
	Mr. Abdulla bin Mohammed Al Zamil	Member
	Dr. Yahya bin Abdulla Alyahya	Member
Corporate Governance Committee	Mr. Abdulla bin Mohammed Al Zamil	Chairman
	Dr. Abdullah bin Hassan Alabdulgader	Member
	Mr. Khaled bin Saleh Al-Mudaifer	Member

BOARD COMMITTEES' MEMBERSHIP (AUGUST - DECEMBER 2018)

Board committees	Member name	Member position
Executive Committee	Dr. Abdullah bin Hassan Alabdulgader	Chairman
	Mr. Abdulaziz Al-Helaissi	Member
	Mr. Sultan bin Abdul Malik Al-Sheikh	Member
	Mr. Frank Schwab	Member
	Mr. Rajeev Kakar	Member
Audit Committee	Mr. Sultan bin Abdul Malik Al-Sheikh	Chairman
	Mr. Abdulla bin Mohammed Al Zamil	Member
	Mr. Rajeev Kakar	Member
Nomination & Remuneration Committee	Mr. Abdulla bin Mohammed Al Zamil	Chairman
	Dr. Najem bin Abdulla Al-Zaid	Member
	Mr. Bander bin Abdulrahman bin Mogren	Member
Risk Policy Committee	Dr. Najem bin Abdulla Al-Zaid	Chairman
	Mr. Frank Schwab	Member
	Mr. Rajeev Kakar	Member
Corporate Governance Committee	Dr. Najem bin Abdulla Al-Zaid	Chairman
	Mr. Abdulla bin Mohammed Al Zamil	Member
	Mr. Bander bin Abdulrahman bin Mogren	Member
Innovation Committee	Mr. Frank Schwab	Chairman
	Mr. Abdulaziz bin Abdulrahman Al-Helaissi	Member
	Mr. Sultan bin Abdul Malik Al-Sheikh	Member

Corporate governance report (continued)

BOARD AND COMMITTEES MEETINGS DURING 2018

Type of meeting	Meeting dates
Board Committee	<ol style="list-style-type: none"> 16 February 2018 29 March 2018 13 April 2018 29 May 2018 24 July 2018 21 October 2018 16 December 2018
Executive Committee	<ol style="list-style-type: none"> 11 February 2018 16 February 2018 29 March 2018 13 April 2018 24 July 2018 16 December 2018
Audit Committee	<ol style="list-style-type: none"> 16 February 2018 12 April 2018 23 July 2018 15 December 2018
Nomination & Remuneration Committee	<ol style="list-style-type: none"> 15 February 2018 20 March 2018 23 July 2018 15 December 2018
Risk Policy Committee	<ol style="list-style-type: none"> 16 February 2018 12 April 2018 23 July 2018 16 December 2018
Corporate Governance Committee	<ol style="list-style-type: none"> 15 February 2018 15 December 2018
Nomination Committee	<ol style="list-style-type: none"> 16 February 2018

EXECUTIVE COMMITTEE

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

1. Assist the Board in formulating the executive policy of the Bank and controlling its implementation.
2. 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.
3. Approve credit limits that exceed the authority of the Group CEO, subject to the limits approved by the Board.
4. Carry out additional responsibilities specifically mandated to it by the Board.
5. 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, 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 matters, internal controls, compliance and legal requirements. Its responsibilities include:

1. 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.
2. 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 Group CEO.

Corporate governance report (continued)

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:

1. Ensures that realistic policies in respect of management of all significant risks are drafted and approved appropriately.
2. Receives, reviews, challenges and recommends for approval by the Board any proposed amendments to the overall risk appetite of the Bank.
3. Monitors whether Management maintains a culture that rewards the recognition, communication and management of risks.
4. 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.
5. Ensures that Management reports significant excesses and exceptions, as and when they arise, to the Committee for information and review.
6. 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.
7. Reviews the Bank's risk profile and significant risk positions and in so doing:
 - Receives reports on credit exposure by country, credit rating, industry/concentration, nonperforming loans and credit stress tests
 - Receives reports on liquidity and market risk positions (VaR)
 - Receives updates on operational risk management
 - Receives updates on cyber risks
 - Receives updates on strategic risks
 - Receives reports on changes to credit approvals or extension processes, credit risk measurement, market risk measurement and risk control measures
 - Receives updates on retail banking risks

NOMINATION & REMUNERATION COMMITTEE

The principal objective of the Committee is to help the Board in ensuring that the Bank's remuneration levels remain competitive for GIB 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:

1. Assessing the skills and competencies required on the Board, the Committees of the Board, and Senior Management.
2. Assessing from time to time the extent to which the required skills are represented on the Board and Senior Management.
3. Establishing processes for reviewing the performance of individual Directors and the Board as a whole.
4. Establishing processes for reviewing the performance of individual Senior Executives and Senior Management as a whole.
5. Overseeing Directors' corporate governance educational activities.
6. Establishing processes for the identification of suitable candidates for Senior Management, and identifying and recommending individuals qualified to become members of Senior Management.
7. Establishing a succession plan for Senior Management.

Remuneration matters:

Reviewing and making recommendations to the Board in respect of:

1. The executive remuneration and incentive policy which includes the fixed and variable remuneration for approved persons, and material risk-takers.
2. Policies relating to recruitment, retention, performance measurement and termination for the Directors, Group CEO and Senior Management.
3. Approve, monitor and review the remuneration system to ensure the system operates as intended.
4. 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.
5. 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 report (continued)

CORPORATE GOVERNANCE COMMITTEE

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

1. Overseeing the development and maintenance of corporate governance policies.
2. Monitoring the Bank's compliance with regulatory requirements relating to corporate governance.
3. Reviewing mandates and performance evaluations of the Board and its Committees, and recommend to the Board any improvements deemed necessary or desirable to the mandates.
4. Reviewing classification of individual Directors, and declaration of Directors and members of Senior Management regarding their outside activities and interests to determine whether any conflict of interest exists, and take appropriate steps in that regard.
5. Overseeing the Bank's public reporting on corporate governance matters.

INNOVATION COMMITTEE

The role of the Committee is to assist the Board in its responsibilities by overseeing and advising on the Bank's innovation and digitisation agenda, including but not limited to, innovation and digital banking strategy, and innovation portfolio. Its responsibilities include:

1. Support the Management as a sounding-board.
2. Review and recommend to the Board the approval of the Bank's innovation strategy and operating model that has been presented by Management. Review and discuss significant emerging innovation and technology-related issues and trends.
3. Provide guidance and support in managing the organisation's cultural challenges.
4. Oversee Management's development and implementation of the Bank's innovation strategy, and its alignment with the Bank's overall strategic objectives, including: (i) Bank's progress in implementing its innovation pipeline; and (ii) post implementation results of all key innovations, including the achievement of expected benefits and returns on investment.

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, 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

The Board and its Committees regularly receive updates on key developments in the regulatory and other areas that fall under their responsibilities.

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.

On 20-21 October 2018, the Bank's Corporate Governance Unit, in collaboration with the Senior Management Team, held thorough and comprehensive Board Induction sessions as part of the process of educating the newly-appointed Board members on the Bank's strategy, culture and performance.

Corporate governance report (continued)

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 Group CEO, who is assisted by the Group Chief Financial Officer, Group Chief Risk Officer, Group Chief Operating Officer, Group Wholesale Banking Head, Retail Banking Head, Group Chief Investment and Treasury Officer, Group Head of Compliance & Governance, and Group Human Resources Officer. The biographies of the key members of the Senior Management team are set out on page 60 of this Annual Report.

The following 1st level management committees assist the Group CEO in the management of the Bank:

1. Management Committee
2. Group Risk Committee
3. Assets and Liabilities Committee (ALCO)
4. Job Evaluation Committee
5. Information Security Management Committee
6. Operational Risk Committee
7. Tender Review Committee
8. Credit Committee
9. Strategy Execution Committee
10. Change Control Board
11. Investment Committee

These Committees derive their authorities from the Group 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:

1. Formulation of the Bank's strategic objectives and direction.
2. Formulation of the Bank's annual budget and business plan.
3. Ensuring that high-level policies are in place for all areas, and that such policies are fully applied.
4. The setting and management of risk/return targets in line with the Bank's overall risk appetite.
5. Determining the Bank's overall risk-based performance measurement standards.
6. Reviewing business units' performance and initiating appropriate action.

7. 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.
8. 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 GIB's policy on remuneration for Directors and Senior Management, and the key factors that were taken into account in setting the policy.

The Bank adopts Sound Remuneration Practices in accordance with CBB requirements. The Board approved the framework and incentive components, and obtained Shareholders' approval at the 2015 AGM. The key features of the remuneration framework are summarised below.

Remuneration strategy

The Bank's basic compensation philosophy is 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 GIB; 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
- 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).

Corporate governance report (continued)

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

To ensure alignment between what is paid to employees and the business strategy, GIB assesses 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\$36,000 [2017: US\$54,000].

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 Committee meetings
- Allowance to cover travelling, accommodation and subsistence, while attending Board and related Committee meetings
- A pre-defined fixed amount representing an annual remuneration fee

In 2018, the aggregate remuneration paid to Board members and key Management was US\$14.4 million [2017: US\$13.5 million] of which US\$2.6 million [2017: US\$2.3 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 reward 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 to determine 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.

Corporate governance report (continued)

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

The Bank uses a formalised and transparent process to adjust the bonus pool for quality of earnings. It is the Bank's objective to pay out bonuses out of realised 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 a 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 environments, apart from value-adding tasks which are specific to each unit.

Variable remuneration for business units

The variable remuneration 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 the market and regulatory environments.

Risk assessment framework

The risk assessment framework of GIB aligns variable remuneration to the risk profile of the Bank, and also ensures that the 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 NRC considers whether the variable remuneration policy is in line with the Bank's risk profile; and ensures that through the 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 consider all types of risks, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Bank undertakes risk assessment to review financial and operational performance against the business strategy and risk performance, prior to distribution of the annual bonus. GIB ensures that total variable remuneration does not limit its ability to strengthen its capital base.

The bonus pool considers the performance of the Bank, which is considered within the context of its 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 considers 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
- Consistency with the timing and likelihood of potential future revenues incorporated into current earnings

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

Corporate governance report (continued)

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 its 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 approval, can rationalise 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 allow the NRC to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited/adjusted, or the delivered variable remuneration 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 remuneration 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 GIB 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 allow the Board to determine that, if appropriate, vested/unvested elements under the deferred bonus plan can be adjusted/cancelled in certain situations. These events include, but are 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 misleads 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 the 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 remuneration that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred cash	The portion of variable remuneration 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 remuneration 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 remuneration that is awarded and paid in the form of shares on a pro-rata basis over a period of 3 years.

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

Corporate governance report (continued)

Deferred remuneration

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

Element of variable remuneration	Allocation of variable remuneration					
	Group CEO, MDs and the 5 most highly-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

Board of Directors

US\$ 000's	2018	2017
• Remuneration Fees	1,873	1,657
• Travel Expenses	595	518
• Other Expenses	13	110
TOTAL	2,481	2,285

Employees

US\$ 000's	Number of staff	2018									
		Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration					Total
		Cash	Others	(Cash / shares)	(Cash / shares)	Upfront		Deferred			
Cash	Shares ¹	Cash	Shares	Others							
Approved persons											
- Business Lines	6	2,858	282	-	-	831	3	200	1,011	-	5,185
- Control & Support	15	4,184	408	-	-	475	57	31	385	-	5,540
Other Material Risk Takers	14	3,513	325	-	-	416	63	25	378	-	4,720
Other Staff	204	25,982	4,990	-	-	1,942	30	-	119	-	33,063
Overseas Staff	773	71,426	19,132	-	-	11,304	-	-	-	-	101,862
TOTAL	1,012	107,963	25,137	-	-	14,968	153	256	1,893	-	150,370

¹ The upfront shares are vested on grant and paid after six (6) months retention period.

Other staff expenses reported in the consolidated statement of income that have not been included in the table above, amounting to US\$6.5 million, comprise indirect staff costs including training, recruitment, retirement, relocation, life assurance contributions, and differences between accrued staff expenses and the amounts actually paid.

Corporate governance report (continued)

US\$ 000's	2017										
	Number of staff	Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration					Total
		Cash	Others	(Cash / shares)	(Cash / shares)	Upfront		Deferred			
					Cash	Shares ¹	Cash	Shares	Others		
Approved persons											
- Business Lines	5	2,741	286	-	-	857	8	204	1,054	-	5,150
- Control & Support	14	3,616	413	-	-	450	58	25	356	-	4,918
Other Material Risk Takers	13	3,041	369	-	-	413	64	23	372	-	4,282
Other Staff	245	25,480	4,524	-	-	2,844	43	-	173	-	33,064
Overseas Staff	850	68,730	13,794	-	-	11,425	-	-	-	-	93,949
TOTAL	1,127	103,608	19,386	-	-	15,989	173	252	1,955	-	141,363

¹ The upfront shares are vested on grant and paid after six (6) months retention period.

Other staff expenses reported in the consolidated statement of income that have not been included in the table above, amounting to US\$1.2 million, comprise indirect staff costs including training, recruitment expenses, retirement, life assurance contributions, and differences between accrued staff expenses and the amounts actually paid.

Deferred Awards

	2018				
	Cash US\$ 000's	Shares		Others US\$ 000's	Total US\$ 000's
		Number	US\$ 000's		
Opening balance	448	3,460,008	3,418	-	3,866
Awarded during the period	252	2,151,356	2,128	-	2,380
Paid out / released during the period	(222)	(1,924,565)	(1,901)	-	(2,123)
Service, performance and risk adjustments	-	-	-	-	-
Corporate action adjustment	-	-	-	-	-
Changes in value of unvested awards	-	-	(94)	-	(94)
Closing balance*	479	3,686,799	3,550	-	4,029

* Closing balance share value based on NAV as on 31-12-18

Severance payments

The severance payments during the year amounted to US\$742,400 [2017: US\$79,047] of which the highest paid to a single person amounted to US\$160,000 [2017: US\$33,302].

Corporate governance report (continued)

CORPORATE COMMUNICATIONS

The Bank has in place a Corporate Communications Strategy 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 website, 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) which provides substantial information on the Bank, including its profile and milestones; vision, mission, values, strategy and objectives; its financial statements for the last five years at least; and its press releases.

CODE OF CONDUCT

The Bank's website also contains the Board-approved Code of Conduct (Code) that contains rules on conduct, ethics and on avoiding conflicts of interest, applicable to all employees and Directors of the Bank. The Code 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, and 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 by means of an email from the Bank that includes a copy of the Code (in English and Arabic), and everyone is required to sign an Acknowledgment and Declaration confirming that they have received and read the Code and 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, 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. The 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 Financial Reporting Standards that were applicable for adoption in 2018.

The Board-approved Disclosure Policy is in accordance with the requirements of Basel III 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 Code of Conduct which governs the conflict of interests and 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 Group 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 Group 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.

Corporate governance report (continued)

MATERIAL TRANSACTIONS THAT REQUIRE BOARD APPROVAL

The Bank has delegated credit authority to the Group CEO based on a risk-rating matrix. When considering transactions, any exposure to an entity that exceeds the Group 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 in ensuring 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 Group Head of Compliance & Corporate Governance, who reports directly to the Group CEO, also has access to the Board through the Audit & Corporate Governance Committees, if required.

Compliance risk is the risk of legal or regulatory sanctions, material financial loss or damage to the reputation of the Bank arising from failure to comply with the requirements of applicable laws, rules, regulations and related self-regulatory organisations' standards and codes of conduct (collectively, applicable laws, rules and regulations). Group Compliance independently assesses compliance risk and evaluates the business and control units for adherence to applicable laws, rules and regulations, including identifying compliance issues and risks, performing independent spot checks, and reporting on the state of compliance activities across the Bank.

The Bank's approach to the management of compliance risk is described in the Group Compliance Policy, which outlines the requirements of the Bank's group compliance programme, and defines roles and responsibilities of Board, Senior Management, Business and Control units, Internal Audit, and the three lines of defence in managing compliance risk. The requirements work together to drive a comprehensive risk-based approach for the proactive identification, management and escalation of compliance risks throughout the Bank.

The Group Compliance Policy also sets the requirements for reporting compliance risk information to Executive Management as well as the Board or appropriate Board level committees in support of Group Compliance responsibility for conducting independent oversight of the Bank's compliance risk management activities. The Board provides oversight of compliance risk mainly through its Audit Committee and the Corporate Governance Committee.

In ensuring that the tone emanates from the top, the Group 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 having it as a mandatory measurement criterion in staff evaluations.

During 2018, the Bank was penalised by the CBB due to failure in complying with the deadline submission requirement under the Reporting Requirements Module, section BR-4A.2 "Internet Security Measures" for the required activity under the Operational Risk Management section OM-6.2 "Internet Security for all Banks". The amount of the Financial Penalty imposed was BD 800 (US\$2,122) for each day of late filing aggregating to BD 6,400 (US\$16,976).

This statement in the Annual Report is being made to fulfil CBB requirements under Public Disclosure Module section PD-1.3.37, and the Enforcement Module sections EN-6.1.3 & EN-1.3.3.

ANTI-MONEY LAUNDERING

The Bank's current Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) procedures and guidelines 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. GIB's 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 Bank's 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 Group Head of Compliance and the Group Money Laundering Reporting Officer, MLROs, and Deputy MLROs.

Corporate governance report (continued)

CORPORATE GOVERNANCE FRAMEWORK – INTERNAL AUDIT REVIEW

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 October 2017. The purpose of the audit was to provide a level of assurance about 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 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 complies with the CBB rules on Corporate Governance outlined in Module HC of the CBB Rulebook, and instances of non-compliance in 2018 are explained as follows:

- Conflict with GIB's Agreement of Establishment & Article of Association, mainly in connection with the remuneration of Directors in Module HC-5.5.2, HC-5.5.4 and HC-5.5.5.
- Module HC-5.4.37 regarding the variable remuneration not being applicable to GIB due to the adoption of the phantom shares scheme for deferred bonuses.
- Module HC-6.6.33 related to risk management framework. The Bank is in the process of concluding an external review exercise in order to obtain a satisfactory report that the Bank's Risk Management policies are in compliance with CBB regulations.

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.