

Corporate Governance

SOUND GOVERNANCE

GIB has long recognised the importance of sound corporate governance as a critical factor in attaining fairness for all stakeholders and achieving organisational integrity and efficiency, and the Board of Directors and Management are committed to complying with established best practice in that regard.

Although not a publicly traded company, GIB has progressively adopted and implemented international best practices of publicly traded financial institutions, and since 2003 has published a statement on Corporate Governance in its Annual Report.

During 2008, GIB continued to work on new initiatives aimed at promoting enhanced corporate governance practices, with particular emphasis on increasing the awareness and understanding of directors, management and staff on this important topic.

In addition, a number of steps were taken to further strengthen GIB's corporate governance framework, ranging from self-assessments at all levels to ensure compliance with the requirements of the Central Bank of Bahrain ("CBB") on corporate governance, to specific milestones such as the adoption of a Disclosure Policy in accordance with the requirements of Basel 2 Pillar 3 to reflect the Bank's commitment to enhancing corporate governance, financial transparency, and fairness in the disclosure of financial information for the benefit of all users of that information, including regulators, customers, counterparties, rating agencies and other stakeholders.

ORGANISATION

The Bank has a corporate governance structure in place that segregates functions and responsibilities, reflecting the necessary division of roles and responsibilities between the Board of Directors and Management:

- There is an effective and appropriately constituted Board of Directors responsible for the stewardship of the Bank and the supervision of the Bank's business, which receives from Management such information as

is required to properly fulfill its duties and the duties of the Committees that assist it, and which 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 internal controls.
- There is a clear division of roles and responsibilities as between the Board of Directors and Management, and as 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:
 - The Board
 - The Chairman of the Board
 - The Board Committees
 - The Management
 - The Chief Executive Officer
 - The six Management Committees (Management Committee, Group Risk Committee, Assets & Liabilities Committee, Information Security Management Committee, Information Technology Steering Committee and Human Resources Committee).

The organisation chart and corporate governance structure is set out on page 112 of the 2008 Annual Report.

BOARD OF DIRECTORS

The Board comprises ten 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 113 of the 2008 Annual Report.

In accordance with the Bank's Articles of Association, Directors are appointed by the Bank's shareholders who consist of the six Gulf Cooperation Council governments,

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namely Saudi Arabia (Saudi Arabian Monetary Agency (SAMA) and Public Investment Fund (PIF)), Kuwait (Kuwait Investment Authority), Qatar (Qatar Investment Authority), Bahrain (Bahrain Mumtalakat Holding Company B.S.C.), Oman (Ministry of Finance of the Sultanate of Oman), and the United Arab Emirates (Ministry of Finance of the United Arab Emirates).

The Bank's Articles of Association also require that the Bank holds, annually, a properly constituted General Assembly.

The Board is responsible for the strategic direction of the Bank; maintaining an appropriate organisation structure; approving major policies; monitoring business performance, operations and the integrity of internal controls; nurturing proper and ethical behaviour; providing appropriate oversight; and conducting corporate governance in a transparent manner.

The Board performs its responsibilities as a supervisory board while delegating to the Bank's Management the responsibility for the management of the Bank within policies, guidelines and parameters set by the Board.

In fulfillment of the requirements of the corporate governance rules of the CBB, Letters of Appointment are issued by the Chairman to all the Directors:

- First, reminding them that Directors are responsible for contributing to the oversight of the Bank's affairs with professionalism and integrity with the aim of achieving the strategic and financial objectives adopted by the Board;
- Second, pointing out that a key responsibility of the Board is to fill the gap between stakeholders (shareholders, creditors, employees, customers, etc.) to whom the Board owes a duty of care, and executive management, by monitoring management closely on behalf of stakeholders; and
- Third, drawing attention to the fact that a detailed description of Directors' responsibilities is outlined in the Mandate of the Board and in the Mandate of Directors, as adopted by the Board; and that these responsibilities are to be carried out in line with the standards of the Code of Conduct adopted 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 the Bank's Articles of Association, the Board plans at least four meetings per year, with further meetings to occur at the discretion of the Board.

In 2008, the Board met ten times, the Audit Committee met five times, the Risk Policy Committee met five times, and the Human Resources & Compensation Committee met twice.

The details of Committee membership and Directors' attendance are set out in the table on page 25 of the 2008 Annual Report.

BOARD COMMITTEES

The Committees of the Board of Directors derive their authorities and powers from the Board.

The Audit Committee

The mandate of the Audit Committee requires it to:

- Assist the Board in fulfilling its statutory and fiduciary responsibilities with respect to internal controls, accounting policies, auditing and financial reporting practices.
- Assist 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; and (iii) the independence and performance of the Bank's internal and external auditors.
- Review the activities and performance of the internal audit function.

The mandate of the Audit Committee provides further particulars on financial reporting processes, process improvements, as well as additional ethical and legal compliance overview responsibilities.

The Group Chief Auditor reports functionally to the Audit Committee and administratively to the CEO.

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DIRECTORS' ATTENDANCE DURING 2008

Board and Committee meetings attendance during 2008

Board Members	Board meetings	Audit Committee meetings	Human Resources & Compensation Committee meetings	Risk Policy Committee meetings	Executive** Committee meetings
H.E. Mr. Jammaz bin Abdullah Al-Suhaimi - Chairman (from May 2008) (Saudi Arabian Monetary Agency)	6 (6)				
H.E. Sheikh Ebrahim bin Khalifa Al Khalifa (Chairman until 30 th April 2008) (Ministry of Finance, Bahrain)	4 (4)				6 (6)*
Mr. Abdul Aziz M. Al-Abdulkader - Vice Chairman (Saudi Arabian Monetary Agency)	10 (10)			1 (1)	
Dr. Hamad bin Sulaiman Al-Bazai (Public Investment Fund, Saudi Arabia)	8 (10)	5 (5)*	2 (2)		
Mr. Saud bin Nassir Al-Shukaily (Ministry of Finance, Oman)	8 (10)	5 (5)		2 (4)	
Mr. Khalid bin Abdulla Al-Sowaidi (Qatar Investment Authority, Qatar)	10 (10)		2 (2)	5 (5)	
Mr. Nasser Khamis Al-Suwaidi (Ministry of Finance, UAE)	10 (10)	5 (5)	2 (2)*		
Dr. Khalid Abdulla Al-Sweilem (Saudi Arabian Monetary Agency)	10 (10)	5 (5)	1 (2)	5 (5)*	9 (9)
H.E. Dr. Abdul Rahman bin Ahmed Al-Jafary (Saudi Arabian Monetary Agency)	10 (10)		2 (2)	3 (5)	
Mr. Ahmed Tahous Al-Rashed Al-Tahous (Kuwait Investment Authority, Kuwait)	9 (10)	4 (5)		4 (5)	9 (9)
Mr. Khalil Ebrahim Nooruddin (Bahrain Mumtalakat Holding Co., Bahrain) <i>Note:</i> Mr. Nooruddin joined as Board member on 26 th November 2008.	1 (1)			1 (1)	

* Committee Chairman

Figure in brackets indicate maximum number of meetings during the period of membership

** **Executive Committee:** A special executive committee of the Board composed of three Directors (mentioned under the Executive Committee column in the above chart) with Dr. Khaled Al-Fayez, CEO and Mr. Matthew Snyder, Managing Director, met nine times in 2008 to review the impact on the Bank of the sub-prime mortgage crisis and the global financial downturn, and to examine the report of special consultants engaged to assist in the formulation of the strategy to be adopted by the Bank, with a view to recommend appropriate action to the Board. The Executive Committee was disbanded in July 2008 as the full Board took over the Committee's work.

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The Human Resources & Compensation Committee

The mandate of the Human Resources & Compensation Committee requires it to:

- Assist the Board in fulfilling its responsibilities for the Bank's human resources and remuneration policies.
- Review the Bank's human resources and compensation policy proposals, and make the necessary recommendations in that regard for approval by the Board.
- Ensure 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.
- Monitor the overall cost of remuneration structures of the Bank.
- Ensure that effective management systems are in place to monitor and evaluate the performance of staff.
- Review the Bank's succession plan report for submission to the regulators.

The Risk Policy Committee

The mandate of the Risk Policy Committee requires it to:

- Assist the Board in fulfilling its oversight responsibilities with respect to setting the Bank's overall risk appetite, parameters and limits within which it conducts its activities.
- Ensure that the Bank has an effective risk management framework in place and that all risk controls operating throughout the Bank are in accordance with regulatory requirements and best practice standards for management of risks in banks.
- Ensure that realistic policies in respect of management of all significant risks are drafted and approved appropriately.
- Review the Bank's risk profile and significant risk positions.
- Approve with management the overall credit risk policy limits.
- Receive, review, challenge and recommend for approval, by the full Board, any proposed amendments to the overall risk appetite for the Bank.

- Ensure that roles and responsibilities for risk management are clearly defined, and that they remain independent of business development.
- Ensure that, on a timely basis, management informs the Committee of all significant risk arising and that it is comfortable with management's responses and action taken to address such findings.
- Ensure that management reports significant excesses and exceptions, as and when they arise, to the Committee for information and review.
- Monitor whether management maintains a culture that rewards the recognition, communication and management of risks.

MANAGEMENT

The Senior Management team, which is responsible for the day-to-day management of the Bank entrusted to it by the Board, is headed by the Chief Executive Officer, who is assisted by the Chief Operating Officer, the Chief Financial Officer, the Chief Investment & Treasury Officer, the Managing Director - Risk Management, the Managing Director - Merchant Banking, and the Managing Director - Operations & Administration. Their biographies are set out on page 114 of the 2008 Annual Report. *It was announced on 1st December 2008 that the Chief Executive Officer, Dr. Khaled Al-Fayez, would retire at the end of December 2008 after working for more than 35 years in the banking industry, and that Dr. Yahya Alyahya would become the new Chief Executive Officer of GIB on 1st January 2009.*

Six committees assist the Chief Executive Officer in the management of the Bank:

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

These committees derive their authorities from the

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Chief Executive Officer, based on the authorities and limits delegated by the Board of Directors.

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 also issued by the Chairman 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.
- Setting and managing 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.

STAFF COMPENSATION

In line with industry best practice and in consultation with external independent remuneration consultants, GIB has established a comprehensive staff compensation policy based on total compensation.

The scheme consists of the following for all staff except the CEO:

- A fixed component representing basic pay, allowances and benefits, that are reviewed and compared annually

with market levels, based on an independent market survey and adjusted as appropriate.

- A variable component representing a performance-related award linked to the performance of the Bank, the contribution of the relevant unit and the individual's personal performance. The scheme is based on defined quantitative as well as qualitative measures.
- Based on established criteria, the performance bonus of the Managing Directors are recommended by the CEO for review and endorsement by the Board's Human Resources and Compensation Committee, subject to Board approval.
- Annually, the Human Resources and Compensation Committee reviews Management proposals with regard to long term retention incentives and makes necessary recommendations for Board approval.

CEO COMPENSATION

- The CEO is appointed by the Board of Directors for a term of 3 years. Renewal is considered prior to the expiration of each term.
- The fixed compensation components are negotiated and determined at time of renewal, with the assistance and input from independent external compensation evaluation experts.
- The performance bonus of the CEO is recommended by the Board's Human Resources and Compensation Committee, and approved by the Board based on the established scheme mechanism approved by the Board.

BOARD OF DIRECTORS COMPENSATION

To assist with establishing the appropriate structure and level of compensation, independent external consultants are involved to advise on market practice and provide suggestions. Generally, the compensation is linked to actual attendance of meetings.

The structure and level of the compensation for the members of the Board of Directors are approved by the AGM and consist of the following:

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- Attendance fees payable to members attending different Board-related Committee meetings.
- Allowance to cover travelling and lodging while attending Board-related Committee meetings.
- A pre-defined fixed amount representing an annual remuneration fee.

STRATEGY & OBJECTIVES

After having conducted a thorough analysis of its operations in the context of the regional and global industry in 2002, the Bank implemented improvements to its governance structure, organisational structure, business model and performance framework, and started to put into effect its new objective, best summarised as follows: *to become the GCC merchant bank of choice, with market leadership in a diversified portfolio of activities.*

Within that objective, every year the Board of Directors reassesses and approves a detailed strategic plan that covers the planned activities of the Bank for the next three years, in light of changing global and regional market conditions. Given the current financial crisis, the Board is in the process of conducting this reassessment of strategy and objectives.

COMPLIANCE

The Board has adopted a Compliance framework that reflects the principles for promoting sound compliance practices at GIB, which 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 Chief Executive Officer, also has access to the Board of Directors through the Audit Committee, if required.

In ensuring that the tone emanates from the top, the Chief Executive Officer issues a yearly message to all of GIB reminding everyone of the importance of complying with all laws and regulations applicable to GIB's operations,

and good compliance behaviour is 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 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 and special recommendations on Terrorist Financing.

The GIB AML/CFT procedures and guidelines apply to all of the Bank's offices, branches and subsidiaries (collectively "GIB entities"), 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 should 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 Group Money Laundering Reporting Officer, MLROs, Deputy MLROs, and Compliance Officers.

CORPORATE COMMUNICATIONS

The Bank has in place a Corporate Communications policy in line with the requirements of the Central Bank of Bahrain, to ensure that the disclosures made by the Bank are fair, transparent, comprehensive and timely, and reflect the character of the Bank and the nature, complexity and risks

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inherent in its business activities. Main communication channels include an Annual Report, corporate brochure, newsletter, and announcements in the appropriate media.

This transparency is also reflected in the Bank's website (www.gibonline.com) that provides substantial information on the Bank, including its profile and milestones, statements on its vision, mission, strategy and objectives, its Code of Conduct, its press releases, as well as its financial statements.

DISCLOSURES

The Bank's website also provides the Bank'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 increased level of disclosure resulting from the adoption of IFRS 7 - Financial Instruments Disclosures, such as the disclosures on related party transactions in note 35 to the consolidated financial statements.

As mentioned earlier, in 2008 the Board has also adopted a Disclosure Policy in accordance with the requirements of Basel 2 Pillar 3. The objective of that Policy is to ensure transparency in the disclosure of the financial and risk profiles of the Bank to all interested parties.

CODE OF CONDUCT

Finally, the Bank's website also contains the Code of Conduct that was approved by the Board, with 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 fulfill their responsibilities and obligations towards the Bank's stakeholders 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; speaking up and whistle-blowing.

Members of staff can also access the Code of Conduct on the GIB intranet, where it is available in both English and Arabic.