

Governing with careful oversight

GFH Financial Group BSC is an Islamic investment bank that was established in the Kingdom of Bahrain in 1999. The bank carries on its business activities in accordance with the principles of Islamic Sharia, including financial services, investment and commercial transactions, negotiable financial instruments, real estate, infrastructure, in addition to structured finance, securities and liquidity management designed to achieve profitable returns for investors.

GFH Financial Group was transferred to a Public Shareholding Company in 2004 with its shares being listed on the Bahrain Stock Exchange, Kuwait Stock Exchange and Dubai Financial Market. As a Public Shareholding Company, GFH's corporate governance framework is based on the guidelines of corporate governance of Islamic banks and financial banks and institutions issued under the Bahrain Commercial Companies Law promulgated by Decree No. (21) for the year 2001 ("Companies Law"), and the regulations of corporate governance of companies in the Kingdom of Bahrain ("Governance Regulations"), and the instructions issued by the Central Bank of Bahrain and the Bahrain Stock Exchange Law ("the Regulations").

GFH's Corporate Governance Philosophy

The corporate governance framework – the way in which the Board and management are organized and how they operate in practice – is focused on assisting GFH to successfully meet its strategic objectives and maintain steady growth whilst remaining fully cognisant of our clients' and shareholders' interests.

GFH believes that compliance with corporate governance principles enhances its value through providing a suitable framework for

the Board of Directors, board committees and executive management to perform their duties in a manner that serves the interests of the bank and its shareholders. For this reason, GFH strives to achieve the highest levels of transparency, accountability and management by adopting and executing the strategy, goals, policies that are aimed at complying with the Bank's regulatory and supervisory responsibilities.

The Board of Directors are accountable to shareholders for the creation and delivery of strong sustainable financial performance and long-term shareholder value. To achieve this, the Board approves and monitors the Bank's strategy and financial performance, within a framework of sound corporate governance.

The Chairman of the board is responsible for leading the Board, ensuring its effectiveness, monitoring the performance of the CEO and maintaining a dialogue with the bank's stakeholders. The Internal Audit, Risk Management and Compliance & MLRO functions report directly to the Board Audit and Risk Committee.

Compliance with Regulations (HC Module – CBB Rulebook, Vol.2)

In 2016, GFH continued the implementation of the Corporate Governance Law and compliance with the requirements of the 'High Level Control Module of the CBB Rulebook (Vol. 2)'.

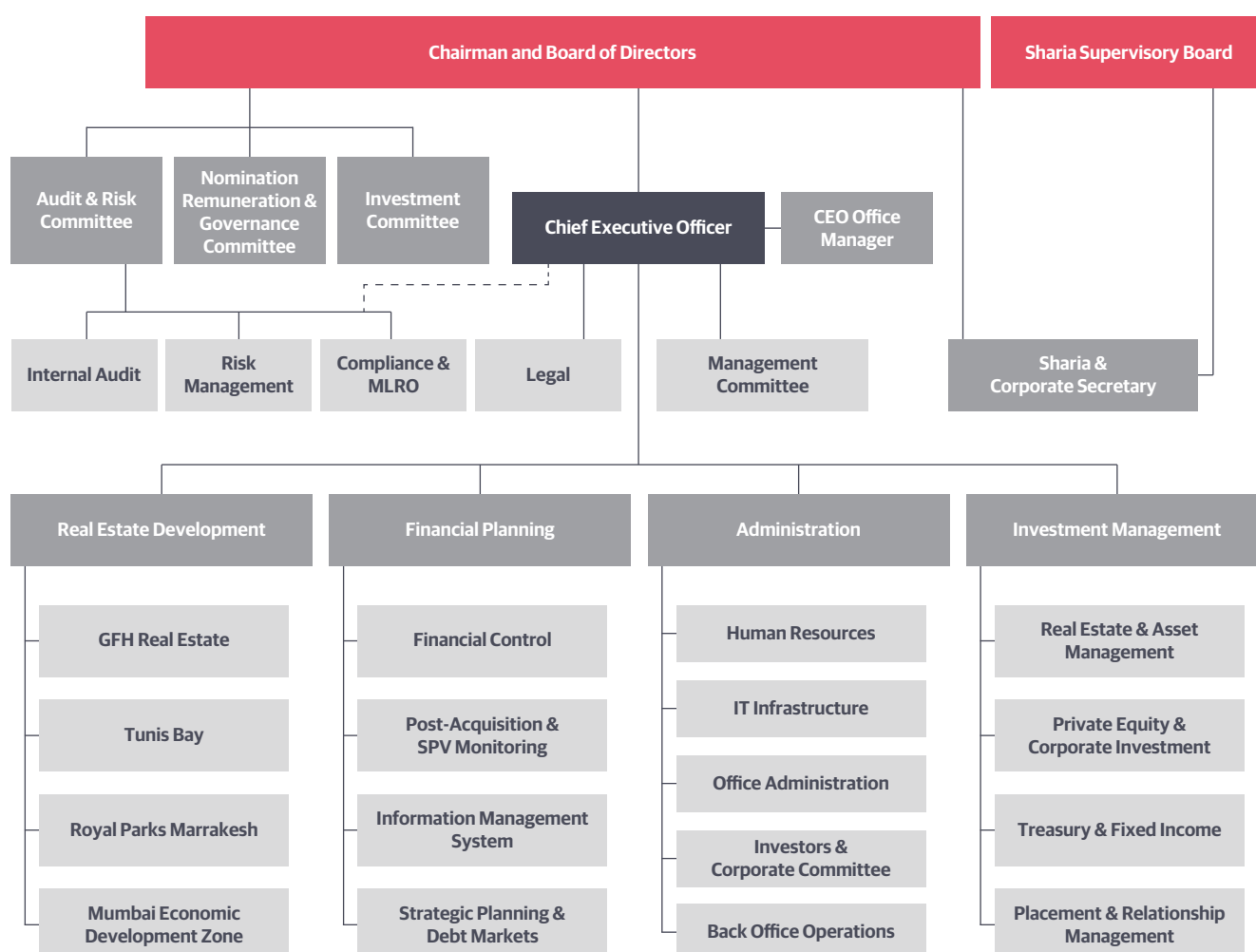
As per rule HC-A.1.8 and HC-8.2.1 (c) of the HC Module (CBB Rulebook-Vol.2) with reference to the disclosure of the non-compliance events (Comply or Explain Principle), which stipulates the need to elucidate the non-compliance cases and provide

clarification on the same in event non-compliance with the rules and guidelines of the HC Module, GFH Financial Group wishes to clarify the following:

- The Risk Committee has been merged with the Audit Committee to form one committee called the 'Audit and Risk Committee (ARC)' because this merger poses no conflict of interest.
- The Nomination Committee and the Remuneration Committee are merged accordingly to form one committee called the 'Nomination, Remuneration & Governance Committee (NRGC)' because the merger poses no conflict of interest.
- One of the Board Member 'Mr. Faisal Abdulla Abubshait' was not able attend six of the seven Board Meetings, as well as none of the two meetings of NRGK held during the year-2016. The reason for non-attendance, are the additional responsibilities which Mr. Abubshait has taken over since the demise of his father.
- The Chairman of the Audit & Risk Committee was not able to attend the AGM and EGM meetings held on 1st March 2017. Bank will ensure that all board members attend the future meetings.

GFH believes that compliance with corporate governance principles enhances its value through providing a suitable framework for the Board of Directors, board committees and executive management to perform their duties in a manner that serves the interests of the bank and its shareholders.

Organisational Structure



Notes: *MANCOM consists of the following Members: CEO, Head of Corporate Investment, Chief Administrative Officer, Chief Financial Officer, and Head of Risk Management.

Corporate Governance (contd.)

GFH's Corporate Governance framework:

GFH's Corporate Governance framework remains in line with the High Level Control (HC) Module of the CBB Rulebook (Vol. 2) along with the Bahrain's Commercial Companies Laws of 2001. GFH's Board of Directors' Charter, Conflict of Interest for the Directors, Code of Conduct for the Directors, Code of Business Ethics & Conduct for the Management & staff, Appointment agreement of Board Members, Mechanism of Performance Evaluation of Board of Directors, Board Committees and Individual Board members, and the other internal policies of the Bank are in line with the new and revised regulation and guidelines issued by the CBB.

As part of the disclosure requirements indicated in HC Module issued by the CBB, GFH presents the following facts:

A. Ownership of Shares

A.1. Distribution of shareholdings according to nationality

As at 31st December 2016, the shareholders Register shows that there are 7,000 shareholders who own 2,256,583,403 shares at a nominal value of US\$ 0.265 per share, as follows:

Nationality	No. of Shareholders	No. of Shares	% of outstanding shares
Bahraini	485	34,277,199	1.519
Emirati	1,441	1,680,917,568	74.490
Kuwaiti	3,541	206,258,841	8.874
Omani	31	2,443,703	0.108
Qatari	39	30,856,967	1.367
Saudi	149	18,070,534	0.801
Others	1,314	289,758,591	12.841
Total	7,000	2,256,583,403	100%

A.2. Distribution of ownership according to the percentage of shareholding:

The below table shows the distribution of ownership according to the percentage of shareholding as of 31st December 2016:

Particulars	No. of Shareholders	No. of Shares	% of outstanding shares
Less than 1%	6,988	1,324,537,256	58.697
1% to less than 5%	10	459,380,975	20.357
5% to less than 10%	1	170,674,221	7.563
10% to less than 20%	1	301,990,951	13.383
20% to less than 50%	-	-	-
Total	7,000	2,256,583,403	100%

A.3. Names of shareholders who own 5% or more:

As of 31st December 2016, 'Integrated Capital P.J.S.C.' (a Group company of Abu Dhabi Financial Group, UAE) holds 13.38% and is the sole Controller of GFH. Also, an individual shareholder from Abu Dhabi-UAE 'Shaikh Mohammed Bin Ahmed Al Qassami' was holding 5.05% of GFH's total outstanding shares.

Note: As of 28th February 2017, the holding of Shaikh Mohammed Al Qassimi was reduced to 4.85%.

B. GFH Board of Directors and the Executive Management

B.1. Formation of the Board of Directors

At the AGM of year 2013 held on the 14TH April 2014, the Board was reformed and accordingly the following eight members were elected/ re-elected for the next three years period i.e., 2014-2017. Also, at the AGM of year 2015 held on 5th April 2016, the number of Board composition was increased from 8 to 10 members.

Furthermore, one new board member was elected and one was appointed as the representative of the Controller (Integrated Capital P.J.S.C). Both of the new members were categorized as Executive Directors.

- i. Dr. Ahmed Khalil Al Mutawa
- ii. Mr. Mosabah Saif Al Mutairy
- iii. Mr. Faisal Abdulla Fouad Abubshait
- iv. Mr. Bashar Mohammed Al Mutawa
- v. Mr. Yousef Ibrahim Al Ghanim
- vi. Dr. Khalid Mohammed Al Khazraji
- vii. Sh. Mohammed Bin Duaij Al Khalifa
- viii. Mr. Mohamed Ali Taleb
- ix. Mr. Hisham Ahmed Al Rayes (since April 2016)
- x. Mr. Jassim Mohammed Al Seddiqi (since April 2016)

In compliance with the CBB requirements, which mandates at-least one third of the members of the Board of Directors to be Independent Directors; as of 31st December 2016 the Board was comprised of 'Six' Independent Directors which includes the Chairman of the Audit and Risk Committee and the Chairman of the Nomination, Remuneration and Governance Committee.

B.2. Separation between the position of Chairman and Chief Executive Officer

In compliance with the CBB requirements, the position of the Chairman and that of the Chief Executive Officer are segregated and there is no amalgamation of responsibilities in these two positions.

B.3. Function of BOD and responsibilities of the Board Members

The Articles of Association of GFH Financial Group stipulate the responsibilities of the Chairman and members of the BOD as well as the guidelines of corporate governance with respect to the distribution of responsibilities between the Board of Directors and executive management. The BOD oversees all the business activities in consultation with the executive management team. The BOD also discusses and agrees GFH Financial Group's business strategy. Additionally, the BOD is responsible for risk management and the preparation of consolidated financial statements in accordance with AAOIFI standards and corporate governance issues. The matters which require the approval of the Board includes long term strategic and annual business plan, matters pertaining to corporate governance, acquisition and disposal of investments, exit of projects. This is along with the main role of the Board which is to ensure adherence to the values of GFH Financial Group, including the values set forth in its internal regulations.

When appointed, Board members are provided with the necessary detailed information to enable them to effectively perform their main role of overseeing the strategic, operational, financial, and compliance affairs, as well as corporate governance controls in GFH Financial Group. The corporate governance framework allows a member of the BOD to seek independent advice when necessary.

With respect to the channels of communication between the BOD and executive management, the Board members can contact and request information from the executive management at all times.

Corporate Governance (contd.)

B.4. Independence of Board Members

Independent members represent the majority of board members. To ensure independence of members, all Board members are required to inform the Board of Directors about any changes or additions that occur on their positions and executive functions and may affect the assessment of their independence by the BOD. They should also ensure that their membership of the Board of Directors is not in conflict with any of their other interests and enable them to devote time and attention to the BOD. Before starting any Board meeting, the Chairman of the BOD instructs the Board members not to participate in the vote on the resolutions that may involve a conflict of interest; this is in addition to the annual disclosure submitted by the Board members in compliance with the conflict of interest policy.

The Nomination, Remuneration and Governance Committee of the BOD is responsible, along with its role in the identification, assessment and selection of candidates for membership of the Board of Directors, for the verification of the independence of members through the controls established by the regulations in this regard. In the selection process, the Committee ensures that the executive and non-executive candidates have a wide expertise in different fields of business and support services. Independent members are chosen from different sectors to ensure diversity of views and experiences in the BOD, as the current independent members come from financial, commercial and government sectors.

The following table shows the classification of members of the BOD as at 31st December 2016:

Classification of members	No.	% of Representation
Independent	6	60%
Non-Executive	2	20%
Executive	2	20%
Total	10	100%

B.5. Letter of Appointment of Board Members

Upon appointment, the Board Members are required to sign a written agreement (letter of appointment) with GFH. The agreement contains details of the responsibilities and powers of the member as well as the information required by the regulations. Upon appointment, Board members are presented with a comprehensive official introduction specifically designed for this purpose. It includes, among other things, review of the BOD's role in general and the duties and roles of the Board members in particular, in addition to meeting with the executive management, presentation of GFH's strategy, financial performance, risks and legal issues and other related matters.

During the term of membership, a member of the BOD must be fully aware of all aspects of the business, including the Bank's policies relating to corporate governance.

B.6. The Right of Shareholders to appoint Members of the Board

Under Article 175 of the Companies Law and Article 27-a of the Articles of Association of the Bank, each shareholder who owns 10% or more of the capital is entitled to appoint his representative in the BOD in proportion to the number of members of the BOD.

As at 31st December 2016, Integrated Capital P.J.S.C. was holding more than 10% of GFH's total outstanding shares and accordingly has one representative 'Mr. Jassim Mohammed Al Seddiq' present in GFH's Board of Directors.

B.7. GFH Board Members and their other memberships

The table below shows the composition of the BOD, the other memberships of the Board member and membership of committees as at 31st December 2016:

Name and position of Board member	Date of first appointment in BOD	Independent/ Non-Executive/ Executive	Representation	Date of resignation	Number of memberships in other boards of Directors	Number of memberships in other boards of Directors in Bahrain	Number of memberships in other boards of Directors of banks in Bahrain	Number of memberships in Board Committees
Dr. Ahmed Khalil Al Mutawa (Chairman)	May 2011	Non-Executive	NA	NA	5	2	1	1
Mosabah Saif Al Mutairy (Vice- Chairman)	March 2009	Non-Executive	NA	NA	9	1	1	1
Bashar Mohammed Al Mutawa	April 2013	Independent	NA	NA	8	8	1	2
Sh. Mohammed Duajj Al Khalifa	April 2013	Independent	NA	NA	1	1	-	1
Dr. Khalid Mohd Al Khazraji	April 2013	Independent	NA	NA	3	-	-	1
Mohammed A. Talib	April 2013	Independent	NA	NA	-	-	-	1
Yousef Ibrahim Al Ghanim	April 2014	Independent	NA	NA	1	-	-	1
Faisal Abdulla Fouad Abubshait	April 2014	Independent	NA	NA	21	-	-	1
Jassim Mohammed Al Seddiqi	April 2016	Executive	Integrated Capital	NA	7	-	-	-
Hisham Ahmed Al Rayes	April 2016	Executive	NA	NA	11	11	1	-

Note: None of the Independent Director has any financial relationship or dealings with GFH Financial Group, with the exception of the relationship arising from being a member of the Board of Directors.

Corporate Governance (contd.)

B.8. Ownership of the Members of the Board in GFH shares

The table below shows the change in the ownership of members of the Board of Directors of the shares of GFH Financial Group, as at 31st December 2016 compared to that of 31st December 2015:

Member's name	Shares owned as at 31st December 2015	Shares owned as at 31st December 2016	Percentage of ownership as at 31st December 2016
Dr. Ahmed Khalil Al Mutawa	NIL	NIL	N/A
Mosabah Saif Al Mutairy	NIL	NIL	N/A
Bashar Mohammed Al Mutawa	NIL	NIL	N/A
Sh. Mohammed Duajj Al Khalifa	NIL	NIL	N/A
Dr. Khalid Mohd Al Khazraji	NIL	NIL	N/A
Mohammed Ali Talib	NIL	NIL	N/A
Faisal Abdulla Fouad Abubshait	NIL	NIL	N/A
Yousef Ibrahim Al Ghanim	NIL	NIL	N/A
Jassim Mohammed Al Seddiqi	-	NIL	N/A
Hisham Ahmed Al Rayes	-	4,040	0.00018
Total	NIL	4,040	0.00018%

B.9. Directors' and Senior Manager's trading of the Bank's shares and distribution of ownership on an individual basis during the year 2016:

Name of Board member	Total no. of shares held as of 31st Dec 2015	Transactions - within the period 1st Jan - 31st Dec 2016			Total no. of shares held as at 31st Dec 2016	% of Ownership
		Bought	Sold	Transfer		
Dr. Ahmed Khalil Al Mutawa	-	-	-	-	-	-
Mosabah Saif Al Mutairy	-	-	-	-	-	-
Faisal Abdulla Fouad Abubshait	-	-	-	-	-	-
Bashar Mohammed Al Mutawa	-	-	-	-	-	-
Yousef Ibrahim Al Ghanim	-	-	-	-	-	-
Dr. Khalid Mohd Al Khazraji	-	-	-	-	-	-
Mohammed A. Talib	-	-	-	-	-	-
Sh. Mohammed Duajj Al Khalifa	-	-	-	-	-	-
Jassim Mohammed Al Seddiqi	-	-	-	-	-	-
Hisham Ahamed Al Rayes	-	-	-	-	-	-

Name of Management Committee Member	Total no. of shares held as of 31st Dec 2015	Transactions - within the period 1st Jan - 31st Dec 2016			Total no. of shares held as at 31st Dec 2016	% of Ownership
		Bought	Sold	Transfer		
Hisham Ahmed N. Abdulqader Al Rayes	4,040	-	-	-	4,040	0.00018
Ajay Shivram Subramanian	877	-	-	-	877	0.00004
Chandan Gupta	-	-	-	-	-	-
Mohammed Amin Ahmed Ali Hassan	-	-	-	-	-	-
Hammad Younis	-	-	-	-	-	-

Corporate Governance (contd.)

B.10. Meetings of the Board of Director during the year 2016

The meetings of the Board of Directors and the Board committees are held whenever the need arises, but under the regulations, the BOD should meet at least four times during a single fiscal year. The BOD held seven (7) meetings during 2016. The AGM was held on 5th April 2016. In addition to official meetings, a number of urgent resolutions were also passed by circulation in 2016 through e-mails to Board members.

As for the agenda of the meetings of the BOD, it is sent to the members at a suitable time before the date of the meeting, to provide the members with all the necessary information, reports and documents for their information and review. The BOD is also notified of all the topics and key events that arise and need approvals. The executive management is responsible for informing the BOD on the performance of GFH in each meeting.

Dates of Board meetings held during the fiscal year 2016 are as follows:

- i. 10th February 2016
- ii. 24th February 2016
- iii. 11th May 2016
- iv. 14th May 2016
- v. 13th August 2016
- vi. 19th October 2016
- vii. 13th November 2016

Date & location of meeting	Names of Directors present	Names of Directors who participated by phone/video link	Names of Directors not present
Date: 10th February 2016 Location: GFH Financial Group, Bahrain Financial Harbour East Tower - 37th Floor, Manama, Kingdom of Bahrain	1. Dr. Ahmed Khalil Al Mutawa 2. Mosabah Saif Al Mutairy 3. Dr. Khaled Mohamed Al Khazraji 4. Mohammed Ali Taleb 5. Sh. Mohamed Duajj Al Khalifa 6. Bashar Mohamed Al Mutawa 7. Yousif Ebrahim Al Ghanim		1. Faisal Abdulla Abubshait
Date: 24th February 2016 Location: GFH Financial Group, Bahrain Financial Harbour East Tower - 37th Floor, Manama, Kingdom of Bahrain	1. Mohammed Ali Taleb 2. Bashar Mohamed Al Mutawa	1. Dr. Ahmed Khalil Al Mutawa 2. Mosabah Saif Al Mutairy 3. Dr. Khaled Mohamed Al Khazraji 4. Sh. Mohamed Duajj Al Khalifa 5. Faisal Abdulla Abubshait	1. Yousif Ebrahim Al Ghanim
Date: 11th May 2016 Location: GFH Financial Group, Bahrain Financial Harbour East Tower - 37th Floor, Manama, Kingdom of Bahrain	1. Dr. Ahmed Khalil Al Mutawa 2. Mosabah Saif Al Mutairy 3. Dr. Khaled Mohamed Al Khazraji 4. Mohammed Ali Taleb 5. Sh. Mohamed Duajj Al Khalifa 6. Bashar Mohamed Al Mutawa 7. Yousif Ebrahim Al Ghanim 8. Jassim Mohammed Al Seddiqi 9. Hisham Ahmed Al Rayes		1. Faisal Abdulla Abubshait

Date & location of meeting	Names of Directors present	Names of Directors who participated by phone/video link	Names of Directors not present
Date: 14th May 2016 Location: GFH Financial Group, Bahrain Financial Harbour East Tower - 37th Floor, Manama, Kingdom of Bahrain		1. Dr. Ahmed Khalil Al Mutawa 2. Mosabah Saif Al Mutairy 3. Dr. Khaled Mohamed Al Khazraji 4. Mohammed Ali Taleb 5. Sh. Mohamed Duajj Al Khalifa 6. Bashar Mohamed Al Mutawa 7. Yousif Ebrahim Al Ghanim 8. Jassim Mohammed Al Seddiqi 9. Hisham Ahmed Al Rayes	1. Faisal Abdulla Abubshait
Date: 13th August 2016 Location: GFH Financial Group, Bahrain Financial Harbour East Tower - 37th Floor, Manama, Kingdom of Bahrain	1. Hisham Ahmed Al Rayes	1. Dr. Ahmed Khalil Al Mutawa 2. Mosabah Saif Al Mutairy 3. Mohammed Ali Taleb 4. Bashar Mohamed Al Mutawa 5. Yousif Ebrahim Al Ghanim	1. Dr. Khaled Mohamed Al Khazraji 2. Sh. Mohamed Duajj Al Khalifa 3. Jassim Mohammed Al Seddiqi 4. Faisal Abdulla Abubshait
Date: 19th October 2016 Location: GFH Financial Group, Bahrain Financial Harbour East Tower - 37th Floor, Manama, Kingdom of Bahrain		1. Dr. Ahmed Khalil Al Mutawa 2. Mosabah Saif Al Mutairy 3. Dr. Khaled Mohamed Al Khazraji 4. Mohammed Ali Taleb 5. Sh. Mohamed Duajj Al Khalifa 6. Bashar Mohamed Al Mutawa 7. Yousif Ebrahim Al Ghanim 8. Jassim Mohammed Al Seddiqi 9. Hisham Ahmed Al Rayes	1. Faisal Abdulla Abubshait
Date: 13th November 2016 Location: GFH Financial Group, Bahrain Financial Harbour East Tower - 37th Floor, Manama, Kingdom of Bahrain	1. Hisham Ahmed Al Rayes	1. Dr. Ahmed Khalil Al Mutawa 2. Mosabah Saif Al Mutairy 3. Dr. Khaled Mohamed Al Khazraji 4. Mohammed Ali Taleb 5. Sh. Mohamed Duajj Al Khalifa 6. Bashar Mohamed Al Mutawa 7. Yousif Ebrahim Al Ghanim	1. Faisal Abdulla Abubshait 2. Jassim Mohammed Al Seddiqi

Note: Mr. Faisal Abdulla Abubshait could not attend six of the seven Board Meetings held during the year-2016.

Corporate Governance (contd.)

B.11. Quorum required for adoption of Board resolutions

The required quorum for the meetings of the BOD and AGM shall be in accordance with the provisions of the Articles of Association of GFH. The BOD may pass its resolutions by post, e-mail, fax, conference calls, video calls or any other means of audio or video communication pursuant to the provisions of Article 33-e of the Articles of Association of the Bank.

C. Board Committees

The BOD has established three subordinate committees and has delegated specific powers to each committee as follows:

C.1. The Audit and Risk Committee

The Audit and Risk Committee (ARC) is responsible for following up on the internal and external audit, risk management, as well as compliance and anti-money laundering matters.

The Committee must meet at least four times a year; during the fiscal year 2016, the Committee held six meetings which took place on 9th February, 24th February, 10th May, 15th May, 13th August, and 10th November 2016 respectively.

ARC meeting date & location	ARC members present	ARC members who participated by phone/video link	ARC members not present
Date: 9th February 2016 Location: GFH Financial Group, Bahrain Financial Harbour East Tower - 37th Floor, Manama, Kingdom of Bahrain	1. Mohammed Ali Taleb 2. Sh. Mohamed Duajj Al Khalifa 3. Bashar Mohamed Al Mutawa		
Date: 24th February 2016 Location: GFH Financial Group, Bahrain Financial Harbour East Tower - 37th Floor, Manama, Kingdom of Bahrain	1. Mohammed Ali Taleb 2. Sh. Mohamed Duajj Al Khalifa 3. Bashar Mohamed Al Mutawa		
Date: 10th May 2016 Location: GFH Financial Group, Bahrain Financial Harbour East Tower - 37th Floor, Manama, Kingdom of Bahrain	1. Mohammed Ali Taleb 2. Sh. Mohamed Duajj Al Khalifa 3. Bashar Mohamed Al Mutawa		
Date: 15th May 2016 Location: GFH Financial Group, Bahrain Financial Harbour East Tower - 37th Floor, Manama, Kingdom of Bahrain	1. Mohammed Ali Taleb 2. Sh. Mohamed Duajj Al Khalifa 3. Bashar Mohamed Al Mutawa		
Date: 13th August 2016 Location: GFH Financial Group, Bahrain Financial Harbour East Tower - 37th Floor, Manama, Kingdom of Bahrain	1. Mohammed Ali Taleb 2. Bashar Mohamed Al Mutawa		1. Sh. Mohamed Duajj Al Khalifa
Date: 10th November 2016 Location: GFH Financial Group, Bahrain Financial Harbour East Tower - 37th Floor, Manama, Kingdom of Bahrain	1. Mohammed Ali Taleb 2. Sh. Mohamed Duajj Al Khalifa 3. Bashar Mohamed Al Mutawa		

C.2. Investment Committee (BIC)

The Investment Committee's (BIC) responsibility is to approve the investment and funding requests, prepare the investment policies and controls, determine the credit limits of the Bank, manage assets and liabilities, organize banking relationships, as well as oversee the items that are not included in the budget.

The Committee must meet at least two times a year. The Committee met eight times during the fiscal year 2016 i.e., 25th January, 10th March, 17th March, 27th April, 11th May, 7th June, 13th August and 25th December 2016.

BIC meeting date & location	BIC members present	BIC members who participated by phone/video link	BIC members not present
Date: 25th January 2016 Location: GFH Financial Group, Bahrain Financial Harbour East Tower - 37th Floor, Manama, Kingdom of Bahrain		1. Dr. Ahmed Khalil Al Mutawa 2. Mosabah Saif Al Mutairy	1. Yousif Ebrahim Al Ghanim
Date: 10th March 2016 Location: GFH Financial Group, Bahrain Financial Harbour East Tower - 37th Floor, Manama, Kingdom of Bahrain		1. Dr. Ahmed Khalil Al Mutawa 2. Mosabah Saif Al Mutairy	1. Yousif Ebrahim Al Ghanim
Date: 17th March 2016 Location: Four Seasons Hotel, Bahrain Bay, Manama, Kingdom of Bahrain		1. Dr. Ahmed Khalil Al Mutawa 2. Mosabah Saif Al Mutairy	1. Yousif Ebrahim Al Ghanim
Date: 27th April 2016 Location: GFH Financial Group, Bahrain Financial Harbour East Tower - 37th Floor, Manama, Kingdom of Bahrain		1. Dr. Ahmed Khalil Al Mutawa 2. Mosabah Saif Al Mutairy 3. Yousif Ebrahim Al Ghanim	
Date: 11th May 2016 Location: GFH Capital Ltd., 402, Level 4, Precinct Building 3, Gate District, Dubai International Financial Centre, Dubai, UAE		1. Dr. Ahmed Khalil Al Mutawa 2. Mosabah Saif Al Mutairy 3. Yousif Ebrahim Al Ghanim	
Date: 7th June 2016 Location: GFH Capital Ltd., 402, Level 4, Precinct Building 3, Gate District, Dubai International Financial Centre, Dubai, UAE		1. Dr. Ahmed Khalil Al Mutawa 2. Mosabah Saif Al Mutairy 3. Yousif Ebrahim Al Ghanim	
Date: 13th August 2016 Location: GFH Capital Ltd., 402, Level 4, Precinct Building 3, Gate District, Dubai International Financial Centre, Dubai, UAE		1. Dr. Ahmed Khalil Al Mutawa 2. Mosabah Saif Al Mutairy	1. Yousif Ebrahim Al Ghanim
Date: 25th December 2016 Location: GFH Capital Ltd., 402, Level 4, Precinct Building 3, Gate District, Dubai International Financial Centre, Dubai, UAE		1. Dr. Ahmed Khalil Al Mutawa 2. Mosabah Saif Al Mutairy 3. Yousif Ebrahim Al Ghanim	

Corporate Governance (contd.)

C.3. Nomination, Remuneration & Governance Committee

The Nomination, Remuneration & Governance Committee ("NRGC") is responsible for recruitment, rewards, incentive compensation of employees and the preparation of internal policies to manage human resources and other administrative matters. It is also responsible for overseeing the governance framework of GFH Financial Group.

The Committee must meet at least two times a year. The Committee met two times during the fiscal year 2016 i.e. 30th March and 11th May 2016.

NRGC meeting date & location	NRGC members present	NRGC members who participated by phone/video link	NRGC members not present
Date: 30th March 2016 Location: GFH Financial Group, Bahrain Financial Harbour East Tower - 37th Floor, Manama, Kingdom of Bahrain		1. Dr. Khaled Mohamed Al Khazraji 2. Bashar Mohamed Al Mutawa	1. Faisal Abdulla Abubshait
Date: 11th May 2016 Location: GFH Financial Group, Bahrain Financial Harbour East Tower - 37th Floor, Manama, Kingdom of Bahrain	1. Dr. Khaled Mohamed Al Khazraji 2. Bashar Mohamed Al Mutawa		1. Faisal Abdulla Abubshait

D. Audit fees and other services provided by the external auditor

Details will be available for the shareholders upon an official written request to GFH provided that such matters shall not affect the interests of the bank or its competitiveness in the market.

E. Other topics

E.1. Remuneration of the Board of Directors and Executive Management

Remuneration of the Board of Directors is recommended to the Board of Directors by the Nomination, Remuneration & Governance Committee and the Board of Directors then makes the recommendation to the shareholders at the annual general meeting.

The Board of Directors' remuneration takes into consideration the performance of the Bank as well as an assessment of compliance of individual members with their performance agreement and individual responsibilities. During the year 2016, the Board was paid fees as stated in note 24 of consolidated financial statements.

Executive Management is entitled to a fixed remuneration as per their contractual agreements, and any other performance-related incentives/ bonuses must be approved by the Board.

Refer to note 24 (Key management personnel) of the consolidated financial statements for details of the remuneration to Board of Directors and Executive Management.

During 2016, the total remuneration paid to Sharia Supervisory Board was US\$ 151,000/-.

E.2. Continuous development of the Board and Board Committees

The Board approved Charter of the Board of Directors has been prepared to serve as a reference point for Board activities. The Charter outlines the demarcation of the roles, functions, responsibilities and powers of the Board, various Board committees of GFH and matters reserved for final decision –making or pre approval by the Board and the policies and practices of the Board in respect of matters such as conflicts of interest and convening of Board meetings.

The Board Charter sets up a detailed Board Training guide which provides a framework for induction/orientation of new Board members. The new Board of Directors are provided with a presentation pack containing overview/highlights of GFH.

All the members of the Board at the time of appointment should sign a Non-Executive Directors contract, which contains the terms of the appointment, duties and responsibilities of the members, membership and time commitment, conflicts of interest, resignation and termination, confidentiality of information and other details which the members have to abide by during their tenure of being member of the Board.

E.3. Board's Performance Evaluation

At GFH, a comprehensive Board Performance Evaluation Pack (framework for the annual self-assessment process by the Board, the Board Committees and Individual Directors) is in place which is in line with the CBB guidelines (HC Module).

The evaluation is to be used to assess Board effectiveness and support in identifying the need for:

- A revised mix of skills/experience on the Board.
- Board training and/or professional support
- Replacement of Individual Directors whose contribution is deemed inadequate.

The Board Performance Evaluation Framework is based on the following - Principles:

- The Board shall, through the Nomination, Remuneration and Governance Committee (NRGC), undertake a formal and rigorous annual evaluation of its own performance and that of its Committees and Individual Directors.
- The Chairman will act on the results of the performance evaluation by recognizing the strengths and addressing the weaknesses of the Board. The Chairman of the NRGC will be responsible for the performance evaluation of the Chairman, taking into account the views of other Board Members.
- The evaluation process will be used constructively as a mechanism to improve Board effectiveness, maximize strengths and tackle weaknesses.
- The results of Board evaluation will be shared with the Board as a whole whilst the results of individual assessments will remain confidential between the Chairman and the Director concerned.
- Key results indicators, derived from the strategic plans and objectives, should be used to measure the Board's performance.

The Board Performance Evaluation Framework is based on the following - Methodology:

- 1) Each Board Member is required to complete the 'Board Performance Evaluation Form' and the "Individual Director's Self Evaluation Form".
- 2) The Chairman of the Board will also individually evaluate each of the Board Members.
- 3) NRGC will collate the ratings of the Board (Board Performance Evaluation Form) done by each of the Board Member accordingly; in order to arrive to mean results.
- 4) Each Committee Members will also perform rating of their respective committee(s).
- 5) Similarly, NRGC will collate the ratings of each of the Committee (NRGC/BIC/ARC); in order to arrive to mean results of that specific committee.

Corporate Governance (contd.)

E.4. Transactions with Related Parties

Details of transactions with related parties are indicated in detail in Note 24 of the consolidated financial statements for the fiscal year ended 31st December, 2016.

E.5. Approval process for Related Party Transactions

All connected party exposures (within the CBB defined limits) will be approved by the appropriate approving authority as per the Delegate Authority Limit (DAL). Where the approving authority as per DAL is connected/interested, the approval authority shall move to the next level. All connected party exposures will be submitted to the BARC quarterly for their ratification.

In determining whether to approve a Connected Party Transaction, the requesting and approving authority will consider, among other factors, the following factors to the extent relevant to the Connected Party Transaction:

- Exposures to connected counter parties may be justified only when undertaken for the clear commercial advantage of the bank, when negotiated and agreed on an arm's length basis, and when included in the policy statement agreed with the Central Bank.
- No Islamic facilities provided by a bank to its own external auditors shall be permitted (External auditors include firm/partnership, the partners, the directors and managers of the audit firm). In addition, unless provided for in the contract, off-balance sheet restricted investment accounts will not be permitted to participate in on-balance sheet corporate funding and vice versa and movement within restricted investment accounts is not permitted without the Central Bank's prior written approval.
- Whether the terms of the Connected Party Transaction are fair to the Bank and on the same basis as would apply if the transaction did not involve a Connected Party;
- Whether there are business reasons for the Bank to enter into the Connected Party Transaction;
- Whether the Connected Party Transaction would impair the independence of an outside director and;
- Whether the Connected Party Transaction would present an improper conflict of interests for any director or executive officer of the Bank, taking into account the size of the transaction, the overall financial position of the director, executive officer or Connected Party, the direct or indirect nature of the director's, executive officer's or Connected Party's interest in the transaction and the ongoing nature of any proposed relationship, and any other factors the BARC deems relevant.
- Shareholders with significant ownership of the bank's capital (i.e. 10% and above) are not allowed to obtain financing facilities from the bank (i.e. a 0% limit), however smaller shareholders will be subject to the normal exposure limits outlined in section CM-4.4.5. Directors who are also shareholders (or their appointed board representatives) with significant ownership (i.e. above 10% or above) are subject to the 0% limit mentioned above.
- The Central Bank's prior written consent should be obtained for any credit facilities provided to an employee where the amount of such facility, either singly or when added to an existing facility/existing facilities outstanding to that employee at that date, would be equal to or in excess of BD 100,000 (Bahrain Dinars One Hundred Thousand), or its equivalent in foreign currency. Banks must notify the Central Bank in writing of any senior employee who fails to discharge his repayment obligations.

Reciprocal cross-holdings of capital between a bank and its "controllers", which artificially inflate the capital of licensee concerned, are not permitted. Any cross-holdings that occur due to acquisitions or takeovers must be deducted from the concerned bank's capital. Any member of the Board Audit & Risk Committee who has an interest in the transaction under discussion will abstain from voting on the approval of the Connected Party Transaction, but may, if so requested by the Chairperson of the Committee, participate in some or all of the committee's discussions of the Connected Party Transaction. Upon completion of its review of the transaction, the BARC may determine to permit or to prohibit the Connected Party transaction.

E.6. Ownership of shares by government entities

None of the government entities holds shares of GFH.

E.7. Review of internal control and processes

Internal control is a process affected by the Board of Directors, senior management and all levels of personnel. It is not solely a procedure or policy that is performed at a certain point in time, but rather it is continually operating at all levels within the Bank. The Board of Directors and senior management are responsible for establishing the appropriate culture to facilitate an effective internal control process and for monitoring its effectiveness on an ongoing basis; however, each individual within an organization must participate in the process.

The main objectives of the internal control process can be categorized as follows:

1. Efficiency and effectiveness of activities (performance objectives);
2. Reliability, completeness and timeliness of financial and management information (information objectives); and
3. Compliance with applicable laws and regulations (compliance objectives).

Also, the internal control system of the Bank consists of five (5) interrelated elements:

- i. Management oversight and the control culture;
- ii. Risk recognition and assessment;
- iii. Control activities and segregation of duties;
- iv. Information and communication; and
- v. Monitoring activities and correcting deficiencies.

E.8. GFH's Client Charter

In line with the CBB requirements, GFH has developed a client's charter which outlines the commitments made by GFH in respect of the quality of services and products delivered to its clients and shareholders. The Client Charter, which is available on the bank's website, is an assurance that services provided by the Bank will comply with quality standards. Generally, quality standards are standards that will fulfil clients' and shareholders' needs and expectations.

The Client Charter also incorporates GFH's Complaints Handling Procedures and encourages the clients and its shareholders to report any alleged wrongful conduct, malpractice or an improper/unethical behaviour of an employee of the bank.

Corporate Governance (contd.)

E.8.1. Dealing with Complaints

GFH is committed to providing its clients with the highest standard of service. However, should a client complain because he/she feels GFH has failed to deliver what it has promised, GFH will do everything possible to ensure that such a complaint is dealt with fairly, promptly and effectively. The information provided here will show you how to:

- I. Make a complaint.
- II. Escalate if you are not satisfied with the response provided by GFH in response to your complaint.
- III. Take further action if you are still dissatisfied with the outcome.

- **Mechanism for submitting Complaints:**

The complaint must be in writing and should be addressed to the Investors' Relations Department and must be marked to the GFH's Complaint Handling Officer.

In compliance with the directives of the Central Bank of Bahrain, GFH has appointed a Complaints Handling Officer, who is responsible for ensuring that the client complaint is acknowledged, properly investigated, and that the Bank's response is adequately communicated to the client.

- **Options for submitting Complaint:**

- a) Hand delivery to GFH's Office (reception) located at 28th Floor, East Tower, Bahrain Financial Harbour, Manama
- b) Via Fax to the following number +973 17 540006
- c) Courier or post to the following address:

*Compliant Handling Officer
GFH Financial Group B.S.C.,
28th Floor, East Tower, Bahrain Financial Harbour,
PO Box 10006, Manama, Kingdom of Bahrain*

- d) Or scan and email the written complaint to: iservice@gfh.com

- **What happens once your complaint is submitted?**

- a) Once a client complaint has been submitted, we will acknowledge within three (3) business days.
- b) The client complaint will be referred to the concerned person/department which will investigate it thoroughly and a written response detailing the outcome of our investigation and our decision shall be provided within four (4) weeks of receiving the complaint. In the unlikely event that the complaint is not answered within the timeframe mentioned in point (b), we will write the reasons why there has been a delay and the additional action that we will take including when we anticipate to have concluded our investigation.
- c) In an event that the complaint is not resolved or that the client is not satisfied with the solution provided by us, he/she has the right to escalate the complaint to the 'Compliance Director' of GFH. The escalation will be acknowledged as per (a) above and a written answer shall be provided within four (4) weeks from the date of escalation.
- d) After receiving the final response to the escalated complaint, and if the client is still not satisfied, he/she can write directly to the Compliance Directorate of the Central Bank of Bahrain or he/she can submit the case through the "Complaint form" available on the Central Bank of Bahrain website www.cbb.gov.bh, within 30 calendar days from the date of receipt of our final response.

E.8.2. Whistle-blowing

• Report an Incident

If the client have observed any alleged wrongful conduct, malpractice or an improper/unethical behaviour of an employee of the bank, he/ she is encouraged to report the incident to the Bank through the following means:

- Report to 'Compliance Director' or 'Head of Internal Audit' by sending an email at whistleblow@gfh.com; alternatively, send a letter by post at the below address:

*Compliance Director/Head of Internal Audit
GFH Financial Group B.S.C,
29th Floor, East Tower Bahrain Financial Harbour,
P.O. Box 10006, Manama, Kingdom of Bahrain*

• Protection Rights for Whistleblowers

- a) GFH is committed to the protection of Whistleblowers against potential actions that may be taken in reprisal for making the protected disclosure.
- b) The Whistleblower's identity, the nature of the report, and the suspected person's identity are strictly confidential.
- c) Retaliation against an individual, who in good faith, had made a complaint, disclosed information relating to a complaint or otherwise participated in an investigation relating to a complaint is prohibited regardless of the outcome of the investigation.
- d) The Board Audit & Risk Committee of the bank will be responsible to assess the incident reported and will decide the course of action.

E.9. Details of penalties paid

In 2016, financial penalties amounting Bahraini Dinar ("BD") 24,200 were imposed by the Central Bank of Bahrain, due to the late submission of AUP Report on Remuneration and the related Appendix BR-14 Form.

E.10. Systems and controls for compliance with Sharia and AAOIFI standards

In pursuance with the provisions of its Articles of Association, GFH Financial Group has always carried out its banking activities in compliance with Islamic Sharia principles that constitute an integral part of the entire policies of the Bank. Tasks managed by Sharia Department of GFH include the followings:

1. Ensuring that the necessary approvals of the SSB have been obtained for each project.
2. Ensuring compliance of projects with the Sharia provisions indicated in the Prospectus and the approved structure of the project.
3. Reviewing the financial statements and other issues related to the projects and ensuring that they are in compliance with the Sharia principles.
4. Ensuring that the projects are in compliance with Fatwas and recommendations of the SSB of GFH and the other Sharia Boards, if any.
5. Ensuring that the approval of the SSB is obtained for each financial instrument (such as sale transactions, financing, currency conversion, Sukuks, deposits, etc.), including the approved and concluded contracts and agreements.
6. Reviewing the financial statement to ensure full compliance with the Sharia principles and the requirements and provisions of the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI).
7. Ensuring that all the products and the structures thereof are in compliance with AAOIFI's standards.

For earnings prohibited by Sharia, please refer note 2(y) and note 28 of the consolidated financial statements for the fiscal year ended 31st December 2016.

Corporate Governance (contd.)

E.11. Remuneration related disclosures

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

The key features of the proposed remuneration framework are summarised below.

Remuneration strategy

It is the Bank's basic compensation philosophy to provide a competitive level of total compensation to attract and retain qualified and competent employees. The Bank's variable remuneration policy will be driven primarily by a performance based culture that aligns employee interests with those of the shareholders of the Bank. The variable remuneration policy helps ensure effective alignment of remuneration with prudent risk-taking by senior management in the conduct of business.

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 (NRGC).

The quality and long-term commitment of all of our employees is fundamental to our success. We therefore aim 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 our shareholders. The Bank's reward package is comprised of the following key elements:

1. Fixed pay;
2. Benefits;
3. Annual performance bonus; and
4. The long term performance incentive plan

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

In order to ensure alignment between what we pay our people and our business strategy, we assess individual performance against annual and long-term financial and non-financial objectives summarized in our performance management system. This assessment also takes into account adherence to the Bank's values, risks and compliance measures and above all 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 NRGC believes the latter contributes to the long-term sustainability of the business.

NRGC role and focus

The NRGC has oversight of all reward policies for the Bank's employees. The NRGC 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 NRGC 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, the business plan and risk profile of the Bank.

The responsibilities of the NRCG with regards to the Bank's variable remuneration policy, as stated in its mandate, include but are not limited to, the following:

- a) Review the remuneration policies for the approved persons and material risk-takers, which must be consistent with GFH's corporate values and strategy.
- b) The committee should be responsible for retaining and overseeing outside consultants or firms for the purpose of reviewing the remuneration of approved persons and material risk-takers, administering remuneration plans, or related matters.
- c) Ensure that the remuneration of approved persons and material risk-takers is sufficient enough to attract and retain persons of the quality needed to run the bank successfully, but that bank avoids paying more than is necessary for that purpose.
- d) Approve the individual remuneration amounts, packages and total compensation for each approved person and material risk-taker and make recommendations to the Board of the total variable remuneration (bonus pool) to be distributed, taking account the total remuneration, including salaries, fees, expenses, bonuses and other employee benefits.
- e) Evaluate the performance of approved persons and material risk-takers in light of the bank's corporate goals, agreed strategy, objectives and business plans.
- f) The committee shall be responsible to the Board for the overview of any Employee Benefit Trust (EBT) or similar arrangements adopted for the purpose of administering the deferred incentive arrangements (including share schemes) of the Bank.
- g) Ensure that variable remuneration for material risk-takers forms a substantial part of the total remuneration of approved persons and material risk-takers (other than the risk management, internal audit, operations, financial controls, internal Sharia review/audit, AML and compliance functions personnel).
- h) Ensure that for approved persons in risk management, internal audit, operations, financial controls, internal Sharia review/audit, AML and compliance functions the mix of fixed and variable remuneration is weighted in favour of fixed remuneration.
- i) Ensure that the system includes effective controls including stress testing and back testing results of the remuneration policy and that the system's practical operation is regularly reviewed for compliance with regulations, internal policies and bank procedures.
- j) Review remuneration outcomes, risk measurements and risk outcomes regularly for consistency with the Board's approved risk appetite, for submission for the Board for its review.
- k) Review cases where any ex-ante risk adjustments are to be used to take into account severe but plausible scenarios to the variable remuneration as per the Bank's variable remuneration policy.
- l) Review cases where the bonus is diminished by exercise of Malus and Clawback adjustments.
- m) Question payouts for income that cannot be realized or whose likelihood of realization remains uncertain at the time of payout.
- n) Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves to not using personal hedging strategies or remuneration and liability related insurance to undermine the risk alignment affects embedded in their remuneration arrangements.

Corporate Governance (contd.)

As outlined in the Corporate Governance section of the Annual Report, the Board is satisfied that all non-executive Directors are independent including the NRGC members. The NRGC comprises of the following members:

NRGC member name	Appointment date	Number of meetings attended	
		2016	2015
Khaled Mohamed Al Khazraji	22 April 2014	2 out of 2	3 out of 3
Bashar Mohamed Al Mutawa	22 April 2014	2 out of 2	3 out of 3
Faisal Abdulla Bubshait	22 April 2014	None	1 out of 3

The aggregate remuneration paid to NRGC members during the year in the form of sitting fees amounted to US\$ 4K (2015: US\$ 8K).

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 each subsidiary of the Bank will be determined by applicable local regulations and market norms.

Board remuneration

The Bank will determine board remuneration in line with the provisions of Article 188 of the Bahrain Commercial Companies Law, 2001. The Board of Directors' remuneration will be capped so that variable remuneration in any financial year (sitting fees is not part of variable remuneration) does not exceed 10% of the Bank's net profit, after all required deductions outlined in Article 188 have been made. Remuneration of non-executive directors will not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits. Remuneration of non-executive directors will not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits. Remuneration of non-executive directors will not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits.

Variable remuneration for staff

Variable remuneration is performance related and consists primarily of the annual performance bonus award. As a part of our staff's variable remuneration, the annual bonus rewards 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 of meeting both satisfactory financial performance and the achievement of other non-financial factors, that will, all other things being equal, deliver a target bonus pool for employees, prior to consideration of any allocation to business lines and employees individually. In the framework adopted for determining the variable remuneration pool, the NRGC aims to balance the distribution of the Bank's profits between shareholders and employees.

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

In determining the quantum of variable remuneration, the Bank has implemented a hybrid model by defining a Top Down (profit based) bonus pool funding for control and support staff and bottom-up (maximum earning opportunity based) pools for Risk Takers. The total bonus pool is capped at a percentage of profit before being assessed for risk. This approach is a starting position and the NRGC may choose

to implement a discretionary award for a given year based on affordability for the Bank and its assessment of the Bank's current and future resource requirements. The bonus pool is adjusted to take account of risk via the use of risk-adjusted measures (including forward-looking considerations).

The NRCG carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. NRCG demonstrates that its decisions are consistent with an assessment of the Bank's financial condition and future prospects. A special pool is also considered for recoveries made against any legacy investments and legal cases and is approved on a case-by-case basis by the Board of Directors.

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 NRCG.

For the overall Bank to have any funding for distribution of a bonus pool; threshold financial targets have to be achieved. The performance measures ensure that 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 assessment 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 should be weighted in favor of fixed remuneration. In exceptional cases, the approval of the NRCG shall be obtained. The variable remuneration of control functions is to be based on function-specific objectives and is not be determined by the financial performance of the business areas 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 remuneration of the business units is primarily determined by 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 requirements. The consideration of risk assessments in the performance evaluation of individuals ensures that any two employees who generate the same short-run profits but take different amounts of risk on behalf of the bank are treated differently by the remuneration system.

Risk assessment framework

The purpose of risk linkages is to align variable remuneration to the risk profile of the Bank. In its endeavor to do so, the Bank considers both quantitative measures and qualitative measures in the risk assessment process. Both quantitative measures and human judgment play a role in determining any risk adjustments. The risk assessment process encompasses the need to ensure that the remuneration policy as designed reduces employees' incentives to take excessive and undue risks, is symmetrical with risk outcomes and delivers an appropriate mix of remuneration that is risk aligned.

The Bank's NRCG 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.

Corporate Governance (contd.)

Risk adjustments take into account for all types of risk, including intangible and other risks such as reputation risk, liquidity risk and the strategic measures. The Bank undertakes risk assessments to review financial and operational performance against business strategy and risk performance prior to 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:

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

The NRCG keeps itself abreast of the Bank's performance against the risk management framework. The NRCG will use this information when considering remuneration to ensure returns, risks 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 prior risk assumptions.

In years where the Bank suffers material losses in its financial performance, the risk adjustment framework will consider the following:

- Need for a considerable contraction of the Bank's total variable remuneration
- At an individual level, poor performance by the Bank will mean individual KPIs are not met and hence employee performance ratings may be lower
- Reduction in the 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 variable awards may be considered.

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

- Take no action
- Increase/reduce the ex-post adjustment
- Consider additional deferrals or increase in the quantum of non-cash awards
- Recovery through malus and clawback arrangements.

Malus and Clawback framework

The Bank's malus and clawback provisions allow the Bank's Board of Directors to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited/adjusted or the delivered variable remuneration 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 behavior has had a materially detrimental impact on the Bank during the concerned performance year.

Any decision to take back an individual's awards can only be taken by the Bank's NRCG. The Bank's NRCG takes into account the advice of the CEO, Risk, Finance and HR Departments as appropriate.

The Bank's malus and clawback provisions allow 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 include the following:

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

The Bank's variable remuneration framework provides for the following key 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, but released after a retention period of 6 months
Deferred Annual Bonus (DAB) share awards	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 and an additional retention period of 6 months
Future performance awards (FPA)	<p>The portion of variable compensation which is awarded to selected employees. The awards are contingent on the delivery of future performance targets for the Bank as well as service conditions on part of employees. These could comprise individually or a combination of the following:</p> <ul style="list-style-type: none"> • Long term Incentive Plan Shares, where the employees are compensated in form of shares as a percentage of fixed salary on achievement of some future performance conditions. • Profit share, where the employees are compensated based on a specified percentage of targeted profit for a transaction. • Carried Interest, where the employees are compensated a specified percentage of fair value gain on investments once it achieves a specified hurdle rate on realisation. • Co-investment, wherein a portion of variable remuneration is awarded in the form of an investment made by the bank which is encashable by employee on Bank's exit from the investment. • Sales/recovery incentive, where the employee or a team is compensated on the basis of a specified percentage of a sales value of an investment on successful exit or recovery of an asset.

Employee Share Ownership Loan Scheme

GFH may also implement an employee share ownership loan scheme (ESOL Scheme) from time to time to be implemented under any of the Share Incentive Scheme it develops. Such ESOL Scheme, if implemented, shall allow employees to increase their participation in GFH shares through the utilization of financing advanced by the Bank and the right to acquire GFH shares at the pricing determined in accordance with the ESOL Scheme. The ESOL Scheme is designed to enable eligible participants to increase their holdings of GFH shares on favourable terms but under the funding of the participants themselves.

Corporate Governance (contd.)

Establishment of the Trust Instrument:

GFH has established a GFH Employee Benefit Trust instrument to hold and manage its deferred staff benefits related to the Variable Remuneration policy. The Trustees shall undertake all of the duties set out in the Bahrain Trust Law and the Trust Instrument.

Deferred compensation

All employees earning over BHD 100,000 in total compensation shall be subject to deferral of variable remuneration as follows:

Element of variable remuneration	CEO, his deputies and other 5 most highly paid business line employees	Other covered staff	Deferral period	Retention	Malus	Clawback
Upfront cash	40%	50%	immediate	-	-	Yes
Upfront shares	-	10%	immediate	6 months	Yes	Yes
Deferred cash	10%	-	Over 3 years	-	Yes	Yes
Deferred share awards	10% - 50%	10% - 40%	Over 3 years	6 months	Yes	Yes
Other Non-Cash Awards or FPA	0% - 40%	0% - 30%	Performance linked	6 months	Yes	Yes

The NRGCC, based on its assessment of role profile and risk taken by an employee could increase the coverage of employees that will be subject to deferral arrangements.

Summary of key changes to the Variable Remuneration Policy

The Variable Remuneration Policy was first presented to the shareholders for approval on 12 April 2015. The shareholders authorised the Board of Directors to make any necessary amendments to the policy to ensure it is aligned with the requirements of the regulations and is aligned with the remuneration requirements of the Bank. Initially, an SPV was established to operate the Share Incentive Scheme. However, based on regulatory advice, a Trust structure was put in place to operate and manage the deferred incentive awards. This process was completed in 2016 and all share issuances and implementation of new policy was effected. The key changes in the variable incentive policies and its implementation were as follows:

- Establishment of employee Trust;
- Introduction of the ESOL Scheme;
- Updating the terms of the Share Incentive Scheme for types of share awards and a variable pricing mechanisms to include the ESOL and to align with the operational requirements of the Trust structure

No other significant changes were made to the policy.

Details of remuneration paid

(a) Board of Directors

	2016 (US\$ '000)	2015 (US\$ '000)
• Board Member fees	378	261
• Board Member allowances (4)	670	637
Total	1,048	898

(b) Employee remuneration

2016 ^(1,2)									
Type of employees	No. of staff	Fixed remuneration		Variable remuneration					Total
		Cash	Others	Upfront		Deferred			
				Cash	Shares	Cash	Shares ³	Others	
Approved Persons Business lines	6	2,877	434	3,027	-	750	3,750	-	10,838
Approved Persons Control & Support	10	2,983	-	2,238	-	470	2,540	-	8,231
Other Material Risk Takers	23	3,193	369	869	-	-	163	-	4,594
Other Employees: Bahrain Operations	42	2,808	-	1,119	-	50	425	-	4,402
Other Employees: Overseas Branches & Subsidiaries ¹	37	2,456	-	104	-	-	-	-	2,560
	118	14,317	803	7,357	-	1,270	6,878	-	30,625

Notes:

1. The above disclosures exclude remuneration details of Khaleeji Commercial Bank BSC (KHCB). Information pertaining to KHCB is separately available within their annual report.
2. The financial information is presented based on final approvals by the NRGC and Board of Directors and awards communicated to employees subsequent to the issue of the consolidated financial statements.
3. The amounts attributed to share awards are based on the allocation of the initial bonus pool to deferred share awards. Additional accounting charge, if any, will be reflected in the subsequent accounting periods based on fair value of the shares on the date of issue.
4. Includes US\$ 250,000 (2015: US\$ 250,000) paid to the Chairman for his time and travel related expenses incurred in relation to his responsibilities as Chairman of GFH.

Corporate Governance (contd.)

2015 ^(1,2)									
Type of employees	No. of staff	Fixed remuneration		Variable remuneration					Total
		Cash	Others	Upfront		Deferred			
				Cash	Shares	Cash	Shares ³	Others	
Approved Persons Business lines	7	2,265	152	578	-	138	689	-	3,822
Approved Persons Control & Support	11	2,430	-	502	-	58	421	-	3,411
Other Material Risk Takers	18	2,019	139	559	-	-	44	-	2,761
Other Employees: Bahrain Operations	35	1,922	-	429	-	-	-	-	2,351
Other Employees: Overseas Branches & Subsidiaries ¹	32	2,096	-	92	-	-	-	-	2,188
	103	10,732	291	2,160	-	196	1,154	-	14,533

Notes:

1. The above disclosures exclude remuneration details of Khaleeji Commercial Bank BSC (KHCB). Information pertaining to KHCB is separately available within their annual report.
2. The 2015 has been adjusted for actual awards allocated subsequent to issue of annual report for the previous period.
3. The amounts attributed to share awards are based on the allocation of the initial bonus pool to deferred share awards. Additional accounting charge, if any, have been reflected in the subsequent accounting periods based on fair value of the shares on the date of issue and factoring terms of modification to original awards.
4. No sign-on bonus, guaranteed bonus or severance pay was made during 2015 or 2016.

(c) Deferred awards

Type of employees	2016			
	Cash US\$ '000s	Shares		Total US\$ '000s
		Number	US\$ '000s	
Opening balance	328	52,269,290	4,457	4,785
Awarded during the period	1,270	12,504,545	6,878	8,148
Paid out/released during the period	(44)	(25,128,650)	(1,657)	(1,701)
Service, performance and risk adjustments	-	-	-	-
Bonus share and other corporate events	-	-	-	-
Closing balance	1,554	39,645,185	9,678	11,232

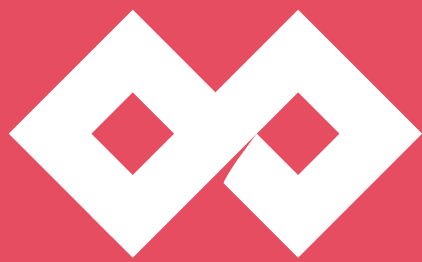
Type of employees	2015			
	Cash US\$ '000s	Shares		Total US\$ '000s
		Number	US\$ '000s	
Opening balance	132	39,306,527	2,884	3,016
Awarded during the period	196	15,315,395	2,020	2,216
Paid out/released during the period	-	(2,352,632)	(447)	(447)
Service, performance and risk adjustments	-	-	-	-
Bonus share and other corporate events	-	-	-	-
Closing balance	328	52,269,290	4,457	4,785

Notes:

The total number of shares include additional employee participation through ESOL approved by the NRGC. However, the value reported above only reflects the fair value benefit that has accrued to the benefit of the employee on award/modification dates. These are not necessarily reflective of issue price of share awards.

These above disclosures exclude information related to KHCB which is available separately in their annual report.

The 2015 table reflects adjustments and modifications made to award terms in 2016 on changes to the variable remuneration policy and has been prepared assuming that the amendments were made at the respective performance years. This was done to reflect comparability of remuneration information for two performance periods. Accordingly, the information reported in the table above may not necessarily match with the accounting charge reflected for each reported periods.



gfh.com