

CORPORATE GOVERNANCE

Gulf Finance House 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.

Gulf Finance House 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. In 2007, GFH listed its GDR's in the London Stock Exchange.

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)

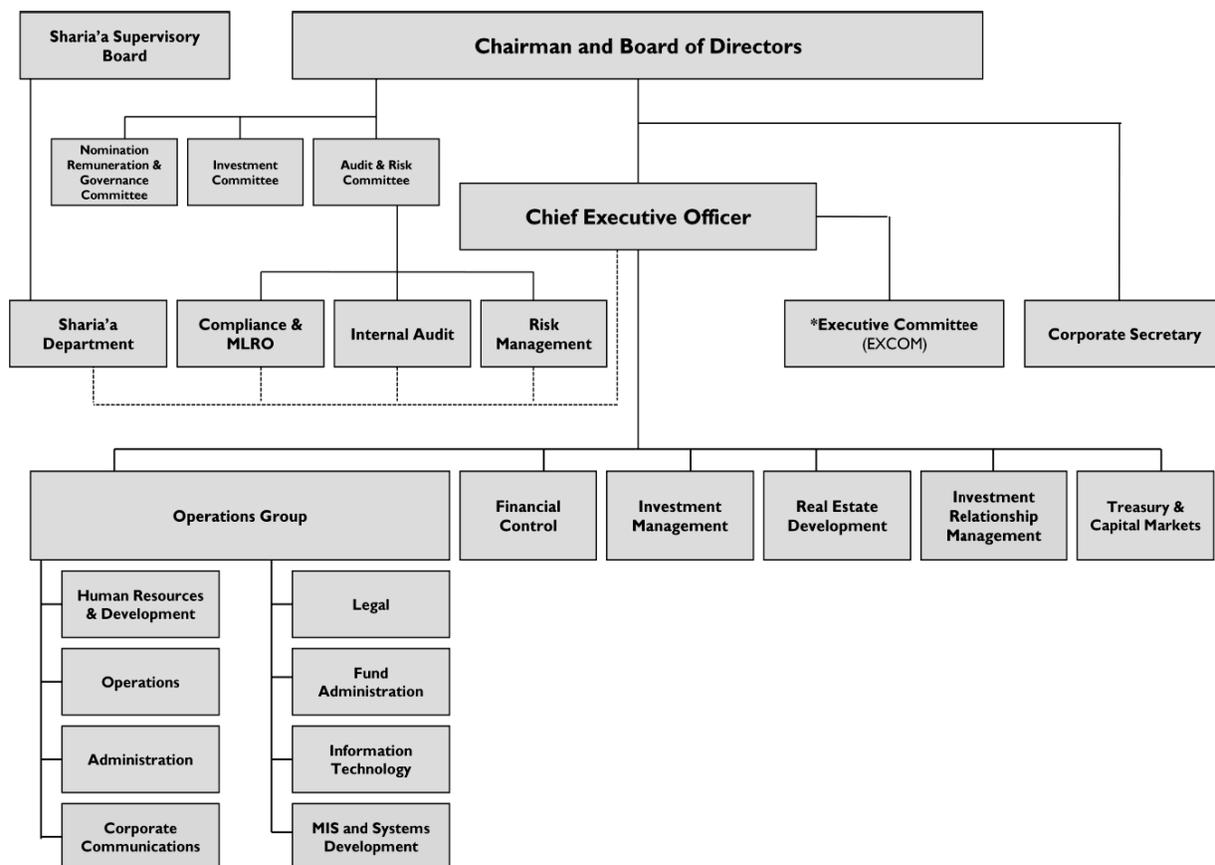
In 2013, GFH continued the implementation of the Corporate Governance Law and compliance with the requirements of the *'High Level Control Module* of the CBB Rulebook (Vol. 2)'.

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, Gulf Finance House 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 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 because the merger poses no conflict of interest.

- While the Nomination, Remuneration & Governance Committee must meet at least two times a year, the committee did not hold any meeting during fiscal year 2013.
- While the Audit and Risk Committee must meet at least four times a year, during the fiscal year 2013, the Committee held only one meeting which took place on 20th June 2013.

Organisational Structure



Notes:

* EXCOM consists of the following Members: CEO, Chief Administrative Officer, Group Chief Financial Officer, Head of Risk Management, and Head of Investment Management.

** ALCO matters will be discussed within EXCOM.

GFH's Corporate Governance framework:

GFH's Corporate Governance framework remains in line with the High Level Control (HC) Module of the CBB Rulebook (Volume 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, as well as 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 2013, the shareholders Register shows that there are 10,037 shareholders who own 3,161,889,967 shares at a nominal value of US\$ 0.31 per share, as follows:

| Nationality | No. of Shareholders | No. of Shares | % |
|-----------------|---------------------|----------------------|---------------|
| Bahraini | 575 | 111,648,140 | 3.53 |
| Emarati | 3284 | 1,826,023,018 | 57.75 |
| Kuwaiti | 5416 | 984,515,040 | 31.14 |
| Omani | 10 | 507,544 | 0.02 |
| Qatari | 36 | 7,877,647 | 0.25 |
| Saudi | 140 | 70,238,592 | 2.22 |
| Others | 576 | 161,079,986 | 5.09 |
| Total | 10,037 | 3,161,889,967 | 100.00 |

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 at 31 December 2013:

| Particulars | Number of shares | % | No. of shareholders |
|---------------------|----------------------|----------------|---------------------|
| Less than 1% | 2,852,643,380 | 90.220 | 10,031 |
| 1% to less than 5% | 309,246,587 | 9.780 | 6 |
| 5% to less than 10% | - | - | - |
| Total | 3,161,889,967 | 100.000 | 10,037 |

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

As of 31st December 2013, none of the shareholders holds 5% or above of GFH's total outstanding shares.

B. GFH Board of Directors and the Executive Management

B.1. Formation of the Board of Directors

At the AGM of year 2012 held on the 28th March 2013, 'Four' new member were elected by the shareholders thereby increasing the number of Board of Directors to 'Eight'.

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 2013 where the total number of Board of Directors was reduced to 'Seven' (due to the resigning of one of the member during the year), the Board was having 'Five' 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 Gulf Finance House 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 Gulf Finance House'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 Gulf Finance House, 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 Gulf Finance House. 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.

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 December 31, 2013:

| Classification of members | Number | % of Representation |
|---------------------------|----------|---------------------|
| Independent | 5 | 70% |
| Non-Executive | 2 | 30% |
| Total | 7 | 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 Dec 2013, no shareholder holds 10% or above of GFH shares.

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 December 31, 2013:

| 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 | 7 | 1 | 1 | 2 |
| Musabah Saif Al-Mutairy (Vice-Chairman) | March 2009 | Non-Executive | NA | NA | 9 | 1 | 1 | 2 |
| Bashar Mohammed Al-Mutawa | April 2013 | Independent | NA | NA | 7 | 7 | 0 | 1 |
| Sh. Mohammed Duajj Al Khalifa | April 2013 | Independent | NA | NA | 0 | - | - | - |
| Dr. Khalid Mohd Al-Khazraji | April 2013 | Independent | NA | NA | 3 | 0 | 0 | 2 |
| Mohammed A. Talib | April 2013 | Independent | NA | NA | 5 | 4 | 0 | 1 |
| *Azzam Abdul Aziz Al-Felaij (Member) | May 2011 | Independent | NA | Jan 2014 | 3 | - | - | 1 |
| *Esam Yusuf Janahi (Ex-Chairman) | July 2004 | Non-Executive | Himself | Oct 2013 | 20 | 13 | 1 | - |
| *Naif Abdulla Al Ali (Member) | May 2011 | Independent | NA | Mar 2013 | 1 | - | - | 2 |

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

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 Gulf Finance House, as at December 31, 2013 compared to that of December 31, 2012:

| Member's name | Shares owned as at Dec 31, 2012 | Shares owned as at 31 Dec, 2013 | Percentage of ownership as at 31 Dec, 2013 |
|-------------------------------|---------------------------------|---------------------------------|--|
| Esam Yusuf Janahi* | 181,146,616 | 488,158 | 0.02% |
| Dr. Ahmed Khalil Al-Mutawa | NIL | NIL | - |
| Musabah Saif Al-Mutairy | NIL | NIL | - |
| Azzam Abdul Aziz Al-Felajj* | NIL | NIL | - |
| Naif Abdulla Al Ali* | NIL | NIL | - |
| Bashar Mohammed Al-Mutawa | NIL | NIL | - |
| Sh. Mohammed Duaij Al-Khalifa | NIL | NIL | - |
| Dr. Khalid Mohd Al-Khazraji | NIL | NIL | - |
| Mohammed Ali Talib | NIL | NIL | - |
| Total | 181,146,616 | 488,158 | 0.02% |

* Mr. Esam Yusuf Janahi resigned in Oct 2013

* Mr. Azzam Abdul Aziz Al-Felajj resigned in January 2014

* Mr. Naif Abdulla Al Ali resigned in Mar 2013

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

| Name of Board Member | Total no. of shares held as at 31st Dec 2012 | Transactions - within the period 1st Jan 2013 - 31st Dec 2013 | | | Total no. of shares held as at 31st Dec 2013 | % of ownership |
|--------------------------------------|--|---|----------------------|----------|--|----------------|
| | | Bought | Sold | Transfer | | |
| Esam Yusuf Abdulla Abdulkarim Janahi | 181,146,616 | - | 180,658,458 | - | 488,158 | 0.02 |
| Musabah Saif Al Mutairy | - | 29,783,785 | 29,783,785 | - | - | - |
| Name of EXCOM Member | Total no. of shares held as at 31st Dec 2012 | Transactions - within the period 1st Jan 2013 - 31st Dec 2013 | | | Total no. of shares held as at 31st Dec 2013 | % of ownership |
| | | Treasury Shares Received | Treasury Shares Sold | Transfer | | |
| Hesham Ahmed N. Abdulqader Alrayes | 10,102 | 1,697,334 | 1,697,334 | - | 10,102 | 0.0005 |
| Ajay Shivram Subramanian | 2,194 | 77,141 | 77,141 | - | 2,194 | 0.0001 |
| Chandan Gupta | - | 662,622 | 662,622 | - | - | - |
| Mohammed Amin Ahmed Ali Hassan | - | 222,504 | 222,504 | - | - | - |
| Salem Patel | 5,740 | 417,345 | 417,345 | - | 5,740 | - |

B.10. Meetings of the Board of Director during the year 2013

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 eight (8) meetings during 2013. The AGM was held on 4th April 2013.

In addition to official meetings, a number of urgent resolutions were also passed by circulation in 2013 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 2013 are as follows:

- I. 10th January 2013,
- II. 21st February 2013,
- III. 9th May 2013,
- IV. 6th August 2013,
- V. 5th October 2013,
- VI. 5th October 2013,
- VII. 14th November 2013,
- VIII. 12th December 2013

| Date & location of meeting | Names of directors present | Names of Directors who participated by phone/video link | Names of directors not present |
|---|---|--|--|
| Date: 10 January 2013 Location: The Ritz Carlton – Rotana Hall, Manama-Kingdom of Bahrain | 1) Esam Janahi 2) Ahmed Al-Mutawa 3) Azzam Al-Felaij 4) Musabah Al-Mutairy | | 1) Naif Al Khodari |
| Date: 21 February 2013 Location: Gulf Finance House Bahrain Financial Harbour East Tower - 37 th Floor, Manama-Kingdom of Bahrain | 1) Esam Janahi 2) Ahmed Al-Mutawa 3) Azzam Al-Felaij 4) Musabah Al-Mutairy | | 1) Naif Al-Khodari |
| Date: 9 May 2013 Location: Gulf Finance House Bahrain Financial Harbour East Tower - 37 th Floor, Manama-Kingdom of Bahrain | 1) Essam Janahi 2) Ahmed Al-Mutawa 3) Azzam Al-Felaij 4) Musabah Al-Mutairy 5) Mohamed Ali Talib 6) Mohamed Duaij Al-Khalifa | | 1) Bashar Al-Mutawa 2) Khalid Al-Khazraji |

| | | | |
|--|--|--|--|
| <p>Date: 6 August 2013</p> <p>Location: Gulf Finance House Bahrain Financial Harbour East Tower - 37th Floor, Manama-Kingdom of Bahrain</p> | | <ol style="list-style-type: none"> 1) Essam Janahi 2) Ahmed Al-Mutawa 3) Musabah Al-Mutairy 4) Mohamed Ali Talib 5) Mohamed Duaij Al-Khalifa 6) Bashar Al-Mutawa | <ol style="list-style-type: none"> 1) Azzam Al-Felaj 2) Khalid Al-Khazraji |
| <p>Date: 5 October 2013</p> <p>Location: Gulf Finance House Bahrain Financial Harbour East Tower - 37th Floor, Manama-Kingdom of Bahrain</p> | | <ol style="list-style-type: none"> 1) Ahmed Al-Mutawa 2) Musabah Al-Mutairy 3) Mohamed Ali Talib 4) Mohamed Duaij Al-Khalifa 5) Bashar Al-Mutawa 6) Khalid Al-Khazraji | <ol style="list-style-type: none"> 1) Azzam Al-Felaj |
| <p>Date: 5 October 2013</p> <p>Location: Gulf Finance House Bahrain Financial Harbour East Tower - 37th Floor, Manama-Kingdom of Bahrain</p> | | <ol style="list-style-type: none"> 1) Ahmed Al-Mutawa 2) Musabah Al-Mutairy 3) Mohamed Ali Talib 4) Mohamed Duaij Al-Khalifa 5) Bashar Al-Mutawa 6) Khalid Al-Khazraji | <ol style="list-style-type: none"> 1) Azzam Al-Felaj |
| <p>Date : 14 November 2013</p> <p>Location: Gulf Finance House Bahrain Financial Harbour East Tower - 37th Floor Manama- Kingdom of Bahrain</p> | | <ol style="list-style-type: none"> 1) Ahmed Al-Mutawa 2) Musabah Al-Mutairy 3) Mohamed Ali Talib 4) Bashar Al-Mutawa 5) Khalid Al-Khazraji | <ol style="list-style-type: none"> 1) Mohamed Duaij Al-Khalifa 2) Azzam Al-Felaj |
| <p>Date : 12 December 2013</p> <p>Location: Gulf Finance House Bahrain Financial Harbour East Tower - 37th Floor Manama- Kingdom of Bahrain</p> | <ol style="list-style-type: none"> 1) Ahmed Al-Mutawa 2) Musabah Al-Mutairy 3) Mohamed Ali Talib 4) Mohamed Duaij Al Khalifa 5) Bashar Al-Mutawa 6) Khalid Al-Khazraji | | <ol style="list-style-type: none"> 1) Azzam Al-Felaj |

Note: Naif Al-Khodari, Azzam Al-Felaj, and Khalid Al-Khazraji did not attend at least 75% of the Board Meetings during 2013.

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, as well as compliance with anti-money laundering laws. The Committee must meet at least four times a year; during the fiscal year 2013, the Committee held only one meeting which took place on 20th June 2013.

Though the committee ARC was unable to meet as per the mandate, however, the matters related to Audit, Risk and Compliance were subsequently reported to Board of Directors.

| ARC Meeting date & location | ARC members present | ARC members who participated by phone/ video link | ARC members not present |
|--|---|---|-------------------------|
| Date: 20 June 2013 Location: GFH, Bahrain Financial Harbour East Tower - 37th Floor, Manama, Bahrain | 1) Mohamed Ali Talib 2) Khalid Al-Khazraji | | 1) Azzam Al Felajj |

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 four times during the fiscal year 2013.

| BIC Meeting date & location | BIC members present | BIC members who participated by phone/ video link | BIC members not present |
|--|--|---|-------------------------|
| Date: 20 June 2013 Location: GFH, Bahrain Financial Harbour East Tower - 37th Floor, Manama, Bahrain | 1) Musabah Saif Al- Mutaairy 2) Bashar Al-Mutawa | 1) Ahmed Al-Mutawa | |
| Date: 2 October 2013 Location: GFH, Bahrain Financial Harbour East Tower - 37th Floor, Manama, Bahrain | 1) Musabah Al-Mutaairy 2) Bashar Al-Mutawa | 1) Ahmed Al-Mutawa | |
| Date: 5 November 2013 Location: GFH, Bahrain | | 1) Ahmed Al-Mutawa 2) Musabah Al-Mutaairy 3) Bashar Al-Mutawa | |

| | | | |
|---|--|--|--|
| Financial Harbour East Tower - 37th Floor, Manama, Bahrain | | | |
| Date: 25 November 2013 Location: GFH, Bahrain Financial Harbour East Tower - 37th Floor, Manama, Bahrain | | 1) Ahmed Al-Mutawa 2) Musabah Al-Mutairy 3) Bashar Al-Mutawa | |

C. 3. Nomination, Remuneration & Governance Committee

The Nomination, Remuneration & Governance Committee 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 Gulf Finance House.

The Committee must meet at least two times a year. The Committee did not hold any meeting during fiscal year 2013.

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

Details will be available at the request of the regulatory authorities of the CBB. It will also 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. System of protection of whistle-blowers on corruption

As part of its governance framework, GFH has launched a system to protect whistle-blowers on corruption as already referred to under the regulations, which enable staff to raise their comments and concerns about possible irregularities in the financial reports or any other matters. Therefore, to comply with the requirements of the corporate governance law, the BOD will seek the adoption of this system in the near future, which will allow the opportunity for staff to report their concerns and comments on any suspected issues.

F. Other topics

F.1 Compensation of the Board of Directors and Executive Management

Compensation of the Board of Directors and Executive Management 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 2013, the Board was paid only sitting fees.

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

During 2013, the total remuneration paid to Sharia Supervisory Board was US\$ 154,000/-.

F.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.

F.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 and, where appropriate, proposing new members be appointed to the Board or seeking the resignation of Directors.
- 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.

Due to lack of quorum, NRGC responsibilities were being undertaken directly by the Board.

F.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 31 December, 2013.

F.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 counterparties 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.

F.6. Ownership of shares by government entity

Social Insurance Organization (Pension) is the only government entity which holds shares (amounting 70,588) of GFH.

F.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.

F.8. GFH Complaint Handling Process

Gulf Finance House is committed to providing the highest standard of service to its customers. However, should there ever be an occasion when you feel that we have failed to honor our promise and that you need to complain, we will do everything possible to ensure that your complaint is dealt fairly, promptly and effectively.

A comprehensive Guide on Complaint Handling Process is available on Bank's website; the Guide educates the customers, as how to:

- *Make a complaint*
- *Escalate if you are not satisfied with the response of your complaint*
- *Take further action if you are unhappy with the outcome*

It defines the process which needs to be followed in order to log a Complaint or other grievances:

- a) Once you have submitted your complaint, we will acknowledge within 5 "Five" business days.
- b) Your complaint will be referred to the concerned person/department which will investigate it thoroughly and a written response letter detailing the outcome of our investigation and our decision shall be provided to you within 4 weeks of receiving your complaint.
- c) In the unlikely event that your complaint has not been answered within the timeframes mentioned in point (b), we will write and let you know the reasons why and the further action that we will take including when we anticipate to have concluded our investigation.
- d) In the unlikely event that your complaint has not been resolved or that you are not satisfied with the solution provided by us, you have the right to escalate your complaint to the '*Compliance Manager*' of GFH. Your escalation will be acknowledged as per (a) above and a written answer shall be provided within 4 weeks from the date of your escalation.
- e) After receiving the final response to your escalated complaint, and if you are still not satisfied, you can write directly to the Compliance Directorate of the Central Bank of Bahrain or you can submit the case through the "complaint form" on the Central Bank of Bahrain website www.cbb.gov.bh within 30 calendar days from the date of receipt of our final response.

F.9. Details of Penalties paid

In 2013, a financial penalty amounting BD 20,000/- was imposed by the Central Bank of Bahrain, due to the late submission of one of the Subsidiary's Audited financial statements.

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

In pursuance with the provisions of its Articles of Association, Gulf Finance House 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.

Refer note 2(s) and note 27 of the consolidated financial statements for the fiscal year ended 31 December 2013 for earnings prohibited by Sharia.