

UNITED GULF BANK B.S.C. (c)



**Corporate Governance
Report - 2020**

GLOSSARY

AGM	Annual General Meeting
BAC	Board Audit Committee
BOD	Board of Directors; the Board
CBB	Central Bank of Bahrain
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Code	Code of Corporate Governance issued by the Ministry of Industry & Commerce, Kingdom of Bahrain
EGM	Extra Ordinary General Meeting
HC	Higher Level Controls; Module HC of the CBB Rulebook
MOICT	Ministry of Industry & Commerce, Kingdom of Bahrain
NRC	Nominating and Remuneration Committee
UGB	United Gulf Bank B.S.C (c), the Bank

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1. UGB's Philosophy on the Code of Corporate Governance.

The Board of Directors (Board, BOD) of United Gulf Bank B.S.C (c) (UGB, the Bank) recognize the importance of good governance in promoting and strengthening the trust of their shareholders and the public. It is their firm belief that sound ethical practices, transparency in operations and timely disclosures, go a long way in enhancing long term shareholder value while safeguarding the interest of the stakeholders.

The corporate governance framework of the Bank is a reflection of its culture, policies, relationship with stakeholders and commitment to values. UGB has endeavoured to comply with the requirements of the Corporate Governance Code of the Kingdom of Bahrain (Code) and the Central Bank of Bahrain's (CBB) Higher Level Controls (Module HC) of its rulebook. The objective of this report is to be transparent and inform shareholders on the extent of UGB's compliance with the rules of Module HC specified by the Central Bank of Bahrain – the Bank's primary regulator. Explanations on variances are also disclosed based on the 'comply or explain' philosophy.

2. Profile and ownership structure of the Bank

UGB continues to be licensed as a wholesale conventional bank by the Central Bank of Bahrain (License Number: WB/04) and operates as a Bahraini closed shareholding company under its Commercial Registration # 10550. This information can be validated on the MOICT's website <https://www.sijilat.bh/>.

As at 31 December 2020, the total paid up capital of the Bank was USD 116,131,520.5 with the shareholding as follows:

Name (Arabic)	Name (English)	Nationality	Number of Shares	Ownership (%)
محمد هارون نورالرحمن عبدالله خان	MOHAMMAD HAROON NUR REHMAN ABDLLA KHAN	BAHRAINI	1	N/A
شركة الخليج المتحد القابضة ش.م.ب.	United Gulf Holding Company B.S.C.	BAHRAINI	232,263,040	100

This data is verifiable on the Ministry of Industry, Commerce & Tourism's website www.sijilat.bh. No government or sovereign fund holds any shares of UGB.

3. Board of Directors

3.1 Composition of the Board of Directors

The CBB requirements state that at least half of a conventional bank licensee's board should be non-executive directors and at least three of those persons should be independent directors. There is however an exception granted for banks with a controller which state that '*in conventional bank licenses with a controller, at least one third of the board must be independent directors.*' UGB's Board members met this condition during the year ended 2020 as three out of seven directors i.e. 42.8% met the criteria of independence. The composition of UGB's Board of Directors as at 31 December 2020 is indicated below:

Category	Number of Directors	Percentage of the Board
Executive	4	57.2%
Independent directors	3	42.8%
Aggregate	7	100%

All the independent Directors of UGB are required to furnish a declaration at the time of their appointment, as also annually, that they meet the criteria of independence. These declarations were last reviewed by the Bank's Nominating and Remuneration Committee (NRC) prior to the re-election of the Board of Directors in September 2020. The NRC reviewed the declarations for the year ended 2020, at their meeting in February 2021. For a Director to be considered independent, the Board determines that the incumbent does not have any direct or indirect material pecuniary relationship with the Bank. The Board has adopted guidelines which are in line with the applicable legal requirements.

The profile of UGB's directors, information on other Directorships they hold, and their biographical details are available in UGB's Annual Report and on its website www.ugbbh.com.

None of the Directors on the Board holds more than one directorship of a bank in Bahrain. The effective cap of a maximum of two Directorships of banks inside Bahrain is hence maintained. UGB's Board members also meet the criteria that no two directorships of licensees within the same category should be held by any Board member, and that no person should hold more than three directorships in public companies in Bahrain.

The CBB Rulebook and the Code of Corporate Governance (Code) requires that the Chairman of the Board should be an independent Director. The Chairman was recently re-elected to the Board of Directors following the AGM held in September 2020 by the Bank's shareholders. The Relevant Form 3 was submitted to CBB and approvals on his position were received from the Wholesale Banking Directorate of the CBB on 22 September 2020. It should be noted that UGB's Chairman – Mr. Masaud J. Hayat has been an Executive Board Director of the Bank for the past 31 years and has a thorough understanding of the Bank, its history, its functioning style and its operations. He represents the interests of the Bank's shareholder, UGH and its ultimate controller – Kuwait Projects Company (Holding) K.S.C. (KIPCO).

3.2 Board Terms and the Start Date of Each Term

Each term of the Board of Directors consists of three years. The following members were last elected to UGB's Board of Directors at the Ordinary General Meeting held on 24 September 2020.

Executive Directors

- Mr. Masaud J. Hayat – Chairman
- Mr. Faisal Al Ayyar – Vice Chairman
- Sheikh Abdullah Nasser Sabah Al Ahmad Al Sabah
- Mr. Samer Khanachet

Independent Directors

- Mr. Mubarak Al Maskati
- Mr. Bader Al Awadhi
- Mr. Mohammed Haroon

Due to the change in the CBB's regulatory requirements, Directors who have served three consecutive terms can no longer be classified as independent, unless approved by the Central Bank of Bahrain.

As has been done in the past, each member of the Board of Directors was issued an appointment letter which documents his powers, duties, responsibilities, accountabilities, term, time commitment, entitlements and access to independent professional advice. This was issued by the Chairman in September 2020 following the re-election of members of the Board of Directors.

The Board undertook a review of the Corporate Governance related PPMs in line with its internal philosophy of reviewing them once in two years. These were last approved at its meeting held in February 2021. It has a separate policy called '[Criteria for the Election / Re-](#)

election of Directors’. This policy contains the questionnaire evaluating the criteria for a person to be considered as appropriate for serving on the Board. The **Charter of the Nominating and Remuneration Committee** mandates that all questionnaires be assessed by the Nominating & Remuneration Committee based on information available on/from the prospective/ existing Director/s and submitted to the Board along with the Committee’s recommendation. Care is taken to ensure that the ‘fit and proper’ requirements of the regulator are met. The Applications for Approved persons Status of all Board Directors was uploaded on the CBB’s Institutional Information Service (IIS) portal along with their resume, educational qualifications and credit bureau reports. After reviewing their candidacy and eligibility, the CBB gave its no objection for the re-election of members of the current Board of Directors on 22 September 2020.

The Board has approved a separate policy called ‘**Ordinary / Extraordinary General Assembly Meetings Procedures.**’ In accordance with the Commercial Companies Law, voting will take place on a cumulative basis. A cumulative vote implies that each shareholder shall have a number of votes equal to the number of shares he holds and shall have the right to vote for one candidate or to distribute them to his chosen candidate.

In notices of meetings at which directors are to be elected or removed, the Bank will ensure that where the number of candidates exceeds that of the number of available seats, the notice of the meeting explains the voting method by which the successful candidates will be selected and the method to be used for counting of votes. Care will also be taken to ensure that the notice of the meeting will fairly represent the views of the candidates. The methodology of cumulative voting was not warranted during the OGM held in September 2020, as the number of vacancies for Board Directorships was equal the number of candidates available for re-election.

The Charter of the Board of Directors, also provides for the termination of membership of Board members for misuse of position; failure to attend at least three consecutive meetings or at least 75% of the meetings in a financial year without a reasonable excuse; resignation; appointment to any other managerial position in the Bank for which the member receives remuneration; bankruptcy or any other violation of laws. In 2020, the attendance requirement for Board meetings was met by all members.

3.3 Board Induction Policy

UGB’s Board of Directors approved the **Directors’ Induction Policy** that requires each new Director to receive a formal and tailored induction with respect to UGB’s vision, strategic direction, and core values including ethics, corporate governance practices, financial matters and business operations. The familiarisation is aimed at ensuring that the new Director meets with the Bank’s Senior Management, and that he/she is provided with the

necessary documents, brochures, reports and internal policies. It is also in line with the CBB's requirement that the Board of Directors should be effective and informed.

The **Charter of the Nominating & Remuneration Committee** states that the Nominating & Remuneration Committee is responsible for the preparation of induction materials and orientation sessions for new Directors, in consultation with senior management and with the Board Secretary.

3.4 Responsibilities of the Board

The Board's role and responsibilities include but are not limited to :

- Determining the overall business performance, plans and strategy for UGB, and monitoring the implementation of strategic decisions;
- Reviewing the inherent level of risk in these plans;
- Causing financial statements to be prepared which accurately disclose UGB's financial position;
- Assessing the adequacy of capital required to support the business risks of the Bank;
- Monitoring management performance by approving budgets and reviewing performance against the budgets and key performance indicators;
- Convening and preparing the agenda for shareholder meetings;
- Monitoring conflicts of interest and preventing abusive related party transactions;
- Assuring equitable treatment of shareholders including minority shareholders; and
- Establishing performance objectives
- Overseeing major capital expenditures, divestitures and acquisitions
- Ensuring that the systems and controls framework, including the Board structure and organisational structure, is appropriate for the bank's business and associated risks
- Reviewing the management of the Bank's compliance risk

These are enumerated in detail in the **Corporate Governance guidelines** published on the website, and the **Charter of the Board of Directors**. The responsibilities assigned to Board members, are in line with the spirit of the care and loyalty expected from them vis a vis the Bank and its shareholders. Directors understand that they should be collegial, knowledgeable and are accountable both individually and collectively in discharging their duties.

The minutes of the Board reflect the decisions taken by Directors during the course of their meetings/ resolutions.

3.5 Board Meetings

The travel restrictions, health and safety measures caused due to the onset of COVID 19 resulted in Board meetings being held 'virtually' for the most part of 2020. Consequently, only one was physically held in the Kingdom of Bahrain. This was notified to the CBB on 13 December 2020 and was duly acknowledged by them.

UGB's Directors met for a total of four times last year. It should be noted that no meeting was held in May 2020 to approve the first quarter financial results, as the CBB exempted all Banks licensed in Bahrain from having to publish the same. The attendance record of the Directors at Board meetings held in 2020 is disclosed below:

Attendance	26 Feb 2020 (Bahrain)	24 Mar 2020 (Virtual)	13 Aug 2020 (Virtual)	15 Nov 2020 (Virtual)
Masaud J. Hayat, Chairman	x	x	x	x
Faisal Al Ayyar, Vice Chairman	x	x	x	x
Sheikh Abdullah Nasser Sabah Al Ahmad Al Sabah	x	x	x	x
Samer Khanachet	x	x	x	x
Mubarak Al Maskati	x	x	x	x
Bader Al Awadhi	x	x	x	x
Mohammed Haroon	x	x	x	x

Additionally, one resolution of the Board of Directors was passed through circulation in September 2020.

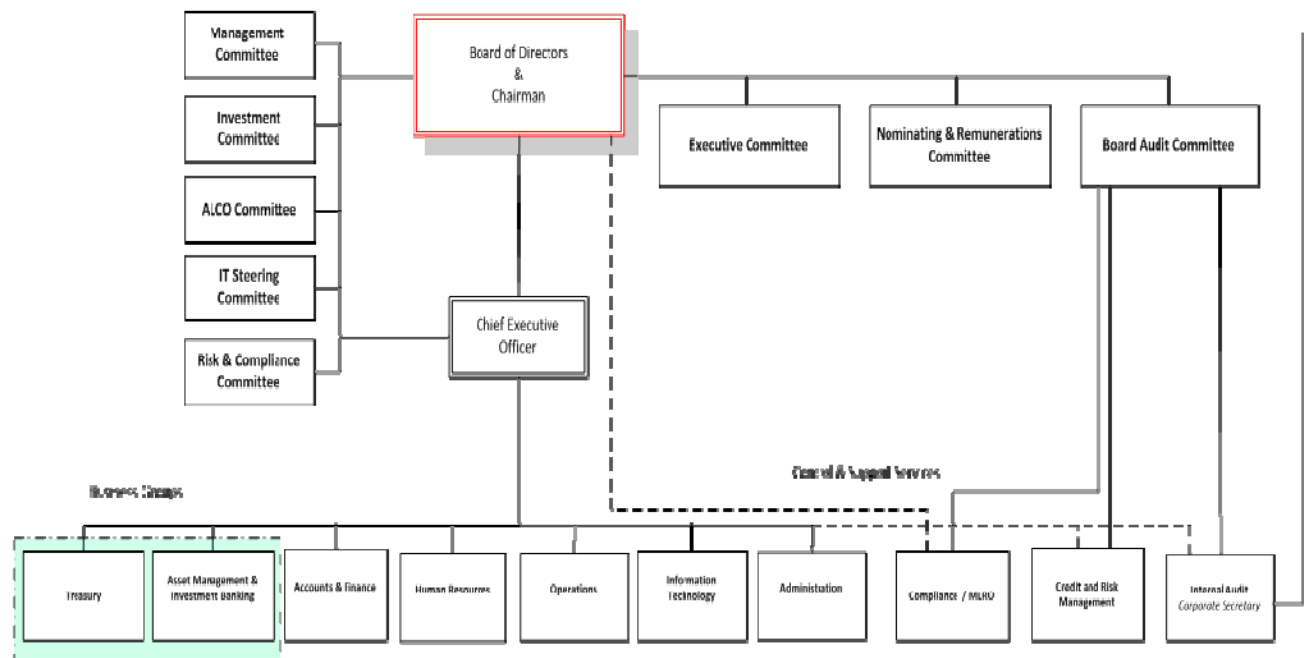
It is a regulatory requirement that individual board members must attend at least 75% of all Board meetings in a given financial year to enable the Board to discharge its responsibilities effectively. This condition was met by all members. Informal communication is also maintained among Board members between meetings. A detailed package containing the agenda, minutes of prior meetings, adequate background information on the issues is circulated by the Chairman/ Corporate Secretary, prior to the date of the Board meeting. During 2020, there were no reasons for the Independent Directors to determine the need for a session at which only they needed to be present.

3.6 Board Committees

The Board of Directors is the apex body constituted by the shareholders for the overall supervision and governance of the Bank. The Board provides and evaluates the strategic direction of the Company, management policies and their effectiveness and that the long term interests of the shareholder is being served. The Chairman of the Board is assisted by the Executive Directors, the Independent Directors and senior management in overseeing the functional matters of UGB.

The Board has approved three standing Committees – namely, the Executive Committee (EC), the Board Audit Committee (BAC) and the Nominating & Remuneration Committee (NRC). Each of these has its own charter that outlines the responsibilities of its members. The Board is authorised to constitute additional functional Committees from time to time, depending on the business needs. A detailed report on the dates and attendance of committees meetings was submitted to the Central Bank of Bahrain in January 2021.

The governance structure and the organisation chart of the Bank are given below. The Chief Audit Executive, the Chief Compliance Officer and the Head of Credit & Risk Management all report directly to the Board Audit Committee with a dotted reporting line to the Chief Executive Officer for administrative purposes. The Compliance Unit also has a direct reporting line to the Board of Directors and the Chairman for Anti Money laundering issues.



Each committee has the prerogative to invite non directors or members of the management team to participate in their meetings, if they are of the opinion that the committee will gain the benefit of their advice and expertise in financial or other areas.

There was no change in the membership of the Board and Management committees during 2020. Care is taken to ensure that their membership and constitution are in line with CBB regulations. Further information on the work done by the Committees is provided below:

3.6.1. Executive Committee (EC)

Composition : The three Executive Directors who serve on the Executive Committee are Mr. Masaud Hayat - Chairman, Mr. Faisal Al Ayyar and Mr. Samer Khanachet.

Responsibilities: The Executive Committee is appointed by the Board to exercise the powers and duties of the Board in the interim periods by circulation in order to ensure timely review and approvals with regards to strategic and investment related proposals. The EC is also empowered by its [Charter](#) to act on the Board's behalf, if an immediate decision is required on any matters falling outside the authority of Management. The Charter was last approved by the Board in February 2021.

The EC supports the BoD in investment related decision-making processes. The committee, jointly with the Investment Committee has been delegated the overall responsibility for overseeing the investment decision making by the Board and ensures that adequate measures are in place to manage investment risks.

The EC carries out the following responsibilities:

- Oversees the long term investment policy objectives of the Bank which include the review of the Bank's overall business strategy, annual operating budget and all other financial plans necessary to achieve the Bank's investment objectives as set out by the BoD;
- Propose the Bank's strategic and tactical asset allocation to BoD for approvals as recommended by the AMIB/IC;
- Takes decisions in the interim periods between BoD meetings by circulation when a full meeting of the BoD is not possible;
- Approves all new investments or changes to existing investments via Investment memo and proposal (direct investments/third party investments) according to their authority limits as specified in the Risk PPM;
- Reviews overall investment portfolio on a regular basis..

Meetings : The executive committee meetings and resolutions are held through circulation. Members sign the underlying memos constituting the decisions. During 2020, four resolutions were passed, details of which are given below.

		Masaud J. Hayat Chairman	Faisal Al Ayyar	Samer Khanachet
1	8 June 2020	x	x	x
2	24 June 2020	x	x	x
3	7 July 2020	X	X	X
4	22 September 2020	X	X	X
5	27 December 2020*	X	X	X
6	31 December 2020*	X	X	X

- Two resolutions were approved on 27 December
- Four resolutions were approved on 31 December

3.6.2 Board Audit Committee (BAC)

Composition: During 2020, the Board Audit Committee had one executive director (Mr. Faisal Al Ayyar) and two independent directors (Mr. Mohammed Haroon - Chairman and Mr. Mubarak Al Maskati). The Chairman of the BAC is an independent director. All members have sufficient technical expertise and financial literacy to enable the Committee to function efficiently

Responsibilities : The BAC assists the Board for overseeing the quality and integrity of the accounting, auditing and reporting practices of UGB, supervising the internal and external auditors and the Bank's compliance with the legal and regulatory requirements. Its main functions as enumerated in [its Charter](#) which was last approved by the Board in February 2021 encompass:

- assessing the quality and integrity of UGB's financial audit and reporting;
- ensuring the independence of UGB's internal and external audit functions;
- reviewing the adequacy and overseeing UGB's compliance with all existing and newly-introduced laws and regulations;
- reviewing systems and means of monitoring risk including capital adequacy, liquidity, stress testing;
- reviewing the implementation of, enforcement of and adherence to the bank's code of conduct and corporate governance framework and monitoring any adverse deviations;

- recommending the appointment, compensation, and oversight of the bank's external auditors
- reviewing the work of the internal auditor, head of compliance and the head of credit & risk management
- ensuring that there are effective whistleblowing procedures in place.

The BAC is responsible for the supervision of the overall compliance of the bank with existing regulatory regulations. As the scope of corporate governance falls within this purview, permission was obtained from the CBB on 13 March 2012, to merge the Board Audit Committee and the Corporate Governance Committee.

During 2019, the CBB introduced several new rules under Module HC that pertains to the Audit Function, Compliance Function and the Risk Function. One of these involves establishing a Board Risk Committee comprising at least three independent Directors. The task of the Risk Committee is to support the Board for its oversight and decisions related to the Bank's risk management framework. UGB's BAC has had the responsibility over several years of supervising the Risk functions of the Bank. It was hence deemed appropriate that the BAC would continue to have oversight over the risk framework. The CBB Approval for the same was procured on 23 April 2019. It should however be noted that there are only two independent Directors on the BAC. However, all three members are financially literate and have been associated with UGB for over 25 years.

Meetings : During the year 2020, the Board Audit Committee met seven times; the attendance on these was as follows:

		Mohammed Haroon Chairman	Faisal Al Ayyar	Mubarak Al Maskati
1	19 Jan - Kuwait	x	x	x
2	13 Feb - Bahrain	x	x	x
3	17 Mar - Virtual	x	x	x
4	2 July - Virtual	x	x	x
5	4 Aug – Virtual	x	x	x
6	6 Oct - Virtual	x	x	x
7	10 Nov - Virtual	x	x	x

Only one meeting with the BAC was held with the external auditors – Ernst & Young. This was scheduled on 6th October 2020. It is envisaged that the requirement for the BAC to meet with external auditors twice a year will be met in 2021.

3.6.3 Nominating & Remuneration Committee (NRC)

Composition: In accordance with the requirements of the CBB Rulebook and the Code of Corporate Governance, it is mandatory for all conventional banks to have a Nominating Committee and a Remuneration Committee. After receiving the CBB's approval in March 2012 to combine both roles, UGB's Board of Directors approved the creation of a Nominating & Remuneration Committee. The NRC comprises three independent directors – namely Mr. Mubarak Al Maskati (Chairman), Mr. Bader Al Awadhi and Mr. Mohammed Haroon.

Responsibilities: The NRC assists the Board in assessing the skill sets of Board members and ensures that there is an appropriate mix of eminent persons having an independent standing in their respective field/profession and who can effectively contribute to UGB's business and policy decisions. The Committee is empowered by [its Charter](#), which was last approved by the Board in February 2021.

The Committee is tasked with overseeing the preparation of appropriate nomination documents and notifications proposing candidates for Directorships. This is done once every three years. At the last re-election of the Board in September 2020, the NRC reviewed each candidate's:

- Attendance Details
- Biographical details and professional qualifications;
- List of all other directorships held by the member in other companies
- Performance Evaluations.
- Criteria of independence

prior to authorising the CEO to submit the Applications for Approved Person Status (Form 3), to the CBB. It was noted that there were no conflicts of interest that were highlighted by any of the members.

The NRC also reviews the independence of Directors on an annual basis, notes the time commitment from non-executive directors, supervises the preparation of induction materials and orientation sessions, makes recommendations to the Board regarding the candidates for Board membership / management and ensures that there is a succession plan in place.

The NRC recommends/ reviews the remuneration policies for the Board of Directors and Senior Management. Every effort is taken to ensure that the remuneration of both Directors management and material risk takers is sufficient enough to attract, retain and motivate persons of the quality needed to run the Bank successfully. The remuneration

policy is in consonance with the existing industry practices and emphasis fairness and responsibility.

The Code of Corporate Governance and the CBB rulebook, mandates that all performance-based incentives should be awarded under written objective performance standards which have been approved by the Board and are designed to enhance shareholder and the conventional bank licensee's value, and under which shares should not vest and options should not be exercisable within less than two years of the date of award of the incentive. UGB currently has no Employee Stock Option Plan in effect.

Meetings : The Nominating & Remuneration Committee met thrice during 2020; consequently the requirement of the CBB of having at least two meetings in any financial year was met. Attendance of each Member is recorded in the minutes of NRC Meetings held during the year:

		Mubarak Al Maskati	Bader Al Awadhi	Mohammed Haroon
1	16 Jan - Kuwait	x	x	x
2	23 March - Virtual	x	x	x
3	16 Sept – Virtual	X	X	x

Corporate Governance principles are uniformly endorsed by UGB's Board of Directors and Executive Management. These are in place in the Bank's primary subsidiaries – KAMCO Investment Company K.S.C, and UGFS – North Africa. The extent of the arrangements is however subject to the requirements of the regulators of the jurisdictions in which the subsidiaries operate.

3.7 Evaluation of the Board , Its Committees and the Directors

The NRC completed the annual evaluation of individual Directors, the performance of the Board, the Executive Committee , the Board Audit Committee and its own standing through a questionnaire administered by the Chairman of the Board, and the Chairmen of the various committees to their members. The written self-assessment covered an assessment of how the Board functioned, the evaluation of the performance of each committee in light of its specific purpose and responsibilities, and the attendance record of each Director at Board and Committee meetings. The performance of each individual director was carried out through the completion of a structured questionnaire on the effectiveness and contribution of each member against certain pre-defined criteria as per the mandate of the Board and each Board sub-committee. The completed evaluations were collated by the Chairman of the Board and the Corporate Secretary and submitted to the

NRC who review these on an annual basis. The the performance of the Board, its members and its committees was unanimously deemed satisfactory. This is reported to the shareholders at each Annual General Meeting.

In line with the CBB's requirement to demonstrate training and competency, the number of hours of CPD (continuing professional development) completed by all Directors is submitted to them on an annual basis. For the year ended 2020, the report on CPD hours will be submitted to the CBB by 31 March 2021.

3.8 Directors' ownership and trading of shares during the year

During 2020, one share was held by Mr. Haroon in order to comply with the MOICT's requirement to have at least two parties as shareholders in a closed shareholding company. This share is held under a Trust and Indemnity Agreement, signed with UGB's parent UGH. As mentioned earlier, UGH owns the remaining 232,263,040 shares. None of the Directors with the exception of Mr. Haroon, held any shares in UGB.

	31 December 2019	31 December 2020
Masaud M.J. Hayat (Chairman)	-	-
Faisal Hamad Al Ayyar (Vice Chairman)	-	-
Sheikh Abdullah Nasser Sabah Al Ahmad Al Sabah	-	-
Mubarak Al Maskati	-	-
Samer Khanachet	-	-
Bader Al Awadhi	-	-
Mohammed Haroon	1	1-

3.9 Directors' Remuneration

The remuneration policy of UGB is in consonance with the existing industry practice. The details of the proposed Directors' fees for the year ended 2020 is indicated below:

	Amount (USD) 2020	Amount (USD) 2019
Sitting Fees	195,000	180,000
Attendance Fees		15,000
Total	195,000	195,000

None of the Directors received any other payments related to salaries, profit sharing, dividends or any other monetary / non-monetary perks. Directors remuneration is accounted as an expense as per International Financial Reporting Standards and CBB regulations.

4. Management

The positions of Chairman & Vice Chairman are established by UGB's Articles of Association. These are distinct from that of the Chief Executive Officer of the Bank. Furthermore, there is a clear division of responsibility between these two positions, as defined in the [Charter of the Board of Directors](#).

The Chairman of the Board is responsible for the leadership and the effective functioning of the Board. He is the major point of contact between the Board and Management and also the Board and the Shareholders. The role requires that he is briefed on all material operational matters and facilitates the conduct of the Board processes and evaluation procedures. The role is also responsible for the conduct of Annual General Meetings.

Mr. Hussain Lalani is the Chief Executive Officer of the Bank. He is responsible for the executive leadership and the day to day operations of UGB. He is assisted by Management Committee team members, who are responsible for implementing the Bank's strategies. As evident in the organization chart in the next section, this team is headed by the CEO and includes all Department Heads. In accordance with best practice, there is complete segregation of duties between the business and support functions, with compliance, risk management and financial reporting functions being adequately resourced and independent. Additionally, the Internal Audit & Quality Assurance Department has a direct reporting line to the Board Audit Committee. Independence is also reiterated with the Chief Compliance Officer & the Head of Credit and Risk Management having a direct reporting lines to the Board Audit Committee.

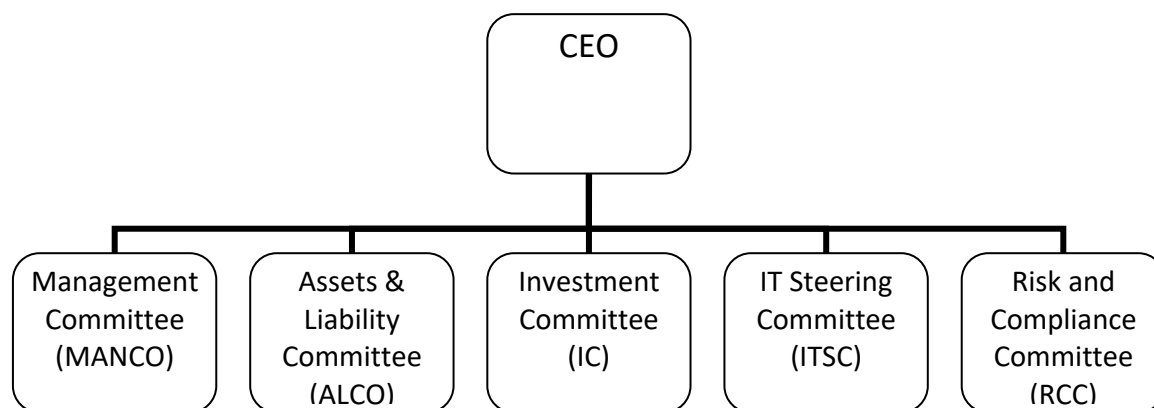
During 2020, the departments of Human Resources (HR) and Administration (Admin) were combined. The Head of HR and Admin was approved by the CBB on 15TH April 2020. The organization chart was last approved by the NRC at its meeting held in February 2021.

The profile of the Management Members and their biographical details, are available in UGB's Annual Report, as well as the website www.ugbbh.com.

4.1 Management Committees

In addition to the Board committees, there are several management committees that have been instituted to ensure that there is adequate supervision of the Bank's activities. The Executive Management of UGB is headed by the CEO who is responsible for the day-to-day conduct of UGB's business in line with policies and procedures approved by the Board of Directors. The management committees complement and facilitate the efforts of the Board of Directors towards meeting its responsibility towards all stakeholders.

The following chart describes the relationship of the various internal committees:



Management Committees

Management Committee (MANCO)

The Management Committee acts as the steering body of the Bank and consists of the CEO and certain Department Heads. It provides a forum for discussing all relevant issues pertaining to the Bank's ongoing activities and follow-up on any action points, as and when warranted. The Chief Compliance Officer and MLRO, acts as the Secretary to this Committee. In line with the CBB's requirement to demonstrate training and competency, the Bank reiterates that the necessary number of 15 continuous professional development hours (or prorated in the case of all new 'controlled persons'), should be completed by all approved persons. During 2020, this condition was met

Asset and Liability Committee (ALCO)

The Asset and Liability Committee is assigned the task of establishing policy and objectives for the asset and liability management of UGH/UGB's balance sheet in terms of structure, distribution, risk, return and its impact on liquidity. ALCO also monitors asset and liability exposures and evaluates the overall balance sheet from an interest rate risk perspective. It also coordinates proposed strategies to achieve optimal risk and return from a liquidity perspective and based on perceived trends and market conditions. The Committee aims to

meet at least once a quarter and more frequently if deemed necessary. It is headed by the Chief Executive Officer and includes the Chief Financial Officer, Head of Credit and Risk Management and other senior management team members. The Head of Treasury acts as the Secretary of this Committee. The Chief Audit Executive attends the meetings in his capacity as an observer.

Investment Committee (IC)

The Investment Committee comprises the Chief Executive Officer, the Head of Asset Management and Investment Banking and the Chief Financial Officer. The Head of Credit and Risk Management is the Secretary of this Committee and participates in meetings as a non-voting member. It meets whenever deemed essential to do so. Under the terms of reference, the committee is responsible for approving or recommending approval to the Executive Committee issues related to limits for individual exposures, new as well as existing investments; and recommending the procedures relating to investment identification, approval, recording and valuation, performance measurement and appraisal, monitoring and reporting.

Pursuant to its investment approval guidelines, the Investment Committee undertakes its function of appraisal of new investments and existing investments for monitoring as well as exit purposes, by reviewing the relevant market opportunity - the industry, sector and relevant trends, key business drivers and comparative advantages (market share, brand, cost efficiencies, etc.), regulatory requirements, competition and independent market opinion or credit rating reports. It then reviews the business model and product lines, seeks customer / client background checks and references, procures details of manufacturing / service processes, distribution, client mix and the concentration and product development. The Investment Committee focuses on other relevant information pertaining to the investment: ownership, relationships to the parent or other industrial groups, key managers and their backgrounds (with independent references), corporate governance practices, organisational structure, employee retention and labour issues, management information systems and internal controls.

While conducting the investment appraisal, The Investment Committee also takes into consideration financial information (company financial and operational data represented by financial ratio analysis for the past three to five years). Emphasis is placed on the results of the last financial reporting period, including audits and management letters, the results of Net Present Value (NPV), Internal Rate of Return (IRR), Adjusted IRR, payback period (nominal cash flows), adjusted payback period (discounted cash flows) and tax considerations.

For any investment/exit, legal / regulatory issues, such as intellectual property, compliance with relevant statutes and regulations, constitutive documents and pending litigation are

also considered and analysed. The Investment Committee reviews the use of investment proceeds, the background of other co-investors involved in the proposed transaction, their roles and the proposed deal structure, together with expected exit timeframes, and the additional underlying risks involved in the investment, (technology shift, market shift, regulatory changes, financial structure, etc.).

IT Steering Committee (ITSC)

The IT Steering Committee headed by the Chief Executive Officer, is responsible for assisting the Board in the supervision of IT related activities. It meets at least twice a year. The Committee ensures that it minimises the risks associated with UGB's investment in information technology and that it contributes to the attainment of technology related corporate objectives. Members include the Chief Financial Officer and other senior management team members. The Head of Information Technology acts as the Secretary of this committee. The Chief Audit Executive attends the meetings in his capacity as an observer.

Risk and Compliance Committee (RCC)

The primary function of the Risk and Compliance Committee is to assist the Board of Directors in fulfilling its responsibilities of defining UGB's risk appetite and overseeing the identification, measurement, monitoring and controlling of UGB's principal business risks. It also monitors adherence to stipulated regulatory deadlines, reviews compliance to internal and external policies and appraises senior management on the impact of newly introduced regulatory requirements. It is headed by the Chief Executive Officer and includes the Heads of Credit and Risk Management, Compliance and other senior management team members. The Chief Audit Executive attends the meetings in his capacity as an observer.

4.2 Management Remuneration Structure

The aggregate remuneration for UGB Senior Management paid during 2020 was US\$ 2.77 million (2019: US\$ 2.33 million).

The CBB has stringent standards of remuneration to ensure that there is a balanced methodology followed by banks, while determining their compensation practices. This takes into account present and potential risk alongside performance goals. However existing contracts with respect to long serving employees cannot be changed given that it could be challenged in the Courts. All payments are made based in accordance with the Labour Law and every effort is made to ensure that the Bank does not reward failure. In line with the regulator's requirements, an independent consulting firm undertakes an annual assurance review of the Bank's compliance with the remuneration rules. This is then submitted to the CBB.

The remuneration framework's design and operation for approved persons and material risk takers is approved by the Board of Directors based on the recommendation of the NRC. Comprising three independent members, it remains the main body overseeing remuneration of the Bank. No external consultants were used during the year 2020 to assist the NRC undertake its responsibilities as documented in the NRC charter.

The Board has also approved the remuneration framework comprising the following salient features:

- Approved persons engaged in support functions (risk management, audit, operations, financial controls, AML and compliance) are remunerated in a manner that is independent of the business areas which they oversee.
- The performance appraisal of each approved person is done annually and based on the achievement of his/her objectives and targets.
- Annual Key Performance Indicators (KPI) of each Department is also factored into the remuneration framework; the KPI's are classified as both quantitative and qualitative in ratio of 75:25 accordingly.
- The mix of fixed and variable remuneration for support functions, is weighted in favour of fixed remuneration.
- Remuneration related disclosures comprise qualitative and quantitative information pertaining to remuneration practices and policies. The risk adjustment methodologies, the link between remuneration and performance, the long-term performance measures (deferral, malus, clawback), the types of remuneration (cash/equity, fixed/variable) and the quantitative disclosures are documented in the in the Remuneration Policy approved by the Board.

At its meeting held in February 2021, the NRC reviewed the categorization and independence of remuneration for staff in risk management, internal audit, operations, financial controls, AML, internal shari'a review/audit and compliance functions.

4.3 Employment of relatives

The NRC is also aware that as part of the Bank's Human Resources Policy, the hiring of immediate relatives including spouses, children, brothers and sisters, is prohibited in order to ensure that there is no favouritism or current or potential conflicts of interest in decision making. It also reiterates the Bank's principle that any hiring of employees, is based purely on an objective evaluation of qualifications, capability and suitability. Any exceptions to this policy has to be approved by the Chairman. As at 31 December 2020, there were no cases of relatives of approved persons who were working for the Bank. This is affirmed by the CEO to the Board of Directors on an annual basis.

4.4 Succession Planning

UGB recognizes the significance of a structured succession plan. In accordance with the CBB's requirements, the NRC reviews and endorses a succession plan on an annual basis. This document includes an assessment of the experience, and skills for the possible successors to all Senior Management personnel. The objective of the plan is to identify, develop and promote personnel to ensure that there are no disruptions to the functioning of the Bank, in an event that key personnel chose to leave UGB. The succession planning document was last reviewed by the NRC at its meeting held in February 2021.

4.5 Appointment letters and job descriptions

The bank has a long standing practice of providing formal letters of appointment to all staff that prescribe his/her title, authorities, duties, accountabilities and internal reporting responsibilities. Job Descriptions are continuously assessed and updated based on changes in underlying responsibilities. During 2020, the job descriptions for all Senior Managers and staff were reviewed by the respective Department Heads, Human Resources and the Internal Audit Departments. These were approved by the NRC at its meeting held in March 2020.

4.6 Review of internal control processes and procedures – Internal Audit

UGB has a functional Internal Audit Department reporting directly to UGB's Board Audit Committee with an administrative reporting line to the CEO. The department is staffed by experienced and qualified employees and is governed by a Board approved Audit Charter. Its responsibilities are detailed in a Board approved policies and procedures manual. The Internal Audit Department has a close and direct work relationship with the Bank's Executive Management and operating Committees in addition to having unrestricted access to information, records, systems and personnel within the Bank. The internal audit team of UGB carries out the internal audit activities of the Bank and its parent UGH. It liaises actively with the internal audit team at the Group's main subsidiaries. It should however be noted that the internal audit department at the subsidiaries have their own BAC and follow an audit methodology and quality assurance which is in line with the rules of the jurisdiction in which they operate.

UGB's Internal Audit Department develops a 3 year strategic audit plan designed to implement a systematic, disciplined audit review approach by utilizing the available audit resources in the most efficient and effective manner and examine the adequacy and effectiveness of internal control systems, procedures and provide recommendations to enhance its quality. Internal Audit performs follow ups on raised

internal control recommendations / corrective actions and reports their updated status to the Board Audit Committee. The CBB's new requirements introduced in 2018, that all internal audit findings and recommendations be resolved within six months for high risk/critical issues and twelve months for any other issues from the issue date of the subject internal audit report, were incorporated in Internal Audit's framework and currently all issues implementation status follow ups provide auditees with a regulatory deadline. All findings in breach of its regulatory deadlines are escalated to the Board Audit Committee.

During 2019, an independent external quality assurance review was conducted by an external consultancy firm to affirm the adequacy and effectiveness of Internal Audit Department. The report expressed that the Internal Audit Department "Generally Conforms" with the International Standards for the professional practice of Internal Auditing, specifically areas related to the Department's structure, policies, procedures as well as processes whereby they comply with the requirements of the IIA's standards and Code of Ethics in all material aspects. The report also outlined some improvement opportunities which were adopted by the Internal Audit Department

4.7 Review of internal control processes and procedures – Compliance

UGB has an independent Compliance & MLRO Department that has a direct reporting line to BAC and administratively to the Chief Executive Officer. The Chief Compliance Officer & MLRO also has additional access to the Chairman of the Board of Directors for AML related issues. The Compliance function is empowered by its Charter that has been approved by the Board of Directors to communicate with any staff member, obtain access to any records and conduct investigations of possible breaches of compliance policy. The Department also has the authority to request assistance from specialists within the Bank and engage outside specialists after obtaining the CEO's prior approval. During 2020, the Department updated the Compliance Risk Control Self-Assessment Register (RCSA). This as well as changes which are communicated by the regulators feed into the compliance plan that is submitted to the BAC for approval on a semi-annual basis. Compliance assessments and testing of various modules are completed in line with the plan. There is also a regular review of compliance related policies and procedures. Extensive work was done during 2020 to ensure that the Bank adhered to the requirements of the Personal Data Protection Law.

The Compliance Department liaises actively with the Compliance team at the Group's main subsidiaries. It should however be noted that the compliance department at the subsidiaries have their own framework and methodology which is in line with the environment and the laws of the jurisdiction in which they operate. Although there is no Group Compliance function, quarterly reports related to the Compliance and AML

functions of the Bank and its main operating subsidiaries are presented to the UGB's BAC and Risk and Compliance Committee.

4.8 Review of internal control processes and procedures – Risk Management

UGB has an independent Credit & Risk Management Department (CRM) that has a direct reporting line to BAC and administratively to the Chief Executive Officer. The function operates under a Risk Policy & Procedures Guide which has been approved by the Board of Directors. This guide sets out the risk management framework that encompasses various limits and processes defining risk identification, assessment, analysis and testing. In line with the CBB's regulations, the Board has approved new policies and procedures that encompass liquidity requirements, reputational risk, ICAAP, stress testing and the Risk Appetite Framework in 2019.

During 2020, CRM achieved compliance with the regulatory requirements covering capital and liquidity ratios, internal capital adequacy assessment and stress testing. It implemented the pan bank risk appetite framework and mapped it to ICAAP and Stress testing models. The quarterly reporting of the net stable funding ratio and the monthly reporting of liquidity coverage ratio met the regulatory thresholds. CRM was also intrinsically involved in assessing the situation and impact of COVID 19 – recommendations and action plans were prepared as part of the risk mitigation strategies. The department continues to review and update the risk related policies and procedures to incorporate new and revised regulatory requirements.

Going forward in 2021, the Department intends to strengthen its ICAAP and Stress testing framework, develop pan bank contingency funding plans and the recovery plan, update the risk appetite framework and contain certain independent validations of risk modules.

4.9 Authority Levels

As mentioned above, the Bank's Risk Policy & Procedures guide, which specifies the authority levels for investments. Approval from the entire Board is sought for any transactions exceeding the Investment Committee's authority as mentioned in the Risk Policy & Procedures Guide. The Board of Directors has also approved a Payment Authority Matrix that documents the thresholds for approval by the CEO and the CFO, for day to day operational expenses, the policy was last approved in February 2021.

4.10 Senior Management's ownership and trading of shares during the year

No shares were held by management in the year ended 2020.

5. Code of Conduct approved by the Board of Directors

UGB's Board of Directors has established corporate standards for all its Directors and employees. These are emphasized in the Bank's **Code Of Conduct** that reiterates the policies of upholding sensitive and confidential information; avoiding and disclosing (wherever applicable) conflicts of interest; personal accountability; honesty; harmonious relationships with its clients, subsidiaries, affiliates and the regulators; non solicitation of gifts; transparent and accurate external communication; expected standards of professionalism, fairness, behaviour and language and accounting, audit and book keeping. The Code of Conduct was enhanced to incorporate anti bribery and corruption policies and procedures. This was last approved by the Board on the February 2021.

The Board and Senior Management of UGB view the Code of Conduct as an integral part in the way they affirm their duty and loyalty to the Bank, exercise their responsibilities and conduct themselves vis a vis customers, shareholders, staff and the wider community. Familiarisation sessions on the requirements of the Code of Conduct, are conducted on an annual basis by UGB's Chief Compliance Officer. Each member of the Board and staff, submit a written affirmation that they will he/she by the tenets of the Code and disclose any conflicts of interest that they might have. Full disclosure of the ownership interests in any company in which the Director or member of staff or his/her immediate family has a >5% ownership stake, or where he/she serves as a manager, Director, or other form of significant participation, is made on an annual basis. Any incidents of non-compliance with the Code or the lack of affirmation by any member of staff, is escalated to the Board Audit Committee and the Board of Directors. A copy of the Code of Conduct is available on the website www.ugbbh.com

A declaration signed by the Chairman of the Board of Directors is given below:

I hereby confirm that UGB has obtained from all the members of the Board and management personnel, affirmation that they have complied with the Code of Conduct, in respect of the financial year 2020.

Masaud J. Hayat
Chairman.

6. Disclosure on materially significant related party transactions

Related party transactions is defined as UGB's transaction with its controller, its Directors, members of management, subsidiaries and associations, that may have potential conflict with the interests of the Bank at large.

The Bank's major related party transactions are generally with its controller – UGH and its parent KIPCO and the subsidiaries and associates of the KIPCO Group. The related party transactions are entered into based on considerations of various business exigencies such as synergy in operations, sectoral specialization, the Bank's long term strategy for its investments 'available for sale', optimization of market share, profitability, legal requirements, liquidity and capital resources of its subsidiaries and its associates.

None of the transactions with any of the related parties, were in conflict with the interest of the Bank. The attention of readers is drawn to the disclosure of transactions with related parties, set out in Note 28 of the [Consolidated](#) Financial Statements which is reproduced below:

RELATED PARTY TRANSACTIONS

	2020			
	Major	Associates	Other	Total
	shareholder	US\$000	related	US\$000
	US\$000	US\$000	parties	US\$000
	US\$000	US\$000	US\$000	US\$000
Investment income	410	-	440	850
Fees and commissions - net*	2,191	2,000	10,666	14,857
Dividend income	-	-	264	264
Rental income	-	-	1,780	1,780
Interest income	-	-	1,507	1,507
Interest expense	(1,094)	-	(4,456)	(5,550)
General and administrative expenses	-	-	(1,919)	(1,919)
Others	-	12	59	71

Equity transactions with related parties during the year included in the consolidated statement of changes in equity are as follows:

	2020
	US\$ 000
Interest payment on Perpetual Tier 1 Capital.	(531)

The nature of the income and expense generated is summarized below:

Owner	Account Name	Nature of related party transaction	Balance
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KAMCO	KIPCO	Fees and commissions - net	8,940
KAMCO	Kamco Investment Fund	Fees and commissions - net	2,000
KAMCO	Burgan Bank	Fees and commissions - net	1,234
KAMCO	Gulf Insurance Group	Staff insurance	(1,019)
KAMCO	Others (Individually below US\$ 1 million)	Net income (expenses)	(799)
UGB	KIPCO	Rental income	1,478
UGB	Panther Media Group	Interest income	1,040
UGB	Bank Of Baghdad	Interest expense	(3,088)
UGB	Others (Individually below US\$ 1 million)	Net income (expenses)	499

The year-end balances in respect of related parties included in the consolidated financial statements are as follows:

	2020			
	<i>Major shareholder US\$ 000</i>	<i>Associates US\$ 000</i>	<i>Other related parties US\$ 000</i>	<i>Total US\$ 000</i>
Demand and call deposits with banks	-	-	3,903	3,903
Placements with banks	-	-	28,370	28,370
Investments carried at fair value through profit and loss	-	-	2,052	2,052
Investments carried at fair value through other comprehensive income	-	-	83,428	83,428
Loans and receivables	-	-	7,534	7,534
Other assets	191	6,842	7,128	14,161
Due to banks and other financial institutions	-	-	(97,627)	(97,627)
Deposits from customers	(28,073)	(166)	(5,234)	(33,473)
Other liabilities	35	-	(3,813)	(3,778)
Perpetual Tier 1 Capital	-	-	10,000	10,000
<i>Off statement of financial position items:</i>				

Letters of guarantee	-	-	150	150
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The summary and nature of the transactions is given in the following table:

Owner	Account Name	Nature of related party transaction	Balance \$ 000
KAMCO	KAMCO Real Estate Yield Fund	Other assets	6,279
KAMCO	KIPCO	Other assets	4,275
KAMCO	North Africa Holding Company	Investments at FVOCI	3,381
KAMCO	Al Sharq Financial Brokerage	Investments at FVOCI	2,988
KAMCO	United Tower Hold Co	Investments at FVOCI	2,303
KAMCO	Burgan Bank	Investments at FVTPL	2,052
KAMCO	Burgan Bank	Demand and call deposits with banks	1,610
KAMCO	Others (Individually below US\$ 1 million)	Net of assets and liabilities	2,615
UGB	Tunis International Bank	Placements with banks	28,370
UGB	Advanced Technology Company	Investments at FVOCI	27,808
UGB	United Networks Company	Investments at FVOCI	10,534
UGB	Tunis International Bank	Investments at FVOCI	6,063
UGB	Staff	Loans and receivables	3,961
UGB	Sacem	Loans and receivables	3,563
UGB	Burgan Bank	Demand and call deposits with banks	2,048
UGB	Bank Of Baghdad	Due to banks and other financial	

		institutions	(62,117)
UGB	Tunis International Bank	Due to banks and other financial institutions	(24,914)
UGB	Syria Gulf Bank	Due to banks and other financial institutions	(10,596)
UGB	Gulf Insurance Group	Perpetual Tier 1 Capital	(5,000)
UGB	Tunis International Bank	Perpetual Tier 1 Capital	(5,000)
UGB	Takhatob	Deposits from customers	(1,892)
UGB	Management	Other liabilities	(1,457)
UGB	Al Futtooh Holding	Other liabilities	(1,425)
UGB	Al Futtooh Holding	Deposits from customers	(1,394)
UGB	Others (Individually below US\$ 1 million)	Net of assets and liabilities	(1,026)

7. Disclosure of Conflicts of Interest

During the financial year ended 2020 there were no materially significant transactions entered into between UGB and its controller, directors or the management, subsidiaries or associates, which may have potential conflict with the interests of the Bank at large. Consequently, there was no need to declare any conflicts, in accordance with the **Disclosure of Conflict of Interest policy**.

The above document approved by UGB's Board of Directors requires each Director to make decisions based on his independent judgement, and in the interests of all shareholders. In the event that there is any conflict, directors are expected to inform the entire Board of conflicts of interest in their activities with, and commitments to other organisations as they arise, and abstain from voting on any matter where they perceive a conflict. This Disclosure will include all material facts in the case of a contract or transaction involving the director.

If the disclosure is upheld, the director deemed to have a conflict of interest is expected to abstain from voting on the issue. Such abstention will be recorded by the Corporate Secretary in the minutes of the committee or the Board (as appropriate). Furthermore, the policy requires the Bank to disclose to its shareholders in the Annual Report, any abstention from voting motivated by a conflict of interest, as well as any authorisation of a conflict of

interest contract or transaction. There were no abstentions recorded in 2018. All individual directors have complete access to UGB's Corporate Secretary.

8. Disclosure and Transparency Policy

The CBB's disclosure standards and rulebook requires all locally incorporated banks to have a formal disclosure policy as part of the overall communications strategy as approved by the Board of Directors. This Policy reiterates the Bank's commitment to disclose all relevant information to stakeholders on a timely basis in a timely manner, and emphasises:

- Adequate documentation and definition of the key components of UGB's disclosure controls and procedures and the standards to which they are designed and implemented.
- Information with respect to the steps that UGB will take when it has material information to release to the public.
- Approval of the limited group of authorised spokespersons who are entitled to speak on behalf of the Bank when material information may be disclosed.
- Adequate awareness for Directors, officers and employees of UGB for understanding the disclosure practices and policies of UGB.

8.1 Means of Communication

- a) Annual and Quarterly Results: In accordance with the CBB's Disclosure Standards, these are published in 'The Gulf Daily News' and the 'Al Ayam'. These are also displayed on the Bank's website www.ugbbh.com.
- b) News Releases, Presentations, etc. : Official news releases, detailed presentations made to the media, analysts, institutional investors etc. are displayed on the Bank's website www.ugbbh.com, after they have been released to the CBB and the Bahrain Bourse.
- c) Website: The Bank maintains a website www.ugbbh.com which contains information related to its profile as well as audited financial data for over five years.
- d) Annual Report: The Bank's Annual Report containing, inter alia, the Audited Annual Accounts, Consolidated Financial Statements, Directors' Report, Auditors' Report and other public information is circulated to shareholders, regulators, correspondent bankers and others entitled thereto. The Management Discussion and Analysis report forms part of the Annual Report and is displayed on the Bank's website www.ugbbh.com

Each quarter the Chief Executive Officer and the Chief Financial Officer certify to the Board of Directors and the Board Audit Committee, that to their the best of their knowledge and belief, the Bank's financial statements for the relevant period, present a true and fair view in all material respects of its financial condition and results of operations, in accordance with applicable accounting and financial reporting standards. The financial statements are signed by the Chairman of the Board of Directors, Vice Chairman of the Board of Directors and the Chief Executive Officer.

- e) Basel III related Pillar 3 disclosures, including corporate governance disclosures on remuneration: In accordance with the Bank's requirement, the prudential disclosures are published annually and semi-annually on the Bank's website www.ugbbh.com.
- f) Chairman's Communiqué: A printed copy of the Chairman's statement is distributed along with the consolidated financial statements at the AGM.
- g) Communication with investors: The agenda and proxy forms for attendance in the Annual General Assembly, are made available on the Bank's website www.ugbbh.com. Representatives of the CBB and the Ministry of Industry, Commerce and Tourism, are always present at the AGM.
- h) Corporate governance guidelines: These are available on the website www.ugbbh.com. A copy of this corporate governance report which documents the extent of UGB's adherence to the CBB requirements, as well as explains any deviations thereof, is made available at the AGM. It is also posted on the Bank's website.
- i) Designated exclusive email-ID's: In accordance with the **Dispute Resolution Policy** and the **Whistleblowing Policy**, the designated the following e-mail ids exclusively for handling complaints and potential whistle blowing cases:
 - For the resolution of complaints: complaints@ugbbah.com
 - For the investigation of whistle blowing instances: auditcompliance@ugbbah.com

Both policies are available on the Bank's website www.ugbbh.com

There is a separate section on the website (under Investor Relations) where the bank posts relevant shareholders' information e.g. AGM agenda, proxies, Corporate Governance report etc.). The bank has an email (info@ugbbh.com) which is already in place to allow

shareholders to obtain the above information — shareholders who require more such information, can always raise their queries using this email address.

9 External Auditor

The Bank's external auditors are Ernst and Young. They have been the auditors since 2001. In accordance with Article 206 of the Bahrain Commercial Companies Law (2001), the external auditors are re-appointed each year by the shareholders at the AGM, subject to the procurement of the no objection letter from the CBB. The decision was taken to re-appoint Ernst & Young as the external auditors, as they are a well-established name and part of the Big 4 audit firms in the world. Conflict of interest with respect to engaging EY as the external auditors, is not an issue as there are no financial dealings with EY. There are also three partners responsible for the audit of UGB (Engagement Partner, Technical Partner and Independent Partner). Ernst & Young also follow best practice of rotating their partners regularly. In line with the regulatory requirements, the external auditors' fees are approved by shareholders. For the year ended 2020, the external fees for audit services paid out were approximately US\$ 87 thousand (2019: \$ 92 thousand) and the fees for non-audit services paid out were US \$ 39 thousand (2019: \$ 96 thousand).

The Board of Directors has approved a policy for the '**Evaluation of Independence of External Auditors.**' This document mandates the external auditor to maintain a quality control system that provides reasonable assurance that its independence will not be impaired and was last approved by the Board in February 2021. The External Audit Firm annually confirms its independence in writing, specifically stating whether any non-audit services provided during the year compromised its independence. This certification was furnished by the external audit partner. A list of non-audit services was tabulated and presented along with the independence statement, to the Board Audit Committee for ratification.

The Audit Committee evaluated the non-audit services and received the external auditor's independence affirmation. The aggregate fees for non-audit services were also ratified in the said Board Audit Committee Meeting. As authorized by the policy, the Board Audit Committee regularly reviews the external auditor's scope and results of its audit, any difficulties that the auditor encountered including any restrictions on its access to requested information and any disagreements or difficulties encountered with management.