

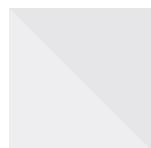
## ANNUAL REPORT 2020





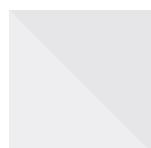
# Contents

Corporate Profile	6
Financial Highlights	9
Financial Summary	10
Chairman's Statement	11
Board of Directors	13
Chief Executive Officer's Report	15
Executive Management	16
Business Review	20
Financial Review	25
Risk Management Review	30
Corporate Governance	37
Corporate Social Responsibility	55
Group Directory	56



**H.M. King Hamad Bin Isa Al Khalifa**

King of the Kingdom of Bahrain



**H.H. Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah**

Amir of the State of Kuwait

## TRIBUTES

### **His Highness Sheikh Sabah Al Ahmad Al Jaber Al-Sabah**

Amir of the State of Kuwait

16 June 1929 to 29 September 2020

His Highness Sheikh Sabah was Amir of the State of Kuwait from 29 January 2006 until his sad death on 29 September 2020. A wise and visionary leader, he was responsible for steering Kuwait towards stability and growth; most noticeably through the launch of the 'New Kuwait 2035' economic vision. This aims to transform the country into an international business, commercial and cultural hub, with the private sector at the forefront of the development effort.

An architect of Kuwait's modern foreign policy, Sheikh Sabah was one of the Arab region's most influential voices, and was known as the 'Dean of Arab Diplomacy'. He was also recognised as a global humanitarian champion for his support towards disaster relief, peace efforts and public health.

Sheikh Sabah will be remembered as a man of profound compassion, humanity and dignity; who worked tirelessly to promote the best interests of his country and people.

### **His Royal Highness Prince Khalifa Bin Salman Al Khalifa,**

Prime Minister of the Kingdom of Bahrain

14 November 1935 to 11 November 2020

As the driving force behind the establishment of modern Bahrain, His Royal Highness Prince Khalifa has earned the accolade of 'Father of the Nation'. Appointed Prime Minister in 1970, he was responsible for diversifying the Kingdom's economy away from oil; and developing critical welfare services such as housing, education and healthcare.

The first two decades of his premiership were marked by the rapid development of Bahrain's nascent banking and financial services sector; together with the establishment of the Bahrain Monetary Agency (now Central Bank of Bahrain) and the Bahrain Stock Exchange (now Bahrain Bourse).

On a personal level, he was a proponent of strong family values, a generous philanthropist, and a humanitarian champion. Above all, as the world's longest-serving prime minister for nearly 50 years, Prince Khalifa will be remembered as a paragon of leadership, hard work, dedication and tireless public service.

### **His Excellency Sheikh Nasser Sabah Al Ahmad Al Jaber Al-Sabah**

Co-founder of Kuwait Projects Company (KIPCO)

27 April 1948 to 20 December 2020

The eldest son of the late Amir of Kuwait, His Excellency Sheikh Nasser was a prominent public figure, successful businessman, and patron of the arts.

He served as First Deputy Prime Minister, Minister of Defence and Head of the Royal Court; and was recognised as an influential reformer. He was also a driving force behind the ambitious Silk City project, and the development of Kuwait's uninhabited islands.

Sheikh Nasser was a co-founder and major investor in Kuwait Projects Company (KIPCO); and guided its development into one of the largest holding companies in the MENA region. He also established Dar al-Athar al-Islamiyah, a leading cultural foundation dedicated to the preservation of ancient artifacts and manuscripts, comprising one of the world's finest collections of Islamic works of art.

Sheikh Nasser will be remembered for his enduring contribution to Kuwait's economic, business, cultural and social sustainability, during a fruitful lifetime spanning 72 years.

## CORPORATE PROFILE

### United Gulf Bank B.S.C.(c)

Established in 1980 and operating under a conventional wholesale banking licence from the Central Bank of Bahrain, United Gulf Bank BSC (c) (UGB, the Bank) is the merchant banking arm of the KIPCO Group. A leading asset management and investment banking group headquartered in the Kingdom of Bahrain, its operations span the MENA region. UGB's proprietary investments include assets in commercial banking, real estate, private equity, and quoted securities. As at 31 December 2020, assets under management totalled US\$ 13.6 billion (31 December 2019: US\$ 13.6 billion).

UGB's core subsidiaries and associates are KAMCO Investment Company (KAMCO), United Gulf Realty International Ltd (UGRIL), and United Gulf Financial Services - North Africa.

UGB and its subsidiary KAMCO have a proven track record of successfully completing more than 60 investment banking transactions for clients since 2001, with an aggregate value of over US\$ 10 billion including corporate finance, advisory, new issue placement and underwriting, corporate restructuring, bond issuance, and mergers and acquisitions.

### The KIPCO Group

The KIPCO Group is one of the biggest holding companies in the Middle East and North Africa, with consolidated assets of US\$ 34 billion as at 31 December 2020. The Group has significant ownership interests in over 60 companies operating across 24 countries. The group's main business sectors are financial services, media, real estate, manufacturing and education.

***UGB is a member of the KIPCO Group, one of the biggest holding companies in the Middle East and North Africa.***

### Subsidiaries and Affiliates



الخليج المتعدد للخدمات المالية شمال إفريقيا  
United Gulf Financial Services North Africa

### United Gulf Bank B.S.C.(c)

PO Box 5964, Diplomatic Area  
UGB Tower, Manama, Kingdom of Bahrain  
Tel: (+973) 17 533 233  
Fax: (+973) 17 533 137  
Email: [info@ugbbh.com](mailto:info@ugbbh.com)  
[www.ugbbh.com](http://www.ugbbh.com)

Licensed as a Conventional Wholesale Bank by the Central Bank of Bahrain

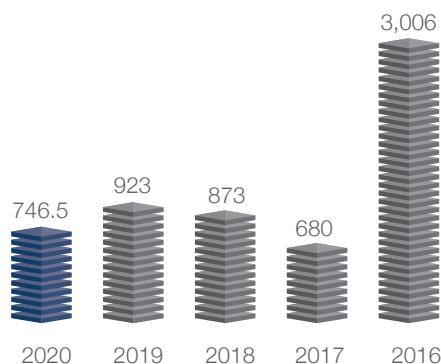




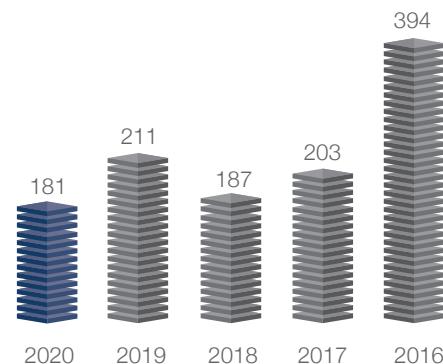
2020  
Highlights

## FINANCIAL HIGHLIGHTS

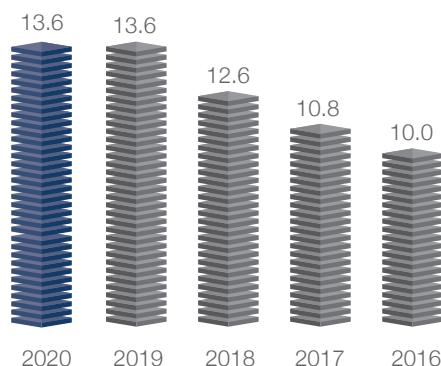
**Total Assets** US\$ million



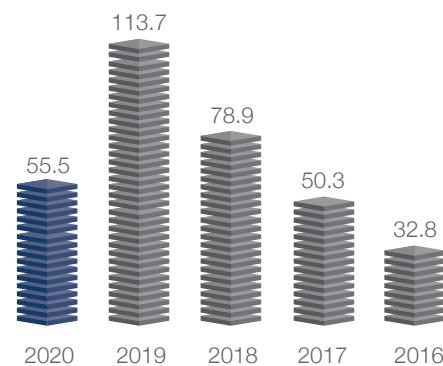
**Shareholders' Equity** US\$ million



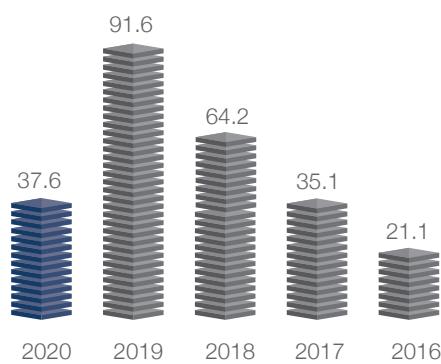
**Assets Under Management** US\$ billion



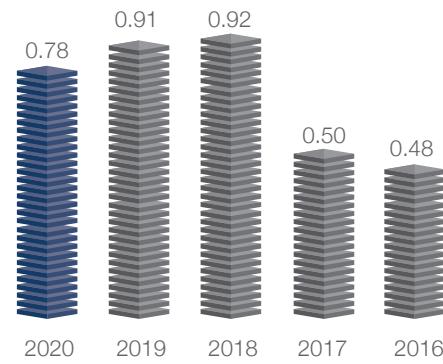
**Revenue** US\$ million



**Operating Income** US\$ million



**Book Value Per Share** US\$ cents



**746.5** Million  
Total Assets

**13.6** Billion  
Assets Under Management

## FINANCIAL SUMMARY

	2020	2019	2018	2017	2016
<b>US\$ million</b>					
Total Income	55.5	113.7	78.9	50.3	32.8
Investment income	3.4	30.4	28.7	23.8	9.8
Operating income	37.6	91.6	64.2	35.1	21.1
Shareholders' Equity	181.2	210.9	187.0	203.0	394.0
Total Assets	746.5	923.2	873.5	680.1	3,005.7
Net Income / (Loss)	(19.5)	11.4	10.1	(79.9)	6.3
Return on Average Equity	(9.95%)	5.73%	5.18%	-26.77%	1.59%
Return on Average Assets	(2.34%)	1.27%	1.30%	-4.34%	0.22%
Operating Expense/ Operating Income	154.1%	81.9%	79.4%	74.1%	97.5%
Average Equity to Average Assets	22.9%	25.6%	30.4%	16.2%	14.0%
Capital Adequacy Ratio	17.5%	19.7%	15.5%	21.5%	13.9%
<b>US\$ (cents)</b>					
Book Value per share	0.78	0.91	0.92	0.50	0.48
Earnings per share	(0.10)	0.05	0.05	(0.20)	0.01
<b>Comparatives Averages balances (based on quarterly averages)</b>					
<b>US\$ Million</b>					
Assets	830.1	918.4	748.7	2,508.9	2,990.9
Liabilities	529.4	587.6	461.5	2,031.1	2,455.0
Minority Interest	77.5	95.8	59.9	86.4	107.0
Additional Tier 1 Capital	33.0	33.0	33.0	33.0	33.0
Shareholder's Equity	190.3	202.0	194.3	358.4	395.9
	830.1	918.4	748.7	2,508.9	2,990.9
Guarantees and commercial LC	2.1	2.2	1.2	49.3	65.3
Commitments	3.9	5.2	6.4	183.2	100.5
Assets under management (US\$ billion)	12.8	13.4	12.6	10.8	10.0

## CHAIRMAN'S STATEMENT

**On behalf of the Board of Directors, I have the privilege to present the annual report and consolidated financial statements of United Gulf Bank (UGB) for the year ended 31 December 2020. This proved to be an exceptionally challenging year, as the COVID-19 global pandemic presented the world with its greatest shock in living memory.**



### Combating the Coronavirus

UGB adopted an early and proactive approach to ensure the Bank's business continuity during the pandemic. The precautionary measures of remote access enabled the Bank to organise itself with staff moving seamlessly into two teams that worked from home and onsite. A comprehensive contingency plan encompassing health and safety measures was developed to counter the potential impact of COVID-19 on the Bank's activities. I am pleased to report that the various measures implemented at different stages of the pandemic, enabled UGB to mitigate associated risks and maintain day-to-day operations with minimum business disruption.

The Board of Directors takes this opportunity to express its appreciation for the prudent and comprehensive measures being taken by the Government of Bahrain to combat COVID-19. These include its fiscal support and stimulus initiatives, which have limited the effects of the coronavirus on the economy, business sector and society; and its highly-effective contact tracing and public awareness campaign. The Board also lauds the efforts of all frontline members of the community who are working tirelessly to assist the people of Bahrain. As a concerned corporate citizen, the Bank was pleased and proud to play its part during 2020 by supporting the efforts of the COVID-19 National Task Force through a substantial donation to the Feena Khair campaign.

### Economic Background

COVID-19 severely impacted the world economy in 2020. According to the IMF, global GDP is expected to contract by 3.5 per cent during the year. The GCC region, in which the Bank primarily operates, witnessed its biggest economic slump in four decades. As well as the coronavirus crisis, it faced the challenges of volatile oil prices and market conditions, and continued geo-political tensions. As a result, the IMF estimates the GCC economy will contract by 4.5 per cent in 2020.

### Business Performance

The economic impact of the coronavirus seriously affected the performance of the Bank's core asset management and investment banking activities during the year. The negative contribution of the Bank's primary subsidiary KAMCO Invest, resulted primarily from depressed market conditions which led to reduced advisory fee income. United Gulf Realty International, which owns and manages an income-yielding commercial property in Boston, USA, also made a negative contribution, due to challenges facing the US real estate sector.

### Financial Results

UGB reported total income before interest and other expenses of US\$ 55.5 million compared with US\$ 113.7 million in 2019; while total expenses reduced to US\$ 57.5 million from

## CHAIRMAN'S STATEMENT

US\$ 75.1 million in 2019, as synergy benefits of the Global Investment House acquisition made in 2018 started to accrue fully. Accordingly, UGB reported a net loss attributable to shareholders of the parent of US\$ 19.5 million versus a net profit of US\$ 11.4 million in 2019.

As at 31 December 2020, total assets stood at US\$ 746.5 million versus US\$ 923.2 million at the end of the previous year; with total equity of shareholders of US\$ 181.2 million compared with US\$ 210.9 million at the end of 2019. Total assets under management remained consistent at US\$ 13.6 billion compared to the previous year, despite the significant decrease in valuations given the pandemic. UGB at the parent level does not have any medium-term funding; however, to reduce costs, money market borrowings were reduced significantly during the year. Similarly, at the subsidiary level, KAMCO Invest's medium-term borrowings were reduced by around 15 per cent. These reductions in debt levels resulted in consolidated interest costs dropping from USD 22.1 million in 2019 to USD 17.9 million in 2020.

### Ratings

In August 2020, Capital Intelligence (CI) affirmed UGB's long-term and short-term corporate ratings of 'BBB-' and 'A3', respectively, with a Stable Outlook. The agency cited the demonstrated financial and managerial support that the Bank receives from its parent company, the KIPCO Group; and the fact that a majority of its assets, funding and revenues are derived from entities in highly-rated countries (mostly Kuwait and Malta). CI also highlighted UGB's extended debt maturity profile, improved coverage of short-term borrowings by cash and quoted investments, and the overall satisfactory quality of assets held at subsidiaries and associates. We view this affirmation as an important independent validation of the Bank's sound financial position, and diversified asset base in terms of its investments and geographic footprint.

### Governance

During 2020, UGB reviewed and further strengthened its compliance and risk management frameworks in order to address the latest changes in the external regulatory environment; and to better withstand the impact of COVID-19. The Bank's risk management framework proved to be adequately robust and resilient in countering any coronavirus-related impact and stress that could affect the business, processes and operations.

### Looking Ahead

Given the prevailing situation, it is difficult to predict the future with any degree of certainty. The forecast is intrinsically dependent on the near-term path of the COVID-19 pandemic. It is hoped that the pandemic will largely be contained once the majority of the population are vaccinated. Nonetheless, numerous challenges remain, including the spread and the effectiveness of vaccines against mutations. The forced quantitative easing has resulted in sovereign debt in most economies rising to levels that are cause of fiscal concerns. Geopolitical and trade-related disputes, coupled with the threat of protectionist measures, are issues that governments need to grapple with. Hence the first half of global growth will still be considerably affected by ongoing lockdown measures, voluntary social distancing, and other pandemic-related developments.

Assuming that the comprehensive roll out of vaccines will curb the further spread of COVID-19, there is a glimmer of hope in terms of an economic recovery fuelled by pent-up demand, especially in contact-intensive service sectors such as tourism and travel, leisure and hospitality. Forced household savings from lockdowns, combined with ongoing monetary and possibly additional fiscal stimulus, will add to the momentum of the rebound. The base assumption for this scenario is that by midyear 2021, the coronavirus will be largely contained.

These positive factors should, God willing, result in a gradual return to business normality by the end of the year, and enable an improved performance by our subsidiaries. The Board and Management continued to review the Bank's strategy and portfolio mix; and identify additional strategies to further strengthen the balance sheet, increase liquidity, be prudent on costs, and return UGB to profitability.

The IMF is forecasting the global economy to grow by 5.5 per cent in 2021, and the GCC region's GDP to improve by 3.5 per cent. Accordingly, we have a cautiously optimistic outlook for UGB next year, although we are fully aware of the daunting challenges that lie ahead. The Board has full confidence in Management's ability to continue implementing the Bank's strategy, identifying new business opportunities, and enhancing shareholder value.

### Condolences

Sadly, 2020 witnessed the death of the late Amir of the State of Kuwait, His Highness Sheikh Sabah Al Ahmad Al Jaber Al-Sabah; His Royal Highness Prince Khalifa Bin Salman Al Khalifa, the late Prime Minister of the Kingdom of Bahrain; and His Excellency Sheikh Nasser Sabah Al Ahmad Al Jaber Al-Sabah, one of KIPCO's co-founders and major investors. The Board of Directors of UGB extends its sincere condolences on their passing, and prays that their souls may rest in eternal peace.

### Acknowledgements

On behalf of the Board of Directors, I gratefully acknowledge the guidance and encouragement that we continue to receive from the Central Bank of Bahrain, Bahrain Bourse, and Ministry of Industry, Commerce & Tourism; as well as from the various regulatory and supervisory authorities of the different jurisdictions in which UGB operates.

I also express my sincere thanks for the ongoing financial support and confidence of our shareholders; the trust and loyalty of our clients; and the collaboration of our business partners. Finally, I would like to pay tribute to the professionalism and commitment of the Bank's management team and staff, and their respective contributions to combating the impact and challenges of COVID-19, during such an extraordinarily testing year.



Masaud M. J. Hayat  
Chairman of the Board

# BOARD OF DIRECTORS

## **Masaud J. Hayat – Executive Director**

*Chairman of the Board of Directors  
Chairman of the Executive Committee*

Bachelors Degree in Economics, Kuwait University  
High Diploma in Banking Sciences, Institute of Banking Studies, Kuwait

Over 44 years' experience in the financial sector

### **Other Positions Held:**

- Vice Chairman & Group Chief Executive Officer, Burgan Bank - Kuwait
- Chairman, United Gulf Holding Company BSC - Bahrain
- Chairman, Tunis International Bank - Tunisia
- Vice Chairman, Gulf Bank Algeria - Algeria
- Vice Chairman, Bank of Bagdad - Iraq
- Vice Chairman, FIMBank plc - Malta
- Board Member, Jordan Kuwait Bank - Jordan
- Board Member, KAMCO Investment Company KSC (Public) - Kuwait
- Board Member, North Africa Holding Company - Kuwait
- Board Member, United Gulf Financial Services - Tunisia
- Board Member, Mashare'a Al Khair Est. - Kuwait

## **Faisal Al Ayyar – Executive Director**

*Vice Chairman of the Board of Directors  
Member of the Executive Committee  
Member of the Board Audit Committee*

Graduated as a fighter pilot with the Kuwait Air Force in the USA

Over 34 years' experience in the financial sector

### **Other Positions Held:**

- Executive Vice Chairman, Kuwait Projects Company (Holding) - Kuwait
- Chairman, Panther Media Group (OSN) - UAE
- Vice Chairman, Gulf Insurance Group - Kuwait
- Vice Chairman, Jordan Kuwait Bank - Jordan
- Vice Chairman, United Gulf Holding Company BSC - Bahrain
- Vice Chairman, Saudia Dairy & Foodstuff Co. (Sadafco) Saudi Arabia
- Board Member, Gulf Egypt for Hotels & Tourism Company. Egypt
- Vice Chairman, Mashare'a Al Khair Est. - Kuwait
- Trustee, American University of Kuwait - Kuwait
- Honorary Chairman, Kuwait Association of Learning Difference - Kuwait

## **Samer Khanachet – Executive Director**

*Member of the Executive Committee*

MBA, Harvard Business School, Boston, USA  
BSc, Chemical Engineering and BSc, Management Science, Massachusetts Institute of Technology, Cambridge, USA

Over 43 years' experience in the financial sector

### **Other Positions Held:**

- Group Chief Operating Officer, Kuwait Projects Company (Holding) - Kuwait
- Chairman, United Gulf Management, Inc. - USA
- Chairman, United Gulf Management Ltd. - UK
- Board Member, Burgan Bank - Kuwait
- Board Member, United Gulf Investments Ltd. - Cayman Islands
- Trustee, American University of Kuwait - Kuwait
- Member, Corporation Development Committee and Educational Council of the Massachusetts Institute of Technology, Cambridge, USA
- Past President of the Arab Bankers Association of North America, New York - USA

## BOARD OF DIRECTORS

### **Sheikh Abdullah Nasser Sabah Al Ahmad Al Sabah**

*Executive Director*

Graduate of the Royal Military Academy, Sandhurst, UK  
BSc, Business Administration, New York Institute of Technology, USA

Over 24 years' experience in the financial sector

**Other Positions Held:**

- Board Member, Kuwait Projects Company (Holding) - Kuwait
- Advisor to the Chairman of the Board of Directors of Kuwait Projects Company (Holding) - Kuwait
- Chairman, KAMCO Investment Company KSC (Public) - Kuwait
- Vice-Chairman, Al Daiya United Real Estate Company - Kuwait

### **Bader Al Awadhi**

*Independent Director*

*Member of the Board of Directors*

*Member of the Nominating & Remuneration Committee*

BSc, Industrial Engineering, University of Miami, USA General Manager Program, Harvard Business School, USA Program for Management Development, Harvard Business School, USA

Over 34 years' experience in the financial sector

**Other Positions Held:**

- Director, Member of the Board Corporate Governance Committee and Member of the Board Audit Committee, Tunis International Bank - Tunisia
- Independent Director, Assoufid BV - Netherlands
- Board Member, Manar Interholdings SL - Spain
- Independent Director, United Gulf Holding Company BSC - Bahrain

### **Mubarak Al Maskati – Independent Director**

*Member of the Board of Directors*

*Chairman of the Nominating & Remuneration Committee*

*Member of the Board Audit Committee*

BSc, Political Studies and Economics, Pennsylvania State University, USA

Over 34 years' experience in the financial sector

**Other Positions Held:**

- Director, Royal Aviation - Kuwait
- Consultant, Amiri Diwan / Amiri Fleet Manager - Kuwait
- Independent Director, United Gulf Holding Company BSC - Bahrain

### **Mohamed Haroon – Independent Director**

*Member of the Board of Directors*

*Chairman of the Board Audit Committee*

*Member of the Nominating & Remuneration Committee*

BSc (Hons), Peshawar University, Pakistan  
Diploma in Banking, Pakistan

Over 51 years' experience in the financial sector

**Other Positions Held:**

- Chairman & CEO, Haroon Holding Company WLL - Bahrain
- Independent Director, United Gulf Holding Company BSC - Bahrain

## CHIEF EXECUTIVE OFFICER'S REPORT

**I am pleased to report that the strength and resilience of our operating infrastructure proved to be a key factor in the Bank's ability to respond effectively to the unprecedented challenges posed by the COVID-19 global pandemic during 2020.**



From the outset, we placed the highest priority on ensuring the health and well-being of our staff, and maintaining a safe workplace. Key measures adopted in compliance with the Ministry of health's strict health protocols included mandatory quarantine measures, the compulsory wearing of masks by staff, regular temperature checks, provision of hand sanitisers stringent disinfecting of the head office; and the use of virtual technology for safe and secure communications.

The existing availability of remote access to the Bank's core operating systems by staff, enabled the smooth transition to their working from home; with UGB maintaining a requisite balance between remote and onsite operations in line with lockdown regulations.

COVID-19 drew particular attention to the heightened criticality of a strong governance and control framework. At an early stage, the Bank assessed the potential consequences of the coronavirus on its operations, and developed mitigation strategies for each of the risks to which it is exposed. Key activities included reviewing capital and liquidity ratios; and conducting an internal capital adequacy assessment. In addition, a detailed business and operational resilience gap analysis was performed; together with a comprehensive review of the Bank's cyber security system, and disaster recovery and business continuity framework.

UGB also took steps to ensure compliance with the latest non-COVID regulations issued by the Central Bank of Bahrain. These include the transition from LIBOR, which will impact UGB's risk exposure, operational processes and business activities. In response, the Bank has embarked upon a journey for a smooth transition by end of the year 2021.

During 2020, we continued to enhance UGB's institutional capability in terms of human capital and information technology. I take this opportunity to welcome Mr. Hussain Khalil as the new Head of Treasury, who brings with him extensive experience in foreign exchange, money markets, asset liability management and capital markets. The recently-upgraded core banking system enabled the Bank to respond effectively to the impact of COVID-19 on our operations; while a new back-up solution was installed to further protect the system and strengthen business continuity.

Due to adverse economic and market conditions across the region, UGB did not carry out any new investment banking and asset management transactions during the year. However, the Bank has started its preliminary activities towards introducing the planned digital trade finance platform, which was put on hold during 2020 due to the impact of COVID-19.

Looking ahead, we hope that the public health crisis will be mitigated by the vaccine rollout, and lead to a gradual economic recovery, and a return to business normality across the region. This will have a beneficial effect on the performance of the Bank's subsidiaries. For example, having optimized its cost base following the merger with Global Investment House in 2018, KAMCO Invest is well positioned to take advantage of the anticipated rebound of regional markets, and the likelihood of improved investor sentiment.

I would like to point out that our market-driven loss in 2020 does not reflect the Bank's sound financial position and strong underlying fundamentals, which have enabled it to survive numerous economic, financial, market and geo-political crises over the past 40 years. Together with the measures we are taking to further strengthen the balance sheet, increase liquidity and optimize costs, we have a cautiously optimistic outlook for UGB's prospects in 2021.

In conclusion, I would like to express my sincere appreciation for the continued guidance, support and encouragement of our Board of Directors; and the ongoing trust and confidence of our clients. Special thanks are also due to our Management and staff for their exemplary performance during such an extraordinarily challenging and testing year.

This report would not be complete without gratefully acknowledging the prudent and comprehensive measures being implemented by the COVID-19 National Task Force; and the selfless efforts of the frontline heroes of #Team\_Bahrain in combating the coronavirus. We are blessed to be living in such a safe and socially-responsible country.

**Hussain A. Lalani**  
Chief Executive Officer



## EXECUTIVE MANAGEMENT



**Hussain A. Lalani**  
FCA CISA  
Chief Executive Officer

Mr. Lalani joined UGB in 2002 and was appointed as the Acting CEO in September 2015, and subsequently CEO in April 2019. His career extends over 24 years. He has worked extensively with the Board of Directors on advisory transactions in his previous capacity as the Bank's Chief Financial Officer, and partnered with business divisions to support growth and business plans. Mr. Lalani was previously employed by Ernst & Young, Bahrain; and PriceWaterhouse Coopers, Pakistan. He is a Board Member of United Gulf Financial Services - North Africa, Tunisia; FIMBank plc. - Malta; Assoufid B.V. - Netherlands; and London Forfaiting Company - UK. A Chartered Accountant and a Certified Information Systems Auditor, Mr. Lalani holds a Bachelor of Commerce degree from the University of Karachi, Pakistan.



**Mohammed Alqumaish**  
CIA CISA  
Assistant General Manager, Chief Audit Executive & Corporate Secretary

Mr. Alqumaish joined UGB in September 2001. He has more than 24 years' regional, commercial and investment banking experience in internal auditing, risk assessment, compliance, corporate governance and quality assurance services. He previously worked with Ahli United Bank and Shamil Bank in Bahrain. Mr. Alqumaish is a Director of Al Ameen Real Estate Investment Company - Iraq. He also serves as an observer member for the Board Committees of Gulf Bank Algeria – Algeria, and Bank of Baghdad - Iraq. A Certified Internal Auditor (CIA) and Certified Information Systems Auditor (CISA), Mr. Alqumaish holds an MBA from the University of Strathclyde Business School, UK.

## EXECUTIVE MANAGEMENT



### **Deepa Chandrasekhar**

APRM CAMS FICA CFE Chartered MCSI  
**Senior Vice President, Chief Compliance Officer & MLRO**

Mrs. Chandrasekhar joined UGB in 2008. She has over 32 years' experience in the areas of risk management, treasury, operations, internal audit and compliance. She holds an MBA degree from the University of Alberta, Canada; as well as several professional certifications. Mrs. Chandrasekhar is a member of the Steering Committee of the Professional Risk Managers International Association (PRMIA), Bahrain Chapter; and the Advisory Council of the Chartered Institute of Securities and Investment (CISI), Bahrain Chapter. She also serves as an International Moderator in the field of compliance and corporate governance for the Finance Accreditation Agency, Malaysia. Mrs. Chandrasekhar is a frequent speaker at professional forums, and has published several financial articles.



### **Syed Rehan Ashraf**

FCA MBA  
**Chief Financial Officer**

Mr. Ashraf joined UGB in 2005. He was appointed CFO in October 2015 after serving as Head of Credit and Risk Management since October 2007. He has more than 23 years' experience in the areas of credit, risk management, finance, advisory, compliance and assurance services – with Islamic and conventional banks – and the big four audit firms. He previously worked with Shamil Bank, Deloitte & Touche, Faysal Bank, and PriceWaterhouse Coopers. A Fellow Chartered Accountant (FCA) from the Institute of Chartered Accountants of Pakistan, Mr. Ashraf holds an MBA from DePaul University of Chicago, USA.

## EXECUTIVE MANAGEMENT



**Adel Al-Arab**  
CRA  
Senior Vice President, Head of Operations

Mr. Al Arab joined UGB in 1994. He has over 24 years' experience in the field of operations, credit and risk management, and compliance. Mr. Al Arab holds a Bachelor of Science degree in Business Administration from the University of Bahrain. He is a Chartered Risk Analyst (CRA) from the Global Academy of Finance and Management, USA; and was awarded the Certificate of ISMA Foundation Program from the International Securities Market Association, Zurich. Mr. Al Arab has attended several professional courses in banking, finance, SWIFT, and risk management



**Nirmal Parik**  
CFA MBA  
Vice President, Head of Asset of Asset Management & Investment Banking

Mr. Parik joined UGB in 2007. He was appointed Head of Asset Management & Investment Banking in October 2015. He has more than 17 years' experience in the financial services industry in investment banking, asset management and corporate banking. Prior to joining UGB, Mr. Parik worked in various capacities with multinational firms including ING Investment Management (I) Pvt. Ltd., the asset management arm of ING Group NV, Netherlands. He currently serves as a Board Member of India Factoring And Finance Solutions Private Limited, India. Mr. Parik is a Chartered Financial Analyst (CFA), and holds an MBA degree with specialization in Finance.

## EXECUTIVE MANAGEMENT

**Abbas Al Tooq**

APRM, MBA

Assistant Vice President, Head of Credit &amp; Risk Management

Mr. Al Tooq joined UGB in 1999. He assumed the role of Head of Credit and Risk Management in October 2015. He has more than 24 years' experience in the areas of credit, risk management, operations and audit. He previously worked with Jawad Habib Coopers & Lybrand, Daiwa Middle East Bank, and The Arab Investment Company. Mr. Al Tooq holds an MBA degree from DePaul University, Chicago, USA; and is an Associate Professional Risk Manager (APRM) from the Professional Risk Managers International Association.

**Hussain Khalil**

CQF

Vice President, Head of Treasury

Mr. Khalil joined UGB in September 2020. He is a seasoned banker with over 12 years of experience in Treasury, and has been intrinsically involved in managing liquidity through Money Market, FX and Capital Market products. Mr. Khalil has managed Investment portfolios and dealt in Sukuks, GCC equities and structured products. He has also worked closely with regional and multinational financial institutions in trading different financial securities and regional debt issuances. Mr. Khalil holds an MSc in Finance from Loughborough University, UK; and has obtained his Series 7 Certification, ACI Dealing Certificate and, most recently, the Certificate in Quantitative Finance from the CQF Institute.

# BUSINESS REVIEW

## STRATEGY AND BUSINESS OVERVIEW

The strategic objective of United Gulf Bank is to create the MENA region's premier asset management, merchant banking and investment banking group. UGB seeks to be the preferred gateway to the region for its clients and global partners through the delivery of both conventional and Shari'ah-compliant services, backed by world-class standards of support, infrastructure and processes. The Bank works with strategic partners to create opportunities that position UGB as a leading financial institution for the region.

Either directly or through its subsidiaries, UGB engages primarily in asset and fund management, investment banking, private equity and corporate banking advisory. Other business activities include proprietary investments and treasury.

## ASSET MANAGEMENT AND INVESTMENT BANKING

### Asset Management

Asset and fund management activities – covering local, regional and international markets – comprise discretionary and non-discretionary portfolio management; securities trading; portfolio structuring and asset allocation advice; mutual funds; investments and structuring; and alternative structured investments.

### Investment Banking

Conventional and Islamic investment banking activities cover equity and debt underwriting, private placements, capital restructuring, and merger and acquisitions.

### Private Equity

Private equity activity focuses on key growth or demand sectors such as telecommunications, media, technology and energy.

### Corporate Banking Advisory

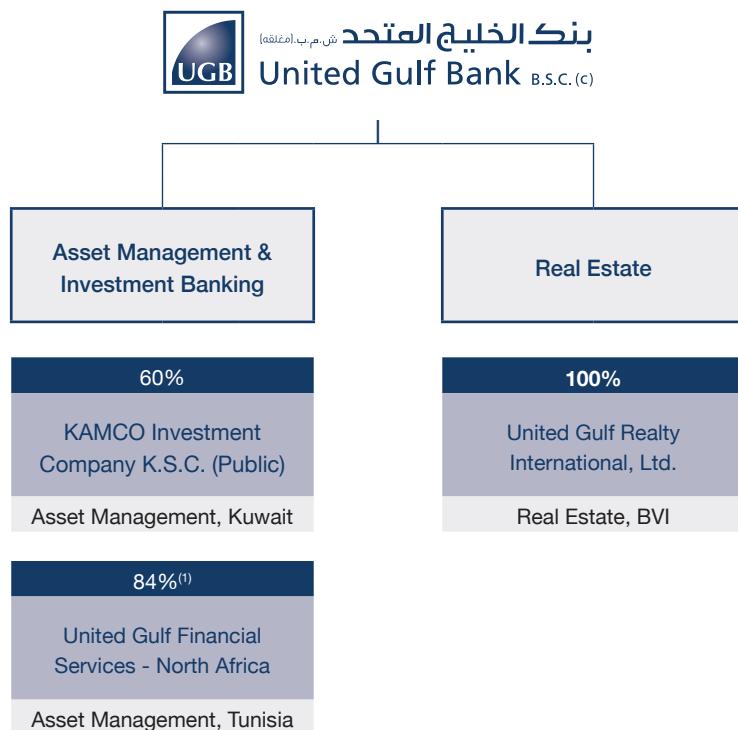
Corporate banking advisory services include IPO and private placement advisory and execution, business valuation and financial feasibility studies, project finance and due diligence.

## KEY BUSINESS DEVELOPMENTS & INITIATIVES IN 2020

- The economic impact of COVID-19 seriously affected the performance of the Bank's core asset management and investment banking activities during the year. The negative contribution of the Bank's primary subsidiary, KAMCO Invest, resulted primarily from depressed market conditions which led to reduced advisory fee income. United Gulf Realty International, which owns and manages an income-yielding commercial property in Boston, USA, also made a negative contribution, due to challenges facing the US real estate sector.
- Assets under management with UGB stood at US\$ 13.6 billion at the end of 2020. This remained consistent with \$13.6 billion recorded at year end 2019.
- The Bank has started its journey towards introducing the planned digital trade finance platform, which was put on hold during 2020 due to the impact of COVID-19.

# BUSINESS REVIEW

## UGB SUBSIDIARIES AND ASSOCIATES



<sup>1</sup> Consolidated holding as of December 31, 2020

## SUBSIDIARIES

### KAMCO Investment Company K.S.C.P (KAMCO Invest) Consolidated Subsidiary based in Kuwait

Established in 1998, KAMCO Invest is a leading asset management and financial institution, with one of the largest private sector assets under management in the MENA region. Its three principal business lines are asset management, financial services, and investment advisory research services, which are offered to a diverse local, regional and international client base. Assets under management at the end of 2020 totalled US\$ 13.6 billion. UGB owns 60 per cent of KAMCO Invest, which is listed on the Kuwait Stock Exchange.

### United Gulf Financial Services Company - North Africa (UGFS-NA) Consolidated Subsidiary based in Tunisia

Commencing operations in 2009, UGFS-NA is an asset management company regulated by the Tunisian Capital Market Authority – Conseil du Marché Financier. The Company is primarily involved in three main activities: fund services, portfolio management services, and corporate finance services. UGB has a total consolidated interest of 84 per cent in UGFS-NA, whose shares are unlisted.

### United Gulf Realty International, Ltd. (UGRIL) Consolidated Subsidiary based in British Virgin Islands

UGRIL was incorporated in 2012. Through its wholly-owned subsidiary, Federal Street 176 Holdings, Inc., the Company has a 100 per cent ownership in a prime commercial real estate property located in the financial district of Boston, USA. Originally constructed in 1901, the building underwent a significant renovation in 1986. UGB has a total consolidated interest of 100 per cent in UGRIL, whose shares are unlisted.

# BUSINESS REVIEW

## SHARED SERVICES

### Treasury

Treasury manages UGB's liquidity and funding requirements, and implements hedging strategies against foreign exchange and interest rate exposures. During 2020, Treasury took a measured approach to counter market volatility using suitable hedging instruments against UGB's assets and liabilities. The Bank also maintained compliance with the Central Bank of Bahrain's (CBB) regulatory ratios – liquidity coverage (LCR), net stable funding (NSFR) and capital adequacy (CAR). In addition, Treasury assessed the potential impact from LIBOR transition on hedging relationships and other products as part of the Bank's impact assessment analysis for submission to the CBB.

In response to the impact of the COVID-19 pandemic, and in line with the Government of Bahrain's precautionary health measures, UGB tested its Treasury procedures and liquidity contingency plans under different scenarios to ensure stable business continuity. Virtual platforms were also used as a medium to strengthen longstanding counterparty relationships and KIPCO group synergies. Similarly, these platforms contributed to employees' professional development via workshops and webinars.

### Operations

The main activities of the Operations function include settlement of foreign exchange and money market transactions; handling payments and funding in coordination with Treasury; and facilitating transfers. During the year, UGB focused on ensuring the continuity of back-office operations during the coronavirus pandemic so that business lines remained supported at all times.

In this respect, Operations benefited from the recent major upgrade of the core banking system. This resulted in significantly improved data capturing and reporting capabilities, the processing and money market activities; as well as improving the efficiency and accuracy in monitoring all transactions. These were further enhanced by the successful implementation of the new SWIFT GPI (global payment innovation) tracker system during the year.

### Human Resources and Administration

A key priority of UGB during 2020 was ensuring the health and well-being of its employees and maintaining a safe workplace, to counter the impact of COVID-19. Key measures adopted in compliance with the Government's health protocols included the compulsory wearing of masks and regular temperature checks, provision of hand sanitizers, stringent disinfectant measures and the use of the virtual platform Microsoft Teams for safe and secure meetings. The Bank maintained a requisite balance in staff numbers between onsite and remote working in line with lockdown regulations. Physical access to the Bank's premise was limited and strict quarantine measures were implemented. In particular, UGB identified those members of staff who were most vulnerable to the coronavirus due to underlying health conditions, and provided them with the option of working totally from home.

Due to the curtailment of classroom courses owing to COVID-19, focus was placed on the provision of online training, especially for mandatory regulatory-related training such as anti-money laundering (AML) and combating the financing of terrorism (CFT). The Bank offered internship placements to three university students during the year; and continued to assist dependents of Bank staff to obtain degrees from accredited academic institutions, through the UGB merit-based Mashare'a Al Khair Scholarship programme.

### Information Technology

The IT department's key focus during the year was to provide a secure and reliable work-from-home facility to ensure access to seamless day-to-day operations with minimum business interruption. This involved the adoption of virtual platforms for meetings and communications, facilitated by the smooth performance of the upgraded core banking system and supported by a new back-up system.

The Bank continued to review its exposure to various cyber security risks, which entailed vulnerability assessment and penetration testing of IT systems. The results confirmed that UGB's information security capability conforms to the Central Bank of Bahrain's requirements and international best practice. UGB also conducted two successful tests of its business continuity planning (BCP) process during 2020, in line with regulatory requirements of the CBB.

The IT team also reviewed the latest FinTech developments such as Amazon AWS Cloud-based services for potential adoption by the Bank as critical business enablers.

# BUSINESS REVIEW

## CONTROL FUNCTIONS

### Compliance

In accordance with CBB requirements, UGB has a designated Chief Compliance Officer (CCO) with a direct reporting line to the Board Audit Committee. The CCO acts as the central coordinator for all matters relating to regulatory reporting and other requirements. A framework of relevant policies and processes covering the areas of adherence to external regulations, ethical behavior and conflicts of interest, are encapsulated in the Bank's Compliance Charter, Code of Conduct and Corporate Governance Guidelines. These documents have been approved by the Board of Directors, and help define, clarify, assert and enforce the role of governance within UGB.

A Compliance Report for UGB and its main operating subsidiaries is presented every quarter by the CCO to members of the Board Audit Committee, and the Risk and Compliance Committee. The Compliance function is also responsible for ensuring that all ad hoc requests for information from regulatory authorities are responded to immediately, and that corrective action is taken if required. The RiskNucleus Compliance system is used proactively by all departments as they receive automated e-mail alerts on forthcoming deadlines and activities.

UGB shares a strong rapport with its local regulators – the Central Bank of Bahrain, the Bahrain Bourse for its brokerage activities; and the Ministry of Industry, Commerce and Tourism. There is proactive dialogue as and when warranted.

### Anti-Money Laundering

UGB has a designated Money Laundering Reporting Officer (MLRO) and a Deputy MLRO (DMLRO) who are Controlled Persons approved by the CBB. The position of MLRO has been combined with that of the CCO. The Bank has implemented an anti-money laundering (AML) and combating the financing of terrorism (CFT) policy, which is reviewed annually and approved by the Board of Directors. In 2020, the MLRO conducted virtual AML training for UGB employees using recent case studies, and also covered the changes in regulations pertaining to AML. The virtual session was saved on the intranet, along with the training slides. All employees had to submit a short quiz based on the contents of the training. The results gave the assurance that staff are aware of the need to identify and report suspicious transactions to the MLRO/ Deputy MLRO.

During 2020, generic and department-specific key performance indicators (KPIs) relevant to ensuring compliance with AML/CFT requirements were designed collectively by the MLRO and Department Heads. The generic KPIs have been incorporated into the performance appraisal sheets of staff, while the specific KPIs have been appended to the evaluation sheets of the departments that are used for determining remuneration.

UGB follows prudent practices related to Customer Due Diligence and Ultimate Beneficial Ownership, using the Refinitiv WorldCheck screening tool, and Know Your Customer (KYC) principles. During 2020, the Bank expanded the scope of its agreement with Refinitiv by also subscribing to its MediaCheck services.

The Bank uses a risk matrix on the four dimensions of customer profile, products, services and channels to determine the risk profile of its customers. The results form part of the MLRO's report on the effectiveness of AML/CFT procedures, systems and controls, which is reviewed by the Board of Directors on an annual basis. It is also a regulatory requirement to have the AML framework reviewed annually by the independent auditors for UGB and its main subsidiaries. Due to the disruption caused by COVID-19, the CBB exempted all financial institutions from submitting the reports in June 2020. However, it is envisaged that the practice will be reinstated, and that the assurance reports will be submitted in 2021.

# BUSINESS REVIEW

## Internal Audit & Quality Assurance

### Internal Audit

Internal Audit is an independent control function of UGB, reporting directly to the Board Audit Committee and administratively to the Chief Executive Officer. Governed by a Board-approved Audit Charter, and a detailed Policies & Procedures Manual that documents the function's responsibilities in line with internal audit international best practices, Internal Audit is staffed by experienced and qualified professionals. The Internal Audit team has developed effective and direct working relationships with UGB's Board of Directors, Board Audit Committee and Executive Management. The Department also has unrestricted access to information, records, systems and personnel within the Bank.

A risk-based three-year strategic Audit Plan governs how Internal Audit carries out its responsibilities. The Plan is designed to implement a systematic, disciplined audit review approach by utilising the available audit resources in the most efficient and effective manner. It examines the adequacy and effectiveness of processes, systems and procedures within the internal controls framework – comprising Compliance, Corporate Governance, Risk Management, Cyber and Information Security, Financial Control and AML, among others; and provides recommendations in order to enhance and strengthen their reliability.

On a periodic basis, the function performs follow-ups on internal control recommendations and corrective actions that have been raised; and reports their updated status to the Board Audit Committee. Internal Audit also oversees the implementation of sound governance and internal control principles and practices at the level of UGB's subsidiaries and associate companies; and provides regular support to their respective Board Audit Committees and Internal Audit functions.

During 2020, Internal Audit was proactive in the review of the Bank's response to the COVID-19 pandemic by issuing critical control and procedural recommendations to Executive Management. A detailed business and operational resilience gap analysis was performed, and findings were communicated to Department Heads. Internal Audit was also involved in the review of the Bank's Disaster Recovery & Business Continuity framework to ensure that it incorporated relevant response plans and controls. The department reviewed other key control frameworks covering Cyber Security, Anti-Money Laundering, Asset Management and Investment Banking; and key Risk Management modules such as Operational and Liquidity risks, Stress Testing, and the Bank's internal capital adequacy assessment process (ICAAP).

### Quality Assurance

In carrying out its Quality Assurance responsibilities, Internal Audit adopts a consultative role in working with Executive Management, and subsidiaries and associate companies, to facilitate continuous process improvements and review new initiatives. These include regular reviews of updates to the Bank's policies and procedures, organisation chart and job descriptions; and assessing the impact of new regulations. In addition, internal audit conducts ad hoc special assignments at the request of the Board and Management to ensure continuous improvement. During 2020, Internal Audit was involved in key quality assurance assignments which included consulting on the UGH Share Capital Rights Issue; facilitating an Inspection by the Central Bank of Bahrain; coordinating Extraordinary General Meetings; and reviewing the legal requirements of the newly-developed Data Privacy framework.

# FINANCIAL REVIEW

The notes to UGB's Consolidated Financial Statements provide additional relevant details, with some of these notes being cross referenced here. Figures contained in the Financial Review are subject to rounding adjustments and, in certain instances, the sum of the numbers in a column or row may not conform exactly to the total figure given for that column or row.

## INCORPORATION AND ACTIVITIES

UGB is a wholesale conventional bank regulated by the CBB. As at 31 December 2020, the Bank's parent company United Gulf Holding Company B.S.C.(c) (UGH) holds 100% shares of UGB. The Kuwait Projects Company (Holding) (KIPCO) continues to be the ultimate parent company owning directly and indirectly 98% of UGH's outstanding shares on a consolidated basis.

## IMPACT OF COVID-19

During the year ended 31 December 2020, there was an outbreak of coronavirus (COVID-19). The existing and anticipated effects of the outbreak on the global economy is expected to continue to evolve. While these developments continue to impact the Bank's operations, the scale and duration of further developments remain uncertain at this stage, and could potentially further impact the Bank's financial position, financial performance and cash flows in the future, the extent of which is presently undeterminable. The Group is monitoring the situation closely, and has undertaken various risk minimisation and management practices to limit and minimise the impact on the Group's operations, financial position and performance.

The Group's Board of Directors and Management have been monitoring the impact of COVID-19 on the Group, including revenues, and the impact on valuations of assets and impairments. The Group's contingency plans were activated including business continuity and liquidity management.

The regulators in various jurisdictions announced several measures to combat the effects of COVID-19 to assist banks in operating with adequate liquidity and in complying with regulatory requirements. These included a payment holiday for 6 months to eligible customers; 0% concessionary repo facilities to banks; reduction of cash reserve requirements from 5% to 3%; reduction in liquidity coverage ratio and net stable funds ratio from 100% to 80%; and the modification losses and additional ECL provisions on Stage 1 and Stage 2 exposures to be added back to Tier 1 capital for two years.

Since the Bank does not provide any retail loans to customers within the Kingdom of Bahrain, no modification losses or significant incremental ECL provisions were recorded, or are being added back to the Bank's Tier 1 capital for the purpose of calculating capital adequacy ratios.

*This review provides a detailed description of the financial performance of United Gulf Bank B.S.C.(c) (UGB, the Bank) for the year ended 31 December 2020.*

The Government of the Kingdom of Bahrain has announced various stimulus programmes to support businesses. For certain months during the year ended 2020, the bank received financial assistance to the extent of USD\$ 524 thousand, in the form of reimbursement of staff costs and waiver of utility charges. Further, the Government of the State of Kuwait has announced similar programmes to support business by reimbursing portion of the salaries paid to Kuwaiti employees. As a result, the Bank's subsidiary, KAMCO Invest, received reimbursements amounting to US\$ 703 thousand during the year.

## FINANCIAL REVIEW

### Revenues

UGB's total revenues were US\$ 55.5 million in 2020 compared with US\$ 113.7 million in 2019, as indicated below:

Total Revenues (US\$ million)	2020	2019
Financial Associates	3.9	6.0
Real Estate	1.4	14.0
Other Associates	(1.8)	(0.9)
Credit related fees and commission	11.1	22.3
Management fees from fiduciary activites	41.3	40.8
Advisory fees	0.6	5.2
Interest Income	5.9	10.0
Unrealised (loss) gain on investments carried at fair Value through profit or loss	(6.8)	5.3
Realised (loss) gain on investments carried at fair Value through profit or loss	(0.8)	3.3
Dividend income	4.5	4.2
Gain on sale of investments	0.4	2.4
Gain due to reclassification of investments	0.6	0.7
Gain on sale of associates	1.4	-
Foreign currency translation (losses) gains - net	1.6	0.4
<b>Total</b>	<b>55.5</b>	<b>113.7</b>

During 2020, the decrease in total revenues was mainly attributable to the impact of COVID-19 on the Group. Management fees from fiduciary activities and dividend income improved compared to 2019, while all other revenue streams were impacted by the lockdowns and overall slowdown in the global economy.

#### Financial Services

UGB's financial services-related revenues were derived from its investment in associates involved in asset management, investment banking and brokerage.

Results from financial associates recorded a loss of US\$ 3.9 million compared with an income of US\$ 6.0 million in 2019. The decrease was mainly due losses suffered by KAMCO Investment Fund following the decline in the regional stock market due to COVID-19.

The table below indicates the performance of UGB's financial associates:

Revenue - Financial Associates (US\$ million)	2020	2019
Kamco Investment Fund	(2.8)	6.4
Manafae Investment Company	(1.1)	(0.4)
<b>Total</b>	<b>(3.9)</b>	<b>6.0</b>

### Real Estate

UGB's real estate revenues were derived mainly from rental income from its real estate properties in Bahrain, Kuwait and the USA; and the fair valuation gains on its property in the USA. The decrease is mainly on account of unrealised fair value losses on a property in the USA recorded during the year.

Revenues - Real Estate) (US\$ million)	2020	2019
KAMCO Real Estate Yield Fund	(1.4)	(0.3)
N.S. 88 P.C.	(1.3)	(0.2)
Rental income	7.9	7.2
Unrealized gain on investment properties	3.8	7.3
<b>Total</b>	<b>1.4</b>	<b>14.0</b>

### Fees and Commission Income

*Credit-related fees and commission.*  
Credit-related fees and commission income decreased to US\$ 11.1 million in 2020 from US\$ 22.3 million in 2019.

### Management Fees from Fiduciary Activities.

Management fee income increased to US\$ 41.3 million in 2020 from US\$ 40.8 million in 2019.

### Advisory Fees

Advisory fee income decreased to US\$ 0.6 million in 2020 from US\$ 5.2 million in 2019.

### Interest Income

The main source of interest income for KAMCO and UGB was derived from interbank placements. Interest income decreased from US\$ 10.0 million in 2019 to US\$ 5.9 million in 2020, mainly due as overall lendings were reduced in 2020 to shore up contingency funds.

### Trading gains / losses

Trading positions recorded a loss of US\$ 7.6 million in 2020 compared with a gain of US\$ 8.6 million for 2019. This is largely due to the onset of COVID 19 and the downturn in regional stock markets since March 2020. Trading gains in 2019 mainly resulted from MTM gains on investments listed on regional stock exchanges, mainly the Kuwait Stock Exchange.

### Dividend Income

Dividend income increased to US\$ 4.5 million in 2020 compared with US\$ 4.2 million in 2019, mainly from KAMCO's investments.

### Foreign Currency Translation gains

Foreign currency translation gains of US\$ 1.6 million were recorded in 2020 compared with gains of US\$ 0.4 million in 2019. Higher gains are mainly due to gains on derivative products booked on behalf of UGH.

# FINANCIAL REVIEW

## EXPENSES

### Interest Expense

UGB's interest expense decreased from US\$ 22.2 million in 2019 to US\$ 17.9 million in 2020. Key contributors to this decrease were the repayment of certain higher cost deposits from banks in 2020, and the overall decrease in LIBOR rates.

### Operating Expenses

Operating expenses decreased by 23% to US\$ 57.5 million in 2020 compared with US\$ 75.1 million in 2019, largely due to the synergies being achieved in the KAMCO / Global Investment House merger. Salaries and benefits decreased to US\$ 34.5 million (2019: US\$ 45.5 million). General and administration expenses decreased to US\$ 23.0 million (2019: US\$ 29.6 million).

	2020	2019
Operating expenses (US\$ million)		
Salaries and benefits	34.5	45.5
General and administrative expenses	23.0	29.6
<b>Total</b>	<b>57.5</b>	<b>75.1</b>

### Taxation

A net tax income of US\$ 0.9 million was recorded in 2020 compared with an expense of US\$ 2.0 million in 2019. The tax expense for 2019 related mainly to income booked at United Gulf Realty International, Ltd.

### Provisions

Provisions for expected credit losses of US\$ 1.0 million in 2020 related to provisions for other receivables at the KAMCO level, compared with a reversal of US\$ 1.6 million in 2019, which mainly comprised a reversal of US\$ 1.3 million at the UGB level.

	2020	2019
Provisions for losses (US\$ million)		
Provision for losses against unfunded participation	(2.6)	-
Impairment losses against investments	(0.2)	-
Expected credit losses (provision) reversals	(1.0)	1.6
<b>Total</b>	<b>(3.8)</b>	<b>1.6</b>

## Net Income Attributable to Parent

The Group recorded a net loss attributable to parent in 2020 of US\$ 19.5 million compared with a net profit of US\$ 11.4 million in 2019.

## CONSOLIDATED BALANCE SHEET

### Consolidated Assets

UGB's consolidated assets stood at US\$ 746.5 million at 31 December 2020 compared with US\$ 923.2 million at the end of 2019. The decline is mainly on account of repayment of certain customer deposits, and fair value losses incurred on the Group's investments. A comparison of the two years is provided below:

Assets	2020	2019
US\$ million		
Demand and call deposits with banks	111.0	71.4
Placements with banks	72.5	236.1
Investments carried at fair value through profit and loss	71.8	97.8
Investments carried at fair value through other comprehensive Income	120.1	131.0
Investments carried at amortised cost	-	0.3
Loans and receivables	33.1	27.8
Other assets	62.7	62.9
Investments in associates	64.7	75.8
Investment properties	98.7	102.7
Property and equipment	47.7	51.8
Goodwill and other intangible assets	64.2	65.6
<b>Total</b>	<b>746.5</b>	<b>923.2</b>

### Demand, Call Deposits and Placements with Banks

Demand, call and placements with banks decreased to US\$ 183.5 million in 2020 compared with US\$ 307.5 million in 2019. The decline is attributable to repayment of certain customer deposits. Total liquid assets comprising cash, deposits, liquid securities and other assets, represented 35.9% of the balance sheet as at 31 December 2020 (2019: 47.2%).

### Investments carried at fair value through the statement of income

Investments carried at fair value through the statement of income were US\$ 71.8 million in 2020 compared with US\$ 97.8 million in 2019. This portfolio mainly comprises quoted equities, debt securities, and unquoted managed funds designated as fair value through statement of income.

## FINANCIAL REVIEW

### Non-trading Investments

Non-trading investments were US\$ 120.1 million in 2020 compared with US\$ 131.0 million in 2019. The total portfolio mainly comprises unlisted equities of US\$ 117.6 million (2019: US\$ 127.8 million).

The major investments classified under the non-trading investments portfolio as at 31 December 2020, were:

**Advanced Technologies Company (ATC):** UGB holds a 5.1% stake in ATC, which is a leading medical equipment and turn-key solution provider. It was established in Kuwait in 1981 and listed on the Kuwait Stock Exchange in 2007. It offers over 1,000 products to customers in the public and private sectors, focusing on medical, pharmaceutical, dental and laboratory equipment. ATC provides its products and services to over 500 health care facilities and has circa 45% share of the Kuwait medical sector.

**Assoufid B.V.:** Assoufid is a Morocco-based real estate development company. Its prime property is the Assoufid high-end mixed-use development in Marrakech. The property is spread over 222 hectares. The first phase is the award winning Assoufid Golf Club, which has been completed. The second phase currently underway, includes a 5-star hotel and luxury branded golf villas.

**United Networks:** United Networks is a leading solutions and service provider in the communications, information technology and media sectors in the MENA region. Operating through its subsidiaries, United Networks strives to develop, deploy and deliver innovative products and services using state of the art technology platforms to advance connectivity, value and efficiency in the business and entertainment sectors.

### Loans and Advances

Loans and advances in 2020 amounted to US\$ 33.1 million (2019: US\$ 27.8 million).

Details of the loan book are as follows:

Loans and Advances	2020	2019
(US\$ million)		
Loans to customers	37.4	33.0
Staff loans	4.7	4.8
Gross loans and advances	42.1	37.8
Less: Provision for impairment	(9.0)	(10.0)
Total	33.1	27.8

Past due and impaired loans amounted to US\$ 8.5 million (2019: US\$ 8.9 million) against which specific provisions of US\$ 8.5 million (2019: US\$ 8.9 million) were recorded. Collective provisions of US\$ 0.5 million were carried in the books against performing loans and advances as of 31 December 2020 (2019: US\$ 1.1 million)

### Investments in Associated Companies

Investments in UGB's associated companies decreased to US\$ 64.7 million in 2020 compared with US\$ 75.8 million in 2019. The Group's associated companies contributed a net loss of US\$ 8.4 million in 2020 (2019: net gain of US\$ 4.6 million), with the key contributor being Kamco Investment Fund (loss of US\$ 2.8 million compared to US\$ 6.4 million income in 2019).

### Investment Properties

UGB's investment properties mainly comprise real estate properties in Kuwait, United States of America, and the Kingdom of Bahrain. Rental income on these investments amounted to US\$ 7.9 million (2019: US\$ 7.2 million).

### Consolidated Liabilities

UGB's consolidated liabilities decreased to US\$ 453.6 million in 2020 from US\$ 590.2 million in 2019, the decrease being mainly attributable to lower deposits from banks and other financial institutions.

Liabilities	2020	2019
(US\$ million)		
Due to banks and other financial institutions	167.5	307.8
Deposits from customers	42.1	22.6
Loans payable	32.9	36.9
Long term bonds	131.5	131.9
Other liabilities	79.6	91.0
Total	453.6	590.2

# FINANCIAL REVIEW

## Total Equity

The issued and fully paid up share capital as at 31 December 2020 comprised 232,263,041 shares of US\$ 0.50 each (2019: 202,263,041 shares of US\$ 0.5 each). As at 31 December 2020, UGB's equity decreased to US\$ 293 million (2019: US\$ 333 million).

EQUITY (US\$ million)	2020	2019
Share capital	116.1	116.1
Share premium	5.7	5.7
Statutory reserve	52.0	52.0
General reserve	31.8	31.8
Fair value reserve	(10.7)	(6.0)
Foreign currency translation reserve	(4.7)	(4.6)
Retained earnings	(9.0)	15.9
<b>CAPITAL AND RESERVES ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT</b>		
Perpetual Tier 1 capital	181.2	210.9
Non-controlling interests in equity	33.0	33.0
<b>TOTAL EQUITY</b>	<b>78.7</b>	<b>89.1</b>
<b>Total</b>	<b>293.0</b>	<b>333.0</b>

## OFF-BALANCE SHEET COMMITMENTS

UGB's off-balance sheet commitments comprise guarantees and undrawn investment commitments; financial instruments to cover foreign exchange risk; forward purchase and sales contracts; and interest rate and currency swaps. The Bank's investments and credit- related commitments aggregated to US\$ 2.6 million as at 31 December 2020 (2019: US\$ 7.4 million). Further details regarding off-balance sheet commitments are provided in Note 28 to the Consolidated Financial Statements for the year ended 31 December 2020.

## CAPITAL ADEQUACY

UGB's consolidated capital adequacy ratio of 17.5% at 31 December 2020 (2019: 19.7%) under the Basel III regulations, that is mandated by the Central Bank of Bahrain, was above the minimum requirement of 12.5%.

Capital adequacy (US\$ million)	2020	2019
Capital base:		
Tier 1 capital	160.3	177.9
Tier 2 capital	15.6	15.7
Total capital base (a)	175.9	193.6
Credit risk weighted exposure	861.7	878.0
Market risk weighted exposure	48.1	11.5
Operational risk weighted exposure	97.6	93.2
Total risk weighted exposure (b)	1,007.4	982.7
Capital adequacy (a/b * 100)	17.5%	19.7%
Minimum requirement	12.5%	12.5%

## RISK MANAGEMENT REVIEW

UGB's robust risk management framework provides comprehensive controls and ongoing management of major risks inherent in the Bank's business model and operational activities.

During 2020, the Bank reviewed and further strengthened its risk management framework in order to mitigate the impact of COVID-19, and address latest changes in the external regulatory environment. The risk management framework proved to be adequately robust and resilient in countering any coronavirus-related impact and stress on UGB's business, processes and operations.

### Key Developments in 2020

- Assessed the situation and potential effects of COVID-19, and prepared recommendations and action plans to be used as mitigation strategies for each risk faced by the Bank.
- Successfully tested the Bank's Cyber Security Framework to ensure regulatory compliance, and also to facilitate secure remote working from home by staff.
- Achieved compliance with CBB regulatory requirements covering capital and liquidity ratios, internal capital adequacy assessment, and stress testing.
- Implemented a Bank-wide Risk Appetite Framework, and mapped it to the Internal Capital Adequacy Assessment Process (ICAAP) and Stress Testing models.
- Implemented quarterly reporting of Net Stable Funding Ratio (NSFR) and monthly reporting of Liquidity Coverage Ratio (LCR) to the CBB.
- Reviewed and updated the Bank's Risk-related Policies and Procedures to incorporate new and revised regulatory requirements.
- The new Personal Data Protection Law Policies and Procedures were developed in 2020. Phase 1 will be rolled out in Q1 2021 and Phase 2 at a later stage.

### Risk Philosophy

The Bank's risk philosophy is based on the following five principles:

1. Sound knowledge base, experience and judgement of Senior Management and Risk Management staff, are the cornerstone of successful risk mitigation.
2. Vigilance, discipline and attention to detail are mandatory.
3. Complete segregation of duties and reporting authorities must exist between business lines and support functions.
4. Policies and procedures must be clear, properly documented, well-communicated, understood, and implemented in both letter and spirit.
5. Well-established processes and systems provide the backbone of risk management practices at the Bank.

### Responsibilities

The Board of Directors of UGB has the ultimate authority for setting the overall risk appetite, risk tolerance, parameters and limits, within which the Bank operates. The Board approves the Bank's overall risk profile and significant risk exposures, as well as the policies, procedures and controls that have been extensively documented.

The Board has delegated day-to-day decision making to the Executive Committee (EC) that comprises three Executive Directors. The EC meets between Board meetings to approve all proposals that exceed the threshold of the Investment Committee.

The Investment Committee (IC) is responsible for approving or recommending approvals to the Executive Committee; limits for individual exposures; investments; and concentrations towards banks, countries, industries, risk-rating classes or other special risk asset categories.

The Risk and Compliance Committee (RCC) supervises the adoption of best practice in the areas of risk and compliance. It acts as the steering committee for risk and compliance initiatives, responsible for monitoring the progress and facilitating a smooth transition towards complete compliance with provisions of the New Capital Accord and other regulatory requirements. During 2020, the Committee met three times.

Further information on the constitution and responsibilities of these committees is disclosed in the Corporate Governance Report available on the Bank's website: [www.ugbbh.com](http://www.ugbbh.com). UGB's ability to properly identify, assess, manage, measure, monitor and report risk is critical to its financial strength and profitability. A comprehensive set of risk management policies, processes and limits are in place to provide guidelines and parameters. These are continuously updated with the objective of incorporating best practice, changes in market factors, and changes in the regulatory environment in the various jurisdictions in which the Bank operates.

# RISK MANAGEMENT REVIEW

## Risk Management Strategy

The overall risk management strategy of UGB focuses on optimising the risk-return profile of the Bank's exposures (a portfolio approach) as well as avoiding losses. The risk management philosophy of the Bank for managing the main types of risk to which it is exposed, is summarised below:

RISK TYPE	RISK MANAGEMENT PHILOSOPHY
Credit	Discipline its lending activities and ensure that credit facilities are granted on a sound basis; and that the Bank's funds are invested in a profitable manner.
Market	Minimise the loss of the value of financial instruments or a portfolio of financial instruments, due to an adverse change in market prices or rates.
Interest Rate	Capture all material sources of interest rate risk, and assess the effect of interest rate changes on the income stream and equity of the Bank.
Liquidity	Identify, capture, monitor and manage the various dimensions of liquidity risk with the objective of protecting asset values and income streams, such that the interests of the Bank's shareholders are safeguarded while maximising returns to shareholders.
Operational	Mitigate or ensure the risk of loss arising from a failure in UGB's internal processes due to inadequate internal controls and procedures, human error, deliberate acts, and/or business interruptions caused by technology, systems or external disasters that are beyond the Bank's control.

## Types of Risk

The major types of risk to which UGB is primarily exposed include credit, market, operational, liquidity and funding, interest rate, concentration, reputational and legal risks. Detailed information on each of these are provided in the Basel III Pillar III Risk Management and Capital Adequacy Disclosures available on the Bank's website at: [www.ugbbh.com](http://www.ugbbh.com).

The following section provides a brief synopsis of the different types of risk and the processes adopted to identify, assess and monitor them.

## Credit Risk

Credit risk arises mainly from the extension of credit facilities in the UGB Group's commercial banking, investment banking and trading activities, where there is a possibility that a counterparty may fail to honour its commitments.

The Bank identifies and manages credit risk inherent in all products and activities, and ensures that such risks are assessed in depth and are well understood. These activities are then subject to adequate risk management procedures and controls which are approved by the Board of Directors prior to implementation.

## RISK MANAGEMENT REVIEW

### The Bank mitigates its credit risk through:

- Establishing an appropriate credit risk environment
- Operating under a sound credit and investment approval process
- Ensuring adequate controls over the credit risk management process
- Knowledge of target markets, borrowers and counterparties
- Maintaining appropriate credit administration, measurement and monitoring processes

The Bank's policies and procedures provide the guidelines for credit risk management. UGB manages credit risk through its limit structure, which controls the amount of risk that it is willing to accept for individual counterparties, related parties, and for geographical and industry concentrations. Exposures with respect to the adherence of these limits are monitored on a regular basis.

There is a two-tier committee structure to approve and review credit and investment risk. The Investment Committee (IC) includes 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 a non-voting member on the Committee and acts as its Secretary. Exposures beyond IC-delegated limits are approved by the Board's Executive Committee or the full Board of Directors.

The credit risk inherent in trading activities is also actively managed, and in case of exposures to counterparties, is calculated daily as the sum of mark-to-market values. In certain cases, the Bank has entered into legally-enforceable netting agreements covering its money market and foreign exchange trading activities. In areas where UGB acts as an agent for commodity trading on behalf of certain Islamic financial institutions, the risk is managed through simultaneous spot and forward trading in commodities, through well-established financial and commodity trading institutions that have been subjected to a detailed credit review. The Bank does not trade in derivatives. Continuous monitoring of the Bank's assets through various reports and reviews is critical to early and timely identification of any impairment. A monthly risk asset review report is produced by the Credit and Risk Management Department and reviewed monthly by the Management Committee and quarterly by the Risk & Compliance Committee. All investments are assessed based on rating, industry and geographic exposure, in addition to a number of other parameters. The purpose of this report is also to ensure compliance with external regulatory requirements and internal risk policy guidelines. Additionally, a semi-annual review of all investments is conducted for monitoring performance and highlighting any recent developments. A quarterly review of loans is prepared for the purpose of identifying impairments and providing an update on the status of each facility. The risk asset review report is reviewed on a monthly basis by Management, and quarterly by the Risk and Compliance Committee.

UGB has adopted the Standardized Approach for calculating

the charge for credit risk. Non-performing loans for the Group stood at US\$ 8.5 million as at 31 December 2020 (2019: US\$ 8.9 million) against which a specific provision of US\$ 8.5 million exists as at 31 December 2020 (2019: US\$ 8.9 million).

The Bank has established overall credit limits at the level of individual borrowers and counterparties, as well as groups of connected or comparable counterparties. These are aggregated in a meaningful manner to indicate different types of exposures in the banking and trading book, and on and off the balance sheet. The credit limits recognise and reflect the risks associated with the near-term liquidation of positions in the event of counterparty default. Limits also factor in any unsecured exposure in a liquidation scenario. All extensions of credit are made on an arm's length basis. Any credit extended to companies and individuals that are outside the approved policy parameters are avoided, or are authorised on an exception basis by the appropriate authorities. A detailed review of connected party exposure is conducted on a monthly basis and reported to Central Bank of Bahrain.

Detailed information on the Bank's credit risk exposures, including geographical distribution, industry and sector allocation, details of the collaterals and other credit enhancements, and bifurcation based on internal ratings, is provided in Note 30(b) of the Consolidated Financial Statements.

# RISK MANAGEMENT REVIEW

## Market Risk

Market risk is defined as the risk of losses in the value of on- or off-balance sheet financial instruments caused by a change in market prices or rates (including changes in interest rates and foreign exchange rates). UGB's policy guidelines for market risk have been vetted by the Board of Directors in accordance with the rules and guidelines provided by the Central Bank of Bahrain.

UGB has adopted the Standardized Approach for the measurement of its market risk. This involves a 'building block' methodology that aggregates charges for interest rate exposure, equities, foreign exchange, commodities and options. The Bank has entered into forward contracts and interest rate swaps for hedging purposes, and does not trade in commodities or derivatives. Consequently, UGB's market risk capital adequacy requirements cover the securities trading book and the foreign exchange book.

The minimum capital charge for interest rate exposure is expressed as the sum of the specific and general market risk of each position. For the general market risk capital charge, the Bank applies the maturity method with its respective rules. Information on the interest rate sensitivity in the Bank's asset and liability structure is detailed in Note 30(c) of the Consolidated Financial Statements.

The capital charge for equities held in the Bank's trading book is also an aggregate of 'specific risk' of holding a long or short position in an individual equity; and the 'general market risk' of holding that position in the market as a whole. In case of foreign exchange risk, the open currency position is taken both in the banking and the trading book. The sensitivity towards currency movements on the Bank's equity is detailed in Note 30(c) of the Consolidated Financial Statements.

The Bank seeks to manage the market risks that it faces through diversification of exposures across dissimilar markets, industries and products. In addition to the exercise of business judgement and management experience, UGB utilises limit structures related to positions, portfolios, maturities and maximum allowable losses, to control the extent of such risk.

## Interest Rate Risk in the Banking Book

Interest rate risk in the banking book arises as a result of mismatches in the re-pricing or maturity of interest rate sensitive financial assets and liabilities. This is also known as re-pricing risk. Additionally, UGB is exposed to minimal basis risk which results from a change in the relationship between the yields/yield curves of long and short positions with the same maturity in different financial instruments. In effect, this means that the long and short positions no longer fully hedge each other.

The Bank clearly identifies the sources of interest rate risk, and the interest rate risk-sensitive products and activities. It proactively measures and monitors the interest rate risk in the banking book. UGB also periodically carries out stress tests to assess the effect of extreme movements in interest rates that could expose the Bank to high risks. A conscious effort is also made to match the amount of floating rate assets with floating rate liabilities in the banking book. All new products and transactions are evaluated with respect to their inherent interest rate risk, and the identification of mitigating factors. UGB also enters into certain transactions in order to hedge exposures arising from day-to-day banking and investment activities. These hedge transactions include instruments such as interest rate swaps (IRS) and floating rate notes (FRN), to convert a floating rate asset/liability into a fixed rate one or vice-versa. The Bank continuously monitors the effectiveness of the hedges.

# RISK MANAGEMENT REVIEW

## Operational Risk

Operational risk is defined as the risk of losses arising from a failure in UGB's internal processes due to inadequate internal controls and procedures, human error, deliberate acts and/or business interruptions caused by technology, systems or external disasters beyond the Bank's control.

In accordance with Basel guidelines, UGB has developed a comprehensive operational risk framework, whereby all activities and processes of the Bank are analysed and residual risks are identified, measured and reported as appropriate.

Internal control systems have been introduced that are based on the tenet of adequate segregation of duties. Exception and excess exposure reporting by the Credit and Risk Management Department, succession planning and business continuity planning, reliable management reporting, and supervision of the Internal Audit and Quality Assurance Department and the Board Audit Committee, is also adhered to by the Bank. Anti-money laundering procedures and controls are also in place to mitigate any possible misuse of the Bank's services. These are reviewed by the external auditors on a yearly basis, and their report is forwarded to the Central Bank of Bahrain as mandated by local regulations.

The management of operational risk in the Bank is the responsibility of every employee. The operational risk framework is built around a detailed Risk Control Self-Assessment (RCSA) that identifies all risks stemming from activities of each department of the Bank. The probability of occurrence and potential severity of the risks are assessed; existing controls against each probable risk event are plotted and reviewed in terms of their effectiveness; residual risks after taking into account the effectiveness of controls are documented; and action plans are developed to reduce or mitigate the residual risks. The results of the RCSA are periodically reviewed by the Risk and Compliance Committee. Heat maps are produced to alert Senior Management to areas that may be subject to an increased level of operational risk.

In line with CBB guidelines, UGB uses the Basic Indicator Approach (BIA) to calculate the capital charge for operational risk. This is prescribed as 15% of the average annual gross income of the current year and the preceding two years. The detailed working for the capital charge on operational risk is provided in the Prudential Disclosures related to Basel III - Pillar III, which are posted on the Bank's website at: [www.ugbbh.com](http://www.ugbbh.com).

UGB has enhanced its Operational Risk framework by implementing a fully-automated Operational Risk System. The system comprises four key modules: loss database, risk and control self-assessment, key risk indicators, and exposure monitoring. This enables the Bank to monitor, mitigate and report its operational risk exposures in a structured and robust manner..

## Liquidity Risk and Funding

Liquidity risk stems from the inability to procure sufficient cash flow to meet UGB's financial obligations as and when they fall due. The risk arises due to the timing differences between the maturity profile of the Bank's assets and liabilities. In order to ensure that the Bank can meet its financial obligations as they fall due, the tenors of UGB's assets and liabilities are closely monitored across different maturity time bands.

The Asset and Liability Committee evaluates the balance sheet from a structural, liquidity and sensitivity point of view. The whole process is aimed at ensuring availability of sufficient liquidity to fund the Bank's ongoing business activities; effectively managing maturity mismatches between assets and liabilities; managing market sensitivities; and ensuring the Bank's ability to fund its obligations as they fall due. Daily and weekly reports are generated, which monitor deposits by counterparties to ensure maintenance of a diversified funding base in terms of individual depositors, their ratings, geographical concentration and maturities.

A diversified funding base has evolved around the deposits raised from the interbank market, Sharia-compliant market deposits received from customers, and medium-term funds raised through syndicated borrowings. Access to available but uncommitted short-term funding from the Bank's established relationships, internationally and across the MENA region, provides additional comfort.

Liquidity risk is minimised by actively managing mismatches, and through diversification of assets and liabilities. The Bank uses a combination of maturity gap limits and liquidity ratio limits to ensure that liquidity risk is managed and controlled from the asset and liability perspective:

- **Maturity gap limits:** assets and liabilities in the Bank's balance sheet are grouped in specific maturity time buckets. The maximum liquidity mismatch between assets and liabilities in each defined time bucket (e.g. one to seven days, eight days to one month, one to three months, three to six months, six to twelve months, one to three years, three to five years, and more than five years), is controlled by gap limits that have been set for each time bucket. The Risk Management team tracks these limits.
- **Liquidity ratio limits:** UGB has limits on a set of ratios which it uses proactively for monitoring liquidity risk. These include the current ratio, liquid assets as a percentage of total assets, liquid assets as a percentage of total liabilities, and short-term liabilities as a percentage of total liabilities.

Information on the liquidity risk and maturity profile of UGB's asset and liability structure as at the end of 2020 is detailed in Note 30(d) of the Consolidated Financial Statements. As of this date, 49% of total assets and 65% of total liabilities were contracted to mature within one year (2019: 56% and 76% respectively). A significant portion of assets with longer-term maturities comprise readily realisable securities or listed assets with active markets. A significant portion of liabilities with short-term contractual maturities comprise of term deposits from KIPCO Group entities that are expected to roll-over.

# RISK MANAGEMENT REVIEW

## Concentration Risk

Concentration of exposures in credit portfolios is an important aspect of credit risk that is monitored separately in UGB. This risk can be considered from either a micro (idiosyncratic) or a macro (systemic) perspective. The first type – name concentration – relates to imperfect diversification of risk in the portfolio, either because of its small size or because of large exposures to specific individual obligors/investments. The second type – sector concentration – relates to imperfect diversification across systemic components of risk, namely industry sectoral factors.

Concentration risk is captured in UGB's framework through the use of internal and external regulations that cap the maximum exposure to any single obligor/investment. There are established limits in place that set thresholds for aggregate industry, geography, and counterparty. The actual levels of exposure are monitored against approved limits and regularly reviewed by Senior Management and the Board of Directors.

The Bank pursues a set of internal policies and limits that ascertain to a large extent, that no defined exposure limits referred to in its various policies are exceeded. If any potential exposure is deemed to result in breach of regulatory and/or internal limits, the Bank obtains due approvals from the appropriate authority (Central Bank of Bahrain and/or the Bank's relevant approving authority) before executing the respective business transaction.

## Legal Risk

Legal risk is defined as the loss that may arise as a result of the inability to enforce contracts and agreements entered into, the failure of these to adequately cover the risks, and liabilities the Bank may face, and their inability to protect the Bank's interests. In order to mitigate legal risk, UGB uses industry standard master agreements wherever available. Expert legal advice is sought on all legal structures and arrangements to which the Bank is a party. A retainer agreement is maintained with a Bahrain law firm for the review of standard business agreements and, for special assignments documentation, the Bank involves local and international law firms. Proper execution and completion of all legal contracts is ensured prior to committing funds to the transactions. All legal documents are reviewed on a periodic basis to ensure their ongoing enforceability, and are maintained under dual custody.

## Reputational Risk

Reputational risk is defined as the risk arising from negative perception on the part of customers, counterparties, shareholders, regulators, investors, debt-holders, market analysts, and other shareholders which can adversely affect a bank's ability to maintain existing, or establish new, business relationships and continued access to sources of funding (e.g. through the interbank markets, bilateral funding agreements and/or securitisation markets); and associated risk to earnings, capital or liquidity. UGB has established a Reputational Risk Framework to provide consistent standards for the identification, assessment and management of reputational risk issues.

## Basel III

The Central Bank of Bahrain issued detailed Basel III regulations with respect to capital adequacy calculations which became effective from 1 January 2015. UGB remains fully compliant with respect to CBB capital adequacy guidelines and follows a robust Internal Capital Adequacy Assessment Process (ICAAP) at the enterprise level.

## Monitoring and Reporting

The monitoring and reporting of risk is conducted on a daily basis for market and liquidity risk, on a monthly basis for credit risk, and on a quarterly basis for operational risk. The regular forums in which risk-related issues are highlighted and discussed are Management meetings, Risk and Compliance Committee meetings, and Executive Committee meetings. The Board of Directors is also regularly apprised of pertinent risk issues, including the semi-annual investment reviews and the proposed corrective action.

# RISK MANAGEMENT REVIEW

## Internal Capital Adequacy Assessment Process

The Internal Capital Adequacy Assessment Process (ICAAP) is a requirement of Pillar II norms of Basel III, and involves appropriate identification and measurement of risks; and maintenance of an appropriate level of internal capital in alignment with the Bank's overall risk profile and business plan. The objective of the Bank's ICAAP is to ensure that adequate capital is retained at all times to support the risks that UGB undertakes in the course of its business.

The Bank recognises that its earnings are the first line of defense against losses arising from business risks, and that capital is one of the tools to address such risks. Also important, are establishing and implementing documented procedures; defining and monitoring internal limits on the Bank's activities/exposures; strong risk management, compliance and internal control processes; as well as adequate provisions for credit, market and operational losses. Since capital is vital to ensure continued solvency, the Bank's objective is to maintain sufficient capital such that a buffer above regulatory capital adequacy requirement is available to meet risks arising from fluctuations in asset values, revenue streams, business cycles, and expansion and future requirements. UGB's ICAAP covers Pillar 1 risks, along with the following Pillar 2 risks:

- Interest Rate Risk in the Banking Book
- Liquidity Risk
- Reputational Risk
- Strategic Risk
- Single Name Concentration Risk
- Geographic Concentration Risk

The Bank seeks to achieve the following goals by implementing an effective capital management framework: that aims to:

- Meet the regulatory capital adequacy requirement and maintain a prudent buffer
- Generate sufficient capital to support the overall business strategy
- Integrate capital allocation decisions with the strategic and financial planning process
- Provide sufficient information to the Board and Senior Management to understand how much capital flexibility exists to support the overall business strategy
- Improve the Bank's understanding on capital requirements under different economic and stress scenarios
- Create sufficient links between risks and capital, and tie performance to both of them

## Capital Sources

UGB's capital is primarily derived from common shareholders' equity and retained earnings. Other sources of capital include the additional Tier 1 debt.

## Capital Management

The Board of Directors of the Bank is responsible for ensuring that adequate levels of capital are maintained at all times. The Board also approves and oversees the processes adopted for capital management by the Bank.

# CORPORATE GOVERNANCE

## 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.

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 عبد الله 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](http://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, and on an annual basis, 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](http://www.ugbbh.com).

None of the Directors on the Board holds more than one directorship of a bank in Bahrain. 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.

# CORPORATE GOVERNANCE

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. Masaad 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. Masaad 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.

# CORPORATE GOVERNANCE

## 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.

# CORPORATE GOVERNANCE

## 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.

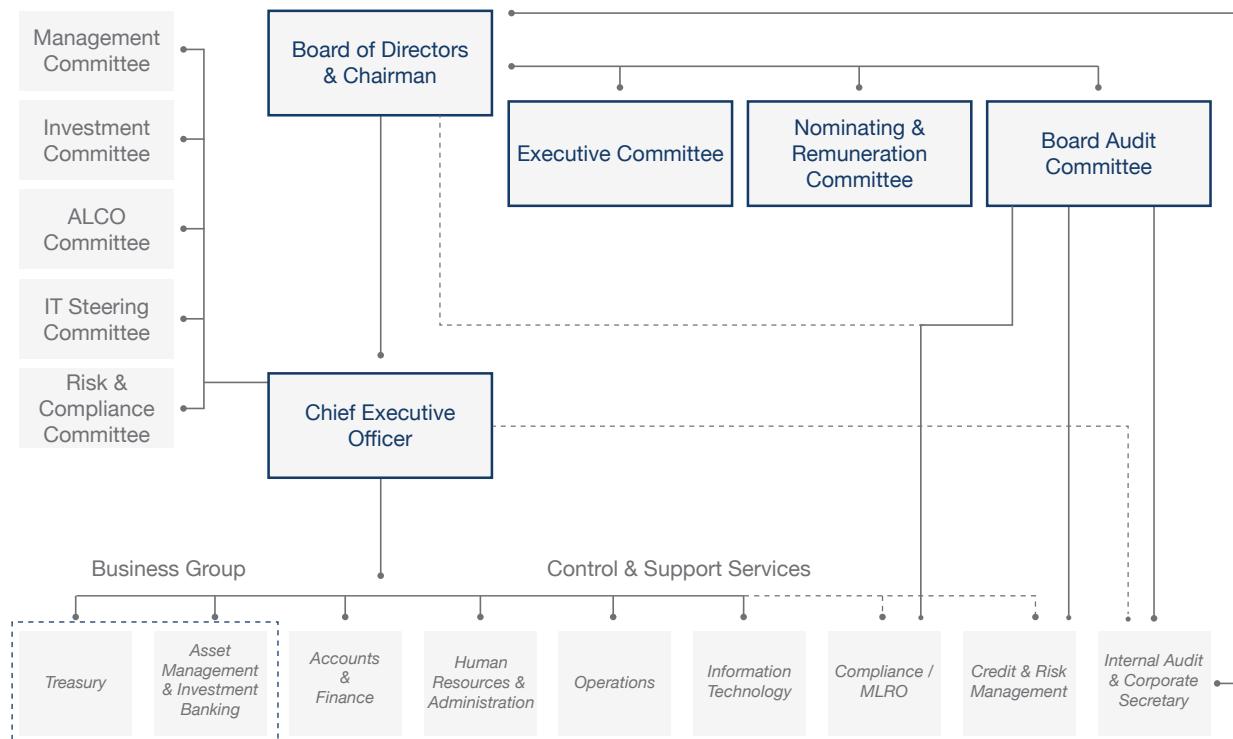
## 3.6 Board Committees

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.

# CORPORATE GOVERNANCE



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;

## CORPORATE GOVERNANCE

- 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.

Attendance	Masaud J. Hayat Chairman	Faisal Al Ayyar	Samer Khanachet
8 June 2020	x	x	x
24 June 2020	x	x	x
7 July 2020	x	x	x
22 September 2020	x	x	x
27 December 2020*	x	x	x
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.

## CORPORATE GOVERNANCE

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:

Attendance	Mohammed Haroon	Faisal Al Ayyar	Mubarak Al Maskati
19 January - Kuwait	x	x	x
13 February - Bahrain	x	x	x
17 March - Virtual	x	x	x
2 July - Virtual	x	x	x
4 August - Virtual	x	x	x
6 October - Virtual	x	x	x
10 November - Virtual	x	x	x

Only one meeting with the BAC was held with the external auditors – Ernst & Young. This was scheduled on 6<sup>th</sup> 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.

## CORPORATE GOVERNANCE

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:

Attendance	Mubarak Al Maskati	Bader Al Awadhi	Mohammed Haroon
16 January - Kuwait	x	x	x
23 March - Virtual	x	x	x
16 September - 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 was submitted to the CBB on 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.

Attendance	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

# CORPORATE GOVERNANCE

## 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
<b>Total</b>	<b>195,000</b>	<b>195,000</b>

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.

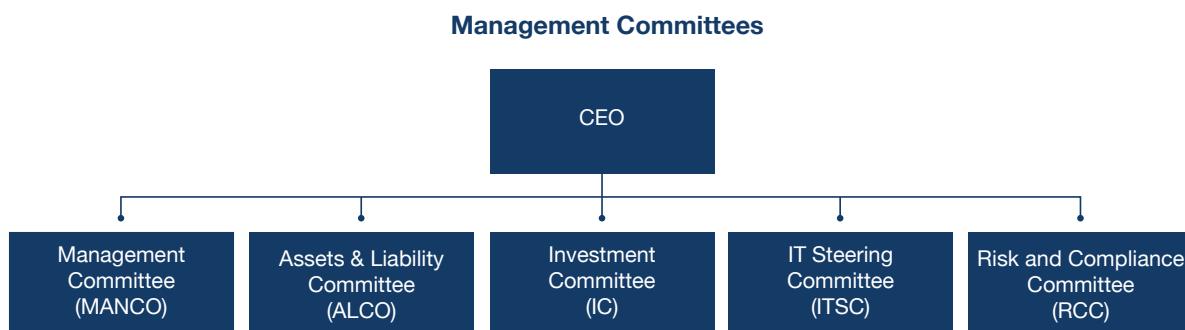
During 2020, the departments of Human Resources (HR) and Administration (Admin) were combined. The Head of HR and Admin was approved by the CBB on 15<sup>th</sup> April 2020. The organization chart was last approved by the NRC at its meeting held in February 2021.

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](http://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:



# CORPORATE GOVERNANCE

## 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 apprises 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.

# CORPORATE GOVERNANCE

## 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 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 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.

# CORPORATE GOVERNANCE

## 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.

# CORPORATE GOVERNANCE

## 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](http://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:

## CORPORATE GOVERNANCE

### RELATED PARTY TRANSACTIONS

2020

	Major shareholder US\$000	Associates US\$000	Other related parties US\$000	Total 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)

# CORPORATE GOVERNANCE

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

Owner	Account Name	Nature of related party transaction	Balance
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			
	Major shareholder US\$000	Associates US\$000	Other related parties US\$000	Total US\$000
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
Off statement of financial position items:Letters of guarantee	-	-	150	150

## CORPORATE GOVERNANCE

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 zmillion)	Net of assets and liabilities	(1,026)

# CORPORATE GOVERNANCE

## 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 2020. 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

- 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](http://www.ugbbh.com).
- 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](http://www.ugbbh.com), after they have been released to the CBB and the Bahrain Bourse.
- Website: The Bank maintains a website [www.ugbbh.com](http://www.ugbbh.com) which contains information related to its profile as well as audited financial data for over five years.
- 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](http://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 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.

- 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](http://www.ugbbh.com).
- Chairman's Communiqué: A printed copy of the Chairman's statement is distributed along with the consolidated financial statements at the AGM.

# CORPORATE GOVERNANCE

- 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](http://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](http://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](mailto:complaints@ugbbah.com)
  - For the investigation of whistle blowing instances: [auditcompliance@ugbbah.com](mailto:auditcompliance@ugbbah.com)

Both policies are available on the Bank's website [www.ugbbh.com](http://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](mailto: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 to 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.

# CORPORATE SOCIAL RESPONSIBILITY REVIEW

***UGB strongly believes in its responsibility to support the well-being of communities in which it operates.***

The Bank has long been active in a wide range of socially-responsible activities including corporate philanthropy, employee involvement, and long-term strategic programmes in education. This is in line with its commitment to promote thought leadership within the industry; empower students through education and training; and its value enhancement philosophy to provide social, economic and community-related assistance. During 2020, UGB continued to implement its Corporate Social Responsibility (CSR) programme with a special emphasis on helping to combat COVID-19; education and career development for young Bahrainis; development of the regional banking sector; and charitable and community-based activities.

## COMBATING COVID-19

The Bank was pleased and proud to support the efforts of the Kingdom of Bahrain's COVID-19 National Taskforce through a substantial donation to the Feena Khair campaign. This initiative was launched by His Highness Shaikh Nasser bin Hamad Al Khalifa, HM the King's Representative for Humanitarian and Youth Affairs, National Security Advisor, and Royal Humanitarian Board of Trustees' Chairman. The charity drive provided vital relief and rehabilitation measures to support the needy who had been impacted by the coronavirus.

## EDUCATION AND CAREER DEVELOPMENT FOR YOUNG BAHRAINIS

UGB supports the philosophy that education is the best source of empowerment. The Bank provides education and career development opportunities for young Bahraini students through the following activities:

### University of Bahrain Student Internships

UGB is a founding member of this programme, which provides selected students with work experience and the opportunity of placement.

### TradeQuest – The Trading Challenge

TradeQuest is a business-education partnership that was established 23 years ago. Conducted under the aegis of the Bahrain Bourse, it provides school and university students with an opportunity to participate in a simulated trading competition by investing in shares listed on the New York Stock Exchange, NASDAQ and the Bahrain Bourse. UGB has supported this competition for the past 19 years by sponsoring one of the participating schools, and became a Gold Sponsor in 2017.

### UGB Mashare' al Khair Scholarship Programme

This programme assists qualified UGB employees' dependants to study at accredited colleges, universities or other recognised academic institutions. The Bank also extends educational support to its staff to constantly enhance their academic and professional qualifications and fulfil their continuous professional development (CPD) commitments.

## DEVELOPMENT OF THE REGIONAL BANKING SECTOR

UGB contributes to the growth and development of the regional banking and financial services sector in a number of different ways:

- The Bank supports a wide range of banking-related organisations including the Bahrain Association of Banks, Union of Arab Banks, Bahrain Institute of Banking and Finance (BIBF), and International Islamic Financial Market of Bahrain.
- UGB management and staff are members of professional institutions and associations.
- The Bank supports the CFA Society Bahrain in promoting and maintaining the highest standards of professional excellence and integrity in the financial and investment community.
- UGB management and staff are invited to speak at industry seminars, think tanks and conferences.

## CHARITABLE AND COMMUNITY-BASED ACTIVITIES

Over the years, UGB has provided financial assistance for numerous charitable, cultural, social, medical, educational and child welfare organisations that work with orphans, needy families, and the underprivileged sections of society.

In 2020, the Bank donated over BD 116,000 in support of charitable and community welfare activities; culture – Islamic institutions; sports and training; and health.

## GROUP DIRECTORY

### **United Gulf Bank B.S.C.(c)**

P O Box 5964, Diplomatic Area  
UGB Tower, Manama,  
Kingdom of Bahrain

Tel: +973 17 533233  
Fax: +973 17 533137  
Email: [info@ugbbah.com](mailto:info@ugbbah.com)  
Website: [www.ugbbh.com](http://www.ugbbh.com)

### **PARENT COMPANY**

#### **United Gulf Holding Company BSC**

PO Box 5565, Diplomatic Area  
UGB Tower, Manama  
Kingdom of Bahrain

Tel: (+973) 17 533 233  
Fax: (+973) 17 533 137  
Email: [info@ughbh.com](mailto:info@ughbh.com)  
Website: [www.ughbh.com](http://www.ughbh.com)

### **A MEMBER OF THE KIPCO GROUP**

**Kuwait Projects Company (Holding) KSCP**  
KIPCO Tower, Khalid Bin Al Waleed Street,  
Sharq, Kuwait City  
PO Box 23982, Safat 13100, Kuwait

Tel: +965 1805 885  
Fax: +965 2243 5790  
Email: [kipco@kipco.com](mailto:kipco@kipco.com)  
Website: [www.kipco.com](http://www.kipco.com)

### **ASSET MANAGEMENT & INVESTMENT BANKING**

**KAMCO Investment Company (KAMCO) KSCP**  
Al-Shaheed Tower Khalid Bin Waleed Street Sharq, Kuwait City  
PO Box 28873, Safat 13149, Kuwait

Tel: +965 1852 626  
Fax: +965 2244 5918  
Email: [queries@kamcoinvest.com](mailto:queries@kamcoinvest.com)  
Website: [www.kamcoinvest.com](http://www.kamcoinvest.com)

### **United Gulf Financial Services - North Africa**

Rue du Lac Biwa ImmFraj 2 ème Etage, 1053 Les Berges du Lac, Tunis, Tunisia

Tel: +216 71 167 500  
Fax: +216 71 965 181  
Email: [contact@ugfsnorthafrica.com.tn](mailto:contact@ugfsnorthafrica.com.tn)  
Website: [www.ugfsnorthafrica.com.tn](http://www.ugfsnorthafrica.com.tn)

