

## ANNUAL REPORT | 2021



# Contents

**07**

Corporate  
Profile

**08**

Financial  
Highlights

**09**

Financial  
Summary

**10**

Chairman's  
Statement

**14**

Board of  
Directors

**16**

CEO's Report

**18**

Executive  
Management

**22**

Business  
Review

**26**

Financial  
Review

**30**

Risk Management  
Review

**55**

Corporate Social  
Responsibility Review

**56**

Financial Statements

**57**

Group  
Directory



**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

## ACKNOWLEDGEMENTS

Despite challenging conditions, UGB was able to make significant progress in 2021 towards achieving its strategic goals. These achievements reflect the hard work and dedication of our Board Members, including outgoing Independent Directors, Bader Al Awadhi and Mubarak Al Maskati who we would like to thank for their years of service. Working alongside our two new Independent Directors, Jawad Al Asfoor and Mohamed Sadiq Al Rahma, we strive to build on the momentum and reach even greater heights in the years to come.







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

# 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, UGB 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 2021, assets under management totalled US\$ 14.8 billion (31 December 2020: 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

### Kuwait Projects Company

Kuwait Projects Company (Holding) – KIPCO – is a holding company that focuses on investments in the Middle East and North Africa. Its strategy of acquiring, building, scaling and selling companies in the MENA region has worked successfully for over 30 years.

KIPCO's main business sectors are financial services, media, real estate and industry. KIPCO's financial service interests include holdings in commercial banks, insurance companies, asset management and investment banking.

## Subsidiaries and Affiliates



لخليج المتعدد للخدمات المالية شمال افريقيا  
United Gulf Financial Services North Africa

## United Gulf Realty International, Limited [UGRIL]

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

PO Box 5964, Diplomatic Area

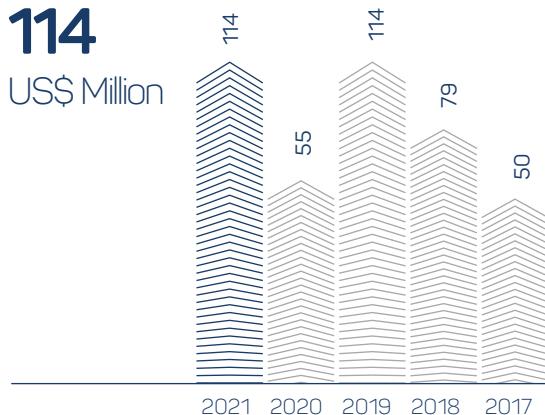
UGB Tower, Manama, Kingdom of Bahrain

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

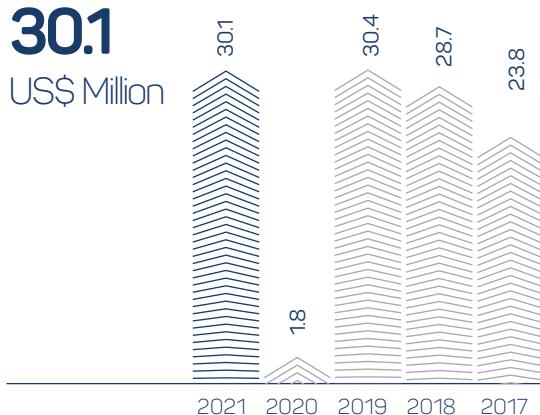
Licensed as a Conventional Wholesale Bank by the Central Bank of Bahrain

## FINANCIAL HIGHLIGHTS

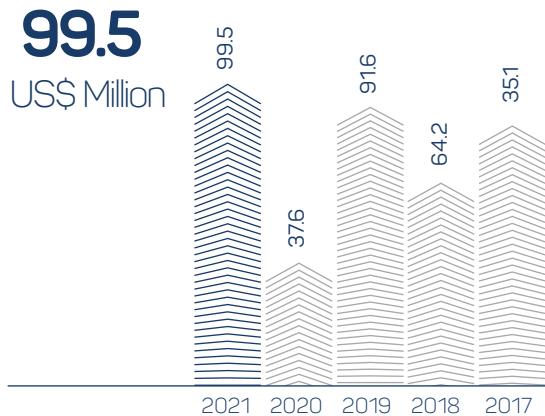
Total Income



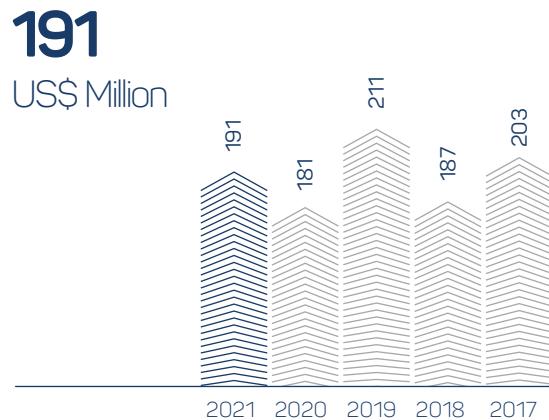
Investment income



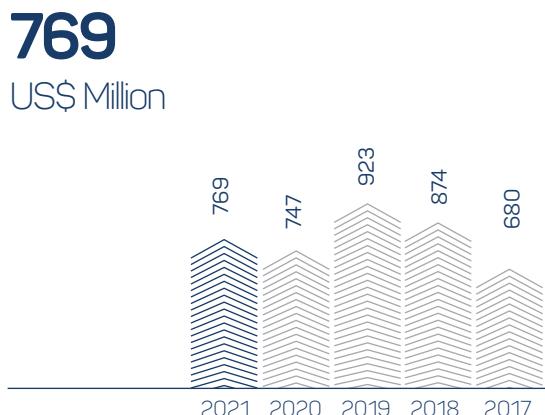
Operating Income



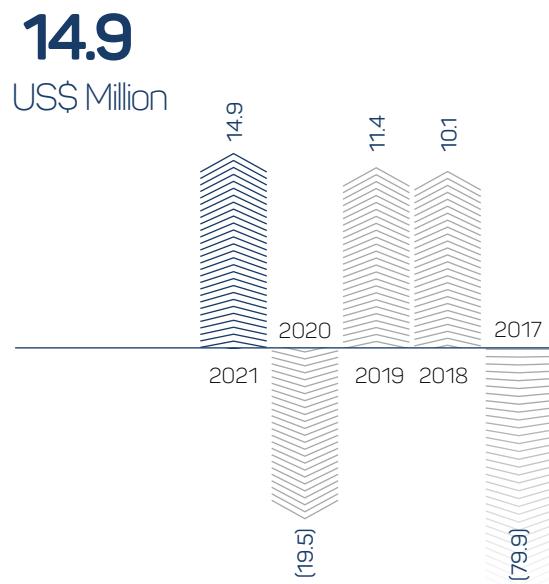
Shareholders' Equity



Total Assets



Net Profit / (Loss) Attributable to shareholders of the Parent



## FINANCIAL SUMMARY

	2021	2020	2019	2018	2017
<b>US\$ million</b>					
Total Income	114.0	55.5	113.7	78.9	50.3
Investment income	30.1	1.8	30.4	28.7	23.8
Operating income	99.5	37.6	91.6	64.2	35.1
Shareholders' Equity	190.8	181.2	210.9	187.0	203.0
Total Assets	769.4	746.5	923.2	873.5	680.1
Net Profit / (Loss) Attributable to shareholders of the Parent	14.9	(19.5)	11.4	10.1	(79.9)
<b>%</b>					
Return on Average Equity	8.01%	-9.95%	5.73%	5.18%	-26.77%
Return on Average Assets	1.97%	-2.34%	1.27%	1.30%	-4.34%
Operating Expense/ Operating Income	65.3%	154.1%	81.9%	79.4%	74.1%
Average Equity to Average Assets	24.6%	22.9%	25.6%	30.4%	16.2%
Capital Adequacy Ratio	19.6%	17.4%	19.7%	15.5%	21.5%
<b> </b>					
Book Value per share (US\$)	0.82	0.78	0.91	0.92	0.50
Earnings per share (US Cents)	0.05	(0.10)	0.05	0.05	(0.20)
<b>Comparatives Averages balances (based on quarterly averages)</b>					
Assets	771.9	830.1	918.4	748.7	2,508.9
Liabilities	460.0	529.4	587.6	461.5	2,031.1
Minority Interest	89.2	77.5	95.8	59.9	86.4
Additional Tier 1 Capital	33.0	33.0	33.0	33.0	33.0
Shareholder's Equity	189.7	190.3	202.0	194.3	358.4
	771.9	830.1	918.4	748.7	2,508.9
<b> </b>					
Guarantees and commercial LC	2.4	2.1	2.2	1.2	49.3
Commitments	0.3	3.9	5.2	6.4	183.2
Asset under management (US\$ billion)	14.5	12.8	13.4	12.6	10.8

## CHAIRMAN'S STATEMENT



On behalf of the Board of Directors, I have the privilege to present to you the annual report and consolidated financial statements of United Gulf Bank (UGB) for the year ended 31 December 2021. This proved to be a remarkable year, as the global economy showed resilience from the impact of the COVID-19 pandemic.

## Combating the Coronavirus

While the impact of COVID-19 continued to be felt throughout the year, 2021 marked a turning point in the global battle against the virus. With vaccination efforts gaining momentum, governments moved towards accepting the pandemic to be endemic. Their focus on defining an acceptable level of risk for new infections and active cases and putting in place protocols to reduce death and transmissions, resulted in countries re-opening their borders. This led to an uptick in economic activity and a transition in working culture from a remote model to a hybrid one.

UGB remained vigilant and continued to implement all necessary measures to ensure the wellbeing of employees, mitigating risks and maintaining the efficacy of operations. The Board of Directors takes this opportunity to express its appreciation once again 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 and society; and its highly-effective contact tracing and public awareness campaign.

## Economic Background

The economic environment was encouraging in 2021 as the global economy marked its strongest post-recession expansion in 80 years, growing 5.5% according to the World Bank's Global Economic Prospects report. In the GCC region, non-oil growth was a key driver of this recovery, as was the contribution of the financial services sector, which emerged from the adverse effects of the pandemic. The recovery in oil prices to their highest sustained level since 2014 and the tapering of production cuts by OPEC+ also helped to drive improvement, with the IMF forecasting that the GCC will return to a fiscal balance in 2023. The surge in growth was, however, tempered by inflationary pressures and supply bottlenecks. In a stark departure from past practices of pre-emptive quantitative tightening, there was a muted response from most central banks who refrained from increasing interest rates immediately. This marked the start of a paradigm shift where markets priced in high inflation compared to the pre-pandemic era, due to higher costs of production and raw materials.

## Business Performance

Bolstered by positive changes in the global economy, the Bank's performance improved significantly during the year. The exceptional contribution of the Bank's primary subsidiary, KAMCO Invest, was a major factor towards the Bank's financial results. Trading gains resulting from the improvement in the performance of regional stock exchanges, higher fee income from the management of funds, and higher advisory fees all contributed to the bottom line. The Bank's real estate subsidiary, United Gulf

Realty International also exited one of its prime commercial properties in Boston, USA, achieving a sales value well above expectations, which further contributed to UGB's performance.

## Financial Results

In 2021, UGB's total income before interest and other expenses more than doubled to US\$ 114 million, from US\$ 55.5 million in the previous year, while total expenses increased to US\$ 65.4 million from US\$ 57.6 million. UGB reported a net profit attributable to shareholders of US\$ 14.9 million versus a net loss of US\$ 19.5 million in 2020. The increase is mainly attributable to the recovery of global and regional economies from the outbreak of COVID-19.

As of 31 December 2021, total assets increased to US\$ 769.4 million versus US\$ 746.5 million at the end of the previous year with a total shareholder's equity of US\$ 190.8 million, compared with US\$ 181.2 million at the end of 2020. Total assets under management were US\$14.8 billion, compared to US\$ 13.6 billion in the previous year.

## Ratings

Capital Intelligence (CI) Ratings affirmed the LT FCR and ST FCR of UGB at 'BBB' and 'A3', respectively, with a Stable Outlook. The agency also affirmed UGB's BSR of 'BBB-' with a Stable Outlook. The ESL of Moderate is maintained. 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

UGB's strong compliance and risk management framework addresses the latest changes in the external regulatory environment. In 2021, these were further strengthened with independent assurance services commissioned by the Bank to determine its level of adherence to certain risk management modules. Every effort is made to ensure that governance structures are adequately robust and resilient in countering any adverse impact and stresses that could affect the business, processes, and operations.

The year also saw a change in UGB's Board of Directors. I take this opportunity to thank two of our outgoing Independent Directors, Mr. Mubarak Al Maskati and Mr. Bader Al Awadhi, who had completed three consecutive terms. I also use this occasion to welcome our two new Independent Directors, Mr. Jawad Al Asfoor and Mr. Mohamed Sadiq Al Rahma and look forward to their contributions towards building on the Bank's momentum and upholding its strong governance standards. The Committees of the Board were reconstituted by the year end; both the Board Audit Committee and the Nominating and Remuneration Committee are headed by independent directors.

## CHAIRMAN'S STATEMENT (Cont'd)

### Looking Ahead

As I write this communique, the heightened geopolitical tensions in Eastern Europe, are the pressing source of concern. The growing uncertainty and the disruption to commodity markets, are sending shockwaves to the global economy, which is yet to fully recover from the COVID-19 pandemic. The war has ushered a period of several unknowns for global trade, financial markets, the operations of multinational corporations, credit exposures, and operational risk caused by the ever-growing list of sanctions.

The conflict's financial impact will depend on its length and the scope of the sanctions imposed. Many of the lingering supply chain issues caused by the pandemic are likely to be aggravated, which will lead to further spikes in energy and food prices. As such, Central Banks are caught in the conundrum of opting to control inflation through tightening monetary measures, or stimulating growth without a spate of rate increases. If advanced economies move towards quantitative tightening, it is likely that risks to financial stability, capital flows pertaining to emerging markets, currencies, and fiscal positions will emerge.

Economic forecasts for GCC countries are varied with some analysts projecting GDP growth to rise to 6.1 percent in 2022, largely due to higher oil prices, increased oil production, and a renewed momentum to diversify revenue from other sources. The introduction of corporate tax, the increase in VAT rates, and a focus on sustainable investments are all measures taken towards this direction.

We approach 2022 with cautious optimism, hopeful that global recovery is consolidated. Although these global developments are outside our control, the Board and Management will continue to review the Bank's strategy and portfolio mix and identify additional strategies to further strengthen the balance sheet, increase liquidity,

and be more prudent on costs.

### Acknowledgements

On behalf of the Board of Directors, I gratefully acknowledge the guidance and support that we continue to receive from the Central Bank of Bahrain, Bahrain Bourse, and Ministry of Industry, Commerce & Tourism, as well as from the other regulatory and supervisory authorities in the different jurisdictions where UGB and its subsidiaries operate.

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 constant pursuit of excellence and success..

**Masaud M. J. Hayat**

Chairman of the Board



## BOARD OF DIRECTORS

### **Masaud M. J. Hayat, Executive Director**

Chairman of the Board of Directors

Chairman of the Executive Committee

Bachelor Degree in Economics, Kuwait University

High Diploma in Banking Sciences, Institute of Banking Studies, Kuwait.

Over 45 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 N.A - 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 35 years experience in the financial sector

Other Positions Held:

- Vice Chairman, Kuwait Projects Company. (Holding) - Kuwait
- Vice Chairman, Gulf Insurance Group - Kuwait
- Vice Chairman, Jordan Kuwait Bank - Jordan
- Vice Chairman, Mashare'a Al Khair Est. - Kuwait
- Vice Chairman, United Gulf Holding Company BSC - Bahrain
- Vice Chairman, Saudia Dairy & Foodstuff Co. (Sadafco) - Saudi Arabia
- Board Member, Gulf Egypt for Hotels & Tourism Co. - Egypt
- 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 47 years experience in the financial sector

Other Positions Held:

- Deputy Group Chief Executive Officer, Kuwait Projects Company (Holding) - Kuwait
- Chairman, United Gulf Management, Inc. - USA
- Chairman, United Gulf Management Ltd. - UK
- Board Member, Burgan Bank - Kuwait

## BOARD OF DIRECTORS

- Board Member, United Gulf Investments Ltd. - Cayman Islands
- Trustee, American University of Kuwait - Kuwait
- Member, The Educational Council of the Massachusetts Institute of Technology, Cambridge, USA
- Past President of the Arab Bankers Association of North America, New York, USA

**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 25 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

**Mohamed Haroon, Independent Director**

Member of the Board of Directors  
Chairman of the Board Audit Committee (until 26 December 2021)  
Member of the Nominating & Remuneration Committee (since 26 December 2021)

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

Over 52 years experience in the financial sector

Other Positions Held:

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

**Jawad Al Asfoor, Independent Director**

(effective 8 April 2021)  
Chairman of the Board Audit Committee (effective 26 December 2021)  
Member of the Nominating and Remuneration Committee

Diploma Certificate in Accounting and Finance from the Association of Certified Chartered Accountants (ACCA)  
Diploma Certificate in Islamic Banking & Finance.

Over 40 years of experience in the financial sector

Seasoned Finance professional with previous positions including:

- Head of Treasury, United Gulf Bank B.S.C. (C)
- Vice President – Sales and Marketing, Liquidity Management Centre
- Director – Islamic Banking- Capital Market , Credit Agricole Indosuez
- Senior Dealer – Corporate & Islamic, BNP Paribas
- Chief Dealer – Banque Indosuez

**Mohamed Sadiq Al Rahma, Independent Director**

(effective 26 December 2021)  
Member of the Nominating and Remuneration Committee

Chartered Financial Analyst (CFA) Charterholder

Master of Science in Finance and Accounting (Distinction) – London, United Kingdom

Bachelor of Arts in Management – London, United Kingdom

Over 7 years of experience in the financial sector with experience including:

- Strategic Investments – Bahrain Mumtalakat Holding Company B.S.C.(c)

## CHIEF EXECUTIVE OFFICER'S REPORT



I am pleased to report that 2021 was an exceptional year for UGB. Driven by its core asset management and investment banking activities, the Bank posted an extremely strong financial performance of US\$ 14.9 million in net profits to the shareholder.

Driven by synergies from the acquisition of Global Investment House in 2019, and recoveries in global financial markets from the COVID-19 related downturn, KAMCO recorded a net profit of US\$ 34.1 million, growing AUM's by 7 percent to US\$ 14.8 billion in 2021. This comes on the back of an eagerly anticipated, albeit uneven, global economic recovery from the COVID-19 pandemic.

Ensuring the health and well-being of employees and maintaining a safe workplace remained key priorities for UGB in 2021. With stringent health and safety measures enforced at the office and remote working protocols implemented when necessary, the Bank adapted to the challenging circumstances and mitigated operational risks. Using multiple channels, the Bank maintained frequent communication with team members, keeping them abreast of all government guidelines and public health advice as well as updates to work from home policies.

The IT department continued to play a crucial role in 2021, ensuring that day-to-day operations ran seamlessly despite the ongoing challenges of the pandemic. Among the department's key achievements were conducting a comprehensive security assessment, including a vulnerability assessment and penetration testing of IT systems; revamping disaster recovery and business continuity functions; upgrading the core banking solution; and migrating the Bank's disaster recovery to the Cloud.

UGB also took steps to ensure compliance with the latest non-COVID regulations issued by the Central Bank of Bahrain. In 2021, the Compliance Department's Risk Nucleus Compliance System was further customised to enhance classifications in the status of rules, capture more details, and increase the content of certain reports. The enhancements were successfully deployed to provide greater operational resilience and a more robust and informative compliance tool. Training and development remained key areas of focus throughout the year, with both physical and virtual training programmes taking place.

Global equity markets closed 2021 a little short of a record high, marking the third consecutive year of gains bolstered by more than 20% gains in US and European markets. The global index showed consistent improvements for the first nine months the year, while declines came mainly towards the year-end led by rising inflation and talks of rolling back incentives that were announced during the pandemic, including record low interest rates and sector-specific targeted schemes.

GCC equity markets outperformed global peers with a yearly return of 34.9% in 2021 for the MSCI GCC Index, which recovered fully from the COVID-19 and oil-led decline of 37% in 2020. All GCC markets reported gains during the year, but the Abu Dhabi ADX was the highlight with one of the highest returns globally at 68.2%, further supported by Saudi Arabia's 29.8% returns, driven by the listing of several state-owned firms amid a climate of economic optimism and large-scale projects.

However, countries are emerging from the crisis with challenges that reflect their pre pandemic strengths and weaknesses. We approach this year with cautious optimism, hopeful that global recovery is consolidated. Of course, this depends on how COVID-19 is managed, as well as global responses to the threat of inflation.

The Board and Management will continue to review the Bank's strategy and portfolio mix, identify additional strategies to further strengthen the balance sheet, increase liquidity, and be prudent on costs.

In conclusion, I express my sincere appreciation for the continued guidance, support, and encouragement of our Board of Directors, including two outgoing Independent Directors, who I would like to thank for their years of service. Working alongside our two new Independent Directors, I am confident we can build on the momentum and reach even greater heights in the years to come. I also thank our clients for their continued trust and confidence, and our Management and staff for their exemplary performance.

## EXECUTIVE MANAGEMENT



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



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

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 25 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 Price Waterhouse 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.

Mr. Alqumaish joined UGB in September 2001. He is a banking professional with more than 25 years regional, commercial and investment banking experience in internal auditing, risk assessment, compliance, corporate governance and quality assurance services with high executive and board-level exposure. 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 external advisory member to the Board committees of Gulf Bank Algeria – Algeria, and Bank of Baghdad – Iraq. Mr. Alqumaish is a Certified Internal Auditor (CIA) 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



**Syed Rehan Ashraf, FCA MBA**  
Senior Vice President,  
Chief Financial Officer

Mrs. Chandrasekhar joined UGB in 2008. She has over 33 years experience in the areas of compliance, AML, risk management, treasury, operations and internal audit. She holds an MBA degree from the University of Alberta, Canada as well as several professional qualifications. 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.

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 25 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



**Nirmal Parik, CFA MBA**

Senior Vice President, Head of Asset of Asset Management & Investment Banking

Mr. Al Arab joined UGB in 1994. He has 27 years experience in the field of operations, credit and risk management. 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, operations and risk management.

Mr. Parik joined UGB in 2007. He was appointed Head of Asset Management & Investment Banking in October 2015. He has more than 18 years of 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 & 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 25 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 13 years of experience in the Treasury department, where he was intrinsically involved in managing liquidity through Money Market, FX and Capital Market products. He has managed Investment portfolios and dealt in Sukuk, 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 most recently the Certificate in Quantitative Finance from CQF institute, UK.

## BUSINESS REVIEW

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

### Strategy and Business Overview

United Gulf Bank's (UGB) key strategic objective 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 support, infrastructure, and processes. The Bank works with strategic partners to create opportunities that position it 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. 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 mergers and acquisitions.

#### Private Equity

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

#### Corporate Banking

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 and Initiatives In 2021

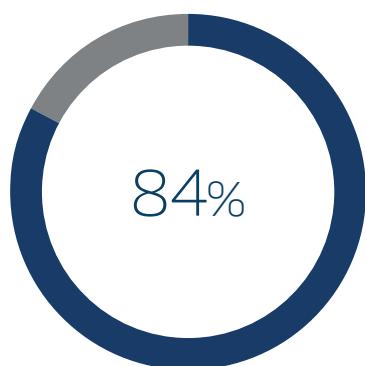
- The economic environment was encouraging in 2021 as the global economy recovered after the pandemic with the strongest post-recession expansion in 80 years. Driven by the exceptional performance of its subsidiaries and associates mainly due to post-acquisition integration synergies and high market growth, particularly KAMCO, the Bank witnessed a rebound in its financial performance with positive net income.
- The Bank also exited one of its prime properties in Boston, USA, achieving attractive returns, which further contributed to its positive performance.
- Assets under management with UGB stood at US\$ 14.8 billion at the end of 2021, compared with US\$ 13.6 billion at the end of the previous year.
- Due to the increased volatility in markets in recent years, mainly driven by pandemic induced disruption, UGB has started rebalancing its portfolio of core investments with a focus on fixed income / dividend yielding stocks. It has built a sovereign bond portfolio (T-bills in the GCC region) and plans grow this portfolio in the near future.

# BUSINESS REVIEW

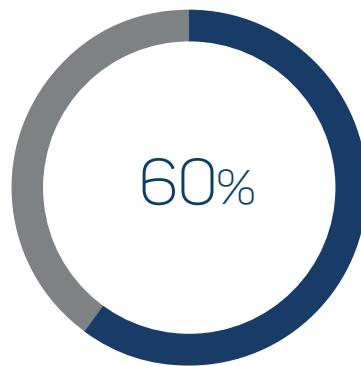
## UGH SUBSIDIARIES AND ASSOCIATES



### Asset Management & Investment Banking



United Gulf Financial Services - North Africa  
Asset Management, Tunisia



KAMCO Investment Company K.S.C.(Public)  
Asset Management, Kuwait

#### UGB subsidiaries

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

Established in 1998, KAMCO 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 2021 totalled US\$ 14.6 billion. UGB owns 60 per cent of KAMCO, which is listed on the Boursa Kuwait.

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 USA

UGRIL was incorporated in 2012. Through its wholly-owned subsidiary, Federal Street 176 Holdings, Inc., the Company had a 100 per cent ownership in a prime commercial real estate property located in the financial district of Boston, USA. This investment was exited in 2021.

# BUSINESS REVIEW

## Shared Services

### Treasury

In 2021, Treasury enhanced all liquidity metrics by strengthening the bank's inventory with high quality liquid assets (HQLA). This was achieved by acquiring the right set of sovereign investment grade debt instruments, and managing the bank's deposit base in terms of maturities and amounts. Moreover, this afforded its ability to work on global master repo agreements (GMRAs), fortifying all contingency funding plan scenarios. The department's access to liquidity in emergency situations was successfully tested. Treasury also identified and reduced costs arising from interest rate and foreign exchange exposures by selecting the right set of hedging instruments in specific tenor and amount requirements.

Backed by its IT infrastructure, Treasury improved performance by implementing specific protocols to optimise the delivery of all activities during high alert COVID-19 situations. The department also prepared itself to embark on guidelines for dealing with new interest rate benchmarks and reference rates due to the LIBOR transition away from LIBOR.

### Operations

During the year, UGB remained focused on ensuring the continuity of its back-office operations to safeguard against the impact of the pandemic. Operations also continued handling its functions efficiently and effectively, including the settlement of foreign exchange and money market transactions; handling payments and funding in coordination with Treasury; and facilitating transfers.

In collaboration with the Compliance Department, Operations established a database for the Bank's customers on a shared folder. The database is the repository for all documentation pertaining to customers' accounts, and has enhanced efficiency in documentation retrieval.

### Human Resources and Administration

Ensuring the health and well-being of employees and maintaining a safe workplace remained key priorities for UGB in 2021. With stringent health and safety measures enforced at the office and remote working protocols implemented when necessary, the Bank adapted to challenging circumstances imposed by the pandemic.

Using multiple channels, the Bank maintained frequent communication with team members, keeping them abreast of all government guidelines and public health advice as well as updates to work from home policies.

To support those working from home and maintain the Bank's high level of productivity, HR established structured daily check-ins, ensured clarity of job expectations, delivered regular feedback, and offered emotional support when required.

Training and development remained key areas of focus throughout the year, with both physical and virtual training

programmes taking place. Moreover, senior UGB team members continued to support the TradeQuest programme for budding, young students by giving presentations, mentoring and sharing their financial expertise.

### Information Technology

The IT department continued to play a crucial role in 2021, ensuring that day-to-day operations ran seamlessly despite the ongoing challenges of the pandemic. The department's key achievements included conducting a comprehensive security assessment, a vulnerability assessment and penetration testing of IT systems; revamping disaster recovery and business continuity functions; and upgrading the core banking solution.

Migrating disaster recovery data and processes to the Cloud was a major milestone, providing more robust and agile security to help ensure business continuity. In 2022, the IT department will continue to update and upgrade systems, and enhance automation, to streamline tasks, remove any bottlenecks, decrease the room for human error, and free up employees to focus on more valuable work.

### 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 and an administrative line to the Chief Executive Officer. 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 behaviour, and conflicts of interest, are encapsulated in the Bank's Compliance Charter, Compliance Manual, 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.

The Compliance Department is responsible for keeping abreast of new regulatory developments. Given the near-constant stream of regulatory revisions made by regulators in response to changes in the markets, economy, and technology, the Department's Risk Nucleus Compliance System plays an integral part in ensuring that there is proactive assessment, monitoring and testing. Its integrated email facility alerts departments of forthcoming regulatory deadlines and activities that they need to complete.

In 2021, the system was further customised to enhance the classifications in the status of rules, capture more details in the breach register, and increase the content of certain reports. The enhancements were successfully deployed to provide greater operational resilience and a more robust and informative compliance tool.

The Compliance Department's key risk and performance indicators were also updated based on the results of the Risk Compliance Self-Assessment (RCSA) exercise, which was conducted jointly with the Bank's Credit and Risk

# BUSINESS REVIEW

Department. The indicators play an important role in helping the department to maintain the appropriate infrastructure, controls, systems, procedures, and training to mitigate compliance risk.

The Department presents a comprehensive Compliance Report presented to members of the Board Audit Committee and the Risk and Compliance Committee every quarter.

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.

The Compliance Department is responsible for ensuring that all ad hoc requests for information from regulatory authorities are responded to immediately, and that corrective action is taken if 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.

In 2021, the MLRO conducted virtual AML training using recent case studies, and also covered the changes in AML regulations. The virtual session was saved on the intranet, along with the training slides and all employees had to submit a short quiz based on the contents of the training. The results demonstrated that staff are adept at identifying and reporting suspicious transactions.

UGB follows prudent practices related to Customer Due Diligence and Ultimate Beneficial Ownership, using the Refinitiv World Check screening tool, and Know Your Customer (KYC) principles. The Bank also uses Refinitiv's MediaCheck services to monitor adverse media pertaining to its customers.

During the year, the MLRO completed risk assessments on all the Bank's customers using the Board-Approved risk matrix on the four dimensions of customer profile, products, services, and channels. 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 annually. In line with regulatory requirements, the independent auditors for UGB and its main subsidiaries review the AML framework each year. These were submitted to the regulators within the stipulated deadline of September 2021. There were no adverse findings.

## Internal Audit & Quality Assurance

During 2021, the Internal Audit department continued to provide assurance that the Bank's internal control, risk management, compliance and governance processes operate effectively.

The department marked several accomplishments during the year, including achieving the audit plan's objectives while continuing to deliver quality reporting to the Board/ Board Audit Committee and Executive Management. It also facilitated the implementation of annual corporate governance framework requirements, specifically procedures related to the Board of Directors and its Committees.

Internal Audit also played a proactive role in evaluating controls in high-risk areas such as the IT Cyber Security framework, including the review of the IT & Network Security Strategy, back-up policy, and the monitoring of cyber and network security issues. Alongside this, the department continued to provide support to the Bank's subsidiaries, associates, and number of group companies.

Changes to regulatory requirements in the areas of risk management and compliance necessitated detailed interval reviews and assessments, which addressed major risks and challenges. This demonstrates the vital role that the department serves.

Through proper planning and proactively prioritising risks, the department also overcame the challenges of managing the volatile COVID-19 situation while maintaining a high level of quality audit assurance services.

The Internal Audit team has effective and direct working relationships with UGB's Board of Directors, Board Audit Committee, and Executive Management. Accordingly, the department assisted in completing the process of appointing two new independent directors to the Board in line with regulatory requirements.

In line with the Bank's ongoing digital transformation, an automation project was implemented to refine audit reporting and enhance the efficiency of internal audit reporting and documentation. This project's impact on further improving the department's performance will become more apparent in 2022.

## Quality Assurance

In carrying out its Quality Assurance responsibilities, Internal Audit adopts a consultative role in working with Executive Management, as well as 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.

Internal Audit was involved in key quality assurance assignments in 2021, which included the review of various departments' strategies and annual plans, periodic disaster recovery testing, corporate governance policies and guidelines, regulatory reporting structure and procedures. It also provided feedback on the cybersecurity regulatory framework gap analysis and participation in Board Audit Committee meetings of key group entities.

# FINANCIAL REVIEW

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 2021.

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 2021, 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 2021. The existing and anticipated effects of the (COVID-19) 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.

The Government of the Kingdom of Bahrain has announced various stimulus programmes to support businesses. The Bank received, for certain months, financial assistance in the form of reimbursement of a portion of staff costs and waiver of utility charges during the year ended 31 December 2020 amounting to US\$ 524 thousand. Further, the Government of the State of Kuwait has announced similar programmes to support business by reimbursing portion of the salaries paid to the Kuwaiti employees. As a result, the Bank's subsidiary, KAMCO Invest received reimbursements amounting to US\$ 864 thousand (2020: US\$ 703 thousand) during the year.

## Revenues

UGB's total revenues were US\$ 114.0 million in 2021 compared with US\$ 55.5 million in 2020, as indicated below:

Total Revenues (US\$ million)	2021	2020
Financial Associates	8.3	(3.9)
Other Associates	-	(1.8)
Real Estate	10.7	(0.2)
Management fees from fiduciary activities	46.9	42.8
Credit related fees and commission	20.5	11.1
Advisory fees	3.2	0.6
Interest Income	7.0	5.9
Unrealised (loss) gain on investments carried at fair Value through profit or loss	8.3	(6.8)
Realised (loss) gain on investments carried at fair Value through profit or loss	6.9	(0.8)
Dividend income	1.9	4.5
Gain on sale of investments	-	0.4
Gain due to reclassification of investments	-	0.6
Gain on sale of associates	-	1.4
Other income	1.7	0.1
Foreign currency translation (losses) gains - net	(1.4)	1.6
<b>Total</b>	<b>114.0</b>	<b>55.5</b>

# FINANCIAL REVIEW

During 2021, the increase in total revenues was mainly attributable to recovery of global and regional markets from COVID-19. Gains comprised of trading income, gains on real estate investments and higher management and incentive fees from compared to 2020.

## 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 gain of US\$ 8.3 million compared with a loss of US\$ 3.9 million in 2020. The increase was mainly on account of gains recorded by KAMCO Investment Fund following the recovery in the regional stock markets from COVID-19.

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

Revenue - Financial Associates (US\$ million)	2021	2020
Kamco Investment Fund	8.4	(2.8)
Manafae Investment Company	(0.1)	(1.1)
<b>Total</b>	<b>8.3</b>	<b>(3.9)</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 increase is mainly on account of realised gains of US\$ 5.5 million from the sale of the property in Boston, along with unrealised fair value gains from Kuwait based properties recorded during the year.

Revenues - Real Estate (US\$ million)	2021	2020
KAMCO Real Estate Yield Fund	(0.3)	(1.4)
N.S. 88 P.C.	(0.2)	(1.3)
Rental income	4.5	6.3
Unrealized gain on investment properties	1.2	(3.8)
Gain on sale of investment property	5.5	-
<b>Total</b>	<b>10.7</b>	<b>(0.2)</b>

## Fees and Commission Income

### Credit-related fees and commission.

Credit-related fees and commission income increased to US\$ 20.5 million in 2021 from US\$ 11.1 million in 2020 due to of increased deals.

### Management Fees from Fiduciary Activities.

Management fee income increased to US\$ 46.9 million in 2021 from US\$ 42.8 million in 2020.

## Advisory Fees

Advisory fee income increased to US\$ 3.2 million in 2021 from US\$ 0.6 million in 2020.

## Interest Income

The main source of interest income for KAMCO and UGB was derived from loans and receivables. Interest income increased from US\$ 5.9 million in 2020 to US\$ 7.0 million in 2021.

## Trading gains / losses

Trading positions recorded a gain of US\$ 15.2 million in 2021 compared with a loss of US\$ 7.6 million for 2020. This is largely due to the recovery of regional markets from the impact of COVID 19. Trading losses in 2020 resulted from MTM losses on investments listed on regional stock exchanges, mainly The Boursa Kuwait.

## Dividend Income

Dividend income decreased to US\$ 1.9 million in 2021 compared with US\$ 4.5 million in 2020, mainly from KAMCO's investments, as losses incurred in 2020 limited investee companies' ability to distribute dividends.

## Foreign Currency Translation gains

Foreign currency translation losses of US\$ 1.4 million were recorded in 2021 compared with gains of US\$ 1.6 million in 2020. Losses were mainly due to depreciation of the Kuwaiti Dinar against the US\$ by 1% in 2021 compared to the appreciation of 1% in 2020.

## EXPENSES

### Interest Expense

UGB's interest expense decreased from US\$ 17.9 million in 2020 to US\$ 14.5 million in 2021. Key contributors to this decrease were the repayment of certain higher cost deposits from banks in 2021, and the overall decrease in LIBOR rates.

### Operating Expenses

Operating expenses increased by 14% to US\$ 65.4 million in 2021 compared with US\$ 57.5 million in 2020, largely due to of incentive fee and bonus accruals at KAMCO for front office deals concluded during 2021.

Salaries and benefits increased to US\$ 46.1 million (2020: US\$ 34.5 million). General and administration expenses decreased to US\$ 19.3 million (2020: US\$ 23.0 million).

Operating expenses (US\$ million)	2021	2020
Salaries and benefits	46.2	34.5
General and administrative expenses	19.3	23.0
<b>Total</b>	<b>65.4</b>	<b>57.5</b>

# FINANCIAL HIGHLIGHTS

## Taxation

A net tax expense of US\$ 3.3 million was recorded in 2021 compared with an income of US\$ 0.9 million in 2020. The tax expense for 2021 related mainly to capital gains tax on the sale of 176 Federal Street.

## Provisions

Provisions for expected credit losses of US\$ 0.9 million in 2021 related to provisions for other receivables at the KAMCO level, compared with a loss of US\$ 3.8 million in 2020.

Provisions for losses (US\$ million)	2021	2020
Provision for losses against unfunded participation	-	2.6
Impairment losses against investments	-	0.2
Expected credit losses (provision) reversals	0.9	1.0
<b>Total</b>	<b>0.9</b>	<b>3.8</b>

## Net Income Attributable to Parent

The Group recorded a net income attributable to parent in 2021 of US\$ 14.9 million compared with a net loss of US\$ 19.5 million in 2020.

## CONSOLIDATED BALANCE SHEET

### Consolidated Assets

UGB's consolidated assets stood at US\$ 769.4 million at 31 December 2021 compared with US\$ 746.5 million at the end of 2020. The increase is mainly on account of fair valuation gains on the Group's investments in trading, non-trading and associates. A comparison of the two years is provided below:

Assets (US\$ million)	2021	2020
Demand and call deposits with banks	131.6	111.0
Placements with banks	63.4	72.5
Investments carried at fair value through profit and loss	93.2	71.8
Investments carried at fair value through other comprehensive Income	104.2	120.1
Investments carried at amortised cost	25.2	-
Loans and receivables	33.5	33.1
Other assets	54.3	62.7
Investments in associates	83.4	64.7
Investment properties	100.6	98.7
Property and equipment	14.8	47.7
Goodwill and other intangible assets	65.2	64.2
<b>Total</b>	<b>769.4</b>	<b>746.5</b>

## Demand, Call Deposits and Placements with Banks

Demand, call and placements with banks increased to US\$ 195.0 million in 2021 compared with US\$ 183.5 million in 2020. These mainly include nostros and time deposits with banks. Total liquid assets comprising cash, deposits, liquid securities and other assets, represented 38.0% of the balance sheet as at 31 December 2021 (2020: 38.2%).

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

Investments carried at fair value through the statement of income were US\$ 93.2 million in 2021 compared with US\$ 71.8 million in 2020. This portfolio mainly comprises quoted equities, debt securities, and unquoted managed funds designated as fair value through statement of income.

## Non-trading Investments

Non-trading investments were US\$ 104.2 million in 2021 compared with US\$ 120.1 million in 2020. The total portfolio mainly comprises unlisted equities of US\$ 99.8 million (2020: US\$ 117.6 million).

The major investments classified under the non-trading investments portfolio as at 31 December 2021, 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 Borsa Kuwait 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.

# FINANCIAL HIGHLIGHTS

## Loans and Advances

Loans and advances in 2021 amounted to US\$ 33.5 million (2020: US\$ 33.1 million).

Details of the loan book are as follows:

Loans and Advances (US\$ million)	2021	2020
Loans to customers	37.5	37.4
Staff loans	4.8	4.7
Gross loans and advances	42.3	42.1
Less: Provision for impairment	(8.7)	(9.0)
<b>Total</b>	<b>33.6</b>	33.1

Past due and impaired loans amounted to US\$ 8.4 million (2020: US\$ 8.5 million) against which specific provisions of US\$ 8.4 million (2020: US\$ 8.5 million) were recorded. Collective provisions of US\$ 0.3 million were carried in the books against performing loans and advances as of 31 December 2021 (2020: US\$ 0.5 million).

## Investments in Associated Companies

Investments in UGB's associated companies increased to US\$ 83.4 million in 2021 compared with US\$ 64.7 million in 2020. The Group's associated companies contributed a net income of US\$ 7.7 million in 2021 (2020: net loss of US\$ 8.4 million), with the key contributor being Kamco Investment Fund (income of US\$ 8.4 million compared to US\$ 2.8 million loss in 2020).

## Investment Properties

UGB's investment properties mainly comprise real estate properties in Kuwait and the Kingdom of Bahrain. Rental income on these investments amounted to US\$ 4.5 million (2020: US\$ 6.3 million). During the year, the Group was able to successfully exit the real estate investment in Boston at a net gain of US\$ 5.5 million.

## Consolidated Liabilities

UGB's consolidated liabilities remained consistent at US\$ 452.7 million in 2021 down slightly from US\$ 453.6 million in 2020. A breakup of liabilities is as follows:

Liabilities (US\$ million)	2021	2020
Due to banks and other financial institutions	149.6	167.5
Deposits from customers	70.2	42.1
Loans payable	16.5	32.9
Long term bonds	132.4	131.5
Other liabilities	84.0	79.6
<b>Total</b>	<b>452.7</b>	453.6

## Total Equity

The issued and fully paid up share capital as at 31 December 2021 comprised 232,263,041 shares of US\$ 0.50 each (2020: same). As at 31 December 2021, UGB's equity increased to US\$ 316.7 million (2020: US\$ 293.0 million).

Equity (US\$ million)	2021	2020
Share capital	116.1	116.1
Share premium	5.7	5.7
Statutory reserve	53.5	52.0
General reserve	33.3	318
Fair value reserve	(13.5)	(10.7)
Foreign currency translation reserve	(4.6)	(4.7)
Retained earnings	0.3	(9.0)
<b>CAPITAL AND RESERVES ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT</b>	<b>190.8</b>	<b>181.2</b>
Perpetual Tier 1 capital	33.0	33.0
Non-controlling interests in equity	92.9	78.8
<b>TOTAL EQUITY</b>	<b>316.7</b>	293.0

## 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\$ 3.5 million as at 31 December 2021 (2020: US\$ 2.6 million). Further details regarding off-balance sheet commitments are provided in Note 27 to the Consolidated Financial Statements for the year ended 31 December 2021.

## Capital Adequacy

UGB's consolidated capital adequacy ratio of 19.7% at 31 December 2021 (2020: 17.5%) under the Basel III regulations, mandated by the Central Bank of Bahrain, was above the minimum requirement of 12.5%.

Capital adequacy (US\$ million)	2021	2020
Capital base:		
Tier 1 capital	181.8	160.3
Tier 2 capital	16.6	15.6
Total capital base (a)	198.4	175.9
Credit risk weighted exposure	874.3	861.7
Market risk weighted exposure	6.6	48.1
Operational risk weighted exposure	127.4	97.6
Total risk weighted exposure (b)	1,008.3	1,007.4
Capital adequacy (a/b * 100)	19.7%	17.5%
Minimum requirement	12.5%	12.5%

# RISK MANAGEMENT REVIEW

## 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.

The ongoing COVID-19 pandemic required an in-depth review of the existing risk management structure in terms of effectiveness and agility. Due to remote working and threats of operational loss and cyber-attacks, operational risk and cyber security risk were key areas of focus in 2021.

UGB's robust Risk Management framework reduce the impact and stress that may have adversely affected the Bank's Business and Operations. Backed by strong internal governance, the Bank addressed potential challenges that the pandemic imposed and continued to prepare action plans to mitigate each risk.

Compliance with all CBB Rulebook modules/directives and adherence to the rules and guidelines remains a top priority in 2022. The Department assess and address vulnerabilities in specific areas by deepening the understanding and monitoring of associated risks and developing policies to address them where as appropriate.

## Key developments in 2021

- The Credit & Risk Management Department continued assessing the effects of COVID-19 and preparing mitigation strategies for emerging risks.
- It tested the Contingency Funding Plan to ensure our liquidity position can be restored during a crisis.
- It achieved compliance with the Central Bank of Bahrain's regulatory requirements covering capital and liquidity ratios, internal capital adequacy assessment, and stress testing.
- It developed a pan-bank-wide Recovery Plan to proactively identify, manage, and recover from potential adverse conditions.
- The Department reviewed and updated risk-related policies and procedures to incorporate revised regulatory requirements.

## 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) comprising senior management 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 and is a smooth transition towards complete adherence to compliance with provisions of the New Capital Accord and other regulatory requirements. During 2021, the Committee met four 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.ugbbah.com](http://www.ugbbah.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.ugbh.com](http://www.ugbh.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.

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

## RISK MANAGEMENT REVIEW

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\$ 8.4 million as at 31 December 2021 (2020: US\$ 8.5 million) against which a specific provision of US\$ 8.4 million exists as at 31 December 2021 (2020: US\$ 8.5 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 29(c) of the Consolidated Financial Statements.

### 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 29(d) 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 29(d) 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

# RISK MANAGEMENT REVIEW

monitors the effectiveness of the hedges.

## 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 an 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 on a pro-active basis.

## 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

# RISK MANAGEMENT REVIEW

UGB's asset and liability structure as at the end of 2021 is detailed in Note 29(e) of the Consolidated Financial Statements. As of this date, 51% of total assets and 67% of total liabilities were contracted to mature within one year (2020: 49% and 65% 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.

## 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 actions as and when warranted..

## 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.

# RISK MANAGEMENT REVIEW

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 and other Risks
- Single Name Concentration Risk
- Geographic Concentration Risk

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

- 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 REVIEW

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

## 2. Profile and ownership structure of the Bank

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

As at 31 December 2021, the total paid up capital of the Bank was USD 116,131,520.5 with the shareholding as follows:

Name (Arabic)	Name (English)	Nationality	Number of Shares	Ownership (%)
محمد هارون نورالرحمن عبدالله خان	Mohammad Haroon Nur Rehman Abdlla Khan	Bahraini	1	N/A
شركة الخليج المتجدد 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.

The ultimate controller of the Bank is Kuwait Projects Company (Holding) K.S.C.P. (KIPCO). It holds 97.9% of UGH's shares directly and indirectly through its subsidiaries as follows:

Shareholders	Ownership (%)
Kuwait Projects Company (Holding) K.S.C.P.	60.2%
Overland Real Estate Company W.L.L.	21.2%
Burgan Bank K.S.C.P.	9.9 %
United Industries Company K.S.C.C.	6.6%
<b>Total</b>	<b>97.9%</b>

## 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.' As at year end 2021, UGB's Board members met this condition as three out of seven directors i.e., 42.8% were independent. The composition of UGB's Board of Directors is indicated below:

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

In January 2020, the CBB introduced a rule whereby any member of the Board of Directors who had served three

## CORPORATE GOVERNANCE REVIEW

consecutive terms would no longer be qualified to be an independent director. Consequently, at the AGM held on 31 March 2021, the shareholders approved to elect two new independent directors to replace two of the Bank's long standing members-Mr Mubarak Al Maskati and Mr Bader Al Awadhi. The Chairman stated at the AGM that an independent Board member had been identified by the Bank and that relevant regulatory approvals were being sought. Mr. Bader Al Awadhi resigned from the Board on 30 March 2021 and was replaced by Mr. Jawad Al Asfoor after the CBB gave its no objection to his appointment on 8 April 2021.

As mentioned by the Chairman at the AGM, UGB requested the necessary regulatory approvals to extend the term of Mr. Mubarak Al Maskati as an independent Director, in order to facilitate the process of identifying his replacement. An extension until 31 July 2021 was given by the CBB. Due to the disruption caused by COVID 19, the process of identifying potential members took over five months. Renewed efforts made by Mr. Al Maskati and members of the NRC to evaluate candidates, resulted in the committee recommending Mr. Mohamed Al Rahma as an independent Board member. After the receipt of the CBB's no objection, the Board accepted the resignation of Mr. Maskati and appointed Mr. Al Rahma effective 26 December 2021. The Bank was hence compliant with the rules related to independent members, as at year end 2021.

All the independent Directors of UGB are required to furnish a declaration at the time of their appointment, as also annually, that they meet the criteria of independence. These declarations were last reviewed by the Bank's Nominating and Remuneration Committee (NRC) in February 2022. 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 and has not served over three successive terms as an independent director. 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. The effective cap of a maximum of two Directorships of banks inside Bahrain is hence maintained. UGB's Board members also meet the criteria that no two directorships of licensees within the same category should be held by any Board member, and that no person should hold more than three directorships in public companies in Bahrain.

The CBB Rulebook and the Code of Corporate Governance (Code) requires that the Chairman of the Board should be an independent Director. The Chairman was re-elected to the Board of Directors at the AGM held in September 2020. Approvals on his position were received from the Wholesale Banking Directorate of the CBB on 22 September 2020. It should be noted that UGB's Chairman – Mr. Masaud J. Hayat has been an Executive Board Director of the Bank for the past 32 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

The following Directors were last elected to UGB's Board of Directors at the Ordinary General Meeting held on 24 September 2020.

Sr.	Name	Position
1	Mr. Masaud J. Hayat – Chairman	Executive Director
2	Mr. Faisal Al Ayyar – Vice Chairman	Executive Director
3	Sheikh Abdullah Nasser Sabah Al Ahmad Al Sabah	Executive Director
4	Mr. Samer Khanachet	Executive Director
5	Mr. Mohammed Haroon	Independent Director

Independent Directors (New Appointment)

6	Mr. Jawad Al Asfoor	Following receipt of regulatory approval, he was appointed as a Board member on 8 April 2021.
7	Mr. Mohamed Al Rahma	Following receipt of regulatory approval, he was appointed as a Board member on 26 December 2021;

# CORPORATE GOVERNANCE REVIEW

Each term of the Board of Directors consists of three years. All seven members are hence approved by the CBB to serve as Directors until their current term ceases on the date of the AGM that is scheduled for March 2023.

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.

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 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. During 2021, this process was followed for Mr. Al Asfoor and Mr. Al Rahma.

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. In the case of Mr. Al Asfoor and Mr. Al Rahma, they were appointed unanimously as there was no other candidates.

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 2021, the attendance requirement for Board meetings was met by all members.

## 3.3. Board Induction Policy

UGB's Board of Directors approved the Directors' Induction Policy that requires each new Director to receive a formal and tailored induction with respect to UGB's vision, strategic direction, and core values including ethics, corporate governance practices, financial matters and business operations. The familiarisation is aimed at ensuring that the new Director meets with the Bank's Senior Management, and that he/she is provided with the necessary documents, brochures, reports and internal policies. It is also in line with the CBB's requirement that the Board of Directors should be effective and informed.

The Charter of the Nominating & Remuneration Committee states that the Nominating & Remuneration Committee is responsible for the preparation of induction materials and orientation sessions for new Directors, in consultation with senior management and with the Board Secretary. Induction materials were provided to both Mr. Al Asfoor and Mr. Al Rahma after their signed appointment letters were received.

## 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;

# CORPORATE GOVERNANCE REVIEW

- 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. During 2021, a concerted effort was made to expand the content of minutes to include additional agenda items and a detailed commentary of Board deliberations to ensure that minutes documented were comprehensive and complete. As at the date of this report, the Bank is in the process of updating its strategy in line with the requirements of the CBB. This will be submitted for approval to the Board in due course.

During 2021 the Board of Directors led by the Chairman, made efforts to update the Bank's strategy taking into account the challenges caused by the repercussions of Covid 19 on the economic outlook and financial markets. This was submitted to the CBB on 15 August 2021. The CBB voiced their requirement for an enhanced strategy document in their annual Prudential Meeting and provided time until March 2022 to submit this. It is envisaged that their requirements will be met during the current year.

## 3.5. Board Meetings

The travel restrictions, health concerns and safety measures implemented by Governments as part of their policies to tackle the spread of COVID 19 resulted in Board meetings being held 'virtually' last year. This was notified to the CBB on 29 December 2021 and was duly acknowledged by them.

UGB's Directors met five times in 2021. The attendance record of the Directors at Board meetings is disclosed below:

Attendance	28 Feb 2021 (Virtual)	28 Mar 2021 (Virtual)	12 May 2021 (Virtual)	12 Aug 2021 (Virtual)	9 Nov 2021 (Virtual)
Masaud J. Hayat, Chairman	x	x	x	x	x
Faisal Al Ayyar, Vice Chairman	x	x	x	x	x
Sheikh Abdullah Nasser Sabah Al Ahmad Al Sabah	x	x	x	x	x
Samer Khanachet	x	x	x	x	x
Mubarak Al Maskati (Board member until 26 December)	x	x	x	x	x
Bader Al Awadhi (Board Member until 31 March)	x	x			
Mohammed Haroon	x	x	x	x	x
Jawad Al Asfoor (effective 8 April)			x	x	x

As Mr. Al Rahma was appointed as a Board member only on 26 December 2021, his presence at Board meetings will commence in 2022.

# CORPORATE GOVERNANCE REVIEW

In addition to the above meetings, four resolutions of the Board of Directors were passed through circulation on 8 April, 12 May, 12 August and 26 December 2021.

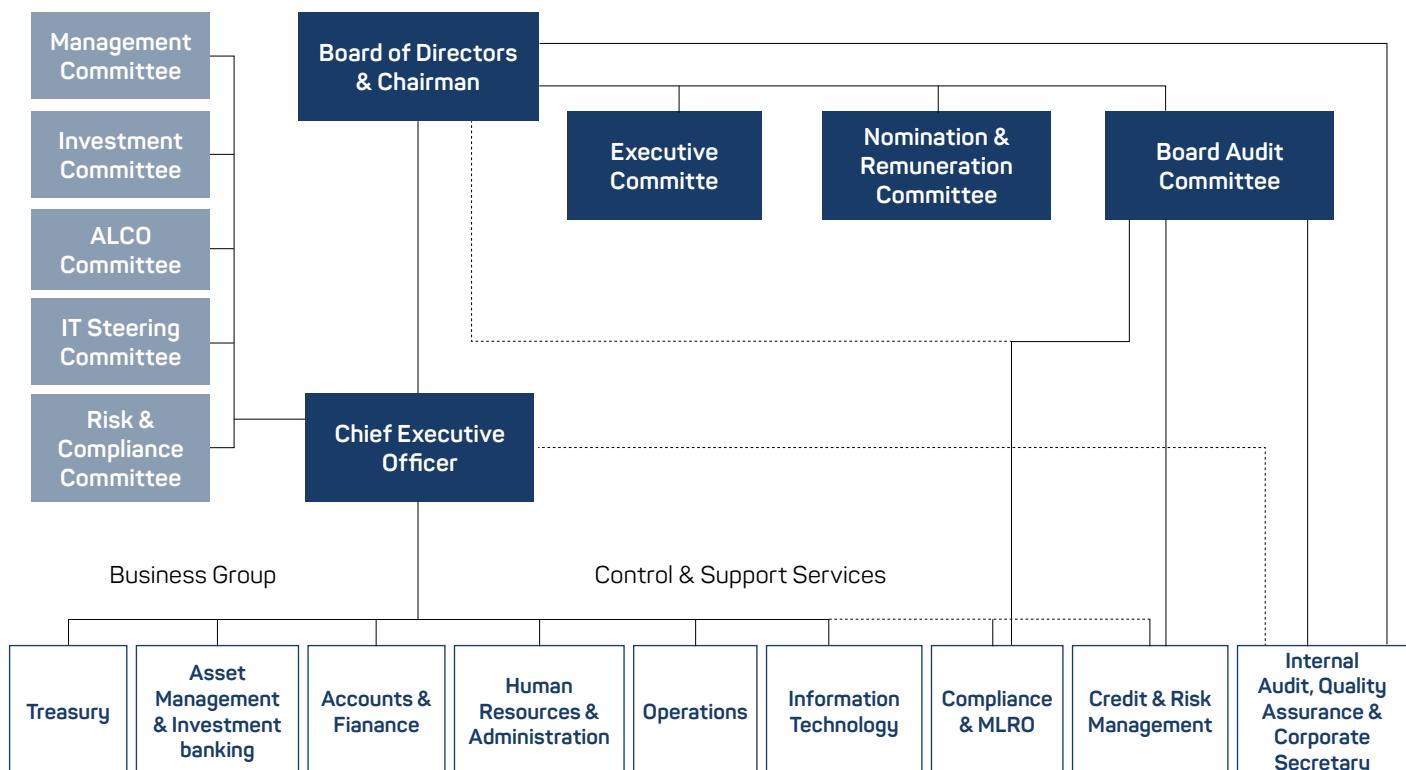
It is a regulatory requirement that individual Board members must attend at least 75% of all Board meetings in a given financial year to enable the Board to discharge its responsibilities effectively. This condition was met by all members. Informal communication is also maintained among Board members 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 2021, there were no cases of Independent Directors requiring 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 2022.

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 Chief Compliance Officer who is also the MLRO, has access to the Board of Directors and the Chairman for Anti Money laundering issues.



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

# CORPORATE GOVERNANCE REVIEW

## 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 their powers and duties during 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 Executive Committee Charter was last approved by the Board in February 2021.

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

The EC carries out the following responsibilities:

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

**Meetings :** The executive committee meetings and resolutions are held through circulation. Members sign the underlying memos constituting the decisions. During 2021, five resolutions were passed, details of which are given below.

Sr.	Date	Masaud J. Hayat Chairman	Faisal Al Ayyar	Samer Khanachet
1	14 February 2021	X	X	X
2	7 June 2021	X	X	X
3	10 July 2021	X	X	X
4	5 August 2021	X	X	X
5	19 September 2021	X	X	X

\*Two resolutions were approved on 19 September

## 3.6.2 Board Audit Committee (BAC)

**Composition:** During 2021, 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.

## CORPORATE GOVERNANCE REVIEW

The BAC was reconstituted on 26 December 2021 following the resignation of Mr. Maskati.. The constitution during 2021 was as follows:

Name	Term as a NRC member
Mr Jawad Al Asfoor	Chairman Effective 26 Dec 2021 onwards Member 8 April 2021 – 26 December 2021
Mr. Faisal Al Ayyar	Member throughout 2021
Mr. Mohammed Haroon	Chairman 1 Jan 2021 – 26 Dec 2021 Member – 26 Dec 2021 onwards
Mr. Mubarak Al Maskati	Member 1 Jan 2021 – 26 Dec 2021

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 Bank's overall internal controls framework, Risk management profile and compliance with regulations. As the scope of corporate governance falls within this purview, permission was obtained from the CBB on 13 March 2012, to merge the Board Audit Committee and the Corporate Governance Committee.

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

# CORPORATE GOVERNANCE REVIEW

Meetings : During the year 2021, the Board Audit Committee met virtually nine times; the attendance details are as follows:

Sr.	Date	Mohammed Haroon Chairman	Faisal Al Aygar	Mubarak Al Maskati
1	7 January 2021	X	X	X
2	4 February 2021	X	X	X
3	28 February 2021	X	X	X
4	25 March 2021	X	X	X
5	11 May 2021	X	X	X
6	11 August 2021	X	X	X
7	8 November 2021	X	X	X
8	16 November 2021	X	X	X
9	8 December 2021	X	X	X

The external auditors – Ernst & Young met with the BAC on 16 November 2021 and 8 December 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.

All members of the NRC are independent. The constitution of this Committee during 2021 was as follows:

Name	Term as a NRC member
Mr Mubarak Al Maskati	Chairman , 1 Jan 2021 – 26 Dec 2021
Mr. Mohammed Haroon	Member throughout 2021 Chairman effective 26 Dec 2021 onwards
Mr. Bader Al Awadi	1 Jan 2021 – 31 Mar 2021
Mr. Jawad Al Asfoor	8 April 2021 onwards
Mr. Mohammed Al Rahma	26 Dec 2021 onwards

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. During 2021 the NRC reviewed the biographical details, qualifications and criteria of independence of Mr. Jawad Al Asfoor and Mr. Mohammed Al Rahma, before recommending their candidacy to the Board. 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 emphasises is fairness and responsibility. The NRC also has the prerogative to compensate certain members of the UGB management team with variable remuneration, for additional responsibilities that they undertake for the Bank's parent UGH. This is under the terms of a service

# CORPORATE GOVERNANCE REVIEW

agreement signed between the two entities dated 24 August 2017.

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 four times during 2021; 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:

Sr.	Date	Mubarak Al Maskati	Mohammed Haroon	Bader Al Awadhi (Member until 30 March 2021)	Jawad Al Asfoor (Member from 8 April 2021)
1	11 February 2021	x	x	X	
2	5 March 2021	x	x	X	
3	25 March 2021	x	x	X	
4	29 November 2021	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.P. 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.

During 2021, the minutes of the committees were expanded to include more agenda items and details of the decisions taken by members on these matters.

## 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 overall performance of the Board, its members and its committees was deemed to be satisfactory for the year 2021. The results were reported to the shareholders at the Annual General Meeting held March 2022.

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. All Board members strive to the meet, training and professional development hours required by the Central Bank of Bahrain. For the year 2021 the requirements were met by only some of the Board members. The report on CPD hours completed by the Directors and staff will be submitted to the CBB as part of the statutory reports that are due by 31 March 2022.

# CORPORATE GOVERNANCE REVIEW

## 3.8. Directors' ownership and trading of shares during the year

During 2021, 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, hold any shares in UGB.

Name	31 December 2020	31 December 2021
Masaud M.J. Hayat (Chairman)	-	-
Faisal Hamad Al Ayyar (Vice Chairman)	-	-
Sheikh Abdullah Nasser Sabah Al Ahmad Al Sabah	-	-
Samer Khanachet	-	-
Mohammed Haroon	1	1
Jawad Al Asfoor	-	-
Mohamed Al Rahma	-	-

## 3.9. Directors' Remuneration

The remuneration policy of UGB is in consonance with the existing industry practice. In line with the regulatory requirements on transparency and disclosure, the details of the Directors' fees for the year ended 2021 is indicated below, approved on 10th February 2022:

Name	Board Remuneration paid for the year ended 2021 (in USD)				
	Remuneration of the Chairman and BOD	Total allowance for attending meetings	Salaries	Others	Total
First: Independent Directors:					
Mohammed Haroon	35,000				35,000
Jawad Al Asfoor	35,000				35,000
Mubarak Al Maskati	35,000				35,000
Bader Al Awadhi *					
Mohammed Al Rahma (effective 26 December 2021)					
Second: Non Executive Directors					
Third: Executive Directors:					
Masaud Hayat - Chairman	50,000				50,000
Faisal Al Ayyar – Vice Chairman	30,000				30,000
Sh Abdullah Nasser Al Sabah	20,000				20,000
Samer Khanachet	20,000				20,000
Aggregate	225,000				225,000

\*Resigned in Q1 2021.

None of the Directors received any other payments related to salaries, bonus, incentive plans, profit sharing, dividends, end of service benefits, compensation for technical, administrative and advisory works or any other monetary / non-monetary perks. Directors' remuneration is accounted as an expense as per International Financial Reporting Standards and CBB regulations.

# CORPORATE GOVERNANCE REVIEW

## 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.

The organisation chart was last approved by the NRC at its meeting held in February 2022 – this is submitted to the CBB annually by March, as part of the mandatory statutory reporting.

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:

#### 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 2021, this condition was met by all members of the management team.

#### 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

# CORPORATE GOVERNANCE REVIEW

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.

## 4.2. Management Remuneration Structure

As mandated by the MOICT and as disclosed in the Board of Directors' report submitted to the CBB, the details of the remuneration paid during 2021 to the six largest earning members of the executive team including the Chief Executive Officer and the Chief Financial Officer, were as follows:

Executive management	Total paid salaries and allowances (USD)	Total paid remuneration (Bonus)	Any other cash/ in kind remuneration paid during the year	Aggregate Amount Total (USD)
Top 6 remuneration for executives (2021)	2,258,422	9,231	297,594*	2,565,247

\*This was the variable compensation approved by the NRC of UGB for additional responsibilities undertaken by certain executives of the management team for the Bank's parent UGH. These services are rendered under the terms of a service agreement signed between the two entities dated 24 August 2017.

# CORPORATE GOVERNANCE REVIEW

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 2021 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 2022, the NRC reviewed the categorisation and independence and remuneration for staff.

## 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 2021, 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 recognises 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. During the year 2021, further details including an assessment of the experience, performance, skills, and planned training of identified successors/ departments, have been included by the Bank's Human Resources department, while finalising the plan with the CEO. The succession planning document was last reviewed by the NRC at its meeting held in February 2022.

## 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 REVIEW

## 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 utilising 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 requirements 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.

In accordance with the CBB's requirements, 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 2021, 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.

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.

In accordance with the CBB's requirements, an independent consultant's review of the Bank's Compliance framework and processes will be undertaken by June 2022. The results will be shared with the BAC and the Board of Directors.

## 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 updated policies and procedures that encompass liquidity requirements, operational risk, credit risk, reputational risk and Internal Capital Adequacy Assessment (ICAAP) in 2021.

# CORPORATE GOVERNANCE REVIEW

During the previous year, CRM achieved compliance with CBB regulatory requirements covering mainly the capital and liquidity ratios. It also strengthened its ICAAP and Stress testing by adding and modifying key risks, and developing a Bank-wide Recovery Plan and Contingency Funding Plan (CFP) to proactively identify, manage, and recover from potential adverse conditions. The CFP was tested to ensure the liquidity position could be restored during a crisis. CRM also updated the risk appetite framework with adding new key risk factors and modifying risk tolerance levels, reviewed the Credit Risk policy that included an additional section on Country and Transfer risk and completed the independent validations of Liquidity risk module and IFRS9. CRM continued assessing the situation and the effects of COVID-19 and preparing recommendations and action plans to be used as mitigation strategies for each risk faced by the Bank.

The focus of 2022 will be carrying out independent third party validation of risk management frameworks, to remain fully compliant with all CBB Rulebook modules/directives and timely compliance with all rules and guidelines. Risk and control self-assessment (RCSA), a process through which operational risks and the effectiveness of controls are assessed and examined will be updated with new risks, based on the latest CBB modules and their respective controls. Also, the new Credit Risk Module, which will be effective from 30th June 2022 will be implemented.

CRMD will continuously assess Liquidity and Regulatory ratios to make sure they maintain required thresholds and address vulnerabilities in specific areas that may have contributed to gaps in regulatory frameworks by deepening the understanding and monitoring of associated risks and by developing and updating policies to address them where appropriate. Regulatory and Business challenges due to COVID-19 will be continuously assessed and dealt with.

## 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 2021.

## 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 to the financial year 2021.

**Masaud M. J. Hayat**

Chairman.

# CORPORATE GOVERNANCE REVIEW

## 6. Disclosure on materially significant related party transactions

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

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

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

### RELATED PARTY TRANSACTIONS

Income from related parties	2021			
	Major shareholder US\$ 000	Associates US\$ 000	Other related parties US\$ 000	Total US\$ 000
Investment income - net	-	-	32	32
Fees and commissions - net*	2,000	2,294	9,264	13,558
Dividend income	-	-	653	653
Rental income	-	-	2,249	2,249
Interest income	-	-	3,391	3,391
Interest expense	(603)	-	(4,971)	(5574)
General and administrative expenses	-	-	(1,360)	(1,360)
Others	1	-	61	62

Balance Sheet Items of Related Parties				
	Major shareholder US\$ 000	Associates US\$ 000	Other related parties US\$ 000	Total US\$ 000
Demand and call deposits with banks	-	-	4,282	4,282
Placements with banks	-	-	24,231	24,231
Investments carried at fair value through profit and loss	-	-	2,893	2,893
Investments carried at fair value through other comprehensive income			65,594	65,594
Loans and receivables	-	-	6,956	6,956
Other assets	-	7,011	6,990	14,001
Due to banks and other financial institutions	-	-	(95,181)	(95,181)
Deposits from customers	(9,422)	(399)	(49,546)	(59,367)
Other liabilities	(9)	-	(2,534)	(2,534)
Perpetual Additional Tier 1 Capital	-	-	(10,000)	(10,000)
Off statement of financial position items:				
Letters of guarantee	-	-	150	150

## CORPORATE GOVERNANCE REVIEW

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

Owner	Category	Account Name	Amount
KAMCO	Fee and commissions	KIPCO	5,655
KAMCO	Fee and commissions	Kamco Investment Fund	2,095
UGB	Fee and commissions	United Gulf Holding	2,000
KAMCO	Fee and commissions	Gulf Insurance Group	1,799
UGB	Fee and commissions	Bank of Baghdad	1,226
KAMCO	Fee and commissions	Burgan Bank Turkey	599
KAMCO	Fee and commissions	Burgan Bank	505
UGB	Fee and commissions	Others (individually below US\$ 0.5 million)	904
KAMCO	General and administrative expenses	Shaheed Tower	(1,201)
KAMCO	General and administrative expenses	Gulf Insurance Group	(1,102)
UGB	General and administrative expenses	Others (individually below US\$ 0.5 million)	(220)
UGB	Interest expenses	Bank of Baghdad	(2,728)
UGB	Interest expenses	KIPCO	(1,562)
UGB	Interest expenses	United Gulf Holding	(603)
UGB	Interest expenses	Others (individually below US\$ 0.5 million)	(680)
UGB	Interest income	Panther Media Group	3,045
UGB	Interest income	Others (individually below US\$ 0.5 million)	346
UGB	Investment income	Commercial Tower	824
UGB	Investment income	Al Sharq Real Estate	745
UGB	Investment income	Chairman's Club	674
UGB	Investment income	Others (individually below US\$ 0.5 million)	690

### 7. Disclosure of Conflicts of Interest

During the financial year ended 2021 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 2021. All individual directors have complete access to UGB's Corporate Secretary.

# CORPORATE GOVERNANCE REVIEW

## 8. Disclosure and Transparency Policy

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

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

### 8.1. Means of Communication

- a) Annual General Meeting: The Company schedules an annual general assembly for its shareholders within three months of yearend. This provides the forum for shareholders to approve the Board of Directors' report and financial statements for the year, appoint the external auditor, review the external auditor's report, review the corporate governance report and the related party transactions and other matters which require their approval. While invitations are sent to all Directors, only the Chairman and the Chairman of the BAC attended the last virtual general assembly alongside representatives of the CBB, , the MOICT and the external auditors. Attendance of each director is primarily dependent on his availability.
- b) 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).
- c) 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.
- d) 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.
- e) 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 the best of their knowledge and belief, the Bank's financial statements for the relevant period, present a true and fair view in all material respects of its financial condition and results of operations, in accordance with applicable accounting and financial reporting standards. The financial statements are signed by the Chairman of the Board of Directors, Vice Chairman of the Board of Directors and the Chief Executive Officer.

- f) 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).
- g) Chairman's Communiqué: A printed copy of the Chairman's statement is distributed along with the consolidated financial statements at the AGM.
- h) 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.
- i) 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.

## CORPORATE GOVERNANCE REVIEW

j) 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 take 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 disclosed to shareholders through this Corporate Governance Report. For the year ended 2021, the external fees for audit services paid out were approximately US\$ 92.7 thousand (2020: \$ 87 thousand) and the fees for non-audit services paid out were US \$ 91.6 thousand (2020: \$ 39 thousand). Audit service comprise review of the financial statements while non audit services consist of agreed upon procedures performed by the external auditor that are part of the statutory submissions mandated by the CBB. The external partner Mr. Kazim Merchant, has reviewed UGB's financials since 2019.

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.

### 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 was a founding member of this programme. Over the years, the Bank has provided selected students with work experience and the opportunity of placement.

#### TradeQuest – The Trading Challenge

TradeQuest is a business-education partnership that was established 24 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, mentoring a school team, and conducting workshops for the Bahrain Bourse.

#### 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. Certain members of UGB management are invited to participate and speak at industry seminars, think tanks and conferences.

### CHARITABLE AND COMMUNITY-BASED ACTIVITIES

At the onset of Covid 19, the Bank pledged its instant support with a contribution of USD 250,000 towards the 'Feena Khair' Campaign launched by HM the King's Representative for Humanitarian Work and Youth Affairs, National Security Advisor and Royal Humanitarian Foundation Board of Trustees' Chairman HH Shaikh Nasser bin Hamad Al-Khalifa. The charity drive provided vital relief and rehabilitation measures to support the needy who had been impacted by the Covid 19 pandemic.

The donations made during 2021 were as follows:

Recipients	Amount USD
Charitable and Community Welfare Activities	12,467
Culture - Islamic Institutions	29,177
Education	663
Sports & Training	3,979
Aggregate	46,286

## FINANCIAL STATEMENTS

The Audited Financial Statement for the year ended 2021 are available under the Annual Report Section on UGB's website: **[www.ugbbh.com](http://www.ugbbh.com)**.

# GROUP DIRECTORY

## **United Gulf Bank BSC(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: [info@kamconline.com](mailto:info@kamconline.com)  
Website: [www.kamconline.com](http://www.kamconline.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)



بنك الخليج المتحد ش.م.ب.، مملكة  
United Gulf Bank B.S.C.(c)

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@ugbbah.com](mailto:info@ugbbah.com) [www.ugbbh.com](http://www.ugbbh.com)