



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

ANNUAL REPORT 2022



CONTENTS

05

Corporate
Profile

06

Financial
Highlights

07

Financial
Summary

08

Chairman's
Statement

12

Board of
Directors

14

Chief Executive
Officer's Report

18

Executive
Management

22

Business Review

25

Financial Review

29

Risk Management
Review

35

Corporate
Governance Review

53

Corporate Social
Responsibility Review

54

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

UNITED GULF BANK'S (UGB) PROPRIETARY INVESTMENTS INCLUDE ASSETS IN COMMERCIAL BANKING, REAL ESTATE, PRIVATE EQUITY, AND QUOTED SECURITIES. AS AT 31 DECEMBER 2022, UGB'S CONSOLIDATED ASSETS UNDER MANAGEMENT TOTALED US\$ 14.2 BILLION.

CORPORATE PROFILE

United Gulf Bank B.S.C.(c) (UGB, the Bank)

Established in 1980 and operating under a conventional wholesale banking license 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 2022, UGB's consolidated assets under management totaled US\$ 14.2 billion (31 December 2021: US\$ 14.8 billion).

UGB's core subsidiary is KAMCO Investment Company (KAMCO Invest) K.S.C.P. UGB and KAMCO have a proven track record of successfully completing more than 60 investment banking transactions for clients since 2001, Kamco Invest provides a comprehensive range of investment products and services in asset management, investment banking and brokerage. It has Assets Under Management allocated across various asset classes and jurisdictions and, since it was established has acted as investment banker on equity capital market, debt capital market and merger and acquisition transactions with a value exceeding US\$ 35.9 Billion as of 31 December 2022.

The KIPCO Group

Kuwait Projects Company (Holding) K.S.C.P. (KIPCO) – is a holding company incorporated in Kuwait 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.

Core Subsidiary

KAMCO
INVEST

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

PO Box 5964, Diplomatic Area

UGB Tower, Manama, Kingdom of Bahrain

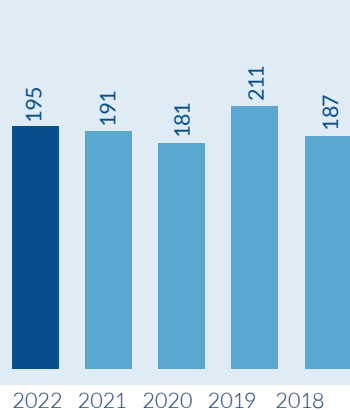
Tel: (+973) 17 533 233, Fax: (+973) 17 533 137, Email: info@ugbbah.com, www.ugbbh.com

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

FINANCIAL HIGHLIGHTS

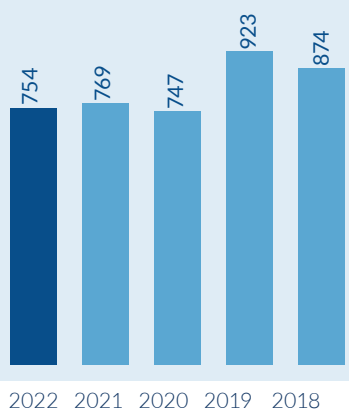
Shareholders' Equity

195 US\$ Million



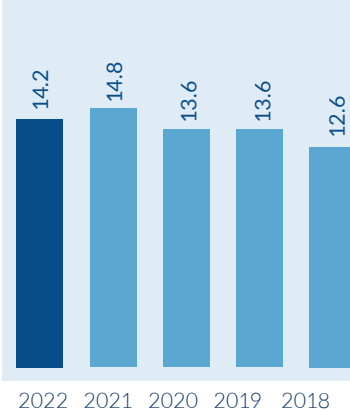
Total Assets

754 US\$ Million



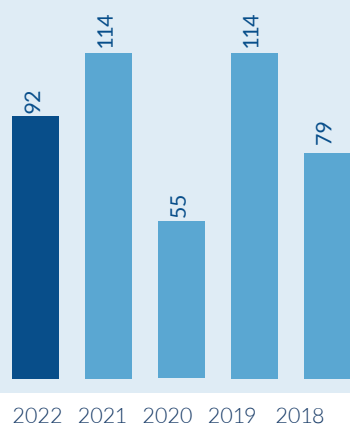
Asset under Management

14.2 US\$ Billion



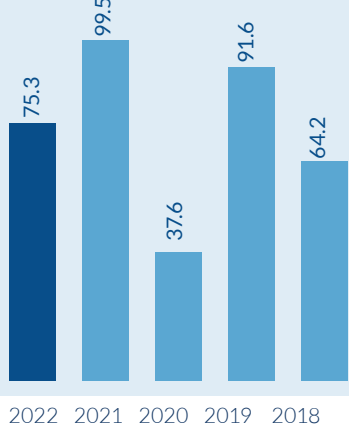
Total Income

93 US\$ Million



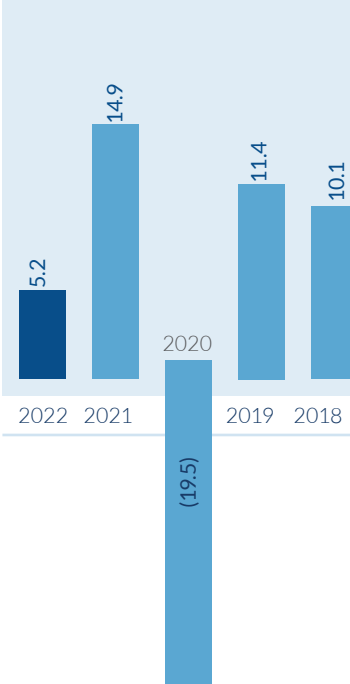
Operating Income

75.3 US\$ Million



Net Profit / (Loss)

5.2 US\$ Million



FINANCIAL SUMMARY

	2022	2021	2020	2019	2018
US\$ million					
Total Income	92.5	114.0	55.5	113.7	78.9
Investment income	10.1	30.1	1.8	30.4	28.7
Operating income	75.3	99.5	37.6	91.6	64.2
Shareholders' Equity	195.2	190.8	181.2	210.9	187.0
Total Assets	753.9	769.4	746.5	923.2	873.5
Net profit (Loss) attributable to shareholders of the parent	5.2	14.9	(19.5)	11.4	10.1

%					
Return on Average Equity	2.69%	8.01%	-9.95%	5.73%	5.18%
Return on Average Assets	0.68%	1.97%	-2.34%	1.27%	1.30%
Operating Expense/ Operating Income	81.0%	65.3%	154.1%	81.9%	79.4%
Average Equity to Average Assets	25.8%	24.6%	22.9%	25.6%	30.4%
Capital Adequacy Ratio	18.7%	19.6%	17.4%	19.7%	15.5%

Book Value per share (US\$)	0.84	0.82	0.78	0.91	0.92
Earnings per share (US cents)	0.01	0.05	(0.10)	0.05	0.05

Comparatives Averages balances (based on quarterly averages)					
Assets	760.7	771.9	830.1	918.4	748.7
Liabilities	437.4	460.0	529.4	587.6	461.5
Minority Interest	94.0	89.2	77.5	95.8	59.9
Additional Tier 1 Capital	33.0	33.0	33.0	33.0	33.0
Shareholders' Equity	196.3	189.7	190.3	202.0	194.3
	760.7	771.9	830.1	918.4	748.7
Guarantees and commercial LC	2.4	2.4	2.1	2.2	1.2
Commitments	0.8	0.3	3.9	5.2	6.4
Assets under management (US\$ billion)	14.7	14.5	12.8	13.4	12.6

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 2022. This was yet another challenging year, underpinned by increased market volatility driven by a surge in interest rates, inflation, and geopolitical conflict in Europe.

Economic Background

The economic environment was less encouraging in 2022 as the global economy grew a modest 2.9 per cent, according to the World Bank's Global Economic Prospects report. The ray of hope that emerged as we overcame the disruptions of the pandemic was dimmed by rising inflation and interest rates, as well as geopolitical upheavals that followed Russia's invasion of Ukraine. Fortunately, the conflict had no impact on UGB, which has negligible exposure to Russia and the EU.

A further breakdown of supply chains and the consequential increase in inflation has ushered in an era of monetary policy tightening. As such, economic activity experienced a sharper-than-expected slowdown, with inflation reaching its highest level in decades. Consequently, the US Fed expeditiously increased its benchmark rate from a modest 0.25% to 4.5% in seven consecutive meetings, triggering US Dollar demand and depreciating global currencies, which led to monetary tightening across the globe.

Fortunately, the IMF predicts global inflation to cool to 6.6 percent in 2023 and 4.3 percent in 2024, which is still above the pre-pandemic levels of approximately 3.5 percent, but significantly lower than the 8.8 percent observed in 2022.

According to the World Bank, Gulf Cooperation Council (GCC) economies are projected to grow 6.9 percent in 2022 before moderating to 3.7 percent and 2.4 percent in 2023 and 2024, respectively, driven by stronger hydrocarbon and non-hydrocarbon industries. The rise in oil prices was a key factor behind the strong recovery across the six-member economic bloc.

In Bahrain, the National Economic Recovery Plan which supports the Kingdom's post-COVID recovery and economic diversification strategies, continues to have a tangible impact. High oil prices and strong investment are expected to boost GDP growth and allow the government to meet its fiscal balance target early in 2023. Meanwhile, GCC economies are projected to grow at half the rate of 2022 as oil revenues take a hit from an expected mild global slowdown.

Business Performance

In the face of global challenges being compounded by surging interest rates, the Bank's main subsidiary, KAMCO remained profitable and was the key contributor to the Bank's performance. The Assets Under Management (AUM) portfolio managed by the Bank and KAMCO stood at US\$ 14.2 billion as of 31 December 2022 despite challenging market conditions. The continued growth in fees and commission income reflects the quality and diversity of the portfolio.

Focusing on acquiring relatively low-risk and high-yielding assets, the UGB Group acquired three German and US-based real estate properties to achieve a total AUM of USD 1.9 billion for the segment. Consequently, KAMCO, the largest asset manager in Kuwait, scaled two positions in 2022 to be named the 6th largest Asset Management company in the MENA Region by Forbes Middle East.

In terms of business performance, many firsts were achieved, including Kuwait Investment Fund and Kamco Premier Market Index Fund being recognized as the first and second best conventional

funds respectively, while Durrah Islamic Fund was named the best Islamic fund. In another first, funds were registered in Saudi Arabia and the UAE with a view to enhance product reach and scope.

Despite the challenging interest rate environment, the Bank's prudent hedging strategies and tight cost controls during the year minimized the interest cost impact, which resulted in significant savings and helped the Bank to post positive results.

The Bank successfully raised a medium-term facility of US\$ 45 million, which was invested in Bonds to improve the high-quality liquid assets in its portfolio. The medium-term funding also improved the Bank's net stable funding ratio, which strengthened UGB's liquidity position and reflects liquidity providers' confidence in the Bank's financial strength.

Financial Results

In 2022, net results suffered due to significant trading losses. Regional stock markets posted severe negative trends during the second and third quarters, with the KSE Index declining by 9.2% and 4.1% respectively, and increased interest costs as benchmark rates rose significantly during the year.

The Group's total revenues stood at US\$ 92.5 million, down from US\$ 114.0 million for 2021. Total income before interest and other expenses decreased to US\$ 92.5 million from US\$ 114.0 million the previous year as investment income declined due to increased market volatility. The impact was mitigated by higher fee-based management income from KAMCO and its associates as revenues from management fees jumped by 14.1% compared to 2021 to reach US\$ 53.5 million, representing 57.8% of total revenue.

Total expenses decreased to US\$ 61.2 million from US\$ 63.8 million, reflective of the cost control measures introduced. Due to our prudent hedging strategies, we witnessed a negligible rise in net interest expenses in 2022 to US\$ 7.8 million, compared to US\$ 7.5 million in 2021, despite the significant spike in interest rates during the year.

UGB reported a net profit attributable to shareholders of US\$ 5.2 million versus US\$ 14.9 million in 2021. As of 31 December 2022, total assets decreased to US\$ 753.9 million versus US\$ 769.4 million at the end of the previous year with a total shareholder equity of US\$ 195.2 million, compared with US\$ 190.8 million at the end of 2021. Total assets under management were US\$ 14.2 billion compared to US\$ 14.8 billion in the previous year.

Governance

UGB's strong compliance and risk management framework addresses the latest changes in the external regulatory environment. 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.

Keeping pace with the future, the Bank embarked on a journey to deploy a new Treasury System that will automate and further strengthen the governance practices across its treasury functions. Upon completion, the system will enhance operational efficiency, reduce costs, and improve reporting practices.

CHAIRMAN'S STATEMENT

(Cont'd)

Looking Ahead

According to the World Bank, economic growth is projected to slow from 2.5% in 2022 to 1.7 percent in 2023, driven by unexpectedly rapid and synchronous global monetary policy tightening. Over the past two decades, slowdowns of this scale have foreshadowed a global recession. Tighter monetary policies from central banks around the world may have been necessary to tame inflation, but they have contributed to a significant worsening of global financial conditions, which is exerting a substantial drag on activity.

Fortunately, the International Monetary Fund has given a brighter outlook in its latest report, predicting that inflation will slow as European economies have shown more resilience than expected. The report noted that global inflation is expected to fall from 8.8 percent in 2022 to 6.6 percent in 2023 and 4.3 percent in 2024.

While the outlook for 2023 is cautious given the weaker external environment, the GCC will likely continue to outperform many developed economies in terms of GDP growth. Although global economic and political challenges are expected to remain, continued investments in the region's oil & gas, and revenue diversification strategies are expected to boost economic activity. Accordingly, the region is expected to contribute positively to headline GDP again in 2023.

We approach 2023 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 the Ministry of Industry and Commerce, 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.

Masoud M. J. Hayat

Chairman of the Board



BOARD OF DIRECTORS

Masoud 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 46 years' experience in the financial sector

Other Positions Held:

- Vice Chairman & Group Chief Executive Officer, Burgan Bank K.P.S.C. - Kuwait
- Chairman, United Gulf Holding Company B.S.C. - Bahrain
- Chairman, Tunis International Bank - Tunisia
- Vice Chairman, Gulf Bank Algeria - Algeria
- Vice Chairman, Bank of Baghdad - Iraq
- Vice Chairman, FIMBank plc - Malta
- Board Member, Jordan Kuwait Bank - Jordan
- Board Member, KAMCO Investment Company K.S.C.P. - Kuwait
- Board Member, North Africa Holding Company - Kuwait
- Board Member, United Gulf Financial Services - Tunisia
- Board Member, Mashare'a Al Khair Est. - Kuwait

Faisal Al Ayyar, Executive Director

Vice Chairman of the Board of Directors

Member of the Executive Committee

Member of the Board Audit Committee

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

Over 36 years' experience in the financial sector

Other Positions Held:

- Vice Chairman, Kuwait Projects Company. (Holding)K.S.C.P. – Kuwait
- Vice Chairman, Gulf Insurance Group K.S.C.P. – Kuwait
- Vice Chairman, Jordan Kuwait Bank – Jordan
- Vice Chairman, United Gulf Holding Company B.S.C. – Bahrain
- Vice Chairman, Saudia Dairy & Foodstuff Co. (Sadafco) – Saudi Arabia
- Board Member, Gulf Egypt for Hotels & Tourism Co. – Egypt
- Vice Chairman, Mashare'a Al Khair Est. – Kuwait
- Trustee, American University of Kuwait – Kuwait
- Honorary Chairman, Kuwait Association of Learning Difference – Kuwait

Samer Khanachet, Executive Director

Member of the Executive Committee

MBA, Harvard Business School, Boston, USA

BSc, Chemical Engineering and BSc, Management Science, Massachusetts Institute of Technology, Cambridge, USA

Over 48 years' experience in the financial sector

Other Positions Held:

- Deputy Group Chief Executive Officer, Kuwait Projects Company (Holding)K.S.C.P. – Kuwait
- Chairman, United Gulf Management, Inc. – USA
- Chairman, United Gulf Management Ltd. – UK
- Trustee, American University of Kuwait – Kuwait

BOARD OF DIRECTORS

Sheikh Abdullah Nasser Sabah Al Ahmad Al Sabah, Executive Director

Graduate of the Royal Military Academy, Sandhurst, UK

BSc, Business Administration, New York Institute of Technology, USA

Over 26 years' experience in the financial sector

Other Positions Held:

- Board Member, Kuwait Projects Company (Holding) K.S.C.P. Kuwait
- Advisor to the Chairman of the Board of Directors of Kuwait Projects Company (Holding) K.S.C.P.
- Chairman, Burgan Bank K.P.S.C. – Kuwait
- Vice Chairman, KAMCO Investment Company K.S.C.P. – Kuwait
- Vice-Chairman, Al Daiya United Real Estate Company K.S.C.P. – Kuwait

Mohamed Haroon, Independent Director

Member of the Board of Directors

Chairman of the Nominating & Remuneration Committee

Member of the Board Audit Committee

BSc (Hons), Peshawar University, Pakistan

Diploma in Banking, Pakistan

Over 53 years' experience in the financial sector

Other Positions Held:

- Chairman & CEO, Haroon Incorporated W.L.L. – Bahrain
- Independent Director, United Gulf Holding Company B.S.C. – Bahrain

Jawad Al Asfoor, Independent Director

Chairman of the Board Audit Committee

Member of the Nominating and Remuneration Committee

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

Certificate in Islamic Banking & Finance.:

Over 30 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 - Bahrain
- Director – Islamic Banking- Capital Market, Credit Agricole Indosuez - Bahrain
- Senior Dealer – Corporate & Islamic, BNP Paribas - Bahrain
- Chief Dealer – Banque Indosuez - Bahrain

Mohamed Sadiq Al Rahma, Independent Director

Independent Director

Member of the Nominating and Remuneration Committee

Chartered Financial Analyst (CFA) Charterholder

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

Bachelor of Arts in Management – London, UK

Over 8 years of experience in the financial sector including:

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

CHIEF EXECUTIVE OFFICER'S REPORT



I am pleased to report that 2022 was another positive year for UGB that saw the Bank post a USD 5.2 million net profit attributable to the shareholders. Although this marks a 65% decrease from 2021 (USD14.9 million), the result holds greater significance due to the challenging global macroeconomic conditions witnessed throughout the year.

Financial Performance

UGB's main subsidiary KAMCO Invest, the largest asset manager in the GCC and the 6th largest asset management company in the MENA region, was the key contributor to the Bank's overall performance. The Group's total revenues stood at US\$ 92.5 million, down from US\$ 114.0 million for 2021, as interest rate hikes by global economies caused major corrections in all regional stock markets during the second and third quarters of 2022. The impact was mitigated by higher fee-based management income from KAMCO and its associates as revenues from management fees jumped by 14.1% compared to 2021 to reach US\$ 53.5 million, representing 57.8% of total revenue.

The net impact on the overall profitability was further mitigated by tight cost controls within the Group as operating expenses decreased by 4% compared to 2021.

Business Initiatives

The UGB Group acquired three German and US-based real estate properties to achieve a total AUM of US\$ 1.9 billion for the segment. The continued growth in fees and commission income is a testament to the quality and diversity of the portfolio. With the focus on enhancing product reach and scope, the Group registered funds in UAE and Saudi and expects the region to be an engine for growth in the coming year. The AUM portfolio stood at US\$ 14.2 billion on 31 December 2022, despite serious valuation headwinds that saw regional equity perform poorly during the year. During the year, the Group also successfully raised over US\$ 1.3 billion for several products and transactions. This impressive performance comes despite declines and volatility in most prominent global equity markets.

Economic Environment

The combined impact of geopolitical conflict in Europe, the global energy crisis, and supply chain disruptions pushed inflation to its highest level in decades. In response, central banks in both developed and emerging markets hiked interest rates, which made the availability of cash within the banking sector even more crucial during the year.

In 2022, UGB deployed prudent hedging strategies that proved their metal as benchmark interest rates jumped from 0.25% to 4.5% through seven consecutive rate hikes. Accordingly, we witnessed a negligible rise in net; Interest expenses in 2022 to US\$ 7.8 million compared to US\$ 7.5 million in 2021.

Fortunately, UGB did not face any liquidity concerns, which allowed us to carry out our core activities under volatile market conditions. Moreover, we ensured full compliance with the Central Bank of Bahrain's (CBB) regulatory requirements pertaining to capital and liquidity ratios as well as the Internal Capital Adequacy Assessment (ICAAP), and Stress Testing. Additionally, UGB successfully raised US\$ 45 million in medium-term funding from a regional bank and invested the same to shore up our High Quality Liquid Assets (HQLAs) to further improve our liquidity ratios.

The Bank also rebalanced its portfolio of core investments with a focus on fixed income and dividend-yielding stocks to ensure greater resilience to macroeconomic and geopolitical challenges. UGB's sovereign bond portfolio for investing in T-bills in the GCC stood at US\$ 25 million in 2022, and the Bank plans to gradually increase allocations to this asset class.

Governance and Systems

In 2022, we embarked on a major project to modernise our treasury function by implementing an industry-leading treasury system that will automate and integrate various functions, thereby streamlining the Bank's business and operational processes. With execution phases progressing according to plan, the system is expected to go live in the first half of 2023.

We also continued to enhance the Group's operational efficiency and effectiveness throughout the year, with a strong focus on Information Technology and Risk Management. This was achieved by assessing the challenges posed by cyber security risk, increased interest rates, and other factors and preparing recommendations and action plans as mitigation strategies for each.

We also prepared action planning steps to ensure that any issues or gaps identified in the independent review of the risk management frameworks were resolved and closed. Finally, we reviewed and updated risk-related policies and procedures to incorporate new and revised regulatory requirements.

Commitment to ESG

In line with greater global focus on climate change and sustainability, UGB reaffirmed its commitment to environmental, social, and governance (ESG). In 2022, the Bank took an additional step as part of its commitment towards environmental sustainability by supporting the Bahrain Authority for Culture and Antiquities (BACA) in its efforts to develop the Pearling Path.

The Path is a 3.5 km visitor walkway in the old capital city of Muharraq that takes tourists to the old houses of pearl merchants who were the first architects of Bahrain's economy. To guide the visitors along the path that crosses the narrow lanes of old Muharraq, lighting elements and 16 public spaces were designed to act as places for leisure, rest, and interaction between community members. They are made of a mother of pearl incusted concrete flooring and urban furniture with a series of trees that provide shade and create a microclimate. UGB sponsored one of the spaces.

UGB is also committed gender diversity, equality, and developing its employees through focused training, education, and mentoring. The Bank fosters a positive work environment that is built on the spirit of collaboration and communication. The extremely low staff turnover is a testament to UGB's commitment to staff well-being and morale.

CHIEF EXECUTIVE OFFICER'S REPORT

(Cont'd)

Future Outlook

The GCC was among just a handful of regions globally that performed well in 2022 as the surge in energy prices provided countries in the region with the impetus to continue with their economic programs. The easing of COVID-restrictions and positive developments in the hydrocarbon market drove strong recoveries across the six-member economic bloc.

According to the World Bank, the global economy is projected to grow by 1.7% in 2023 and 2.7% in 2024. The sharp downturn in growth is expected to be widespread due to continued inflationary pressures. In contrast, 2023 forecasts for the GCC are more promising, with a projected 3.7% GDP growth based on a forecast of oil prices being in the range of US\$ 75-95 per barrel. GDP growth is expected to moderate to 2.4% in 2024.

Although the financial implications of global growth deceleration are outside of UGB's control, we remain cautiously optimistic for 2023. The launch of a new business line which is currently under evaluation, and the expansion of our Islamic Banking offering are among UGB's main goals for the year. We also look forward to implementing Group-wide initiatives for synergies and additional revenue sources and rolling out our new treasury system, which will further enhance efficiency.

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.

My management team and I take this opportunity to thank Mr. Mohammed Haroon who is stepping down from the Board after completing three consecutive terms as an Independent Director. During his tenure as Chairman of the Board Audit Committee and then as Chairman of the Nominating and Remuneration Committee, the Bank has benefited from his wisdom, guidance, support, and commitment. I also take this opportunity to welcome Mr. Majid Al Ajeel who will be joining the Board in his place.

In conclusion, I express my sincere gratitude to the Chairman and the Board of Directors for their continued encouragement, trust, and confidence, and my management colleagues and the team members of UGB for their hard work dedication and loyalty. I also thank our valued customers for their faith in us. We look towards 2023 with optimism, confident that it will be a year of notable developments.



EXECUTIVE MANAGEMENT



Hussain A. Lalani FCA CISA

Chief Executive Officer

Mr. Lalani joined UGB in 2002 and was appointed as the Acting CEO in September 2015, and subsequently CEO in April 2019. His career extends over 26 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.



Mohammed Alqumaish CIA

Assistant General Manager, Chief Audit Executive & Corporate Secretary

Mr. Alqumaish joined UGB in September 2001. He is a banking professional with more than 26 years of 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) and holds an MBA from the University of Strathclyde Business School, UK.

EXECUTIVE MANAGEMENT



**Deepa Chandrasekhar MBA APRM CAMS FICA
CFE Chartered MCSI**

Senior Vice President,
Chief Compliance Officer & MLRO

Mrs. Chandrasekhar joined UGB in 2008. She has over 34 years of experience in the areas of compliance, AML, risk management, treasury, operations, and internal audit. She holds a BA degree in Economics and an MBA 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.



Syed Rehan Ashraf, FCA MBA

Senior Vice President, Chief Financial Officer

Mr. Ashraf joined UGB in 2005. He was appointed CFO in October 2015 after serving as Head of Credit and Risk Management since October 2007. He has more than 26 years of 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 PricewaterhouseCoopers. A Fellow Chartered Accountant (FCA) from the Institute of Chartered Accountants of Pakistan, Mr. Ashraf holds an MBA from DePaul University of Chicago, USA.

EXECUTIVE MANAGEMENT

**Adel Al-Arab, CRA**

Senior Vice President, Head of Operations

Mr. Al-Arab joined UGB in 1994. He has 30 years of 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.

**Nirmal Parik CFA MBA - Senior Vice President,**

Head of Asset Management & Investment Banking

Mr. Parik joined UGB in 2007. He has more than 19 years of experience in the financial services industry in investment management, asset management, investment banking 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. Mr. Parik currently manages portfolio of direct equity investments (primarily in the MENA region) as well as investments with third party investment managers, primarily in the US and European markets (with focus towards PEFunds). Mr. Parik serves as a Board Member of India Factoring and Finance Solutions Private Limited, India. He is a Chartered Financial Analyst (CFA), and holds an MBA degree with a 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 26 years of experience in the areas of credit, risk management, operations and audit. He previously worked with Jawad Habib Coopers & Lybrand, Daiwa Middle East Bank, and 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 14 years of experience in the Treasury department, where he was intrinsically involved in managing liquidity through Money Market, Foreign Exchange 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

UGB's key strategic objective is to create the MENA region's premier asset management, merchant banking and investment banking group. It 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 strong 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 and associate companies, 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 – include 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 & initiatives in 2022

- Driven by the performance of its key subsidiary KAMCO Investment Company, the Bank recorded a positive net income in 2022. This achievement comes despite global and regional equity markets witnessing declines and volatility during the year.
- UGB focused on rebalancing its portfolio with some strategic exits and decisions. The Bank transferred its majority stake in its subsidiary United Gulf Financial Services – North Africa (UGFS-NA) to its parent company UGH.
- The Bank also exited its minority stake in Moobility Telecom International Holdings (MTIH) during the year.
- Assets under management with UGB stood at US\$ 14.2 billion, compared to US\$ 14.8 billion the previous year.

BUSINESS REVIEW

Shared Services

Treasury

The tightening monetary policy and increase in funding costs were the biggest challenges in 2022. Funding and hedging techniques were adopted early on to mitigate interest rate risk. UGB's Treasury department focused heavily on maintaining funding and expanding reciprocal relationships with existing counterparties, especially in an environment where higher interest rates meant a transfer of costs towards facilities provided by the bank.

The conflict in Ukraine did not directly impact the Bank. However, the inflation and supply chain disruptions caused as a by product of the geo-political instability, increased the cost of doing business for many companies. This indirectly impacted Treasury activities to a limited extent in the form of higher interest rates.

With its commitment to launching the new front office system in 2023, the Treasury department continues to enhance procedures, controls, and efficiency.

Operations

In 2022, Operations assisted the Compliance department through its concerted efforts of maintaining and updating customer documentation in the Bank's dedicated database. The ongoing process is projected to be completed by the first half of 2023.

UGB also entered into an agreement to replace its current core system, ensuring it can process MX/ISO 20022 SWIFT messages. Although this requirement will become mandatory only in 2025, UGB aims to test the use of MX messages and train its SWIFT users as early as March 2023.

Human Resources and Administration

UGB remains committed to the personal and professional development of its team members and consistently works to help them enhance their skills and advance their careers.

More than 400 training programmes were made available in 2022, which over 65 per cent of the staff attended. These were offered alongside the mandatory annual Anti-Money Laundering and Code of Conduct training for all employees. Relevant staff also attended external conferences covering the latest best practices in governance, risk management, compliance, and internal audit.

Our zero percent turnover rate in 2022 reflects the efficacy of our staff retention efforts and our steps to maintain a positive workplace environment. In line with this, we remain focused on supporting female empowerment and diversity. Women currently constitute 32 percent of UGB's total workforce, of which 22 percent hold middle management and above roles.

UGB also proudly continued to support the Mashare'a Al Khair Scholarship Program, a merit-based undergraduate program for UGB employees' children who require financial assistance to pursue their education.

In line with its commitment to developing the skills of young people and promoting careers within the banking industry, UGB also continued welcoming participants into its internship programme in 2022, by providing on-the-job training to help build both specialised and soft skills.

UGB also continued to support the TradeQuest programme, which strengthens ties between members of Bahrain's financial sector and helps university students to build leadership skills and improve their knowledge of capital markets.

Information Technology

In 2022, UGB embarked on a major project to modernize its core banking operations. The new core banking solution will automate and integrate various functions, streamlining the Bank's business and improving operational processes. To ensure the successful implementation of this project, UGB completed several critical stages, including defining the system requirements, mapping business processes, migrating data, and providing training to its staff. Before going live, the Bank will conduct user acceptance testing and a parallel run to verify its performance.

As digital security remains a top priority for UGB, the IT department conducted a cyber-security assessment project to identify and rectify any vulnerabilities in the Bank's computing and network infrastructure. This helps improve the overall security of the Bank's systems.

To further enhance the efficiency and performance of the IT department, various processes were automated, including cyber security monitoring and reporting. The department also introduced a help desk and change management solution to better manage requests and changes. A Security Operations Center (SOC) and a Security Incident and Event Management (SIEM) system were also rolled out. Additionally, UGB leveraged cloud services to optimise costs and improve its overall performance.

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, as well as other requirements. A framework of relevant policies and processes covering adherence to external regulations, ethical behaviour, and conflicts of interest, are encapsulated in the Bank's Compliance Charter, Code of Conduct, and Corporate Governance Guidelines. These documents have been approved by the Board of Directors, and help define, clarify, assert, and enforce the role of governance within UGB.

The Compliance Department is responsible for keeping abreast of new regulatory developments. Given the near-constant stream of regulatory revisions in response to changes in the markets, economy, and technology, the Department's Risk Nucleus Compliance System remains an important pillar in the pro-active identification, assessment, and monitoring of Compliance Risk. Modules are constantly updated to reflect the latest regulations and assessed in line with a plan that is approved semi-annually by the Board of Directors. The System's integrated email facility alerts departments of forthcoming regulatory deadlines and activities that they need to complete.

The Risk Compliance Self Assessment exercise is conducted annually by the Chief Compliance Officer. The results of the key risk and performance indicators determine areas that require compliance

BUSINESS REVIEW

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

In line with Central Bank of Bahrain (CBB) requirements, the Compliance Department commissioned an external consultant firm to conduct an in-depth review of the Bank's compliance risk management framework. Following the successful review, the Bank implemented all suggestions to further improve the robustness of the framework and incorporate best practices.

The compliance function has grown significantly since coming into the fore in the early 1990s. The first phase of its development focused on internal systems and controls, and the second on culture and leadership. In the post-Covid landscape, more professionals are looking to join ethically conscious organisations. Given the strong emphasis on moving forward with integrity, UGB envisages that regulations and disclosures will evolve around sustainable financing and investment. Compliance with the new rules will be the cornerstone of the Bank's value proposition, growth strategy, and commitment to operational excellence.

UGB shares a strong rapport with its local regulators, the CBB and the Bahrain Bourse for its brokerage activities, and the Ministry of Industry and Commerce.

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. It has a direct reporting line to the Board Audit Committee and has access to the Chairman of the Board of Directors. 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 2022, the CBB conducted an in-depth inspection of AML processes, which covered AML methodology of risk assessment across four areas: customer profile; products, services, and channels; Know Your Customer (KYC); and training and ongoing monitoring to identify potential instances of AML and CFT. The results indicated that the Bank had very few customers, with several of them being legacy accounts. Most of the findings have been closed.

The MLRO conducted the annual AML training for UGB employees using recent case studies and covered the changes in regulations pertaining to AML. The virtual session is saved on the intranet, for future reference. 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 KYC principles. The Bank has also subscribed to Refinitiv's Media Check services to monitor adverse media pertaining to its customers.

Under the terms of its license as a wholesale bank, UGB is not permitted to transact with residents or entities incorporated in Bahrain. The Bank's customer base comprises non-residents – a category deemed to be 'high risk' by the CBB. In 2022, the MLRO completed enhanced risk assessments on all the bank's customers alongside the MLRO review, which is based on the Board-approved risk matrix. The results form part of the MLRO's report on the effectiveness of AML/CFT procedures, systems, and controls, which the Board of Directors reviews annually.

It is also a regulatory requirement to have the AML framework reviewed annually by the independent auditors for UGB and its main subsidiaries. These were submitted to the regulators by the June 2022 deadline.

Internal Audit & Quality Assurance

In 2022, 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 and Board composition changes for the Bank and its parent company UGH.

Internal Audit also played a proactive role in evaluating and validating the Bank's Risk Management frameworks, including Operational Risk Management, Stress Testing, Capital Adequacy, the Internal Capital Adequacy Assessment Process (ICAAP), reputational risk, and the Bank's overall disaster recovery & business continuity plan. In 2022, the department also contributed to strengthening the Bank's Anti-Money Laundering controls in coordination with the Compliance Function.

During the year, Internal Audit remained actively involved in Bank-wide projects, including the implementation of the new treasury front office system & General Ledger system, and Environment, Social, and Governance (ESG) initiatives. Alongside this, the department continued to provide support to the Bank's subsidiaries, associates, and group companies.

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.

FINANCIAL REVIEW

This review provides a detailed description of the financial performance of United Gulf Bank B.S.C.(c) for the year ended 31 December 2022.

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 2022, the Bank's parent company United Gulf Holding Company B.S.C.(c) (UGH) holds 100% shares of UGB. The Kuwait Projects Company (Holding) K.S.C.P. (KIPCO) continues to be the ultimate parent company owning directly and indirectly 98% of UGH's outstanding shares on a consolidated basis.

Revenues

UGB's total revenues were US\$ 92.5 million in 2022 compared with US\$ 114.0 million in 2021, as indicated below:

Total Revenue (US\$ million)	2022	2021
Financial Associates	3.9	8.3
Other Associates	2.1	-
Real Estate	3.0	10.7
Management fees from fiduciary activities	53.5	46.9
Credit related fees and commission	11.4	20.5
Advisory fees	4.6	3.2
Interest Income	9.4	7.0
Unrealised (loss) gain on investments carried at fair value through profit or loss	1.3	8.3
Realised (loss) gain on investments carried at fair value through profit or loss	2.2	6.9
Dividend income	2.2	1.9
Other income	0.3	1.7
Foreign currency translation (losses) gains - net	(1.4)	(1.4)
Total	92.5	114.0

During 2022, the decrease in total revenues was mainly attributable to a downturn of global and regional markets following a recovery in 2021. Lower gains were recorded from trading income, gains on real estate investments and lower credit related fees and commission compared to 2021.

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\$ 3.9 million compared with a gain of US\$ 8.3 million in 2021. The decrease was mainly on account of lower gains recorded by the KAMCO Investment Fund.

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

Revenue - Financial Associates (US\$ million)	2022	2021
Kamco Investment Fund	3.9	8.4
Manafae Investment Company	-	(0.1)
Total	3.9	8.3

Real Estate

UGB's real estate revenues were derived mainly from rental income from its real estate properties in Bahrain and Kuwait. It should be noted that 2021 results include a realised gain of US\$ 5.5 million from the sale of a property in Boston, USA.

Revenues - Real Estate (US\$ million)	2022	2021
KAMCO Real Estate Yield Fund	(1.1)	(0.3)
N.S. 88 P.C.	0.1	(0.2)
Rental income	3.4	4.5
Unrealized gain on investment properties	0.6	1.2
Gain on sale of investment property	-	5.5
Total	3.0	10.7

FINANCIAL REVIEW

Fees and Commission Income

Credit-related fees and commission.

Credit-related fees and commission income decreased to US\$ 11.4 million in 2022 from US\$ 20.5 million in 2021 due to lower deals being concluded in 2022.

Management Fees from Fiduciary Activities.

Management fee income increased to US\$ 53.5 million in 2022 from US\$ 46.9 million in 2021.

Advisory Fees

Advisory fee income increased to US\$ 4.6 million in 2022 from US\$ 3.2 million in 2021.

Interest Income

The main source of interest income for KAMCO and UGB was derived from loans and receivables. Interest income increased from US\$ 7.0 million in 2021 to US\$ 9.4 million in 2022 mainly on account of increasing interest rates during the year.

Trading gains / losses

Trading positions recorded a gain of US\$ 3.5 million in 2022 compared with a gain of US\$ 15.2 million for 2021. This is largely due to the recovery of regional markets from the impact of Covid 19 in 2021. Trading gains in 2022 largely mirror the Bursa Kuwait which increased by 16% in the first quarter of 2022, only to correct itself by 9% and 4% over the following two quarters. Overall, the Bursa Kuwait recorded a gain of 2.6% for the year 2022.

Dividend Income

Dividend income increased to US\$ 2.2 million in 2022 compared with US\$ 1.9 million in 2021, mainly from KAMCO's investments. It should be noted that dividends in 2021 were lower due to investee companies' inability to distribute them following the losses incurred in 2020 during the pandemic.

Foreign Currency Translation gains

Foreign currency translation losses of US\$ 1.4 million were consistent with 2021. Losses were mainly due to depreciation of the Kuwaiti Dinar and Euro against the US\$.

EXPENSES

Interest Expense

UGB's interest expense increased from US\$ 14.5 million in 2021 to US\$ 17.2 million in 2022. The key contributor to this decrease was the overall increase in reference rates during the year.

Operating Expenses

Operating expenses decreased by 4% to US\$ 61.2 million in 2022 compared with US\$ 63.8 million in 2021, largely due to lower incentive fee and bonus accruals at KAMCO for front office deals.

Salaries and benefits decreased to US\$ 42.1 million (2021: US\$ 46.1 million). General and administration expenses increased to US\$ 19.1 million (2021: US\$ 17.7 million).

Operating expenses (US\$ million)	2022	2021
Salaries and benefits	42.1	46.1
General and administrative expenses	19.1	17.7
Total	61.2	63.8

Taxation

A net tax expense of US\$ 1.1 million was recorded in 2022 compared with an expense of US\$ 5.0 million in 2021. It should be noted that the tax expense for 2021 related mainly to capital gains tax on the sale of a property in Boston, USA.

Provisions

Provisions for expected credit losses of US\$ 1.1 million in 2022 related to Stage 1 provisions taken at KAMCO and UGB. The corresponding number in 2021 was US\$ 0.9 million.

Net Income Attributable to Parent

The Group recorded a net income attributable to parent in 2022 of US\$ 5.2 million compared with a net income of US\$ 14.9 million in 2021.

CONSOLIDATED BALANCE SHEET

Consolidated Assets

UGB's consolidated assets stood at US\$ 753.9 million at 31 December 2022 compared with US\$ 769.4 million at the end of 2021. The decrease is mainly on account of settlement of loans of US\$ 11.8 million at both UGB and KAMCO levels. A comparison of the two years is provided below:

Assets (US\$ million)	2022	2021
Demand and call deposits with banks	103.0	131.6
Placements with banks	96.5	63.4
Investments carried at fair value through profit and loss	88.1	93.2
Investments carried at fair value through other comprehensive Income	104.0	104.2
Investments carried at amortised cost	25.0	25.2
Loans and receivables	21.7	33.5
Other assets	46.9	54.4
Investments in associates	87.1	83.4
Investment properties	100.0	100.6
Property and equipment	15.8	14.8
Goodwill and other intangible assets	63.6	65.2
Assets held for sale	2.3	-
Total	753.9	769.4

FINANCIAL REVIEW

Demand, Call Deposits and Placements with Banks

Demand, call and placements with banks increased to US\$ 199.4 million in 2022 compared with US\$ 195.0 million in 2021. These mainly include nostros and time deposits with banks. Total liquid assets comprising cash, deposits, liquid securities and other assets, represented 40.5% of the balance sheet as at 31 December 2022 (2021: 42.3%).

Investments carried at fair value through the statement of income

Investments carried at fair value through the statement of income were US\$ 88.1 million in 2022 compared with US\$ 93.2 million in 2021. 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\$ 104.0 million in 2022 compared with US\$ 104.2 million in 2021. The total portfolio mainly comprises unlisted equities of US\$ 99.1 million (2021: US\$ 99.8 million).

The major investments classified under the non-trading investments portfolio as at 31 December 2022, 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 Boursa 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 is currently underway and includes a 5-star hotel and luxury branded golf villas.

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

Loans and Advances

Loans and advances in 2022 amounted to US\$ 21.7 million (2021: US\$ 33.5 million).

Details of the loan book are as follows:

Loans and Advances (US\$ million)	2022	2021
Loans to customers	25.3	37.5
Staff loans	5.2	4.8
Gross loans and advances	30.5	42.3
Less: Provision for impairment	(8.8)	(8.7)
Total	21.7	33.6

Past due and impaired loans amounted to US\$ 7.9 million (2021: US\$ 8.4 million) against which specific provisions of US\$ 7.9 million (2021: US\$ 8.4 million) were recorded. Collective provisions of US\$ 0.9 million were carried in the books against performing loans and advances as of 31 December 2022 (2021: US\$ 0.3 million).

Investments in Associated Companies

Investments in UGB's associated companies increased to US\$ 87.1 million in 2022 compared with US\$ 83.4 million in 2021. The Group's associated companies contributed a net income of US\$ 5.0 million in 2022 (2021: US\$ 7.7 million). The key contributor was the Kamco Investment Fund which posted an income of US\$ 3.9 million in 2022 (2021: US\$ 8.4 million).

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\$ 3.4 million (2021: US\$ 4.5 million).

Consolidated Liabilities

UGB's consolidated liabilities were US\$ 432.3 million in 2022 down slightly from US\$ 452.7 million in 2021. A breakup of liabilities is as follows:

Liabilities (US\$ million)	2022	2021
Due to banks and other financial institutions	138.9	149.6
Deposits from customers	20.8	70.2
Loans payable	61.3	16.5
Long term bonds	130.6	132.4
Other liabilities	80.7	84.0
Total	432.3	452.7

FINANCIAL REVIEW

Total Equity

The issued and fully paid up share capital as at 31 December 2022 comprised 232,263,041 shares of US\$ 0.50 each (2021: same). As at 31 December 2022, UGB's equity increased to US\$ 321.6 million (2021: US\$ 316.7million).

Equity (US\$ million)	2022	2021
Share capital	116.1	116.1
Share premium	5.7	5.7
Statutory reserve	54.0	53.5
General reserve	33.8	33.3
Fair value reserve	(7.6)	(13.5)
Foreign currency translation reserve	(5.4)	(4.6)
Retained earnings	(1.4)	0.3
CAPITAL AND RESERVES ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT	195.2	190.8
Perpetual Tier 1 capital	33.0	33.0
Non-controlling interests in equity	93.4	92.9
TOTAL EQUITY	321.6	316.7

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\$ 3.1 million as at 31 December 2022 (2021: US\$ 3.5 million). Further details regarding off-balance sheet commitments are provided in Note 28 to the Consolidated Financial Statements for the year ended 31 December 2022.

Capital Adequacy

UGB's consolidated capital adequacy ratio of 18.7% at 31 December 2022 (2021: 19.7%) under the Basel III regulations, was above the minimum requirement of 12.5% mandated by the Central Bank of Bahrain.

Capital adequacy (US\$ million)	2022	2021
Capital base:		
Tier 1 capital	189.2	181.8
Tier 2 capital	19.1	16.6
Total capital base (a)	208.4	198.4
Credit risk weighted exposure	982.4	874.3
Market risk weighted exposure	5.8	6.6
Operational risk weighted exposure	127.1	127.4
Total risk weighted exposure (b)	1,115.3	1,008.3
Capital adequacy (a/b * 100)	18.7%	19.7%
Minimum requirement	12.5%	12.5%

RISK MANAGEMENT REVIEW

Risk Management Review

Global economic activity experienced a sharper-than-expected slowdown in 2022, with inflation reaching its highest level in decades. The Russia-Ukraine conflict, supply chain disruptions, and the cost-of-living crisis in many countries were key contributors.

It was hence imperative for the risk management framework to proactively counter any impact and stress that could affect the Bank's business and operations. Backed by strong internal governance, UGB addressed the challenges imposed by the macroeconomic landscape and continued to prepare recommendations and action plans to mitigate the major risks inherent in the Bank's business model and operational activities. Compliance with all Central Bank of Bahrain (CBB) Rulebook modules/directives and timely adherence to all reporting requirements remain top priorities in 2023. The Credit and Risk Management department continuously assesses and addresses vulnerabilities in potential areas and is committed to improving its understanding and monitoring of associated risks. Policies are developed to address them where appropriate.

Key developments in 2022

During the year, the department

- Continued assessing the effects of cybersecurity risk and the potential impact of increased interest rates
- Achieved compliance with the CBB's regulatory requirements covering capital and liquidity ratios, internal capital adequacy, and stress testing.
- Prepared action plans to ensure that issues or areas for improvement raised in the independent review of the risk management related frameworks were resolved and closed.
- Reviewed and updated risk-related policies and procedures to incorporate new and revised regulatory requirements.

Risk Philosophy

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

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

Responsibilities

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

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

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

The Risk and Compliance Committee (RCC) supervises the adoption of best practice in the areas of risk and compliance. It acts as the steering committee for risk and compliance initiatives, responsible for monitoring the progress and facilitating a smooth transition towards complete compliance with the provisions of the New Capital Accord and other regulatory requirements. During 2022, the Committee met three times.

Further information on the constitution and responsibilities of these committees is disclosed in the Corporate Governance Report available on the Bank's website, www.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 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 insure the risk of loss arising from a failure in UGB's internal processes due to inadequate internal controls and procedures,

RISK MANAGEMENT REVIEW

Reputational

human error, deliberate acts, and/or business interruptions caused by technology, systems or external disasters that are beyond the Bank's control.

Managed through maintaining high ethical standards and strict controls around business conduct, adherence to all applicable regulations and clear communications policy and controls to safeguard stakeholders' interests. Proper response mechanism and contingency planning also assist in minimizing possible exposure to reputational risk along with capital allocation.

Types of Risk

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

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 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 looked at on a monthly basis by Management, and quarterly by the Risk and Compliance Committee.

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 monthly and reported to the CBB.

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

RISK MANAGEMENT REVIEW

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 interest rate sensitivity in the Bank's asset and liability structure is detailed in Note 30(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 30(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 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 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 CBB 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.

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

RISK MANAGEMENT REVIEW

obligations as they fall due. Daily and weekly reports are generated, which monitor deposits by counterparties to ensure maintenance of a diversified funding base in terms of individual depositors, their ratings, geographical concentration and maturities.

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

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

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

Information on the liquidity risk and maturity profile of UGB's asset and liability structure as at the end of 2022 is detailed in Note 30(e) of the Consolidated Financial Statements. As of this date, 41% of total assets and 86% of total liabilities were contracted to mature within one year (2021: 42% and 67% 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 at 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 (CBB 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 CBB 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, Executive and Board Audit Committee meetings. The Board of Directors is also regularly apprised of pertinent risk issues, including the semi-annual investment reviews and the proposed corrective action.

Internal Capital Adequacy Assessment Process

The Internal Capital Adequacy Assessment Process (ICAAP)

RISK MANAGEMENT REVIEW

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

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

- Interest Rate Risk in the Banking Book
- Liquidity Risk
- Reputational Risk
- Strategic & 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 CBB – 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 is 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 MOIC's website <https://www.sijilat.bh/>.

As at 31 December 2022, 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 نور الرحمن عبدالله خان	Mohammad Haroon Nur Rehman Abdlla Khan	Bahraini	1	N/A
شركة الخليج المتحد القابضة ش.م.ب	United Gulf Holding Company B.S.C.	Bahraini	232,263,040	100

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

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.P.S.C.	9.9 %
United Industries Company K.S.C.P.	6.6%
Total	97.9%

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 2022, 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 consecutive terms would no longer be qualified to be an independent director. Consequently, Mr. Mohammed Haroon's term as an independent director will cease after the AGM scheduled on 28 March 2023. UGB's Nominating and Remuneration Committee (NRC) has identified Mr. Majid Al Ajeel as a prospective candidate for election as a Board member, to fill the vacancy caused by the resignation of Mr. Haroon. All the independent Directors of UGB are required to furnish a declaration at the time of their appointment, as also annually, that they

CORPORATE GOVERNANCE REVIEW

meet the criteria of independence. These declarations were last reviewed by the Bank's Nominating and Remuneration Committee (NRC) at their meeting held on 9 February 2023. 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.

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. Masoud J. Hayat has been an Executive Board Director of the Bank for the past 33 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.P. (KIPCO).

3.2. Board Terms and the Start Date of Each Term

As of December 2022, the Directors of UGB who were last elected at the Ordinary General Meeting held on 24 September 2020, were as follows:

Sr.	Name	Position
1	Mr. Masoud 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 (until 30 March 2023)
Independent Directors		
6	Mr. Jawad Al Asfoor	Independent Director
7	Mr. Mohamed Al Rahma	Independent Director

Each term of the Board of Directors consists of three years; the next term will run from the date of the AGM scheduled in March 2023 to the date of the AGM in March 2026. Except for Mr. Haroon, all the above Directors standing for re-election have filled out the CBB's Application for Approved Persons Status (Form 3) and submitted their resume, educational qualifications, personal identification records and credit bureau reports. Mr. Al Ajeel's application was also submitted. On 8 March 2023, CBB gave its no objection on the above candidates to be appointed as Board members. They are hence eligible to be elected by shareholders as Board members.

As has been done in the past, each member of the Board of Directors has been 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/s and submitted to the Board along with the Committee's recommendation.

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

CORPORATE GOVERNANCE REVIEW

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. It is envisaged that this will be the same as well in 2023.

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 2022, the attendance requirement for Board meetings was met by all members.

3.3. Responsibilities of the Board

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 have been provided to all Directors and will be given to Mr. Al Ajeel after his signed appointment letter is 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;
- 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.

CORPORATE GOVERNANCE REVIEW

3.5. Board Meetings

The Board of Directors held five meetings in 2022. The attendance record of the Directors at these meetings is disclosed below:

Attendance	27 Feb 2022 (Virtual)	30 Mar 2022 (Virtual)	12 May 2022 (Virtual)	7 Aug 2022 (Virtual)	10 Nov 2022 (Virtual)
Masoud 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
Mohammed Haroon	x	x	x	x	x
Jawad Al Asfoor	x	x	x	x	x
Mohammed Al Rahma	x	x	x	x	x

In addition to the above meetings, two resolutions of the Board of Directors were passed through circulation on 17 January 2022 and 26 May 2022.

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 has been met by all members over the past three years. 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 2022, there were no cases of Independent Directors requiring a session at which only they needed to be present.

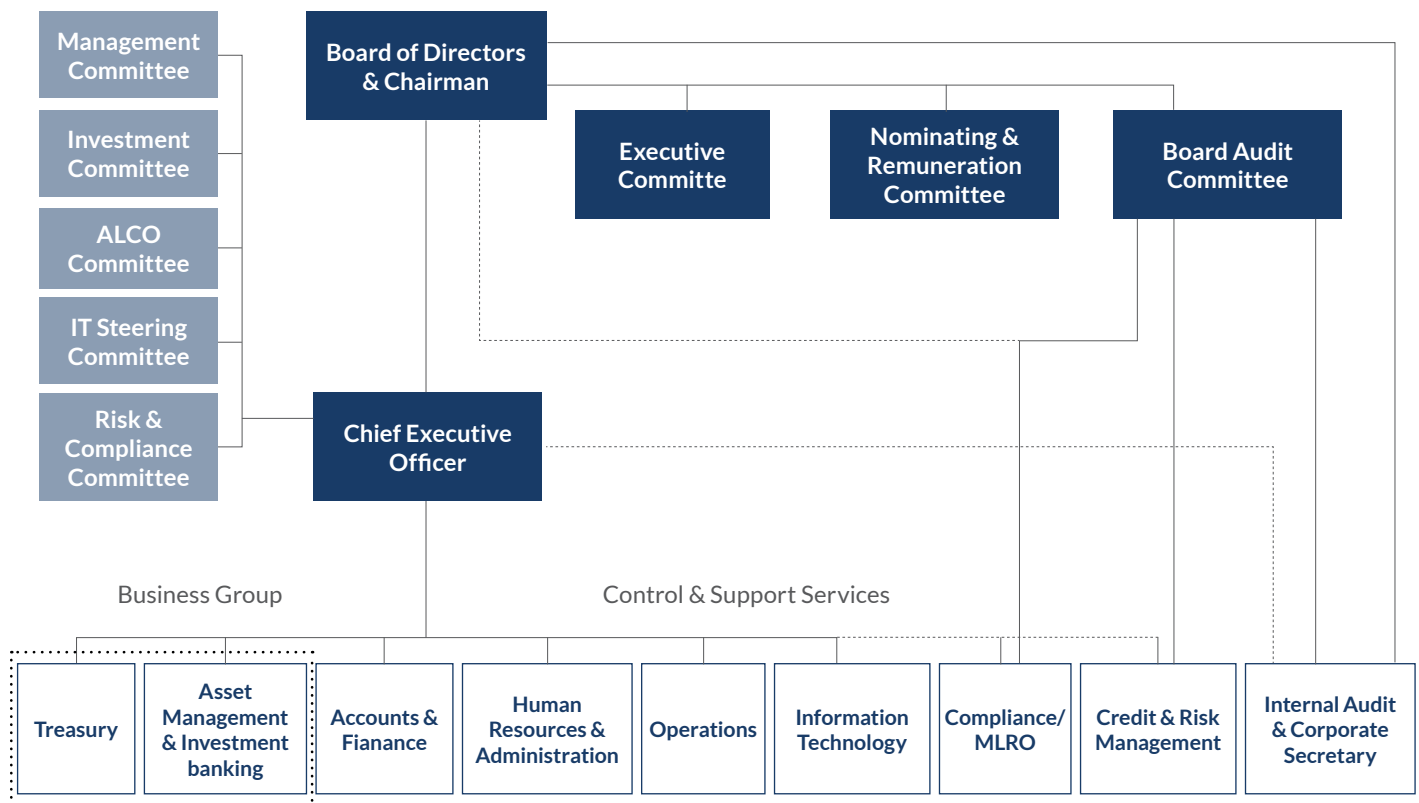
3.6. Board Committees

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 2023.

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.

CORPORATE GOVERNANCE REVIEW



Each committee has the prerogative to invite non directors or members of the management team to participate in their meetings, if they are of the opinion that the committee will gain the benefit of their advice and expertise in financial or other areas. Care is taken to ensure that their membership and constitution are in line with CBB regulations. Further information on the work done by the Committees is provided below:

3.6.1. Executive Committee (EC)

Composition: The three Executive Directors who serve on the Executive Committee are Mr. Masoud 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;
- Proposes 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.

CORPORATE GOVERNANCE REVIEW

Meetings : The executive committee meetings and resolutions are held through circulation. Members sign the underlying memos constituting the decisions. During 2022, two resolutions were passed, details of which are given below.

Sr.	Date	Masoud J. Hayat Chairman	Faisal Al Ayyar	Samer Khanachet
1	29 May 2022	X	X	X
2	22 December 2022	X	X	X

3.6.2 Board Audit Committee (BAC)

Composition: During 2022, the Board Audit Committee comprised three members with the Chairman of the BAC being an independent director. All members have sufficient technical expertise and financial literacy to enable the Committee to function efficiently.

Name	Position
Mr. Jawad Al Asfoor	Chairman
Mr. Faisal Al Ayyar	Member
Mr. Mohammed Haroon	Member

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; and
- 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 2022, the Board Audit Committee met virtually ten times; the attendance details are as follows:

Sr.	Date	Jawad Al Asfoor Chairman	Faisal Al Ayyar	Mohammed Haroon
1	10 January 2022	X	X	X
2	31 January 2022	X	X	X
3	24 February 2022	X	X	X
4	29 March 2022	X	X	X
5	21 April 2022	X	X	X
6	11 May 2022	X	X	X
7	4 August 2022	X	X	X
8	13 September 2022	X	-	X
9	9 November 2022	X	X	X
10	14 December 2022	X	X	X

The external auditors – Ernst & Young met with the BAC on 13 September 2022 and 14 December 2022.

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 2022 was as follows::

Name	Term as a NRC member
Mr. Mohammed Haroon	Chairman
Mr. Jawad Al Asfoor	Member
Mr. Mohammed Al Rahma	Member

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. NRC members reviewed the candidacy and credentials of the members standing for re-election at the AGM scheduled for March 2023. They also identified Mr. Majid Al Ajeel to replace Mr. Haroon, who has completed three successive terms as an independent Director. It was noted that there were no conflicts of interest that were highlighted by any of the members.

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

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

CORPORATE GOVERNANCE REVIEW

Meetings : The Nominating & Remuneration Committee met three times during 2022; 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	Mohammed Haroon Chairman	Jawad Al Asfoor	Mohammed Al Rahma
1	10 February 2022	x	x	x
2	14 February 2022	x	x	x
3	24 February 2022	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 subsidiary – KAMCO Investment Company K.P.S.C. The extent of the arrangements is however subject to the requirements of the regulators of the jurisdictions in which the subsidiaries operate.

3.7. Evaluation of the Board , Its Committees, and the Directors

The NRC completed the annual evaluation of individual Directors, the performance of the Board, the Executive Committee , the Board Audit Committee, and its own standing through a questionnaire administered by the Chairman of the Board, and the Chairmen of the various committees to their members. The written self-assessment covered an assessment of how the Board functioned, the evaluation of the performance of each committee considering 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 were deemed to be satisfactory for the year 2022. This is affirmed to the shareholders at the Annual General Meeting held each year.

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 meet, training and professional development hours required by the Central Bank of Bahrain. For the year 2022 the requirements were met by 5 out of 7 Board members. The report on CPD hours completed by the Directors and staff are submitted annually to the CBB as part of the statutory reports.

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

During 2022, one share was held by Mr. Haroon in order to comply with the MOIC'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 2022	31 December 2021
Masoud 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	-	-

CORPORATE GOVERNANCE REVIEW

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 2022 is indicated below:

Name	Fixed Remuneration(BD)					Variable Remuneration(BD)							
	Remuneration of the Chairman and BOD	Total allowance for attending meetings	Salaries	Others	Total	Remuneration of the Chairman and BOD	Bonus	Incentive plan	Others	Total	End of service Award	Aggregate amount (does not include expenses allowance)	Expenses Allowance
First: Independent Directors:													
Mohammed Haroon		9,425	-		9,425	-	-	-	-	-	-	-	-
Jawad Al Asfoor		9,425	-	-	9,425	-	-	-	-	-	-	-	-
Mohammed Al Rahma	-	9,425	-	-	9,425	-	-	-	-	-	-	-	-
Second: Non Executive Directors													
None	-	-	-	-	-	-	-	-	-	-	-	-	-
Third: Executive Directors:													
Masaud Hayat	-	18,850	-	-	18,850	-	-	-	-	-	-	-	-
Faisal Al Ayyar	-	11,310	-	-	11,310	-	-	-	-	-	-	-	-
Sh Abdullah Nasser Al Sabah	-	7,540	-	-	7,540	-	-	-	-	-	-	-	-
Samer Khanachet	-	7,540	-	-	7,540	-	-	-	-	-	-	-	-
Total	-	73,515	-	-	73,515	-	-	-	-	-	-	-	-

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.

4. Management

The positions of Chairman & Vice Chairman are established by UGB's Articles of Association. These are distinct from those 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 the 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 line to the Board Audit Committee.

The organization chart was last approved by the NRC at its meeting held on 9 February 2023 – this is submitted to the CBB annually by March, as part of the mandatory statutory reporting.

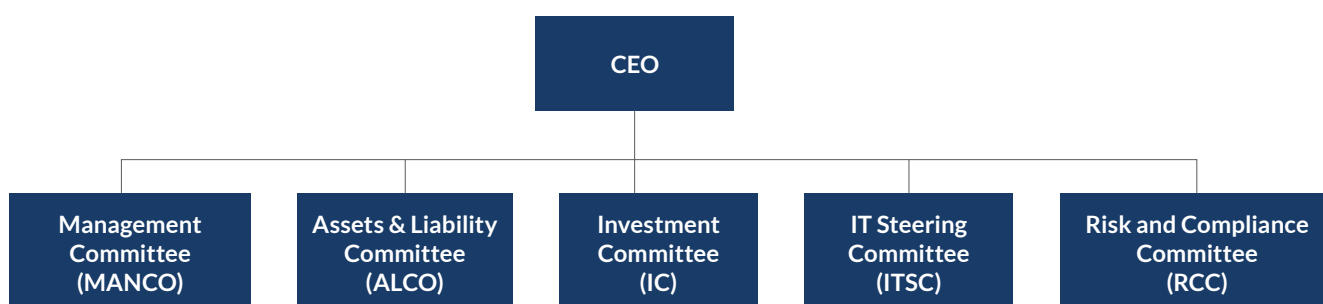
The profile of the Management Members and their biographical details are available in UGB's Annual Report, as well as the website www.ugbbh.com.

CORPORATE GOVERNANCE REVIEW

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 2022, 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 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.

CORPORATE GOVERNANCE REVIEW

For any investment/exit, legal / regulatory issues, such as intellectual property, compliance with relevant statutes and regulations, constitutive documents and pending litigation are also considered and analysed. The Investment Committee reviews the use of investment proceeds, the background of other co-investors involved in the proposed transaction, their roles and the proposed deal structure, together with expected exit timeframes, and the additional underlying risks involved in the investment, (technology shift, market shift, regulatory changes, financial structure, etc.).

IT Steering Committee (ITSC)

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

Risk and Compliance Committee (RCC)

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

4.2. Management Remuneration Structure

As mandated by the MOIC and as disclosed in the Board of Directors' report submitted to the CBB, the details of the remuneration paid during 2022 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 (BD)	Total paid remuneration (Bonus)	Any other Any other cash/ in kind remuneration paid during the year	Aggregate Amount Total (BD)
Top 6 remuneration for executives (2022)	860,532	-	82,363*	942,895

*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.

The CBB has stringent standards of remuneration to ensure that there is a balanced methodology followed by banks, while determining their compensation practices. This considers 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 2022 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.

CORPORATE GOVERNANCE REVIEW

- 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 on 9 February 2023, the NRC reviewed the categorization 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 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 must be approved by the Chairman. As at 31 December 2022, 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 2022, 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 on 9 February 2023.

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 assessed and updated based on changes in underlying responsibilities. During 2020, the job descriptions for all Senior Managers and staff were reviewed by the respective Department Heads, Human Resources, and the Internal Audit Departments. These were approved by the NRC at its meeting held in March 2020.

4.6. Review of internal control processes and procedures – Internal Audit

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

UGB's Internal Audit Department develops a 3-year strategic audit plan designed to implement a systematic, disciplined audit review approach by utilizing the available audit resources in the most efficient and effective manner and examine the adequacy and effectiveness of internal control systems, procedures and provide recommendations to enhance its quality. Internal Audit performs follow ups on raised internal control recommendations / corrective actions and reports their updated status to the Board Audit Committee. The CBB's 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 in July 2019 by an external consultancy firm to affirm the adequacy and effectiveness of the 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.

CORPORATE GOVERNANCE REVIEW

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.

In accordance with the CBB's requirements, an independent external quality assurance review was conducted in June 2022 by an external consultancy firm to affirm the adequacy and effectiveness of the Compliance Department. There were no major findings. The results will be shared with the BAC and the Board of Directors.

During 2022, 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.

The Compliance Department liaises actively with the Compliance team at the Group's main subsidiary - KAMCO. It should however be noted that the latter has its own framework and methodology which is in line with the environment and the laws of the jurisdiction in which KAMCO and its subsidiaries operate. Although there is no Group Compliance function, quarterly reports related to the Compliance and AML functions of the Bank and KAMCO are presented to the UGB's BAC and Risk and Compliance Committee.

4.8. Review of internal control processes and procedures – Risk Management

UGB has an independent Credit & Risk Management Department (CRM) that has a direct reporting line to the 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 accordance with the CBB's requirements, an independent external quality assurance review was conducted in June 2022 by an external consultancy firm to affirm the adequacy and effectiveness of the following components of the risk management framework

- Internal Capital Adequacy Assessment Framework
- Capital Adequacy
- Stress testing
- Operational Risk
- Reputational Risk
- Recovery & Resolution Plan

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.

CRM continue to assess Liquidity and Regulatory ratios to make sure they maintain required thresholds and address vulnerabilities.

4.9. Authority Levels

As mentioned above, the Bank's Risk Policy & Procedures guide 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 2022.

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 emphasised 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 in 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.

CORPORATE GOVERNANCE REVIEW

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 be bound by the tenets of the Code and disclose any conflicts of interest that they might have. Full disclosure of the ownership interests in any company in which the Director or member of staff or his/her immediate family has a >5% ownership stake, or where he/she serves as a manager, Director, or other form of significant participation, is made on an annual basis. Any incidents of non-compliance with the Code or the lack of affirmation by any member of staff, is escalated to the Board Audit Committee and the Board of Directors. A copy of the Code of Conduct is available on the website www.ugbbh.com

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

I hereby confirm that UGB has obtained from all the members of the Board and management personnel, affirmation that they have complied with the Code of Conduct, in respect of the financial year 2022.

Masoud J. Hayat
Chairman

6. Disclosure on materially significant related party transactions

Related party transactions are 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, conflicted 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		2022		
	Major shareholder US\$ 000	Associates US\$ 000	Other related parties US\$ 000	Total US\$ 000
Investment income - net	-	-	225	225
Fees and commissions - net*	1,000	2,251	11,689	14,940
Dividend income	-	-	385	385
Rental income	-	-	1,106	1,106
Interest income	-	-	3,551	3,551
Interest expense	(418)	-	(5,520)	(5,938)
General and administrative expenses	-	-	(3,047)	(3,047)
Others	1	-	110	110
Balance Sheet Items of Related Parties		2022		
Demand and call deposits with banks	-	-	16,955	16,955
Placements with banks	-	-	23,255	23,255
Investments carried at fair value through profit and loss	-	-	2,082	2,082
Investments carried at fair value through other comprehensive income	-	56	65,133	65,189
Loans and receivables	-	-	6,641	6,641
Other assets	-	3,506	4,833	8,339

CORPORATE GOVERNANCE REVIEW

Due to banks and other financial institutions	-	-	(89,904)	(89,904)
Deposits from customers	(4,751)	(345)	(50,307)	(55,403)
Other liabilities	(1)	-	(2,774)	(2,775)
Perpetual Additional Tier 1 Capital	-	-	(10,000)	(10,000)
Off statement of financial position items: Letters of guarantee	-	-	157	157

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

Owner	Category	Account Name	Amount
UGB	Investment Income	Individually below US\$ 0.5 million	225
KAMCO	Fees and commissions	KIPCO	8,777
KAMCO	Fees and commissions	Kamco Investment Fund	2,151
KAMCO	Fees and commissions	United Real Estate	1,436
UGB	Fees and commissions	United Gulf Holding	1,000
UGB	Fees and commissions	Burgan Equity Fund	511
KAMCO	Fees and commissions	Individually below US\$ 0.25 million	508
KAMCO	Fees and commissions	Burgan Bank, Turkey	429
UGB	Fees and commissions	Individually below US\$ 0.25 million	128
UGB	Dividend income	Advanced Technology Company	377
KAMCO	Dividend income	Individually below US\$ 0.25 million	8
UGB	Rental income	KIPCO	1,106
UGB	Interest income	Panther Media Group	3,229
UGB	Interest income	Individually below US\$ 0.25 million	288
KAMCO	Interest income	Individually below US\$ 0.25 million	34
UGB	Interest expenses	Individually below US\$ 0.25 million	(9)
UGB	Interest expenses	Syria Gulf Bank	(395)
UGB	Interest expenses	United Gulf Holding	(418)
UGB	Interest expenses	Tunis International Bank	(525)
UGB	Interest expenses	KIPCO	(1,602)
UGB	Interest expenses	Bank Of Baghdad	(2,989)
UGB	General and administration expenses	Individually below US\$ 0.25 million	(8)
KAMCO	General and administration expenses	Individually below US\$ 0.25 million	(20)
KAMCO	General and administration expenses	UFM Car Company	(318)
UGB	General and administration expenses	Directors' Remuneration	(325)
KAMCO	General and administration expenses	KIPCO	(1,178)
KAMCO	General and administration expenses	Gulf Insurance Group	(1,198)
KAMCO	Others	Individually below US\$ 0.5 million	113
UGB	Others	Individually below US\$ 0.5 million	(3)

It is noted that the Code of Corporate Governance requires all transactions between UGB and related parties to be approved by the Board of Directors prior to implementation. As this is not practically feasible, a report at the end of each year on all related party transactions is presented to the BAC which approves them on a post facto basis. This was done in March 2023.

CORPORATE GOVERNANCE REVIEW

7. Disclosure of Conflicts of Interest

During the financial year ended 2022, 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. If 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 2022. All individual directors have complete access to UGB's Corporate Secretary.

8. Disclosure and Transparency Policy

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

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

8.1. Means of Communication

- Annual 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 MOIC and the external auditors. Attendance of each director is primarily dependent on his availability.
- 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.
- News Releases, Presentations, etc. :** Official news releases, detailed presentations made to the media, analysts, institutional investors etc. are displayed on the Bank's website www.ugbbh.com, after they have been released to the CBB and the Bahrain Bourse.
- Website:** The Bank maintains a website www.ugbbh.com which contains information related to its profile as well as audited financial data for over five years.
- Annual Report:** The Bank's Annual Report containing, inter alia, the Audited Annual Accounts, Consolidated Financial Statements, Directors' Report, Auditors' Report, and other public information is circulated to shareholders, regulators, correspondent bankers and others entitled thereto. The Management Discussion and Analysis report forms part of the Annual Report and is displayed on the Bank's website www.ugbbh.com

Each quarter the Chief Executive Officer and the Chief Financial Officer certify to the Board of Directors and the Board Audit Committee, that to 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.

- 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.

CORPORATE GOVERNANCE REVIEW

- 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. 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. 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.
- 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
 - For the investigation of whistle blowing instances: auditcompliance@ugbbah.com

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

There is a separate section on the website (under Investor Relations) where the bank posts relevant shareholders' information e.g. AGM agenda, proxies, Corporate Governance report etc.). The bank has an email (info@ugbbh.com) which is already in place to allow shareholders to obtain the above information — shareholders who require more such information, can always raise their queries using this email address.

9. External Auditor

Ernst and Young have been the Bank's external auditors since 2001. In accordance with Article 206 of the Bahrain Commercial Companies Law (2001), the external auditors are appointed / re-appointed each year by the shareholders at the AGM, subject to the procurement of the no objection letter from the CBB. The decision was taken to re-appoint Ernst & Young as the external auditors, as they are a well-established name and part of the Big 4 audit firms in the world. There is no conflict of interest for engaging EY as the external auditors, as the Bank has no financial dealings with EY.

The disclosure with respect to audit and non-audit fees for the year ended 2022 are as follows:

Name of the audit firm	Ernst & Young
Name of the partner in charge of the Company's audit	Kazim Merchant
The partner's years of service as the partner in charge of the Company's audit	3.5 years
Total audit fees for the financial statements for the year 2022 (USD)	\$ 93,214
Other special fees and charges for non-audit services other than auditing the consolidated financial statements for the year 2022 (USD)	\$ 100,032
Aggregate fees paid to Ernst & Young (including VAT)	\$ 193,246

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 GOVERNANCE 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.

The Board of Directors of UGB recognise that in recent years, financial markets have taken measures aimed at improving environment, social and governance (ESG) practices. This is based on evidence that institutions which implement sustainable practices are widely respected and outperform the market across key sectors.

During 2022 the Bank supported the Bahrain Authority for Culture and Antiquities (BACA), in its efforts to develop the Pearling Path, as part of its commitment towards environmental sustainability and social empowerment. The Path is a 3.5 km visitor pathway in the old capital town of Muharraq that takes tourists to the houses of the old pearl merchants who were the first architects of Bahrain's economy. Each House is a chapter of the story.

To guide the visitors along the path that crosses the narrow lanes of old Muharraq, lighting elements and 16 public spaces were designed to act as places for leisure, rest, and interaction between community members. They are made of a mother of pearl incusted concrete flooring and urban furniture with a series of trees that provide shade and create a microclimate. UGB sponsored one of the spaces.

As has been the practice in previous years, the Bank also continued to emphasise education and career development for young Bahrainis, development of the regional banking sector, and charitable and community-based activities.

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:

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 20 years by sponsoring one of the participating schools, and became a Gold Sponsor in 2017.

UGB Mashare' Al Khair Scholarship Programme

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

Development of the Regional Banking Sector

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

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

Donations

UGB makes donations and contributions either directly or through the Masharie-Al-Khair Charity Organization that was established by the KIPCO Group. The Board of Directors ratifies the annual donation budget which is subsequently approved by the Bank's shareholders in the Annual General Meeting.

The donations made during 2022 were as follows:

Recipients	Amount USD
Charitable and Community Welfare Activities	64,191
Culture - Islamic Institutions	63,660
Education	26,525
Health	7,958
Sports & Training	7,958
Aggregate	170,292

CORPORATE SOCIAL RESPONSIBILITY

Commitment to Social Responsibility and governance


Over the years, UGB has provided financial assistance for numerous charitable, cultural, social, medical, educational, and child welfare organisations that work with orphans, needy families, and underprivileged sections of society. UGB also took initiatives that are in line with areas of the United Nations Sustainable Development Goals.


A summary is provided below:


Social Related Initiatives – CSR Oversight and commitment

3 GOOD HEALTH AND WELL-BEING 	<ul style="list-style-type: none"> • Comprehensive health coverage inclusive of critical illnesses • Financial assistance in case of emergencies
4 QUALITY EDUCATION 	<ul style="list-style-type: none"> • 19th year of support of the TradeQuest – The Trading Challenge • Financial support to children of employees for higher education
5 GENDER EQUALITY 	<ul style="list-style-type: none"> • Gender Equality - Staff Benefits and training. • Considerable number of female staff
8 DECENT WORK AND ECONOMIC GROWTH 	<ul style="list-style-type: none"> • Safe working environment • < 3% employee turnover • 0% injury rate
10 REDUCED INEQUALITIES 	<ul style="list-style-type: none"> • 81% nationalisation • 32% diversity – employment of women
11 SUSTAINABLE CITIES AND COMMUNITIES 	<ul style="list-style-type: none"> • Financial assistance to orphanages • Arab Regional Centre for World heritage
12 RESPONSIBLE CONSUMPTION AND PRODUCTION 	<ul style="list-style-type: none"> • Elimination of single use plastic – bottles and cups • Go Green / Go digital campaigns – reduction in paper printing

Governance related aspects and Board Oversight

16 PEACE, JUSTICE AND STRONG INSTITUTIONS 	<ul style="list-style-type: none"> • Code of Conduct – Board and Management • Comprehensive Corporate Governance framework with Board approved policies and procedures
---	--

	<ul style="list-style-type: none"> • Transparent Disclosure Policy • Corporate Governance Disclosure
---	--

	<ul style="list-style-type: none"> • Whistleblowing Policy • Customer Complaints Mechanism
---	--

GROUP DIRECTORY

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

P O Box 5964, Diplomatic Area
UGB Tower, Manama,
Kingdom of Bahrain
Tel: +973 17 533233
Fax: +973 17 533137
Email: info@ugbbah.com
Website: www.ugbbh.com

PARENT COMPANY**United Gulf Holding Company B.S.C.**

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
Website: www.ughbh.com

A MEMBER OF THE KIPCO GROUP**Kuwait Projects Company (Holding) K.S.C.P.**

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
Website: www.kipco.com

ASSET MANAGEMENT & INVESTMENT BANKING**KAMCO Investment Company (KAMCO) K.S.C.P.**

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
Website: www.kamconline.com



بنك الخليج المتحد ش.م.ب. (مغلقة)
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@ugbbh.com www.ugbbh.com