

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



CORPORATE GOVERNANCE GUIDELINES

Date of Last Review. February 2021

Date of Current Review. November 2023



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GLOSSARY

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

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1. Introduction

The Board of Directors (BoD, the Board) constitutes the apex body of United Gulf Bank B.S.C. (c) (UGB, the Bank). Members of the Board have long recognized the importance of good governance in promoting and strengthening the trust of their shareholders and their customers. 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. In line with UGB's mission *'To be a leading wholesale bank providing asset management and investment banking services, delivered through a network of local investment companies across the Middle East and North Africa region'*, members of UGB's Board of Directors and Management support the **'FAIR'** principles of **F**airness, **A**ccountability, **I**ntegrity, and **R**esponsibility in their relationship with the Bank's shareholders, employees, and other external stakeholders.

UGB has endeavoured to comply with the revised requirements of the Central Bank of Bahrain's (CBB) Higher Level Controls (Module HC). The corporate governance framework of the Bank and its subsidiaries reflects the culture, policies, relationship with stakeholders and commitment to values of the UGB Group. It should be noted that while each of UGB's subsidiaries has a commitment to ensure effective corporate governance over its activities, the extent of the arrangements is subject to the requirements of the regulators of the jurisdictions in which the subsidiaries operate.

This document is a synopsis of the overall corporate governance guidelines that are elaborated in detail in the underlying policies and procedures manuals (PPMs).

2. Board's Overall Responsibilities

2.1 Responsibilities of the Board - HC 1.1

The Board of Directors recognizes its fiduciary duties of care and loyalty to UGB and its shareholders. It is accountable and responsible for the affairs, performance of the Bank, and its compliance with laws, rules, and regulations of the Kingdom of Bahrain. The members recognize and understand that the board's role is distinct from the role of its shareholders (who elect the board and whose interests the board serves), and the role of the officers (whom the board appoints and oversees).

The Board establishes the objectives for UGB and develops the strategies that direct the ongoing activities of the Bank to achieve those objectives. By approving the Bank's strategy, the Board demonstrates that it can proactively identify and understand the risks that the Bank faces in achieving its business objectives through its business plans.

The Board's role and responsibilities are included in the [Charter of the Board of Directors](#). The main areas that it supervises include:

Strategy:

In this context, the Board's oversight involves

1. Approving and overseeing the development of the licensee's strategy, business plans and budget,
2. Actively engaging in the affairs of UGB and keeping up with material changes in the Bank's business and the external environment.¹
3. Reviewing major strategy papers and business plans and the inherent level of risk of the plans.
4. Assessing the adequacy of capital to support the strategy of UGB.
5. Setting performance objectives and reviewing management performance against those budgets and key performance indicators.
6. Overseeing major capital expenditures, divestitures, and acquisitions.
7. Monitoring and implementation of strategy by management.

All major proposed changes to the strategy of UGB must have the approval of the CBB in writing prior to implementation².

¹ HC 1.1.1d

² HC 1.1.1.c

Accountability for internal controls:

This is done through:

1. Ensuring that there is a robust finance function responsible for accounting and financial data that is used to prepare financial statements that accurately disclose UGB's financial position.³
2. Reviewing the integrity of the Bank's accounting and financial reporting systems while approving the annual and interim financial statements.⁴
3. Ensuring that adequate systems, controls, processes, and procedures are implemented by senior management in line with the Board approved policies;⁵
4. Receiving affirmation that management develops, implements, and oversees the effectiveness of comprehensive know your customer standards, as well as ongoing monitoring of accounts and transactions, in keeping with the requirements of relevant law, regulations and best practice.
5. Establishing a control environment that maintains client confidentiality and ensures that the privacy of the Bank is not violated, and clients' rights and assets are properly safeguarded;
6. Overseeing that the Bank has adequate processes to ensure full compliance with the requirements of the CBB Law, other relevant laws and the relevant rulebooks.⁶
7. Ensuring that the risk management, compliance, and internal audit functions are properly positioned, staffed, and resourced and carry out their responsibilities independently, objectively and effectively.⁷ It is imperative that Senior management maintain an effective and transparent relationship with the CBB.⁸
8. Approving an appropriate code of conduct/ ethics outlines the acceptable practices that all Board members, senior management and other staff must follow in performing their duties,

³ HC 1.1.1h - iii

⁴ HC 1.1.1.i

⁵ HC 1.1.1h - i

⁶ HC 1.1.1h - ii

⁷ HC 1.1.1h - iv

⁸ HC 1.1.1h - v

and the unacceptable practices/ conduct that must be avoided.⁹ This sets the corporate values that create expectations that the business must be conducted in a legal, professional and ethical manner, and oversees the adherence to such values by Board members, senior management and other employees.¹⁰ The Chief Compliance Officer is responsible for ensuring that the corporate values, professional standards and tenets of the code of conduct are adequately communicated throughout the Bank.¹¹ Directors, Senior Management and other staff will provide an annual affirmation to the Code of Conduct, as they are aware that appropriate disciplinary or other actions will be taken to address all incidents of unacceptable behaviour, practices and transgressions.¹²

9. The adoption and review of management structure and responsibilities. This involves approving the selection and overseeing the performance of the chief executive officer (CEO), chief financial officer and heads of the risk management, compliance, and internal audit functions.¹³ These must be executives with integrity, technical and managerial competence, and appropriate experience. The Board also reviews succession planning and replacing key executives when necessary, overseeing with the assistance and advise of the Remuneration Committee, the remuneration system's design and operation for approved persons and material risk-takers and monitoring and reviewing board remuneration packages and executive compensation and assessing whether it is aligned with UGB's remuneration policy, risk culture and risk appetite.¹⁴
10. Ensuring that there is appropriate delegation of authority from the Board to executive management.
11. Convening and preparing for shareholder meetings.¹⁵ UGB's Board has approved a detailed policy & procedure manual on 'Ordinary / Extraordinary General Assembly Meetings' that enumerates the requirements for conducting meetings. This is based on the requirements of the Commercial Companies Law.

Accountability for Risk Management

The Board is also responsible for:

⁹ HC 1.2.1a

¹⁰ HC 1.2.1b

¹¹ HC 1.2.1d

¹² HC 1.1.1e

¹³ HC 1.1.1j

¹⁴ HC 1.1.1k

¹⁵ HC 1.1.1e

1. Approving, and overseeing the implementation of UGB's risk management framework and all policies that are reviewed based on the size, complexity, business strategy, markets, or regulatory requirements in the jurisdictions where UGB operates. These are updated on a regular basis to mitigate the occurrence of a major failure of controls.
2. Establishing along with senior management and the chief risk officer, UGB's risk appetite, that is based on the strategy, competitive and regulatory landscape, UGB's long-term interests, risk exposure and ability to manage risk effectively. The Board also approves UGB's adherence to the risk appetite statement, risk policy and risk limits and promotes risk awareness within a strong risk culture by conveying its expectation that it does not support risk-taking beyond the risk appetite and risk limits set by the Board, and that all employees are responsible for ensuring that UGB operates within the established risk appetite and risk limits.¹⁶
3. Board members are encouraged to independently assess and question the policies, processes, and procedures of the Bank, with the intent to identify and initiate management action on issues requiring improvement. (i.e., to act as checks and balances on management). Procedures may be defined to appoint advisors or external experts to assist Board members in effectively discharging their responsibilities. Nevertheless, it is the Board's ultimate responsibility to ensure responsible stewardship such that an adequate, effective, comprehensive, and transparent corporate governance process is in place.
4. The Corporate Governance guidelines summarising the responsibilities and how the Board discharged them, will be presented in the annual Corporate Governance report that is presented to the shareholders at the general assembly. A copy of this is disclosed publicly as it is part of the Annual Report that is available on UGB's website www.ugbbh.com. This report is also submitted to the CBB on an annual basis.

2.2 Corporate Culture and Values - HC 1.2

UGB's Board of Directors recognizes that the reputation and integrity of the Bank are valuable assets that are vital to its success. Each employee of the Bank is responsible for conducting the Bank's business in a manner that demonstrates a commitment to the highest standards of honesty, integrity and in good faith, with due diligence and care, towards the best interests of the Bank, its shareholders, and other stakeholders. The **Code of Conduct** as approved by the Directors, represents ethics and policies long followed by the Bank and are applicable to its Directors, Senior Management, Officers, and Employees. It is

¹⁶ HC 1.2.1c

widely communicated throughout the Bank. staff, employees, and Directors are required to fulfil their fiduciary responsibilities in accordance with the Code of Conduct. A yearly written affirmation is submitted by all Directors and staff to the Chairman of the Board and the Chief Compliance Officer respectively.

The Board also has a **Disclosure of Conflict of Interest Policy** that sets out the procedures for the identification, reporting, disclosure, prevention and strict limitation of existing or potential conflicts of interest which may affect the performance of the Bank, its directors, management, or other employees when dealing with UGB or other stakeholders. It is applicable to all Directors, Senior Management comprising Approved Persons and employees (collectively known as UGB staff).

Directors/ Approved persons must 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 have an actual or perceived conflict. This Disclosure shall include all material facts in the case of a contract or transaction involving the director or approved person.¹⁷

The unanimous approval of the full Board is required for decisions pertaining to transactions in which UGB Board members and staff have material conflicts of interest.¹⁸ This includes any action that could be construed as:¹⁹

- Entering into competition with the Bank;
- Entering into abusive related party transactions that are against the interest of the Bank;
- Misusing the banks' assets or using the property of the Bank for personal needs;²⁰
- Demanding or accepting substantial gifts for himself or his associates;
- Diverting business opportunities of the Bank such that the approved person or his/her associates gain/s financially;
- Misusing UGB privileged information;
- Compromising client confidentiality or the privacy of UGB such that the clients' / Bank's personal data, rights and assets are not properly safeguarded.²¹

¹⁷ HC 1.2.4

¹⁸ HC 1.2.4 a (iii)

¹⁹ HC 1.2.4 b

²⁰ HC 1.2.4 vi

Accordingly, the **Disclosure of Conflict of Interest Policy** approved by the Board of Directors, states that.

1. Each member of the Board of Directors and approved persons must annually declare in writing all their other interests in other enterprises or activities (whether as a shareholder or above, 5% of the voting capital of a company, a manager, or other form of significant participation) to the Nominating & Remunerations Committee of the Board.²² This declaration should be made to the Chairman of the Board of Directors on an annual basis before 31st January of each year. The information provided to the Chairman of the Board will be published in the bank's Annual Report.
2. Advance approval from all disinterested directors of shareholders, is required for all transactions in which a Board Director or officer has a personal interest.²³ The Board requires that such approval be sought in writing and addressed to the Chairman of the BOD. The relevant templates are included in the Disclosure of Interest Policy.
3. The Chief Executive is required to disclose to the Board of Directors on an annual basis, those individuals who are occupying controlled functions and who are relatives of any approved persons within the Bank. While this disclosure will be part of the CG report presented to the shareholders, affirmation from all controlled staff will be sought as part of their annual adherence to the Code of Conduct

The Bank's HR policy has a section on the employment of relatives of approved persons. As per the policy, the hiring of immediate relatives including spouses, children, brothers, and sisters of working employees is prohibited, unless the exception is approved by the Chairman. At the discretion of the Bank's Management, this restriction may also extend to relatives up to 2nd degree as defined by Bahraini Labour Law. The Bank requires an annual affirmation from all approved persons and employees, to declare the names and relationship of any other relatives who are working within UGB.

UGB has a formal **Whistle-blowing policy**, consisting of responsible and effective procedures for disclosure or reporting of misconduct and impropriety so that appropriate remedial action can be taken if concerns are deemed legitimate. The Bank defines whistleblowing as *'alerting the Bank authorities that an individual or group of individuals have committed or are going to commit practices and/or misconduct that are considered to*

²¹ HC 1.2.4a

²² HC 1.2.4

²³ HC 1.2.4

be illegal, questionable, unethical and improper.’ By escalating these potential issues, the Bank is made aware of these concerns and is alerted that its interests and the interests of stakeholders could be compromised or at the risk of being harmed. A copy of the policy and the whistleblower’s form is available on its website www.ugbbh.com

2.3 Oversight of Senior Management - HC 1.3

The Board of Directors recognises its fiduciary duties of care and loyalty to UGB and its shareholders. It is accountable and responsible for the affairs and performance of the Bank. To discharge its duties, the Board approves establishing a clear and efficient management structure and has appointed officers whose authority includes management and operation of activities on an ongoing basis, reporting to and under the direction of the Board. The Charter of the Board of Directors has a separate section on the oversight of senior management. This includes the Board’s role in reviewing their performance, ensuring their knowledge, adherence to laws and regulations and that there are appropriate succession plans in place for all staff.

3. Board Formation

3.1 Board composition - HC 2.1

As stipulated in the Bank's [Articles of Association](#), UGB will be administered by a Board of Directors consisting of a number of Directors not less than 5 (five). The maximum number of the Board members is capped at 15. The [Charter of the Board of Directors](#) lists the following points that are taken into consideration during its periodic reviews of its composition and size:

1. The Board will review its size and composition to ensure it comprises individuals with a balance of skills, diversity, and expertise, who individually and collectively possess the necessary qualifications commensurate with the size, complexity, and risk profile of the Bank.²⁴
2. Best practice states that the Chairman of the Board shall be a non-executive, independent one. The Charter mandates that the Chairman and the Deputy Chairman will be different persons from the Chief Executive Officer (CEO), so that there is an appropriate balance of power and greater capacity for independent decision making;²⁵
3. As UGB has a controller (UGH), there is a regulatory requirement to ensure that at least one third of the composition of members is from the independent category.²⁶ In any case, there will be at least three independent directors to protect the interests of minority shareholders and exercise independent judgement²⁷.

3.2 Board Member Selection - HC 2.2

The Board of Directors shall have the qualifications provided in Article 173 of the Bahrain Commercial Companies Law and as amended from time to time. Currently Article 173 of the Law reads as follows:

1. A member of the Board of Directors must be fully qualified to act and meet the 'fit and proper' guidelines of the CBB. This includes having the knowledge, skills, experience and,

²⁴ HC 2.1.1

²⁵ HC 3.2.1

²⁶ HC 2.1.2.

²⁷ HC 2.1.4

particularly in the case of non-executive directors, independence of mind necessary to discharge their responsibilities on the Board.²⁸

2. He/she must have (b) Have a record of integrity and good reputation and have sufficient time to fully carry out their responsibilities;
3. A member of the Board of Directors must not have been convicted of a crime involving negligent, fraudulent bankruptcy, a crime affecting his honour, involving a breach of trust or in a crime on account of his breach of the provisions of this law, unless he was reinstated.
4. The CBB's approval is required prior to the election of all Directors. This involves the individuals filling in an Application for Approved Persons Status and submitting this along with a copy of their resumes, passport copies, identification cards and a credit bureau report from their countries of residence and other requirements as necessitated.

All nominated directors should possess the requisite experience and competencies mentioned in the CBB's Module TC (Training and Competency).²⁹ The requirements are elaborated further in 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 questionnaire will be filled out by the NRC based on information available on/from the prospective/ existing Director and submitted to the Board. Independent Directors have to fill out the Annual **Questionnaire for independent directors**, so that the NRC can evaluate his/her independence.

Board members are not allowed to have more than two directorships of Bahraini banks, bearing in mind that two directorships of licensees within the same license category are not permitted. i.e., Directors cannot have more than one directorship in a retail bank or wholesale bank.³⁰ Board members also cannot hold more than three directorships in public companies in Bahrain.³¹

There is no restriction on the Directorships held for institutions outside Bahrain (other than the practicality of managing multiple Board memberships) including UGB's Group companies, if it does not impede their ability to contribute effectively as Directors of the Bank, and that there is no conflict of interest.

²⁸ HC 2.2.2

²⁹ HC 2.2.4

³⁰ HC 2.2.2e

³¹ HC 2.2.3

3.3 Board Members' Appointment - HC 2.3

The Bank's **Directors' Induction Policy** elaborates on the information and training necessary to enable new Directors to contribute appropriately to the operations of the Board from the time of their election. After the shareholders have elected a new Board member, the Chairman of UGB's Board of Directors (Chairman) provides the candidate with a **written appointment letter** that recites the director's powers, duties, responsibilities, accountabilities, and other matters relating to his appointment including his term, the time commitment envisaged, the committee assignment if any, his remuneration and expense reimbursement entitlement and his access to independent professional advice if needed.

The newly inducted members are provided a formal and tailored induction program. This includes meetings with senior management, visits to UGB's facilities, presentations regarding strategic plans, financial, accounting and risk management issues, compliance programs, and possible meetings with internal and external auditors and legal counsel. This enables members to understand their oversight and corporate governance role, to exercise sound, objective judgement about UGB.

UGB has developed a **Directors' Access to Independent Advice Policy**. This document states that the entire Board of Directors, Board Committee members or individual Directors, may retain independent professional advice from any legal, accounting, or other advisor, consultant or expert (the 'Independent Professional Advisor') or request the opinion of the Independent Professional Advisor in matters where the Board exercises its authority to fulfil its responsibilities and perform its duties, including the conduct or direction of any investigation or in relation to any of the Bank's affairs within their authority. The professional advice is obtained by them at the expense of the Bank when it is deemed essential to discharge their responsibilities as directors.

4. Board Structure and Practices

4.1 Organisation and Assessment of the Board - HC 3.1

UGB's **Charter of the Board of Directors**, reiterates that the board must be collegial and deliberative, to gain the benefit of each individual director's judgement and experience. The importance of fostering an environment of mutual trust, open discussion, constructive dissent, and support for decisions after they have been made, is constantly emphasized by the Chairman.

The section on Board Meeting Frequency & Attendance (in the Board Charter), also states that.

1. The Board shall meet frequently to enable it to discharge its responsibilities effectively, but in no event less than four times in every financial year i.e., once every quarter.³² Meetings may be virtual or physical. All Directors are expected to contribute actively to the work of the Board to discharge their responsibilities. They must attend the meetings especially where important issues are to be discussed.
2. It is mandatory for Directors to attend at least three fourths (75%) of all Board meetings within a calendar year. Voting and attendance proxies for board meetings are prohibited at all times.³³
3. The CBB requirements stipulate that at least half of the Board meetings should be held in the Kingdom of Bahrain.³⁴ In the event that this condition cannot be met, the Wholesale Banking Department should be notified along with the underlying reasons.
4. The absence of Board members at the Board and committee meetings will be noted in the meeting minutes.³⁵ Such absence does not absolve them of their responsibilities as directors. In addition, Board attendance percentage must be reported during any general assembly meeting when Board members stand for re-election (e.g., Board member XYZ attended xx% of scheduled meetings this year.³⁶
5. If a Board member has not attended at least 75% of Board meetings in any given financial year, the licensee must notify the CBB, within one month from its financial year-end, indicating which member has failed to satisfy this requirement, their level of attendance

³² HC 3.1.7

³³ HC 1.3.4, 3.1.8

³⁴ HC 3.1.7

³⁵ HC 3.1.9

³⁶ HC 3.1.9

and the reason for non-attendance. The CBB shall then consider the matter and determine whether enforcement action pursuant to Article 65 of the CBB Law is appropriate.³⁷

6. The Board of Directors shall meet at the summons of its Chairman or his Deputy (in event of his absence or disability) or if requested to do so by at least two Directors. A meeting of the Board of Directors shall be valid if attended by no less than half the number of Directors (quorum);³⁸
7. The Board of Directors recognize that physical presence of all Directors may not always be possible due to circumstances prevalent at the time. Therefore, participation in board meetings by means of virtual, video or telephone conferencing is regarded as attendance and may be recorded as such³⁹;
8. The Board shall adopt resolutions held through circulation and all resolutions will be disclosed in the next scheduled Board meetings for ratification;
9. Resolutions of the Board of Directors shall be adopted by a simple majority vote of the Directors present in person or via virtual means. In case of a tie, the Chairman or the person deputizing for him shall have a casting vote. A dissenting member of the Board shall record his dissent in the minutes.⁴⁰ The Board may adopt resolutions by virtual correspondence, electronic mail, courier/post and or fax correspondence, provided they shall be approved by all the members and recorded in the minutes of the following Board meeting. Only then will the resolutions taken in this manner be valid. Any member to whom a proposed resolution is sent and who fails to respond within three working days following the date on which the proposed resolution is sent to him, shall be considered to have approved the resolution.

In accordance with the CBB's requirements, the Board adopts the **annual** evaluation of its performance and the performance of each of its committees⁴¹. The evaluation process includes:

- Assessing how the Board operates in terms of the requirements of the CBB Rulebook and the Commercial Companies Law
- Evaluating the performance of each committee in light of its specific purpose and responsibilities

³⁷ HC 3.1.9

³⁸ Article 34.1 of UGB's Articles of Association, Article 241 of the Commercial Companies Law

³⁹ HC 3.1.8

⁴⁰ HC 3.1.6

⁴¹ HC 3.3.1d

- Reviewing each director's work, their attendance at Board and committee meetings, and their independence and constructive involvement in discussions and decision making.
- Reviewing, based on the Nomination Committee's advice and assessment, the Board's current structure, size, composition as well as committees' structures and composition in order to maintain an appropriate balance of skills, diversity, and experience and for the purpose of planned and progressive refreshing of the Board.
- Recommendations for new Directors to replace long standing members or those members whose contribution to the Bank or its committees is deemed to be inadequate.⁴²
- Recommendations for independent directors to replace those members who have completed three consecutive terms.

The evaluation process is conducted through a questionnaire administered to the Directors, the Chairman of the Board, and the Chairmen of the various committees. The results will be collated by the Chairman of the Board and the Corporate Secretary; a summary of these will be presented in the Corporate Governance report. Completing the annual evaluations is a responsibility of the entire Board; it can however be organized and assisted by an internal board committee or with the help of internal and/or external experts.⁴³

The Board report to the shareholders at each annual shareholder meeting, that the evaluations have been completed.⁴⁴ Details of the evaluations will be summarized and included in the Corporate Governance Report. Further details are available in the **Evaluation Policies of the Board and the respective committees**.

4.2 Board Chairperson - HC 3.2.1

The position of Chairman & Deputy Chairman is established by UGB's Articles of Association⁴⁵ and is distinct from that of the Chief Executive Officer of the Bank⁴⁶. The CBB's rules require that the Chairman of the Board should be an independent director,⁴⁷ so that there is an appropriate balance of power and greater capacity of the Board for independent decision making. In the event that this is not the case, a disclosure will be made in the annual corporate governance report along with the underlying justification.

⁴²HC 3.1.1

⁴³ HC 3.1.1d

⁴⁴ HC 3.1.3

⁴⁵ Article 31

⁴⁶ HC 3.2.1

⁴⁷ HC 3.2.1, HC 3.2.2

The Chairman of the Board is responsible for the leadership and the effective functioning of the Board.⁴⁸ He is the major point of contact between the Board and Management and also the Board and the Shareholders. The role requires that he commits sufficient time to perform his / her role effectively, is briefed on all material operational matters and facilitates the conduct of the Board processes and evaluation procedures, as mentioned in detail in the [Charter of the Board of Directors](#).

4.3 Board Committees - HC 3.3.1

The CBB's rules permit the Board where appropriate to delegate some of its functions, but not its responsibilities, to the Board committees.⁴⁹ Its role is hence clearly defined, documented, and enforced through various Committees constituted under UGB's Articles of Association, the Code of Corporate Governance and the CBB's rulebook. These comprise the Executive Committee, the Board Audit Committee and the Nominating and Remuneration Committee. These may be combined provide there is no conflict of interest that might arise between their respective duties, and only after obtaining the CBB's prior approval⁵⁰.

Members of each committee are chosen based on objectivity, their skill sets and their level of independence.⁵¹ In accordance with the CBB's requirements, each committee has the resources and the authority necessary to discharge its duties and responsibilities, including the authority to select, retain, terminate and approve the fees of external legal, accounting or other advisors as it deems necessary.⁵² Each committee also has an annual performance evaluation that is presented to the Board in the form of a written report presented at any regularly scheduled Board meeting. Members have the authority to recommend to the Board, any improvements deemed necessary or desirable to the committee's charter or composition.⁵³ Members of each committee are also expected to exercise judgment free from any personal conflicts of interest or bias.⁵⁴

Although the Board may delegate certain functions to committees or management, it does not delegate its ultimate responsibility in ensuring that there is an adequate, effective, comprehensive and transparent corporate governance framework in place.⁵⁵ Each of the committees has a formal documented charter which sets out its roles and responsibilities,

⁴⁸ HC 3.2.1

⁴⁹ HC 1.1.2

⁵⁰ HC 3.3.3

⁵¹ HC 3.3.2

⁵² HC 3.3.6

⁵³ HC 3.3.7

⁵⁴ HC 3.3.8

⁵⁵ HC 1.1.2

how the committee will report to the Board, what is expected of committee members, and any tenure limits for serving on the committee.⁵⁶ These form an integral part of the Corporate Governance processes within UGB.

Committees also maintain appropriate records of their deliberations and decisions in their meeting minutes, including key points of discussions held, recommendations made, decisions taken (and update on their subsequent implementation) and dissenting opinions (if any).⁵⁷ **the Board Audit Committee and the Nominating and Remuneration Committee.**

4.4 Executive Committee - HC 3.3.1

The Executive Committee is appointed by the Board to exercise the powers and duties on its behalf between meetings and to implement the policy decisions that the apex body takes. Its primary functions include:

- approving all risks not within the Investment Committee's risk authority
- reviewing and making recommendations to the Board of Directors on the Bank's activities.

The committee members shall exercise their business judgment to act in what they reasonably believe to be in the best interests of UGB and its shareholders. In discharging that obligation, members may rely on the honesty and integrity of UGB's senior executives and its outside advisors and auditors. Further information on the constitution, quorum, decision making, and respective responsibilities is available in the **Charter of the Executive Committee.**

4.5 Audit Committee - HC 3.4.1, HC 3.5.1, 3.8.1

The **Charter of the Board of Directors** provides for the establishment of an audit committee with a separate charter of its own. **The Board Audit Committee (BAC) Charter** documents the composition of the BAC, qualifications of its members, the number of statutory meetings and its responsibilities. In accordance with the CBB's requirement, the BAC is responsible for:

- ensuring that the licensee has effective and adequate policies covering all its business activities, internal audit, financial reporting, compliance, risk management, prevention of frauds and cyber security breaches,

⁵⁶ HC 3.3.4

⁵⁷ HC 3.3.6

- supervising the financial reporting process after reviewing the integrity of the financial statements.
- overseeing and interacting with the Bank's internal and external auditors with a special focus on the latter's appointment, remuneration, dismissal, criteria of independence and rotation.
- receiving internal and external audit and compliance reports and ensuring that the necessary corrective actions are being undertaken to address control weaknesses, non-compliance with policies, laws and regulations, and other problems identified by auditors, the head of compliance and other control functions.
- Annual assessment of the extent, management, and mitigation of compliance risk
- Commissioning a quality review of the effectiveness and efficiency of the internal audit and compliance functions by a third-party consultant, other than the external auditor.
- Reviewing and supervising the implementation and enforcement of the Bank's code of conduct.
- Supervising Risk Management processes
- Overseeing the Corporate governance processes

The BAC's **oversight of the development of the corporate governance framework** entails:

- Ensuring that there is a robust corporate governance framework that is in line with the CBB's requirements.
- Appointment of a corporate governance officer who is responsible for the tasks of verifying the Bank's compliance with corporate governance rules and regulations.
- Overseeing the organization of regular briefing and updating sessions for all Directors, in consultation with senior management.
- Ensuring that there are adequate disclosures in line with corporate governance regulatory requirements. Further details on these are available in the Bank's Disclosure Policy which has been approved by the Board of Directors.

Details of such disclosure will be provided either through a separate section in the Annual Report or through the UGB website.

The BAC's **oversight of the risk management function** includes reviewing systems and means of monitoring different types of risks that the Bank is exposed to. These include:

- Ensuring that risks are identified, measured, aggregated, controlled, mitigated, monitored, and reported on an ongoing basis across all business lines and on a pan Bank basis.



- Overseeing the process for computing the capital, liquidity levels and stress testing methodologies in relation to the risk profile of the Bank and the strategy for maintaining appropriate capital and liquidity ratios.
- Suggesting to the Board of Directors, quantified risk tolerances for each of the risks undertaken by the Bank.
- Reviewing and monitoring the target internal capital adequacy level that is included in the Bank's Risk Appetite statement.
- Reviewing the internal controls, policies, and procedures for the management of the various risks undertaken by the Bank.

Further responsibilities are documented in a set of **risk related policies and procedures** that have been approved by the Board of Directors.

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4.6 Nominating & Remuneration Committee – HC 3.6.1, HC 3.7.1, HC 6.1.1

The **Charter of the Board of Directors** and the **Charter of the Nominating and Remunerations Committee** approves the formation of the Board Nominating and Remuneration Committee (NRC) as a standing committee of the main Board. The purpose of the NRC is to enable the Board to supervise the nomination process based on the **Criteria for Election/Re-election of the Board of Directors**, and to recommend remuneration to Board Members and Senior Management based on the **Remuneration Policy**.

The nomination committee is responsible for reviewing:

- the appropriate composition of the members of the Board
- the identification of persons qualified to become members of the Board of Directors, the Chief Executive Officer, Chief Financial Officer, Chief Investment Officer, Chief Banking Officer, Corporate Secretary, and any other officers of UGB considered appropriate by the Board. This includes reviewing the job description which documents the job responsibilities, qualifications needed and other relevant matters. The sole exception is the appointment of the Chief Internal Auditor, Chief Risk Officer, and the Chief Compliance Officer. This falls under the purview of the Board Audit Committee.⁵⁸
- Making recommendations to the whole board of directors of candidates proposed for board membership after ensuring that they meet the criteria for board membership (a separately approved board policy). The recommendations will be included by the board of directors on the agenda for the next annual shareholder meeting.
- Reviewing the remuneration policies for the board of directors and senior management, which should be approved by the shareholders and is consistent with the corporate values and strategy of the Bank.
- Making recommendations regarding remuneration policies and amounts for approved persons, taking account of total remuneration including salaries, fees, expenses, and employee benefits.
- Playing a key role in the assessment process of the performance of the Board, its members, and its individual committees.

⁵⁸ HC 3.7.3

- Reviewing succession plans for Board Members and Senior Management.

The Bank has a **Remuneration Policy** that is approved by the Board of Directors and is based on the premise that all payments should be fair and responsible. Compensation of both Directors and officers should be sufficient enough to attract, retain and motivate persons of the quality needed to run UGB successfully. The qualifications, skillsets, and the achievement of the Key Performance Indicators (KPIs) relevant to ensuring compliance with AML/CFT requirements, are taken into consideration while deciding remuneration.

The general principles governing remuneration are as follows:

- The rules on the proportion of fixed and variable remuneration as well as those rules related to the deferral of variable remuneration, is specifically for the Approved Persons and Material Risk Takers category whose total annual remuneration (including all benefits), is in excess of BD 100,000 p.a.⁵⁹
- Remuneration, based on both quantitative measures and human judgement is adjusted for all types and magnitudes of risks, including intangible and other risks managed by the approved person and material risk-taker, and remuneration outcomes must be symmetric with risk outcomes.⁶⁰
- The mix of cash, equity and other forms of remuneration must be consistent with risk alignment. The mix will vary depending on the employee's position and role and the licensee must document the rationale for its mix.⁶¹
- Employees' incentive payments must be linked to the contribution of the individual, the department, and the overall performance of the Bank.⁶²
- The variable proportion of remuneration will increase along with the level of seniority and/or responsibility.⁶³
- The Bank's remuneration system links the size of the bonus pool to the overall performance of the licensee.⁶⁴

⁵⁹ HC 6.1.3

⁶⁰ HC 6.1.5

⁶¹ HC 6.1.6

⁶² HC 6.1.7

⁶³ HC 6.1.3b

⁶⁴ HC 6.1.8



- Bonuses will be either be reduced or be deferred in the event of poor licensee, divisional or business unit performance. Subdued or negative financial performance of the Bank will lead to a contraction of the total variable remuneration, considering both current remuneration and reductions in payouts of amounts previously earned, including through malus and clawback arrangements.

Further details on the Bank's philosophy, standards, and the methodology of compensation, are available in the UGB [Remuneration Policy](#).

5. Management Structure and Practices

The Board of Directors recognises its fiduciary duties of care and loyalty to UGB and its shareholders. It is accountable and responsible for the affairs and performance of the Bank. It hence ensures that it has an adequate organisational structure that promotes accountability and transparency and facilitates effective decision-making and good governance. This includes clarity on the role, authority, and responsibility of the various positions within senior management, including that of the CEO.⁶⁵

The Board understands its responsibility to ensure that approved persons i.e., those whose appointment needs to be pre-approved by the CBB:

- Are selected through an appropriate promotion or recruitment process which considers the qualifications and competencies required for the position in question;
- Have the necessary experience, competencies, personal qualities, and integrity to manage the businesses and employees under their supervision;
- Are subject to regular training to maintain and enhance their competencies and stay up to date on developments relevant to their areas of responsibility;

The Board also expects the Senior Management team members to:

- Assess the training needs of staff across all levels throughout the organisation considering the existing skills and competencies and laws and regulations and ensure that such training is provided by competent and skilled personnel (whether internal or external);
- Act within the scope of their responsibilities which is defined in the job description;
- Independently assess and question the policies, processes, and procedures of the Bank with the intent to identify and initiate action on issues requiring improvement;
- To not interfere in the independent duties of the risk management, compliance, and internal audit functions;
- Carry out and manage the Bank's activities in compliance with all laws and regulations, and in a manner consistent with the business strategy, risk appetite, business plans and remuneration and other policies approved by the Board;
- Have a robust governance framework for all management committees;
- To not primarily control the remuneration system of the bank;
- Actively communicate and consult with the control functions on management's major plans and activities so that the control functions can effectively discharge their responsibilities; an

⁶⁵ HC 7.1.1

- Provide the Board and its committees with timely, complete, accurate and understandable information and documents so that they are equipped for upholding their responsibilities and keep them adequately informed and updated on a timely basis about material issues.

Further details are available in the [Charter of the Board of Directors](#).

6. Governance of Group Structures

6.1. Establishment of the Group structure – HC 5.1.1

UGB has a separate [Governance of Group Structures policy](#) that provides the guidelines for maintaining a strong communication between the Bank and its group companies, monitoring of execution of strategies, coordination of application and alignment of sound corporate governance and regulatory practices within its subsidiaries. The overarching principle is to ensure that the Board of UGB and the Boards of its subsidiaries⁶⁶ incorporate systems and processes which assure the parent that there is adequate "downstream governance" that reflects the same values, ethics, controls, and processes as at the parent level.

Each of UGB's subsidiary is expected to have adequate and comprehensive criteria for the composition of its Board.⁶⁷ Members should be qualified and responsible for developing and implementing an effective corporate governance, compliance, and risk management framework⁶⁸ which is in accordance with the laws and regulations of the jurisdiction in which they operate. They are also responsible for reviewing the entities' strategy, business plan, financial control, policies, and corporate values. Boards of subsidiaries are encouraged to provide adequate oversight to ensure that the management of the subsidiary is conducted in a sound and prudent manner.⁶⁹ This includes ensuring that there are sufficient resources at the subsidiary levels to monitor risks and compliance⁷⁰, and that there is an open, transparent, and effective relationship with the subsidiaries' regulators.⁷¹

Each subsidiary is also expected to have a clear group strategy, business policy and a specific set of its own policies on risk management, internal audit, compliance, and financial

⁶⁶ Collectively known as the UGB Group

⁶⁷ HC 5.1.1 - c

⁶⁸ HC 5.1.2

⁶⁹ HC 5.1.3

⁷⁰ HC 5.1.1 - e

⁷¹ HC 5.1.1 - i



controls.⁷² The Bank recognizes that these cannot be aligned perfectly due to differing business models, and regulatory jurisdictions. The important part is to ensure that there is adequate supervision at the parent and subsidiary level over these departments that must conduct periodic reviews on the activities, controls, and structures of the entities.⁷³

Further details are found in the [Governance of Group Structures policy](#).

⁷² HC 5.1.1 - j

⁷³ HC 5.1.1 – l, HC 5.5.5

7. Shareholders' meetings

UGB's Board has approved a detailed policy & procedure manual on '**Ordinary / Extraordinary General Assembly Meetings**' that enumerates the requirements for conducting meetings for shareholders specified by the Ministry of Industry and Commerce, and the Central Bank of Bahrain. Draft agendas are sent to the CBB for approval and the Senior Management ensure that prior to the meeting, all regulatory approval is obtained on agenda items which require specific permission. Representatives of both regulators are invited to the general assembly, and minutes of the meetings are submitted to both within the stipulated period.

8. Control Functions – HC 8.1.1, HC 9.1.1, HC 10.1.1

The CBB mandates the existence of an effective and independent risk management function, compliance function and internal audit function that is commensurate with the Bank's size, complexity and scale of operations and risk profile. UGB has each of these control functions that are empowered and authorized to manage their respective activities. The **Risk Policy and Procedure Guide, Compliance Charter, and Internal Audit Charter**, document their respective responsibilities in detail. These are supported by other relevant policies and procedures that are updated once in two years.

9. Disclosure

9.1. Principle of disclosing corporate governance –

The importance of disclosing UGB's corporate governance is reiterated in separate policies and procedures related to the conduct of '**Ordinary / Extraordinary General Assembly Meetings**' and '**Disclosure and Transparency.**'

9.2. Disclosure under the Company Law and CBB Requirements

In accordance with the requirements of the CBB, this document covering Corporate Governance Guidelines will be submitted to the Board of Directors for their approval and subsequent posting on UGB's website. These guidelines include references to the principles and rules of Module HC.

UGB will conduct an annual review and disclose its compliance with these guidelines and with Module HC. This will be done in the form of a Corporate Governance Report



that will be presented to the Board Audit Committee and then the shareholders at the AGM. It is the BAC's responsibility to review the report and determine the level of accuracy and completeness. Information that is deemed public will be posted on UGB's website www.ugbbh.com.

9.3. Board's responsibility for disclosure

The policies and procedures related to the conduct of 'Ordinary / Extraordinary General Assembly Meetings' and 'Disclosure and Transparency' provide for the process of disclosure and communications with internal and external stakeholders. It is reiterated that the disclosures made by the bank are fair, transparent, comprehensive, and timely and reflect UGB's nature, complexity and risks inherent in its business activities. The above PPMs are reviewed regularly, to ensure that there is complete compliance with the CBB's disclosure requirements.

Version Control

Version #	Date Issued	Date of Board Approval	Originator/ Modified By	Reason for Issue / Re-Issue
1.	May 2006		Credit & Risk Management	Disclosure under the Company Law and CBB Requirements.
2.	March 2008	29 April 2008	Credit & Risk Management	Reviewing and ensuring that CBB requirements are met.
3.	October 2011	9 October 2011	Compliance	Separation of the Compliance and the Corporate Governance Manual, to incorporate the Implementation of Module HC and the Code of Corporate Governance.
4.	February 2014	24 February 2014	Compliance	Including the requirement to hold at least half the Board meetings in Bahrain. reporting of the Compliance Function to the BAC. change in terminology of Advisor to Corporate Secretary.
5.	April 2016	10 August 2016	Compliance	Reference to the new rules on remuneration for senior management. requirement of all approved persons to complete 15 hours of CPD.
6.	July 2018	1 August 2018	Compliance	Including the Reference to the new rule on disclosure regarding any relatives of controlled persons employed by the Bank.
7	February 2021	28 May 2021	Compliance	<ul style="list-style-type: none"> A paragraph on the responsibility of the BAC vis a vis supervising the Risk Function has been added. References have also been made to

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				<p>the Personal Data Protection Law of the Kingdom of Bahrain.</p> <ul style="list-style-type: none"> • The amendment to evaluation procedures of the Directors, the Board and the Committees has also been updated.
8	November 2023		Compliance	<ul style="list-style-type: none"> • Review in line and updated references with the revised rules of Module HC. • Introduction of the reference to a new PPM on governance of group structures