



Annual Report 2019



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



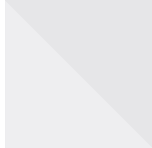
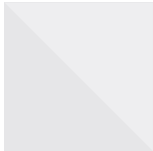
UCB
TOWER



Contents

Corporate Profile	5
Financial Highlights	8
Financial Summary	9
Chairman's Statement	10
Board of Directors	12
Chief Executive Officer's Report	14
Executive Management	16
Executive Management	17
Business Review	18
Financial Review	23
Risk Management Review	28
Corporate Governance	35
Corporate Social Responsibility Review	50
Financial Statement	51
Group Directory	52





H.M. King Hamad Bin Isa Al Khalifa
King of the Kingdom of Bahrain



H.H. Sheikh Sabah
Al-Ahmad Al-Jaber Al-Sabah
Amir of the State of Kuwait

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, the Bank's 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 2019, assets under management totalled US\$ 13.6 billion (31 December 2018: US\$ 12.6 billion).

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

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

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

The KIPCO Group (KIPCO)

The KIPCO Group is one of the biggest holding companies in the Middle East and North Africa, with consolidated assets of US\$ 34 billion as at 31 December 2019. The Group has significant ownership interests in over 60 companies operating across 24 countries. The Group's main business sectors are financial services, media, real estate and manufacturing. Through its core companies, subsidiaries and affiliates, KIPCO also has interests in the education and medical sectors.

Subsidiaries and Affiliates

KAMCO
INVEST

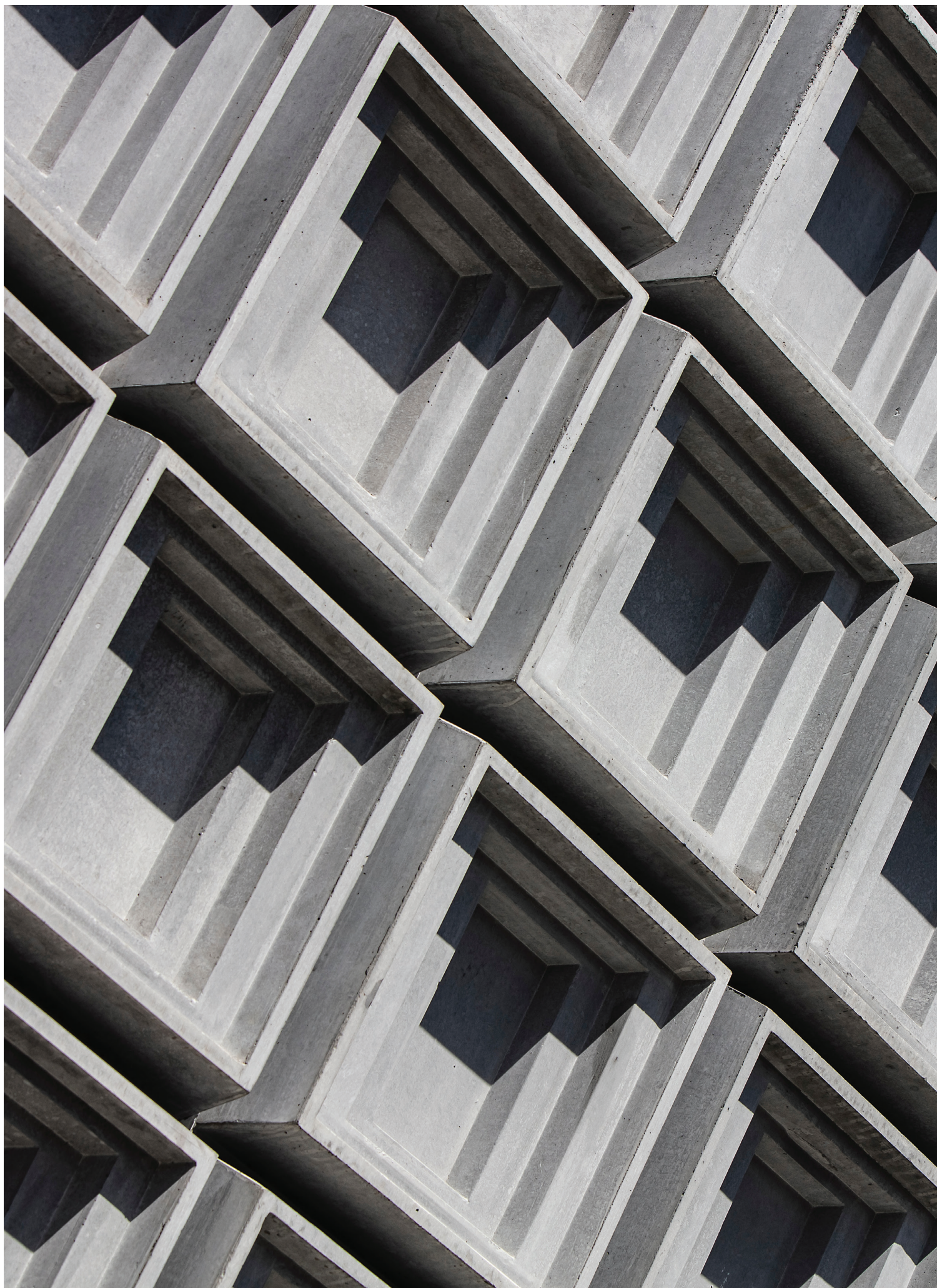


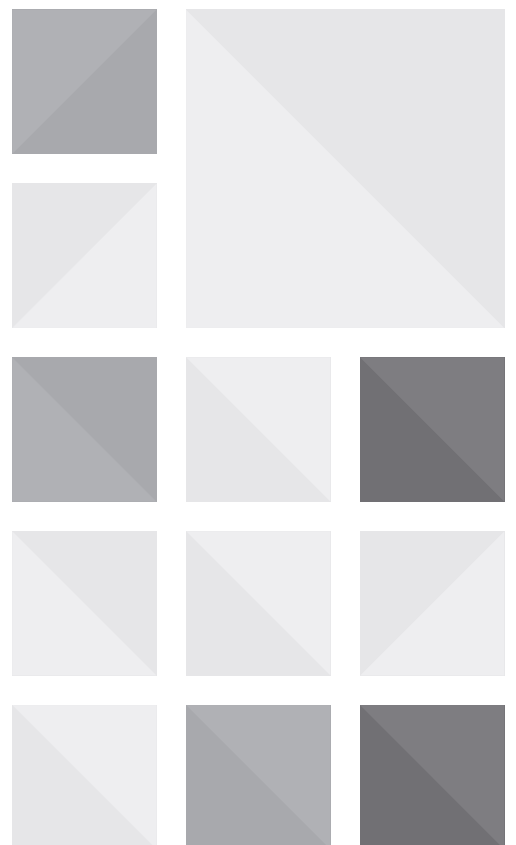
الخليج المتحد للخدمات المالية شمال افريقيا
United Gulf Financial Services North Africa

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

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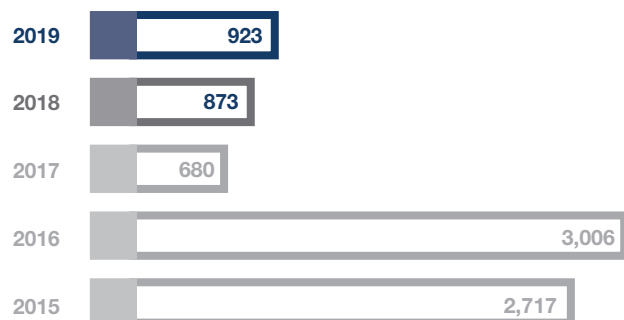
Licensed as a Conventional Wholesale Bank by the Central Bank of Bahrain



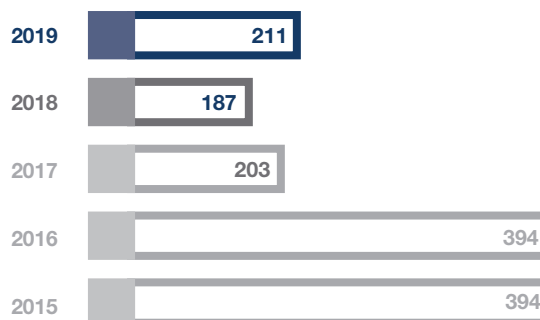


Total Assets

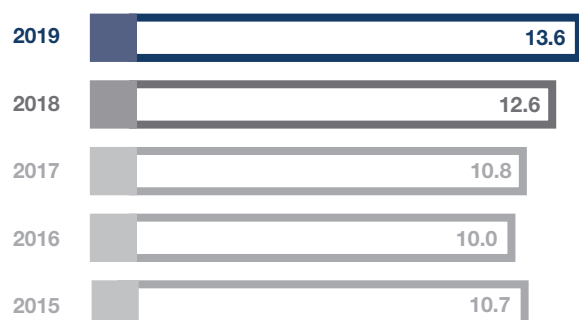
US\$ million

**Shareholders' Equity**

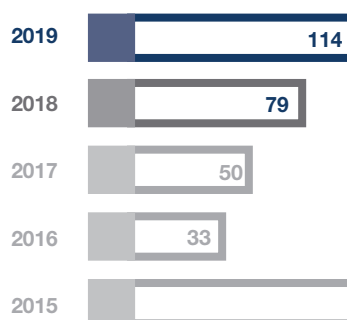
US\$ million

**Assets Under Management**

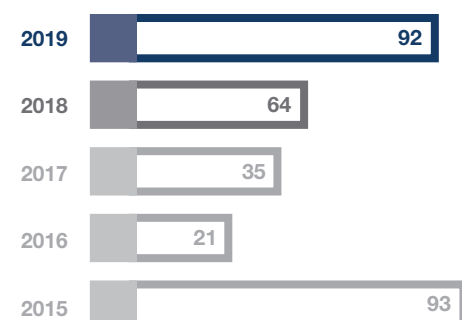
US\$ Billion

**Total Income**

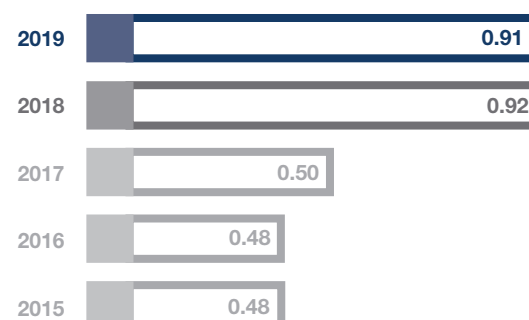
US\$ million

**Operating Income**

US\$ million

**Book Value Per Share**

US\$



923 million

Total Assets

19.7 %

Capital Adequacy Ratio

13.6 billion

Assets Under Management

1. Figures in KD have been converted into US\$ at the exchange rate of US\$:KD=1:0.30315.
 2. Consolidated.

	2019	2018	2017	2016	2015
US\$ million				Restated	
Total Income	113.7	78.9	50.3	32.8	144.8
Investment income	30.4	28.7	23.8	9.8	7.7
Operating income	91.6	64.2	35.1	21.1	93.3
Shareholders' Equity	210.9	187.0	203.0	394.0	394.0
Total Assets	923.2	873.5	680.1	3,005.7	2,716.5
Net Income Attribution to Shareholders of the Parent	11.4	10.1	(79.9)	6.3	11.2
%					
Return on Average Equity	5.73%	5.18%	-26.77%	1.59%	2.62%
Return on Average Assets	1.27%	1.30%	-4.34%	0.22%	0.41%
Operating Expense/ Operating Income	81.9%	79.4%	74.1%	97.5%	87.3%
Average Equity to Average Assets	25.6%	30.4%	16.2%	13.8%	15.6%
Capital Adequacy Ratio	19.7%	15.5%	21.5%	13.9%	15.0%
US\$					
Book Value per share	0.91	0.92	0.50	0.48	0.48
Earnings per share	0.05	0.05	(0.20)	0.01	0.02
Comparatives Averages balances (based on quarterly averages)					
US\$ million					
Assets	918.4	748.7	2,508.9	2,990.9	2,645.7
Liabilities	587.6	461.5	2,031.1	2,455.0	2,122.5
Minority Interest	95.8	59.9	86.4	107.0	113.5
Shareholders' Equity	235.0	227.3	391.4	428.9	409.7
	918.4	748.7	2,508.9	2,990.9	2,645.7
Guarantees and commercial LC	2.2	1.2	49.3	65.3	78.0
Commitments	5.2	6.4	183.2	100.5	62.4
Assets under management (US\$ billion)	13.4	12.6	10.8	10.0	10.7



On behalf of the Board of Directors, it is my privilege to present the annual report and consolidated financial statements of United Gulf Bank (UGB) for the year ended 31 December 2019. The Bank's performance during the past 12 months was marked by strong financial results, notable business and operational developments, and sound strategic progress.

Economic Backdrop

A combination of increased oil price volatility, sluggish global growth, ongoing trade tensions and heightened geopolitical risks, adversely affected GCC and MENA economies during 2019. In its most recent Regional Economic Outlook, the IMF revised down its projections for GDP growth in the region for the year from 2.1 per cent to 0.7 per cent, compared with the 2.0 per cent GDP growth achieved in 2018.

The latest World Bank Gulf Economic Update noted that while most GCC countries retained strong external positions in 2019, the ongoing slowdown in China and continued global trade issues have hindered their efforts to boost non-oil exports. At the same time, resurgent geo-political tensions have raised risk perceptions and affected investor sentiment.

Financial Results

Against such a challenging backdrop, I am pleased to report that UGB posted a strong financial performance for 2019. Total income before interest and other expenses increased by 44 per cent to US\$ 113.7 million compared with US\$ 78.9 million in 2018. This was due to higher contributions from the Bank's core subsidiary, KAMCO Investment Company. Total expenses rose by 53 per cent to US\$ 77.1 million from US\$ 50.5 million in 2018, which were attributable to the acquisition of Global Investment House, the introduction of VAT, and property depreciation. Accordingly, net profit for the year from continuing operations grew by 52 per cent to US\$ 16.1 million from US\$ 10.6 million in 2018. At the end of the year, total assets under management had increased by 8 per cent to US\$ 13.6 billion as a result of the successful merger of KAMCO Investment Company and Global Investment House.

As at 31 December 2019, total assets stood at US\$ 923.2 million compared with US\$ 873.5 million at the end of the previous year; while total equity was US\$ 333.0 million against US\$ 314.9 million at the end of 2018. The increase of US\$ 15 million to UGB's capital during the year has strengthened the balance sheet and improved the consolidated capital adequacy ratio to 19.7 per cent compared with 15.5 per cent in 2018. Liquidity levels remained healthy, with total liquid assets of US\$ 430.8 million representing 46.7 per cent of the balance sheet at the end of 2019.

Track Record

Our financial results for 2019 mark the Bank's 29th consecutive year of operating profitability and the 36th year of positive performance since its establishment in 1980. These milestones further reinforce UGB's successful track record as a leading asset management and investment banking group in the MENA region.

UGB's sound financial position was endorsed in July 2019, with Capital Intelligence affirming the Bank's long-term foreign currency rating at 'BBB' and short-term foreign currency rating at 'A3', with a 'Stable' outlook. We regard this latest affirmation of our ratings as an important independent validation of the success of actions we continue to take in implementing the Bank's strategic realignment, strengthening the balance sheet, and optimizing its strong underlying fundamentals.

Strategic Progress

We made excellent progress during 2019 in implementing the Bank's strategic vision, with a particular focus on strengthening our core assets, and diversifying our revenue stream and its recurring nature. A notable achievement was the successful completion of the merger between KAMCO Investment Company and Global Investment House, with a resultant increase in assets under management. In addition, UGB finalized plans to enter the FinTech arena and is embarking upon development of a digital trade finance platform, which will enable investors to buy and sell trade finance assets.

Governance

During 2019, UGB took concerted efforts to comply with the numerous new regulations introduced by the Central Bank of Bahrain, particularly those relating to Compliance and Risk Management. The Bank remains fully committed to adopting the highest standards of corporate governance in line with global best practice; and to upholding the core principles of integrity, accountability, transparency and full disclosure.

Looking Ahead

The impact of COVID-19 has affected the earlier positive forecasts for improved economic growth in the MENA region in 2020. These have been revised downwards due to current oil prices, reduced global demand for oil and gas, and lower tourism inflows, among other factors.

As a result of our successful achievements in 2019, UGB is in a stronger position to withstand the impacts of continued economic and market volatility, and any previously unforeseen external shocks. The Board has full confidence in Management's ability to adapt to changing market dynamics and associated risks. However, we recognize that it will be another challenging and unpredictable period for the global economy and the investment banking industry.

Acknowledgements

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

I also express my sincere thanks for the ongoing financial support and confidence of our shareholders; the trust and loyalty of our clients; and the collaboration of our business partners. Finally, I would like to pay tribute to the professionalism and commitment of the Bank's management team and staff, and their positive contribution to another successful year.



Masaud M. J. Hayat

Chairman of the Board

Masaud J. Hayat – Executive Director

Chairman of the Board of Directors

Chairman of the Executive Committee

Degree in Economics, Kuwait University

Diploma in Banking Studies, Institute of Banking Studies, Kuwait

Over 43 years' experience in the financial sector

Other Positions Held:

- Vice Chairman & Group Chief Executive Officer, Burgan Bank - Kuwait
- Chairman, United Gulf Holding Company BSC - Bahrain
- Chairman, Tunis International Bank - Tunisia
- Vice Chairman, Gulf Bank Algeria - Algeria
- Vice Chairman, Bank of Bagdad - Iraq
- Vice Chairman, United Gulf Financial Services - Tunisia
- Vice Chairman, FIMBank plc - Malta
- Board Member, Jordan Kuwait Bank - Jordan
- Board Member, KAMCO Investment Company KSC (Public) - Kuwait
- Board Member, North Africa Holding Company - Kuwait
- Board Member, 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 33 years' experience in the financial sector

Other Positions Held:

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

Samer Khanachet – Executive Director

Member of the Executive Committee

MBA, Harvard Business School, Boston, USA

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

Over 43 years' experience in the financial sector

Other Positions Held:

- Group Chief Operating Officer, Kuwait Projects Company (Holding) - Kuwait
- Chairman, Takaful Savings & Pensions B.S.C. (c) - Bahrain
- Chairman, United Gulf Management, Inc. - USA
- Board Member, Burgan Bank - Kuwait
- Board Member, United Real Estate Company - Kuwait
- Director, United Gulf Management Ltd. - UK
- Board Member, United Gulf Investments Ltd. - Cayman Islands
- Trustee, American University of Kuwait - Kuwait
- Member, Corporation Development Committee and Educational Council of the Massachusetts Institute of Technology, Cambridge, USA
- Past President of the Arab Bankers Association of North America, USA

Sheikh Abdullah Nasser Sabah Al Ahmad Al Sabah – Executive Director

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

Over 23 years' experience in the financial sector

Other Positions Held:

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

Mubarak Al Maskati – Independent Director

Member of the Board of Directors since 2018
Chairman of the Nominating & Remuneration Committee
Member of the Board Audit Committee

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

Over 33 years' experience in the financial sector

Other Positions Held:

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

Bader Al Awadhi – Independent Director

Member of the Board of Directors
Member of the Nominating & Remuneration Committee

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

Over 33 years' experience in the financial sector

Other Positions Held:

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

Mohamed Haroon – Independent Director

Member of the Board of Directors
Chairman of the Board Audit Committee
Member of the Nominating & Remuneration Committee

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

Over 50 years' experience in the financial sector

Other Positions Held:

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



Dear Shareholders,
From an operational perspective, I am pleased to report that 2019 proved to be another successful year for UGB, highlighted by a number of key achievements.

Business developments

The merger between KAMCO Investment Company and Global Investment House was completed in 2019, following receipt of final regulatory approvals. The consolidation of these two entities is envisaged to result in greater business synergies; provide an enhanced range of products and services; and increase total assets under management (AUM). The merger confirms KAMCO's status as the leading asset management and investment banking firm in Kuwait, and among the largest in the MENA region, with total AUM now exceeding US\$ 13.6 billion. Merger synergy cost and revenue benefits are expected to flow through in 2021 with increased margins.

During the year, UGB also won a new mandate for managing the fixed income custody portfolio of a regional bank. This has consequently increased total assets under custody of the Bank.

Digital transformation is fast becoming a key strategic driver and competitive differentiator for regional financial institutions. Accordingly, we continued to review a number of FinTech solutions that have the potential to transform certain business and operational activities. As a result, UGB is embarking upon the development of a digital trade finance platform with a convenient, fully automated direct trading portal that will create a marketplace for trade finance products, bringing buyers, sellers and service providers together in a seamless manner. This development illustrates the potential for maximizing synergies and cross selling opportunities between KIPCO group entities and providing enhanced business solutions and customer service.

Institutional Capability

Maintaining a robust support infrastructure is a key success factor in the Bank's continued growth and development. During 2019, we continued to enhance our institutional capability in terms of human capital and information technology. A key development was the completion of a major upgrade of the core banking system, featuring the latest version of the Mysis/Fusion platform. This has streamlined operational processes, enhanced data capturing and reporting capabilities across the Bank, and provided a platform for future digitalization initiatives.

We also strengthened the Bank's corporate governance framework during the year to ensure ongoing compliance in a fast-changing regulatory environment. Likewise, we significantly strengthened our risk management infrastructure, to adhere to the new CBB modules covering reputational risk, internal capital adequacy assessment, internal liquidity assessment, and stress testing. This will enable the Bank to withstand increasingly volatile economic and market conditions. In addition, external consultants reviewed the Bank's vulnerability to various cyber security risks and confirmed that UGB's information security systems conform to CBB requirements and international best practice.

UGB is committed to supporting the professional development and career prospects of our people. During 2019, focus was placed on enhancing leadership, technical, soft and role-specific skills of management and staff. The Bank also maintained its encouragement and support for staff to obtain relevant professional qualifications and certifications.

Social Responsibility

During 2019, we continued to implement our Corporate Social Responsibility programme with a special emphasis on providing education and career development for young Bahrainis aimed at supporting the development of a sustainable banking sector. We are privileged to be a sponsor for the past eighteen years of the TradeQuest competition, which is established under the aegis of the Bahrain Bourse. This 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.

Looking Ahead

The growing spread of COVID-19 has resulted in earlier positive forecasts for improved economic growth in the region to be revised downwards significantly. However, based on our strong financial results and operational achievements in 2019, together with the capital increase of US\$ 15 million, UGB is well positioned to take advantage of new business opportunities. We will continue our efforts to diversify revenue streams, increase recurring income and enhance the quality of our core assets. At the same time, we will strive to improve the Bank's capital efficiency, profitability and maturity profile, while maintaining a firm focus on costs.



Hussain A. Lalani

Chief Executive Officer

**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 23 years. He has worked extensively with the Board of Directors on advisory transactions in his previous capacity as the Bank's Chief Financial Officer and partnered with business divisions to support growth and business plans. Mr. Lalani was previously employed by Ernst & Young, Bahrain and PriceWaterhouse Coopers, Pakistan. He is a Board Member of Takaful Savings & Pensions BS.C (c), Bahrain; United Gulf Financial Services - North Africa, Tunisia; FIMBank plc. - Malta; Assoufid B.V. - Netherlands; and London Forfeiting Company - UK. A Chartered Accountant and a Certified Information Systems Auditor, Mr. Lalani holds a Bachelor of Commerce degree from the University of Karachi, Pakistan.

**Mohammed Alqumaish**

CIA CISA

**Assistant General Manager,
Chief Audit Executive
& Corporate Secretary**

Mr. Alqumaish joined UGB in September 2001. He has more than 23 years' regional, commercial and investment banking experience in internal auditing, risk assessment, compliance, corporate governance and quality assurance services. He previously worked with Ahli United Bank and Shamil Bank in Bahrain. Mr. Alqumaish is a Director, Board Audit Committee member and Board Nominating & Remuneration Committee member of Tunis International Bank - Tunisia; Director, Board Audit Committee member and Board Nominating & Remuneration Committee member of Syria Gulf Bank - Syria; and a Director of Al Ameen Real Estate Investment Company - Iraq. He also serves as an external Board Committee member of Gulf Bank Algeria - Algeria, and Bank of Baghdad - Iraq. A Certified Internal Auditor (CIA) and Certified Information Systems Auditor (CISA), Mr. Alqumaish holds an MBA from the University of Strathclyde Business School, UK.

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

Mrs. Chandrasekhar joined UGB in 2008. She has over 31 years' experience in the areas of compliance, risk management, treasury, operations and internal audit. She holds an MBA degree from the University of Alberta, Canada; as well as several professional certifications. Mrs. Chandrasekhar is a member of the Steering Committee of the Professional Risk Managers International Association (PRMIA), Bahrain Chapter; and the Advisory Council of the Chartered Institute of Securities and Investment (CISI), Bahrain Chapter. She also serves as an International Moderator in the field of compliance and corporate governance for the Finance Accreditation Agency, Malaysia. Mrs. Chandrasekhar is a frequent speaker at professional forums, and has published several financial articles.

**Syed Rehan Ashraf**

FCA MBA

Chief Financial Officer

Mr. Ashraf joined UGB in 2005. He was appointed CFO in October 2015 after serving as Head of Credit and Risk Management since October 2007. He has more than 22 years' experience in the areas of credit, risk management, advisory, compliance and assurance services - with Islamic and conventional banks - and the big four audit firms. He previously worked with Shamil Bank - Bahrain; Deloitte & Touche - Pakistan; Faysal Bank - Pakistan; and PriceWaterhouse Coopers - Pakistan. A Fellow Chartered Accountant (FCA) from the Institute of Chartered Accountants of Pakistan, Mr. Ashraf holds an MBA from DePaul University of Chicago, USA.

**Adel Al-Arab**

CRA

**Senior Vice President,
Head of Operations**

Mr. Al Arab joined UGB in 1994. He has over 23 years' experience in the field of operations, credit and risk management. Mr. Al Arab holds a Bachelor of Science degree in Business Administration from the University of Bahrain. He is a Chartered Risk Analyst (CRA) from the Global Academy of Finance and Management, USA; and was awarded the Certificate of ISMA Foundation Program from the International Securities Market Association, Zurich. Mr. Al Arab has attended several professional courses in banking, finance, and risk management.

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

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

**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 23 years' experience in the areas of credit, risk management, operations and audit. He previously worked with Jawad Habib Coopers & Lybrand, Daiwa Middle East Bank, and The Arab Investment Company. Mr. Al Tooq holds an MBA degree from DePaul University, Chicago, USA; and is an Associate Professional Risk Manager (APRM) from the Professional Risk Managers International Association.

**Hamid M. Al Hashimi****Vice President,
Head of Treasury**

Mr. Al Hashimi joined UGB in March 2017. He has over 17 years' experience within Treasury, across all asset classes including structuring, sales and trading; as well as a syndication team leader for a number of regional capital market fixed income issuances. Mr. Al Hashimi has held several positions within Treasury at various international and regional financial institutions, both conventional and Islamic. He holds a Bachelor's Degree with Honours in Business Administration from the University of Bradford, UK.

STRATEGY AND BUSINESS OVERVIEW

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

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

ASSET MANAGEMENT AND INVESTMENT BANKING

Asset Management

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

Investment Banking

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

Private Equity

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

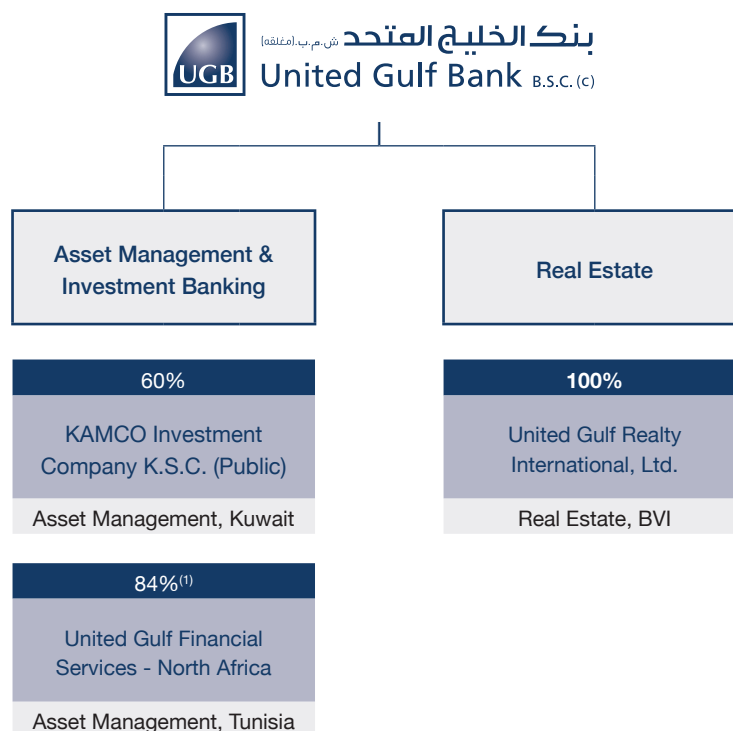
Corporate Banking

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 2019

- Assets under management with UGB increased to US\$ 13.6 billion at the end of 2019 compared with US\$ 12.6 billion at the end of the previous year.
- The main contributors to the share of results from the Bank's subsidiaries in 2019 were KAMCO Investment Company (KAMCO) and United Gulf Realty International Ltd. (UGRIL).
- The Bank won a new mandate in 2019 for managing the fixed income custody portfolio of a regional bank, with a resultant increase in assets under custody.
- The legal execution of the merger between KAMCO and Global Investment House was completed during 2019, through conclusion of a share swap between the two entities. KAMCO Investment Company is now the largest private asset management and investment banking firm in Kuwait and ranks among the leaders in the MENA region.
- The Bank fully exited its minority investment in Kuwait Energy through a strategic sale.
- UGB is planning to introduce a digital trade finance platform. Hosted by the Bank, the platform will enable vendors to sell and investors to purchase various products in the trade finance domain through a convenient direct trading portal.

UGB SUBSIDIARIES AND ASSOCIATES



1. Consolidated holding

SUBSIDIARIES

KAMCO Investment Company K.S.C.P (KAMCO)

Consolidated Subsidiary based in Kuwait

Established in 1998, KAMCO is a leading asset management financial institution, with one of the largest private sector assets under management (AUM) in the MENA region. Its three principal business lines are asset management, financial services, and investment advisory research services, which are offered to a diverse local, regional and international client base. In 2019, KAMCO completed the legal execution of its acquisition of Global Investment House through the conclusion of an agreed share swap between the two entities. As a result, total AUM now amount to US\$ 13.6 billion. UGB owns 60 per cent of KAMCO, which is listed on the Kuwait Stock Exchange.

United Gulf Financial Services Company - North Africa (UGFS-NA)

Consolidated Subsidiary based in Tunisia

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

United Gulf Realty International, Ltd. (UGRIL)

Consolidated Subsidiary based in British Virgin Islands

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

SHARED SERVICES

Treasury

Treasury manages UGB's liquidity and funding requirements and also implements the Bank's hedging strategies in terms of foreign exchange and interest rate exposures. During 2019, UGB continued to build upon its successful track record and benefit from KIPCO Group synergies. The Bank further strengthened its counterparty relationships with both conventional and Shari'ah compliant institutions and revived several dormant relationships. Treasury continued to monitor all exposures and make use of hedging instruments to counter market volatility. Deposits from banks, financial institutions and customers increased to US\$ 224 million in 2019, reflecting UGB's strong reputation in the market.

During 2019, an increase in the Bank's capital of US\$ 15 million strengthened the balance sheet and resulted in an improved consolidated capital adequacy ratio of 19.7 per cent as at the end of 2019, higher than the Central Bank of Bahrain's minimum requirement of 12.5 per cent. Liquidity remained very healthy, with total liquid assets increasing to US\$ 430.8 million and representing 46.7 per cent of the balance sheet, at the end of the year.

Operations

The main activities of the Operations function include settlement of foreign exchange and money market transactions, execution of payments and funding in coordination with Treasury, and facilitating transfers. During the year, UGB continued to enhance and streamline its critical back office operating processes and procedures in order to improve efficiency and productivity. Key developments in 2019 include working closely with Compliance, Risk Management and Financial Control to support the smooth implementation of new regulatory and reporting requirements introduced by the Central Bank of Bahrain.

Operations also collaborated with Information Technology on the completion of a major upgrade to the core banking system. This has resulted in significantly improved data capturing and reporting capabilities, efficient foreign exchange and money market processing, and enhancing the efficiency and accuracy in monitoring transactions through an automated Creator-Checker-Approver system. The new automated Procurement system was also fully implemented.

Human Resources

UGB is committed to supporting the professional development and career enhancement of its people. During 2019, over 80 per cent of staff attended training and development programs, covering leadership, technical, soft and role-specific skills; and mandatory training such as anti-money laundering (AML) and the Bank's Code of Conduct. In line with CBB requirements, senior management and control function staff completed over 300 hours of continuous professional development (CPD) during the year on an aggregate basis.

The Bank also maintained its encouragement and support for staff to obtain appropriate professional qualifications and certification, including the Investment Representative Programme (IRP) and International Financial Reporting Standards (IFRS) Certificate Programme. The Bank's merit based Mashare'a Al Khair Scholarship Programme continued to assist dependents of Bank staff to obtain degrees from accredited colleges, universities and other academic institutions during the year. In addition, three postgraduate students completed the Bank's Internship Programme, which now incorporates a formal mentoring process and action plan for identifying the more talented internees. This resulted in one student being hired by UGB in 2019.

Information Technology

The Bank continued to invest in further strengthening and enhancing its information and communications technology framework. A critical development in 2019 was the completion of a significant upgrade of the core banking system through the implementation of the latest version of MIDAS from Finastra to enhance data capturing and reporting capabilities across all operations of the Bank. In addition, upgrades to the automated Procurement system and Human Resources Management system were finalized.

External consultants continued to review the Bank's vulnerability to various cybersecurity risks, which entailed extensive vulnerability assessment and penetration testing of IT systems; and further updating the IT Policy Manual to ensure that appropriate processes and procedures are in place to detect, monitor, mitigate and report cyber-attacks. The assessment results confirmed that UGB's information security capability conforms to CBB requirements and international best practices. The Bank also conducted two successful tests of its business continuity planning (BCP) process during 2019 in line with the regulatory requirements of the CBB. The second test involved a special simulation exercise at the offsite BCP site under the scenario of staff being unable to access their offices and being directed to the BCP site to resume their work.

The IT team also continued to review the latest FinTech developments currently under consideration by the Central Bank of Bahrain, for potential adoption by the Bank as critical business enablers. Planned projects for 2020 include testing Amazon AWS Cloud-based services, the use of artificial intelligence (AI) for enhancing the automation of regulatory reporting and transaction monitoring, and the potential benefits of Blockchain technology.

CONTROL FUNCTIONS

Compliance

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

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

UGB shares a strong rapport with its local regulators – the Central Bank of Bahrain, and the Ministry of Industry, Commerce and Tourism. There is proactive dialogue as and when warranted. In addition, the CBB conducts an annual Prudential Meeting with Senior Management of UGB in the presence of a Board Director. This forum involves the regulators receiving an overview of the Bank's performance; business model and strategic plan; market outlook; corporate governance and risk management; and capital adequacy framework. During the year, UGB provided constructive comments to several consultation papers issued by the CBB.

ANTI-MONEY LAUNDERING

UGB has a designated Money Laundering Reporting Officer (MLRO) and a Deputy MLRO (DMLRO) who are Controlled Persons approved by the CBB. The position of MLRO has been combined with that of the CCO. The Bank has implemented an anti-money laundering (AML) and counter terrorism financing (CFT) policy, which is reviewed annually and approved by the Board. UGB uses recent case studies on money laundering that are available in the public media domain, to train staff every year to raise awareness of identifying and reporting suspicious transactions. Employees receive an overview of the Bank's AML/CFT policy and procedures, and training slides - these are also available on the Intranet. UGB follows prudent practices related to Customer Due Diligence and Beneficial Ownership using the Thomson Reuters WorldCheck screening tool and Know Your Customer (KYC) principles.

In accordance with regulatory requirements, the MLRO reviews the effectiveness of the AML/CFT procedures, systems and controls at least once a year. The Bank's anti-money laundering measures are also audited annually by the independent external auditors for UGB and its main subsidiaries. Their separate assurance report is submitted to the Compliance Directorate of the CBB.

INTERNAL AUDIT & QUALITY ASSURANCE

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

A risk-based three-year strategic Audit Plan governs how Internal Audit carries out its responsibilities. The Plan is designed to implement a systematic, disciplined audit review approach by utilizing the available audit resources in the most efficient and effective manner. It examines the adequacy and effectiveness of processes, systems and procedures within the internal controls framework – comprising Compliance, Corporate Governance, Risk Management, IT Security, Financial Control and AML amongst others – and provides recommendations in order to enhance and strengthen their reliability. On a periodic basis, the function performs follow-ups on internal control recommendations and corrective actions that have been raised; and reports their updated status to the Board Audit Committee. Internal Audit also oversees the implementation of sound governance and internal control principles and practices at the level of UGB's subsidiaries and associate companies and provides regular support to their respective Board Audit Committees and Internal Audit functions.

During 2019, Internal Audit collaborated with the Credit & Risk Management and Compliance teams to review and prioritize the implementation of new Risk Management Modules and other risk related requirements that were introduced by the CBB. The results of a Quality Assurance Review conducted by external consultants during 2019, in line with new CBB directives, confirmed that UGB's Internal Audit function complies with international standards.

Quality Assurance adopts a consultative role in working with head office departments, and subsidiaries and associate companies, to facilitate continuous process improvements and review new initiatives. These include regular reviews of updates to the Bank's policies and procedures, organization chart and job descriptions; and assessing the impact of new regulations. In addition, Quality Assurance conducts ad hoc special assignments at the request of the Board and Management to ensure continuous improvement.

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 2019, the Bank's parent company United Gulf Holding Company B.S.C. (UGH) holds 100% shares of UGB. The Kuwait Projects Company (Holding) (KIPCO) continues to be the ultimate parent company owning directly and indirectly 98% of UGH's outstanding shares on a consolidated basis.

KAMCO MERGER WITH GLOBAL INVESTMENT HOUSE ("GIH")

Merger OF GIH

On 21 July 2018, subsequent to acquisition of GIH, KAMCO obtained approval of the Kuwait Capital Market Authority (CMA) to merge GIH's operations by amalgamation with KAMCO, whereby the shareholders of GIH would receive shares of KAMCO in exchange. KAMCO would become the legal successor of GIH's all rights and obligations on the effective date of the merger.

The Extraordinary General Meeting (EGM) of GIH, held on 18 September 2019 approved the merger between GIH and KAMCO by way of amalgamation, as well as the dissolution of GIH. Pursuant to which KAMCO became the merging company and GIH became the merged company. The EGM also approved the proposed share swap ratio.

This review provides a detailed description of the financial performance of United Gulf Bank B.S.C. (c) ("UGB" or "the Bank") for the year ended 31 December 2019.

On 29 September 2019, a merger resolution was announced and published in the Kuwait Gazette that granted the creditors of GIH the right to object to the merger within a period of 30 days from the announcement by serving an official notification to GIH through the court.

No creditor objected to the merger. Therefore on 30 October 2019, a general public notice of the merger was issued by Ministry of Commerce and Industry, Kuwait ("MOCI") which included the dissolution of GIH. On 21 November 2019, the Capital Market Authority, Kuwait, approved execution of the merger between KAMCO and GIH.

On 12 December 2019, the share swap was executed, and this resulted in the cancellation of GIH's shareholders' register with Kuwait Clearing Company on the same date. The minority shareholders of GIH received 0.75522821 shares of KAMCO for every share of GIH.

REVENUES

UGB's total revenues were US\$ 113.7 million in 2019 compared with US\$ 78.9 million in 2018, as indicated below:

Total Revenues	2019	2018
(US\$ million)		
Gain on bargain purchase of a subsidiary	-	23.9
Financial Associates	6.0	1.3
Real Estate	10.8	3.6
Other Associates	(0.9)	(1.7)
Credit related fees and commission	22.3	21.4
Management fees from fiduciary activities	40.8	15.0
Advisory fees	5.2	6.6
Interest Income	10.0	6.4
Gain (loss) on investments carried at fair value through profit and loss	8.6	(0.8)
Dividend income	4.2	1.7
Gain on sale of investments	2.4	-
Gain due to reclassification of investment	0.7	-
Loss on sale of associates	-	(0.5)
Foreign currency translation (losses) gains - net	0.4	1.6
Other income	3.2	0.4
Total	113.7	78.9

During 2019, the increase in total revenues was mainly attributed to the consolidation of GIH for the full 12 months of 2019, whereas 2018 revenues included GIH results for the last four months of 2018. Higher revenues were recorded from management fees from fiduciary activities, income from financial associates, real estate revaluation gains, trading gains on investments carried at fair value through profit and loss. The impact of higher revenues was partially offset by the absence of the bargain purchase gain on the acquisition of GIH by KAMCO recorded in 2018.

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 an income of US\$ 6.0 million compared with a gain of US\$ 1.3 million in 2018. The increase was mainly due to the increase in income from KAMCO Investment Fund.

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

Revenue - Financial Associates	2019	2018
(US\$ million)		
Kamco Investment Fund	6.4	1.7
Manafae Investment Company	(0.4)	(0.4)
Total	6.0	1.3

Real Estate

UGB's real estate revenues were derived mainly from rental income from its real estate properties in Bahrain, Kuwait and the USA, and the fair valuation gains on its property in the USA.

Revenues - Real Estate)	2019	2018
(US\$ million)		
KAMCO Real Estate Yield Fund	(0.3)	-
N.S. 88	(0.2)	(0.4)
Rental income	4.0	3.9
Unrealized gain on investment properties	7.3	0.1
Total	10.8	3.6

Fees and Commission Income

Credit related fees and commission.

Credit related fees and commission income increased to US\$ 22.3 million in 2019 from US\$ 21.4 million in 2018.

Management Fees from Fiduciary Activities.

Management fee income increased to US\$ 40.8 million in 2019 from US\$ 15.0 million in 2018.

Advisory Fees

Advisory fee income decreased slightly to US\$ 5.2 million in 2019 from US\$ 6.6 million in 2018.

Interest Income

The main source of interest income for GIH and UGB was derived from interbank placements. Interest income increased from US\$ 6.4 million in 2018 to US\$ 10.0 million in 2019, mainly due to the increase in LIBOR, placement of funds raised by KAMCO and GIH.

Trading gains / losses

Trading positions recorded a gain of US\$ 8.6 million in 2019 compared with a loss of US\$ 0.8 million for 2018. These mainly comprise of realized and unrealized gains on FVTPL investments in KAMCO/ GIH and their consolidated funds. The 2018 loss was mainly due to corrections in the Kuwait Stock market. During 2019, the total market cap of Kuwait Bourse increased by 25%, while trading activity was ~35%-40% higher than 2018.

Dividend Income

Dividend income increased to US\$ 4.2 million in 2019 compared with US\$ 1.7 million in 2018.

Foreign Currency Translation gains / losses

Foreign currency translation gains of US\$ 0.4 million were recorded in 2019 compared with gain of US\$ 1.6 million in 2018. Lower gains are mainly due to losses on derivative products booked on behalf of UGH.

EXPENSES

Interest Expense

Interest expense increased from US\$ 14.7 million in 2018 to US\$ 22.2 million in 2019. Key contributor to this increase was the increase in interest to banks and other financial institutions and an increase in interest on bonds by issued by KAMCO in September 2018 to fund the acquisition of GIH.

Operating Expenses

Operating expenses increased by 48.4% to US\$ 75.1 million in 2019 compared with US\$ 50.6 million in 2018 largely due to the merger and full year's consolidation of GIH and the accrual of related legal, advisory and administrative expenses. Salaries and benefits increased to US\$ 45.5 million (2018: US\$ 30.3 million). General and administration expenses increased to US\$ 29.6 million (2018: US\$ 20.3 million).

Operating expenses (US\$ million)	2019	2018
Salaries and benefits	45.5	30.3
General and administrative expenses	29.6	20.3
Total	75.1	50.6

Taxation

A net tax expense of US\$ 2.0 million was recorded in 2019 compared with gain of US\$ 0.1 million in 2018. The tax expense for 2019 related mainly to income booked at United Gulf Realty International, Ltd.

Provisions

Write back of provisions of US\$ 1.6 million were recorded in 2019 compared with provision of US\$ 3.1 million in 2018. Write back of provisions for 2019 mainly due to write back of expected credit losses on other assets at the UGB and KAMCO level.

Provisions for losses (US\$ million)	2019	2018
Provision for losses against unfunded participation	-	(0.8)
Expected credit losses reversals (provision)	1.6	(2.3)
Total	1.6	(3.1)

Net Income Attributable to Parent

Net income attributable to parent in 2019 increased to US\$ 11.4 million from a gain of US\$ 10.1 million in 2018.

CONSOLIDATED BALANCE SHEET

Consolidated Assets

UGB's consolidated assets stood at US\$ 923.2 million at 31 December 2019 compared with US\$ 873.5 million at the end of 2018. A comparison of the two years is provided below:

Assets (US\$ million)	2019	2018
Demand and call deposits with banks	71.4	143.5
Placements with banks	236.1	108.5
Investments carried at fair value through profit and loss	97.8	81.9
Investments carried at fair value through other comprehensive income	131.0	167.6
Investments carried at amortized cost	0.3	0.5
Loans and receivables	27.8	25.2
Other assets	62.9	61.1
Investments in associates	75.8	71.5
Investment properties	102.7	107.6
Property and equipment	51.8	39.4
Goodwill and other intangible assets	65.6	66.6
Total	923.2	873.5

Demand, Call Deposits and Placements with Banks

Demand, call and placements with banks increased to US\$ 307.5 million in 2019 compared with US\$ 252.0 million in 2018. The rise is attributable to higher customer deposits and sale of some investments held at fair value through other comprehensive income at KAMCO. Total liquid assets comprising cash, deposits, liquid securities and other assets, represented 47.2% of the balance sheet as at 31 December 2019 (2018: 43.4%).

Investments carried at fair value through the statement of income

Investments carried at fair value through the statement of income were US\$ 97.8 million in 2019 compared with US\$ 81.9 million in 2018. 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\$ 131.0 million in 2019 compared with US\$ 167.6 million in 2018. The total portfolio mainly comprises listed equities of US\$ 30.2 million (2018: US\$ 45.2 million), unlisted equities of US\$ 99.9 million (2018: US\$ 121.4 million) and other managed funds of US\$ 1.0 million (2018: US\$ 1.0 million).

The major investments classified under the non-trading investments portfolio as at 31 December 2019, were:

Orbit Showtime Network (OSN): UGB holds a 0.93% stake in Panther Media Group Limited ("PMGL"), which is better known under its branch name "OSN", PMGL is an entity incorporated in Dubai and registered in the Dubai International Financial Center. OSN is engaged in providing satellite encrypted pay television services across the Middle East and North Africa region.

Advanced Technologies Company (ATC): UGB holds a 5.2% stake in ATC, which is a leading medical equipment and turnkey solution provider. It was established in Kuwait in 1981 and listed on the Kuwait Stock Exchange in 2007. It offers over 1,000 products to customers in the public and private sectors, focusing on medical, pharmaceutical, dental and laboratory equipment. ATC provides its products and services to over 500 health care facilities and has circa 45% share of the Kuwait medical sector.

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

Loans and Advances

Loans and advances in 2019 amounted to US\$ 27.8 million (2018: US\$ 25.2 million).

Details of the loan book are as follows:

Loans and Advances	2019	2018
(US\$ million)		
Loans to customers	33.0	32.4
Staff loans	4.8	4.0
Gross loans and advances	37.8	36.4
Less: Provision for impairment	(10.0)	(11.2)
Total	27.8	25.2

Past due and impaired loans amounted to US\$ 8.9 million (2018: 10.5) against which specific provisions of US\$ 8.9 million (2018: 10.5) and collective provisions of US\$ 1.1 million (2018: US\$ 0.7 million) were recorded.

Investments in Associated Companies

Investments in UGB's associated companies increased to US\$ 75.8 million in 2019 compared with US\$ 71.5 million in 2018, nearly 5% variation from 31 December 2018. The Group's associated companies contributed a net gain of US\$ 4.6 million in 2019 (2018: net loss of US\$ 0.8 million), with the key contributors being Kamco Investment Fund income of US\$ 6.4 million compared to US\$ 1.7 million income in 2018.

Investment Properties

UGB's investment properties mainly comprise real estate properties in Kuwait, United States of America and the Kingdom of Bahrain. Rental income on these investments amounted to US\$ 4.0 million (2018: US\$ 3.9 million).

Consolidated Liabilities

UGB's consolidated liabilities increased to US\$ 590.2 million in 2019 from US\$ 558.6 million in 2018, the increase being mainly contributed by higher deposits from banks and other financial institutions.

Liabilities	2019	2018
(US\$ million)		
Due to banks and other financial institutions	307.8	220.9
Deposits from customers	22.6	32.6
Loans payable	36.9	67.0
Long term bonds	131.9	131.7
Other liabilities	91.0	106.4
Total	590.2	558.6

Total Equity

During 2019, the Bank increased its share capital by US\$ 15 million by issuing 30 million new shares of US\$ 0.50 each through a rights issue subscribed by cash. The capital increase was approved by the CBB on 6 March 2019 and by the shareholders in the Extraordinary General Assembly Meeting held on 24 March 2019.

The issued and fully paid up share capital as at 31 December 2019 comprised 232,263,041 shares of US\$ 0.50 each (2018: 202,263,041 shares of US\$ 0.5 each). As at 31 December 2019, UGB's equity increased to US\$ 333.0 million (2018: US\$314.9 million).

EQUITY	2019	2018
(US\$ million)		
Share capital	116.1	101.1
Share premium	5.7	5.7
Statutory reserve	52.0	50.9
General reserve	31.8	30.6
Fair value reserve	(6.0)	(10.1)
Foreign currency translation reserve	(4.6)	(4.5)
Retained earnings	15.9	13.3
CAPITAL AND RESERVES ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT	210.9	187.0
Perpetual Tier 1 capital	33.0	33.0
Non-controlling interests in equity	89.1	94.9
TOTAL EQUITY	333.0	314.9

The major movements in equity from 31 December 2018 to 31 December 2019 were:

- Capital increase of US\$ 15 million in 2019
- Net profit attributable to parent of US\$ 11.4 million;
- Net gain upon dilution in KAMCO (recognised in Retained Earnings);
- Net fair value gains mainly on account of dilution in KAMCO and resultant decrease in UGB's share in fair value losses of KAMCO;
- Interest paid on the perpetual Tier 1 capital; and
- Decrease in minority interest by US\$ 5.8 million.

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\$ 7.4 million as at 31 December 2019 (2018: US\$ 7.3 million). Further details regarding off-balance sheet commitments are provided in Note 29 to the Consolidated Financial Statements for the year ended 31 December 2019.

CAPITAL ADEQUACY

UGB's consolidated capital adequacy ratio of 19.7% at 31 December 2019 (2018: 15.5%) under the Basel III regulations, as mandated by the Central Bank of Bahrain, was above the minimum requirement of 12.5%.

Capital adequacy	2019	2018
(US\$ million)		
Capital base:		
Tier 1 capital	177.9	147.3
Tier 2 capital	15.7	6.2
Total capital base (a)	193.6	153.5
Credit risk weighted exposure	878.0	944.5
Market risk weighted exposure	11.5	10.4
Operational risk weighted exposure	93.2	38.4
Total risk weighted exposure (b)	982.7	993.3
Capital adequacy (a/b * 100)	19.7%	15.5%
Minimum requirement	12.5%	12.5%

The increase in the capital adequacy ratio was mainly due to the increase in share capital by US\$ 15 million.

In an extremely challenging and busy year, Risk Management collaborated with Compliance and Internal Audit in successfully addressing the numerous new risk management regulations and reporting requirements mandated by the Central Bank of Bahrain, that came into effect during 2019.

Key Developments

- Achieved compliance with new CBB modules covering reputational risk, internal capital adequacy assessment, internal liquidity assessment, and stress testing.
- Developed a new Risk Appetite Framework.
- Implemented monthly reporting of the Liquidity Coverage Ratio to the CBB.
- Commenced annual independent verification of Risk-related modules by an external consultant, and submitted verification results to the CBB for ICAAP, Stress Testing, Interest Rate Risk, Liquidity Risk and Operational Risk by 31 December 2019.
- Initiated evaluation of potential consultants to advise on requirements relating to the new Personal Data Protection Law to be enacted in 2020.
- Prepared for reporting Net Stable Funding Ratio on a quarterly basis in 2020.
- Following CBB approval, increased capital of UGB by US\$ 15 million to mitigate impact on the Capital Adequacy Ratio (CAR) arising from the merger between KAMCO and Global Investment House.
- Upgraded the core banking system through implementation of the latest version of Mysis/Fusion from Finastra to enhance data capturing and reporting capabilities across all operations of the Bank.
- Updated all Risk Processes and Procedures to incorporate new regulatory requirements.

Risk Philosophy

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

- Sound knowledge base, 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 and reporting authorities 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 of risk management practices at the Bank.

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

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 Audit Committee assists the Board in its responsibility for overseeing the quality and integrity of the accounting, auditing and reporting practices of the Bank; supervising the internal and external auditors; and the Bank's compliance with legal and regulatory requirements.

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

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

The Risk and Compliance Committee (RCC) supervises the adoption of best practice in the areas of risk and compliance. It acts as the steering committee for risk and compliance initiatives, responsible for monitoring the progress and facilitating a smooth transition towards complete compliance with provisions of the New Capital Accord and other regulatory requirements. During 2019, the Committee met three times.

Further information on the constitution and responsibilities of these committees is disclosed in the Corporate Governance Report available on the Bank's website: www.ugbbh.com.

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

Types of Risk

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

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

UGB has adopted the Standardized Approach for calculating the charge for credit risk. Non-performing loans for the Group stood at US\$ 8.9 million as at 31 December 2019 (2018: US\$ 10.5 million) against which specific provisions of US\$ 8.9 million exists as at 31 December 2019 (2018: US\$ 10.5 million).

The Bank has established overall credit limits at the level of individual borrowers and counterparties, as well as groups of connected or comparable counterparties. These are aggregated in a meaningful manner to indicate different types of exposures in the banking and trading book, and on and off the balance sheet. The credit limits recognize 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 authorized on an exception basis by the appropriate authorities. A detailed review of connected party exposure is conducted on a monthly basis and reported to Central Bank of Bahrain.

Detailed information on the Bank's credit risk exposures, including geographical distribution, industry and sector allocation, details of the collaterals and other credit enhancements, and bifurcation based on internal ratings, is provided in Note 31(b) of the Consolidated Financial Statements.

Market Risk

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

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

The minimum capital charge for interest rate exposure is expressed as the sum of the specific and general market risk of each position. For the general market risk capital charge, the Bank applies the maturity method with its respective rules. Information on the interest rate sensitivity in the Bank's asset and liability structure is detailed in Note 31(c) of the Consolidated Financial Statements.

The capital charge for equities held in the Bank's trading book is also an aggregate of 'specific risk' of holding a long or short position in an individual equity; and the 'general market risk' of holding that position in the market as a whole. In case of foreign exchange risk, the open currency position is taken both in the banking and the trading book. The sensitivity towards currency movements on the Bank's equity is detailed in Note 31(c) of the Consolidated Financial Statements.

The Bank seeks to manage the market risks that it faces through diversification of exposures across dissimilar markets, industries and products. In addition to the exercise of business judgement and management experience, UGB utilizes 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 are identified, measured and reported as appropriate.

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

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

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

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 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 minimized 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 2019 is detailed in Note 31(d) of the Consolidated Financial Statements. As of this date, 56% of total assets and 76% of total liabilities were contracted to mature within one year (2018: 53% and 64% respectively). A significant portion of assets with longer-term maturities comprise readily realizable securities or listed assets with active markets. A significant portion of liabilities with short-term contractual maturities comprise of term deposits from KIPCO Group entities that are expected to roll-over.

Concentration Risk

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

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

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

Legal Risk

Legal risk is defined as the loss that may arise as a result of the inability to enforce contracts and agreements entered into, the failure of these to adequately cover the risks, and liabilities the Bank may face, and their inability to protect the Bank's interests. In order to mitigate legal risk, UGB uses industry standard master agreements wherever available. Expert legal advice is sought on all legal structures and arrangements to which the Bank is a party. A retainer agreement is maintained with a Bahrain law firm for the review of standard business agreements. For documentation related to special issues, the Bank seeks the advice and services of 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 stakeholders 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 securitization markets), and associated risk to earnings, capital or liquidity. UGB has established a Reputational Risk Framework to provide consistent standards for the identification, assessment and management of reputational risk issues.

Basel III

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

Monitoring and Reporting

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

Internal Capital Adequacy Assessment Process

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

The Bank recognizes that its earnings are the first line of defence 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:

- Interest Rate Risk in Banking Book
- Liquidity Risk
- Reputational Risk
- Strategic Risk
- Single Name Concentration Risk
- Geographical 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 link 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.

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

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

The corporate governance framework of the Bank is a reflection of its culture, policies, relationship with stakeholders and commitment to values. UGB has endeavoured to comply with the requirements of the Corporate Governance Code of the Kingdom of Bahrain (Code) and the Central Bank of Bahrain's (CBB) Higher Level Controls (Module HC) of its rulebook. The objective of this document is to inform shareholders of the status of UGB's compliance with its primary regulator – the Central Bank of Bahrain's corporate governance requirements and explain the rationale for variances bearing in the mind the 'comply or explain' philosophy.

2. Profile and ownership structure of the Bank

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

During 2019, an additional amount of 30 million shares were issued, which raised the capital by USD 15 Million, thereby bringing the total paid up capital to USD 116,131,520.5. The breakdown of the shareholders of UGB as at 31 December 2019 is as follows:

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

No government or sovereign funds hold any shares of UGB.

3. Board of Directors

3.1 Composition of the Board of Directors

The Board has an optimum combination of Executive and Independent Directors, in line with HC 1.5.2 of the Rulebook which stipulates that *'in conventional bank licenses with a controller, at least one third of the board must be independent directors.'* The composition of UGB's Board of Directors as at 31 December 2019 was as follows:

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

This meets the CBB's mandate that at least one third of Board members of an entity that has a controller should be independent.

All the independent Directors of UGB are required to furnish a declaration at the time of their appointment, as also annually, that they meet the criteria of independence. These declarations were last reviewed by the Bank's Nominating and Remuneration Committee in March 2019. For a Director to be considered independent, the Board determines that the incumbent does not have any direct or indirect material pecuniary relationship with the Bank. The Board has adopted guidelines which are in line with the applicable legal requirements.

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

None of the Directors on the Board holds more than one directorship of a bank in Bahrain. The effective cap of a maximum of two Directorships of banks inside Bahrain is hence maintained. All 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. UGB's Chairman – Mr. Masaud J. Hayat has been an Executive Board Director of UGB for the past 30 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) (KIPCO).

3.2 Board Terms and the Start Date of Each Term

Each term of the Board of Directors consists of three years. The following members were last elected to UGB's Board of Directors at the Annual General Meeting held on 28 March 2017 and will serve until the date of the next scheduled election.

Executive Directors

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

Independent Directors

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

Due to the change in the CBB's regulatory requirements, Directors who have served three consecutive terms can no longer be classified as independent. Consequently, Mr. Mubarak Al Maskati and Mr. Bader Al Awadhi positions will require to be replaced by two other independent directors, subject to receipt of all regulatory and shareholder approvals.

As has been done in the past, each member of the Board of Directors will be issued an appointment letter which documents their powers, duties, responsibilities, accountabilities, term, time commitment, entitlements and access to independent professional advice. This will be issued by the Chairman following the election/re-election of members of the Board of Directors at the next AGM.

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 approved at its meeting held on 1 August 2018. 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 will be assessed by the Nominating & Remuneration Committee based on information available on/from the prospective/ existing Director/s and submitted to the Board along with the Committee's recommendation. Care is taken to ensure that the 'fit and proper' requirements of the regulator are met. The Application for Approved persons Status of all Board Directors who intend to stand for election/re-election, will be sent to the CBB for their no objection letter. Their candidacy for Board membership is subject to receipt of regulatory and shareholder approval.

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

In notices of meetings at which directors are to be elected or removed, the Bank will ensure that where the number of candidates exceeds that of the number of available seats, the notice of the meeting explains the voting method by which the successful candidates will be selected and the method to be used for counting of votes. Care will also be taken to ensure that the notice of the meeting will fairly represent the views of the candidates. During the AGM scheduled for March 2020, it is anticipated that the number of vacancies will either exceed or equal the number of candidates available for election / re-election.

The Charter of the Board of Directors, also provides for the termination of membership of Board members for misuse of position; failure to attend at least three consecutive meetings or at least 75% of the meetings in a financial year without a reasonable excuse; resignation; appointment to any other managerial position in the Bank for which the member receives remuneration; bankruptcy or any other violation of laws. In 2019, the attendance requirement was met by all members.

3.3 Board Induction Policy

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

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

3.4 Responsibilities of the Board

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

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

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

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

3.5 Board Meetings

UGB's Board of Directors met frequently for a total of five times during 2019, details of which are given in the next table. Three of these were held in Bahrain.

Attendance	27 Feb 2019	27 Mar 2019	14 May 2019	8 Aug 2019	13 Nov 2019
Masaud J. Hayat, Chairman	x	x	x	x	x
Faisal Al Ayyar, Vice Chairman	x	x	x	x	x
Sheikh Abdullah Nasser Sabah Al Ahmad Al Sabah	x	x	x	x	x
Samer Khanachet	x	x	x	x	x
Mubarak Al Maskati	x	x	x	x	x
Bader Al Awadhi	x	x	x	x	x
Mohammed Haroon	x	x	x	x	x

The record of attendance in the current term of election of the Directors, is as follows:

Attendance	2017	2018	2019
Masaud J. Hayat, Chairman	100%	100%	100%
Faisal Al Ayyar, Vice Chairman	100%	100%	100%
Sheikh Abdullah Nasser Sabah Al Ahmad Al Sabah	100%	100%	100%
Samer Khanachet	100%	100%	100%
Mubarak Al Maskati	100%	100%	100%
Bader Al Awadhi	100%	100%	100%
Mohammed Haroon	100%	100%	100%

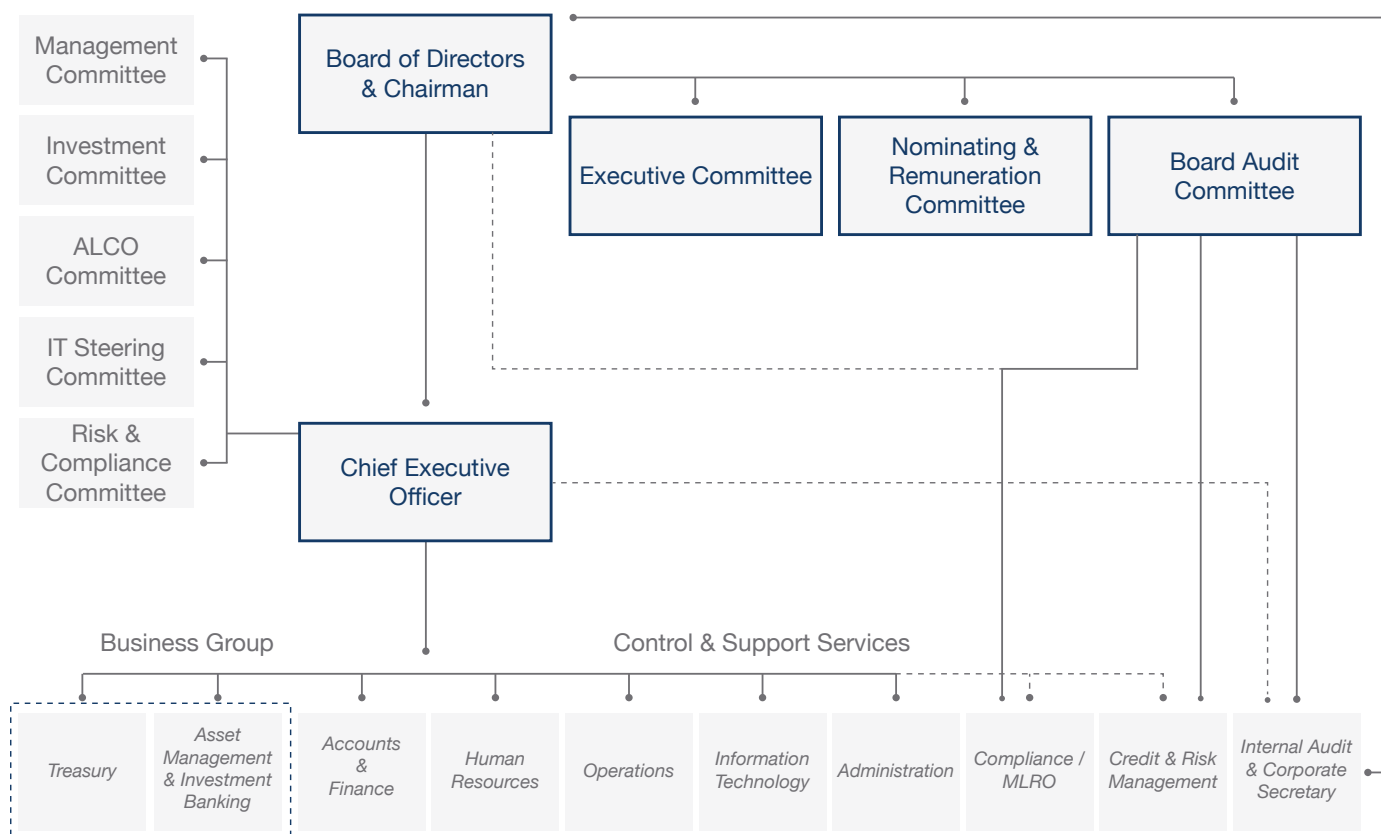
The requirement that individual board members must attend at least 75% of all Board meetings in a given financial year to enable the Board to discharge its responsibilities effectively, is hence met by all members. Informal communication is also maintained among Board members between meetings. A detailed package containing the agenda, minutes of prior meetings, adequate background information on the issues is circulated by the Chairman/ Corporate Secretary, prior to the date of the Board meeting. During 2019, there were no reasons for the Independent Directors to determine the need for a session at which only they needed to be present.

3.6 Board Committees

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

The Board has approved three standing Committees – namely, the Executive Committee, the Board Audit Committee and the Nominating & Remuneration Committee. Each of these has its own charter that outlines the responsibilities of its members. The Board is authorized 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 on the 12th of January 2020.

The governance structure and the organization chart of the Bank are given below. In accordance with the new requirements of the CBB, the reporting lines of the Chief Compliance Officer (CCO) and the Head of Credit and Risk Management, has been shifted to the Board Audit Committee. They report administratively to the Chief Executive Officer.



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

There was no change in the membership of the Board and Management committees during 2019. Care is taken to ensure that their membership and constitution are in line with CBB regulations. Further information on the work done by the Committees is provided below:

3.6.1. Executive Committee (EC)

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

Responsibilities: The Executive Committee is appointed by the Board to exercise the powers and duties of the Board in the interim periods by circulation in order to ensure timely review and approvals with regards to strategic and investment related proposals. The EC is also empowered by its **Charter** to act on the Board's behalf, if an immediate decision is required on any matters falling outside the authority of Management. The charter was last approved by the Board on 1 August 2018.

The basic responsibility of the EC is to consider and approve/amend the overall impact of the policy recommended by the investment committee in the key areas of strategy and planning, investments (policies, acquisitions and sales), risk management and asset and liability management systems and controls. Any improvements deemed necessary or desirable to the committee's charter, will be recommended by the Executive Committee to UGB's Board of Directors.

Meetings : The executive committee meetings and resolutions are held through circulation. Members sign the underlying memos constituting the decisions. During 2019, six resolutions were passed, details of which are given below.

		Masaud J. Hayat Chairman	Faisal Al Ayyar	Samer Khanachet
1	25 Mar 2019	x	x	x
2	22 April 2019*	x	x	x
3	30 April 2019	X	X	X
4	8 July 2019	X	X	X
5	8 December 2019	x	x	x

*Two resolutions were passed on this date.

3.6.2 Board Audit Committee (BAC)

Composition: During 2019, the Board Audit Committee had one executive director (Mr. Faisal Al Ayyar) and two independent directors (Mr. Mohammed Haroon - Chairman and Mr. Mubarak Al Maskati). The Chairman of the BAC is an independent director. All members have sufficient technical expertise to enable the Committee to perform its functions.

Responsibilities: The BAC assists the Board in its responsibility 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 on the 1st of August 2018, the charter encompasses:

- 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;
- 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
- ensuring that there are effective whistleblowing procedures in place.

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

During 2019, the CBB introduced several new rules under Module HC that pertains to the Audit Function, Compliance Function and the Risk Function. One of these involves establishing a Board Risk Committee comprising at least three independent Directors. The task of the Risk Committee is to support the Board for its oversight and decisions related to the Bank's risk management framework. UGB's BAC has had the responsibility over several years of supervising the Risk functions of the Bank. It was hence deemed appropriate that the BAC would continue to have oversight over the risk framework. The CBB Approval for the same was procured on 23 April 2019. It should however be noted that there are only two independent Directors on the BAC. However, all three members are financially literate and have been associated with UGB for over 20 years.

Meetings: During the year 2019, the Board Audit Committee met seven times; the attendance on these was as follows:

		Mohammed Haroon Chairman	Faisal Al Ayyar	Mubarak Al Maskati
1	21 Jan	x	x	x
2	17 Feb	x	x	x
3	21 Mar	x	x	x
4	13 May	x	x	x
5	7 Aug	x	x	x
6	12 Nov	x	x	x
7	25 Nov	x	x	x

Only one meeting with the BAC was held with the external auditors – Ernst & Young. This was scheduled on 25th November 2019.

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 to combine both roles, UGB's Board of Directors approved the creation of a Nominating & Remuneration Committee. The NRC comprises three independent directors – namely Mr. Mubarak Al Maskati (Chairman), Mr. Bader Al Awadhi and Mr. Mohammed Haroon.

Responsibilities: The NRC assists the Board in assessing the skill sets of Board members and ensures that there is an appropriate mix of eminent persons having an independent standing in their respective field/profession and who can effectively contribute to UGB's business and policy decisions. The Committee is empowered by **its Charter**, which was last approved by the Board on the 1 August 2018.

The Committee is tasked with overseeing the preparation of appropriate nomination documents and notifications proposing candidates for Directorships. This is done once every three years. At the last re-election of the Board in March 2017, the NRC reviewed each candidate's:

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

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

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

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

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

Meetings: The Nominating & Remuneration Committee met twice during 2019 and consequently met the requirement of the CBB of having at least two meetings in any financial year. Attendance of each Member is recorded in the minutes of NRC Meetings held during the year:

		Mubarak Al Maskati	Bader Al Awadhi	Mohammed Haroon
1	26 Feb	x	x	x
2	6 March	x	x	x

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

3.7 Evaluation of the Board and Its Committees

The NRC completed the annual evaluation of its performance and the performance of Board, the Executive Committee and the Board Audit Committee through a questionnaire administered by the Chairman of the Board, and the Chairmen of the various committees to their members. The written self-assessment covered an assessment of how the Board functioned, the evaluation of the performance of each committee in light of its specific purpose and responsibilities, and the attendance record of each Director at Board and Committee meetings. The performance of each individual director is evaluated at the time of re-election. The results were collated by the Chairman of the Board and the Corporate Secretary and the performance of the Board and its Committees was unanimously deemed satisfactory. This is reported to the shareholders at each Annual General Meeting.

In line with the CBB's requirement to demonstrate training and competency, the number of hours of CPD (continuing professional development) completed by all Directors is submitted to the CBB on an annual basis. For the year ended 2019, all Directors met their requirements.

3.8 Directors' ownership and trading of shares during the year

During 2019, one share was held by Mr. Haroon in order to comply with the MOICT's requirement to have at least two parties as shareholders in a closed shareholding company. This share is held under a Trust and Indemnity Agreement, signed with UGB's parent UGH.

	31 December 2017	31 December 2018
Masaud M.J. Hayat (Chairman)	-	-
Faisal Hamad Al Ayyar (Vice Chairman)	-	-
Sheikh Abdullah Nasser Sabah Al Ahmad Al Sabah	-	-
Mubarak Al Maskati	-	-
Samer Khanachet	-	-
Bader Al Awadhi	-	-
Mohammed Haroon	-	1-

3.9 Directors' Remuneration

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

	Amount (USD) 2019	Amount (USD) 2018
Sitting Fees	180,000	180,000
Attendance Fees	15,000	15,000
Total	195,000	195,000

4. Management

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

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

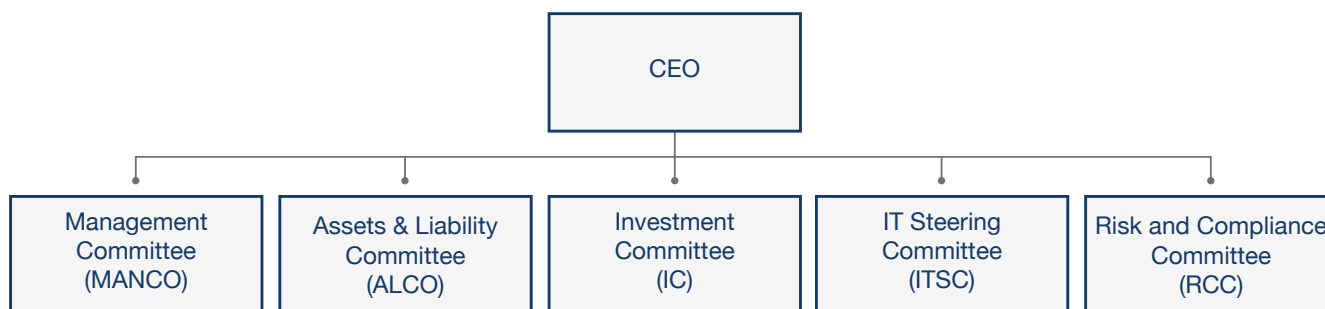
Mr. Hussain Lalani is the Chief Executive Officer of the Bank. He is responsible for the executive leadership and the day to day operations of UGB. He is assisted by Management Committee team members, who are responsible for implementing the Bank's strategies. As evident in the organization chart in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

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

4.1 Management Committees

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

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



Management Committees

Management Committee (MANCO)

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

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 UGB's balance sheet in terms of structure, distribution, risk, return and its impact on profitability. It also monitors the tenor and cost/yield profiles of assets and liabilities and evaluates the Bank's balance sheet both from interest rate sensitivity and liquidity points of view, makes corrective adjustments based upon perceived trends and market conditions, monitors liquidity and foreign exchange exposures and positions. The Committee meets 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, investments and concentrations towards banks, countries, industries, risk rating classes or other special risk asset categories. In addition, the committee also monitors the overall risk profile of the Bank and recommends provision levels to the Executive Committee.

Pursuant to its investment approval guidelines, the Investment Committee undertakes its function 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.

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

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

IT Steering Committee (ITSC)

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

Risk and Compliance Committee (RCC)

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

4.2 Management Remuneration Structure

The aggregate remuneration for UGB Senior Management paid during 2019 was US\$ 2.33 million (2018: US\$ 2.38 million).

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

The remuneration framework's design and operation for approved persons and material risk takers is supervised solely by the Board of Directors with the assistance of the NRC. The salient features of the remuneration framework approved by them include:

- 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.

Further details on remuneration are available under Prudential Disclosures on UGB's website www.ugbbah.com

As part of the Bank's Human Resources Policy, the hiring of immediate relatives including spouses, children, brothers and sisters, is prohibited in order to ensure that there are no current or potential conflicts of interest. It also reiterates the Bank's principle that any hiring of employees, is based on an objective evaluation of ability and suitability. Any exceptions to this policy has to be approved by the Chairman. As at 31 December 2019, 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.

4.3 Succession Planning

UGB recognizes the significance of a structured succession plan. In accordance with the CBB's requirements, the Board of Directors reviews and endorses a succession plan on an annual basis. This document includes an assessment of the experience, and skills for the possible successors to all Senior Management personnel. The objective of the plan is to identify, develop and promote personnel to ensure that there are no disruptions to the functioning of the Bank, in an event that key personnel chose to leave UGB. The succession planning document was last reviewed by the NRC in March 2019. The next review is scheduled for the NRC that will be held in March 2020.

4.4 Appointment letters and job descriptions

The bank has a long-standing practice of providing formal letters of appointment to its senior management staff that prescribe his/her title, authorities, duties, accountabilities and internal reporting responsibilities. Job Descriptions are continuously assessed and updated based on changes in underlying responsibilities. During 2019, the job descriptions for all Senior Managers and staff were reviewed by the respective Department Heads, Human Resources and the Internal Audit Departments. These will be submitted to the NRC held in March 2020.

4.5 Review of internal control processes and procedures – Internal Audit

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

UGB's Internal Audit Department develops a 3-year strategic audit plan designed to implement a systematic, disciplined audit review approach by utilizing the available audit resources in the most efficient and effective manner and examine the adequacy and effectiveness of internal control systems, procedures and provide recommendations to enhance its quality. Internal Audit performs follow ups on raised internal control recommendations / corrective actions and reports their updated status to the Board Audit Committee. The CBB's new requirements introduced in 2018, that all internal audit findings and recommendations be resolved within six months for high risk/critical issues and twelve months for any other issues from the issue date of the subject internal audit report, were incorporated in Internal Audit's framework and currently all issues implementation status follow ups provide auditees with a regulatory deadline. All findings in breach of its regulatory deadlines are escalated to the Board Audit Committee.

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

4.6 Review of internal control processes and procedures – Compliance

UGB has an independent Compliance & MLRO Department that has a direct reporting line to BAC and administratively to the Chief Executive Officer. The Chief Compliance Officer & MLRO also has additional access to the Chairman of the Board of Directors for AML related issues. The Compliance function is empowered by its Charter that has been approved by the Board of Directors to communicate with any staff member, obtain access to any records and conduct investigations of possible breaches of compliance policy. The Department also has the authority to request assistance from specialists within the Bank and engage outside specialists after obtaining the CEO's prior approval. During 2019, the Board of Directors approved the amended Compliance Manual that was revised to incorporate a risk-based compliance plan alongside the framework for assessment, testing and notification. An ageing analysis was also incorporated in the Breach register.

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

4.7 Review of internal control processes and procedures – Risk Management

UGB has an independent Credit & Risk Management Department (CRM) that has a direct reporting line to BAC and administratively to the Chief Executive Officer. The function operates under a Risk Policy & Procedures Guide which has been approved by the Board of Directors. This guide sets out the risk management framework that encompasses various limits and processes defining risk identification, assessment, analysis and testing. During 2019, CRM worked extensively to address the numerous new risk management regulations and reporting requirements that were introduced by the CBB. It developed new policies and procedures covering reputational risk, ICAAP and stress testing and the Risk Appetite Framework. It also met the new reporting requirements of the liquidity coverage ratio.

In accordance with the CBB requirements, the Bank has commenced independent validation of risk-related modules by an independent third-party consultant. During 2019, it submitted the validation reports to the regulator on ICAAP, Stress Testing, IFRS 9 ECL Model, Liquidity Risk Management and the Operational Risk Management Framework.

4.8 Authority Levels

As mentioned above, the Bank's Risk Policy & Procedures guide, which specifies the authority levels for investments. Approval from the entire Board is sought for any transactions exceeding the Investment Committee's authority as mentioned in the Risk Policy & Procedures Guide. The Board of Directors has also approved a Payment Authority Matrix that documents the thresholds for approval by the CEO and the CFO, for day to day operational expenses, the policy was last approved on the 1 August 2018.

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

No shares were held by management in 2019 or 2018.

5. Code of Conduct approved by the Board of Directors

UGB's Board of Directors has established corporate standards for all its Directors and employees. These are emphasized in the Bank's **Code Of Conduct** that reiterates the policies of upholding sensitive and confidential information; avoiding and disclosing (wherever applicable) conflicts of interest; personal accountability; honesty; harmonious relationships with its clients, subsidiaries, affiliates and the regulators; non solicitation of gifts; transparent and accurate external communication; expected standards of professionalism, fairness, behaviour and language and accounting, audit and book keeping. The Code of Conduct was last approved by the Board on the 1 August 2018.

The Board and Senior Management of UGB view the Code of Conduct as an integral part in the way they affirm their duty and loyalty to the Bank, exercise their responsibilities and conduct themselves vis a vis customers, shareholders, staff and the wider community. Familiarisation sessions on the requirements of the Code of Conduct, are conducted on an annual basis by UGB's Chief Compliance Officer. Each member of the Board and staff, submit a written affirmation that they will be 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 2019.

Masaud J. Hayat

Chairman.

6. Disclosure on materially significant related party transactions

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

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

The Bank's major related party transactions are generally with 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.

The Board of Directors ensures that all related party transactions are negotiated in the normal course of business and are intended to further the interests of the Bank.

7. Disclosure of Conflicts of Interest

During the financial year ended 2019 there were no materially significant transactions entered into between UGB and its controller, directors or the management, subsidiaries or associates, which may have potential conflict with the interests of the Bank at large. Consequently, there was no need to declare any conflicts, in accordance with the **Disclosure of Conflict of Interest policy**.

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

If the disclosure is upheld, the director deemed to have a conflict of interest is expected to abstain from voting on the issue. Such abstention will be recorded by the Corporate Secretary in the minutes of the committee or the Board (as appropriate). Furthermore, the policy requires the Bank to disclose to its shareholders in the Annual Report, any abstention from voting motivated by a conflict of interest, as well as any authorisation of a conflict of interest contract or transaction. There were no abstentions recorded in 2018. All individual directors have complete access to UGB's Corporate Secretary.

8. Disclosure and Transparency Policy

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

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

8.1 Means of Communication

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

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

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

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

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

9 External Auditor

The Bank's external auditors are Ernst and Young (EY). They have been the auditors since 2001. In accordance with Article 206 of the Bahrain Commercial Companies Law (2001), the external auditors are re-appointed each year by the shareholders at the AGM, subject to the procurement of the no objection letter from the CBB. The decision was taken to re-appoint Ernst & Young as the external auditors, as they are a well-established name and part of the Big 4 audit firms in the world. Conflict of interest with respect to engaging EY as the external auditors is not an issue as there are no financial dealings with EY. There are also three partners responsible for the audit of UGB (Engagement Partner, Technical Partner and Independent Partner). EY also follow best practice of rotating their partners regularly. In line with the regulatory requirements, the external auditors' fees are approved by shareholders. For the year ended 2019, the external fees for audit services paid out were approximately US\$ 92 thousand (2018: \$ 53 thousand) and the fees for non-audit services paid out were US \$ 96 thousand (2018: \$ 126 thousand).

The Board of Directors has approved a policy for the '**Evaluation of Independence of External Auditors.**' This document mandates the external auditor to maintain a quality control system that provides reasonable assurance that its independence will not be impaired and was last approved by the Board on the 1 August 2018. 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 on 13th February 2020. 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 in its meeting held on 13th February 2020. 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.

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

The Bank has long been active in a wide range of socially responsible activities including corporate philanthropy, employee involvement, and long-term strategic programmes in education. This is in line with its commitment to promote thought leadership within the industry; empower students through education and training; and its value enhancement philosophy to provide social, economic and community-related assistance. During 2019, UGB continued to implement its Corporate Social Responsibility (CSR) programme with a special emphasis on education and career development for young Bahrainis; development of the regional banking sector; and charitable and community-based activities. The Bank's CSR Policy was reviewed during 2019 to assess conformance with new requirements of the Bahrain Code of Corporate Governance.

EDUCATION AND CAREER DEVELOPMENT FOR YOUNG BAHRAINIS

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

University of Bahrain Student Internships

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

TradeQuest – The Trading Challenge

TradeQuest is a business-education partnership that was established 22 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 18 years by sponsoring one of the participating schools, and became a Gold Sponsor in 2017.

UGB Mashare'a' Al Khair Scholarship Programme

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

DEVELOPMENT OF THE REGIONAL BANKING SECTOR

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

- The Bank supports a wide range of banking-related organisations, including the Bahrain Association of Banks, Union of Arab Banks and the Bahrain Institute of Banking and Finance (BIBF),
- 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 members are invited to speak at industry seminars, think tanks and conferences.

CHARITABLE AND COMMUNITY-BASED ACTIVITIES

Over the years, UGB has provided financial assistance for numerous charitable, cultural, social, medical, educational and child welfare organisations that work with orphans, needy families, and the underprivileged sections of society. In 2019, contributions were also made to entities that are committed to protecting the environment, and raising awareness about women's cancer.

The audited financial statements for the year ended 2019 are available under the Annual Report Section on UGB's website www.ugbbh.com.

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