

**UNITED GULF BANK B.S.C.**



**Corporate Governance  
Report - 2012**



**GLOSSARY**

AGM	Annual General Meeting
BAC	Board Audit Committee
BOD	Board of Directors; the Board
CBB	Central Bank of Bahrain
ACEO	Acting Chief Executive Officer
CFO	Chief Financial Officer
Code	Code of Corporate Governance issued by the Ministry of Industry & Commerce, Kingdom of Bahrain
EGM	Extra Ordinary General Meeting
HC	Higher Level Controls; Module HC of the CBB Rulebook
NRC	Nominating and Remunerations Committee
UGB	United Gulf Bank B.S.C., the Bank



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

The Board of Directors (Board, BOD) of United Gulf Bank B.S.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. In line with UGB's mission *'To be a leading wholesale bank providing asset management and investment banking services, delivered through a network of local investment companies across the Middle East and North Africa region'*, members of UGB's Board of Directors and Management support the **'FAIR'** principles of **F**airness, **A**ccountability, **I**ntegrity and **R**esponsibility in their relationship with the Bank's shareholders, employees and other external stakeholders.

UGB has endeavoured to comply with the requirements of the Corporate Governance Code of the Kingdom of Bahrain (Code) introduced by the Ministry of Industry and Commerce (MOIC) on 16 March 2010 and the Central Bank of Bahrain's (CBB) High Level Controls (Module HC) of its rulebook. The corporate governance framework of the Bank is a reflection of its culture, policies, relationship with stakeholders and commitment to values.

The objective of this document is to inform shareholders of the status of UGB's compliance with the regulatory requirements, as well as explain the rationale for variances with any of the disclosure requirements.

## 2. Profile and ownership structure of the Bank

UGB is the investment banking and asset management subsidiary of the Kuwait Projects Company (Holding) (KIPCO Group) - one of the biggest diversified holding companies in the Middle East and North Africa, with consolidated assets of US\$ 25.6 billion .

The shareholding structure of the Bank as at 31 December 2012 was as follows:

<b>Holding</b>	<b>Number of shares</b>	<b>Number of shareholders</b>
0 to 1%	19,674,763	1,817
1% up to less than 5%	14,11,4055	1
5% up to less than 10%	0	0
10% up to less than 20%	0	0
20% up to less than 50%	0	0
50% and above.	800,788,840	1
<b>Total</b>	<b>834,577,658</b>	<b>1,819</b>

The two largest shareholders of the Bank are KIPCO – 85.5% and its subsidiary Kuwait United Consultancy Company – 9.04%. They hold 94.5% of the total number of shares issued. One other KIPCO Group company - namely Burgan Bank S.A.K, holds a further 0.08%. KIPCO's total stake in UGB is hence 96.23% (2011 95.93%). No government or sovereign funds hold any shares of UGB.

In accordance with Article 118 of the Bahrain Commercial Companies Law (2001), UGB maintains a shareholders' register that records the names of shareholders, their nationalities, the number and the serial numbers of the share certificates, and the dealings made thereon. The breakdown by nationality as at 31 December 2012 was as follows:

Nationality	Number of shareholders	%	Number of shares	%
Bahrain	1,134	62.34	6,321,145	0.76
France	1	0.05	1,495	0.00
India	3	0.16	112,012	0.01
Kuwait	651	35.79	812,764,590	97.39
Oman	2	0.11	3,638	0.00
Qatar	5	0.27	15,496	0.00
Saudi Arabia	19	1.04	1,114,260	0.14
United Arab Emirates	2	0.12	101,039	0.01
United Kingdom	1	0.06	29,928	0.00
UGB Treasury Shares	1	0.06	14,114,055	1.69
<b>Total</b>	<b>1,819</b>	<b>100%</b>	<b>834,577,658</b>	<b>100%</b>

### 3. Board of Directors

#### 3.1 Composition of the Board of Directors

The Board has identified 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 the Board as on 31 December 2012 was as follows:

Category	Number of Directors	Percentage of the Board
Executive	5	62.5%
Independent directors	3	37.5%

This meets the CBB’s criterion 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 are placed before the Board. 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 that they hold, and their biographical details are available in UGB's Annual Report and website [www.ugbbah.com](http://www.ugbbah.com).

None of the Directors on the Board holds more than one directorship of a bank in Bahrain. Thus, the effective cap of a maximum of two Directorships of banks inside Bahrain is maintained. 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, is also upheld.

The CBB Rulebook and the Code of Corporate Governance (Code) states that the Chairman of the Board should be an independent, non Executive Director. UGB's Chairman – Mr. Masaud J. Hayat has been an Executive Board Director of UGB for the past 22 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 controlling shareholder.

### 3.2 Board Terms and the Start Date of Each Term

Each term of the Board of Directors consists of three years. The last re-election of UGB's Board of Directors, was held at the Bank's Annual General Meeting on 28 March 2011. Two other independent directors – Mr. Faick Al Saleh and Mr. Bader Al Awadhi, were elected by shareholders at the general assembly held in March 2012. The term of all Directors runs until March 2014. Written appointment letters outlining the roles and responsibilities of Directors, have been issued by the Chairman to each of the Directors.

The Board has approved 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 Remunerations 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 will be taken to ensure that the 'fit and proper' requirements of the regulator are met and that the CBB's approval is obtained prior to the election of the Director.

The Board has approved a separate policy called '**Ordinary / Extraordinary General Assembly Meetings Procedures.**' This states that voting at the General Meeting shall be by show of hands or any manner approved by the General Meeting. Voting shall be by secret ballot if the resolution concerns the election or dismissal of a member of the Board of Directors or filing an

action against him or when the Chairman of the Board or a number of shareholders representing at least one tenth of the number of votes present at the Meeting, request voting by secret ballot.

In notices of meetings at which directors are to be elected or removed, the Bank will ensure that where the number of candidates exceeds that of the number of available seats, the notice of the meeting explains the voting method by which the successful candidates will be selected and the method to be used for counting of votes. Care will also be taken to ensure that the notice of the meeting will fairly represent the views of the candidates.

The General Assembly Meeting through a majority vote, has the authority to terminate the membership of all or some of the members of the Board of Directors. Requisition for termination shall be presented to the Board by shareholders representing at least 10% of the capital. The Board shall forward such requisition to the General Assembly Meeting within a maximum period of one month from the date of its submission; otherwise, the Ministry of Industry & Commerce may issue the notice for the General Assembly Meeting. The General Assembly Meeting may not consider this requisition with respect to the said termination unless the requisition is on the agenda, or where serious developments are revealed during the meeting requiring such termination. A member who has been terminated may seek compensation from the Bank if the termination is without proper justification.

**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.

### 3.3 Board Induction Policy

UGB's Board of Directors approved the **Directors' Induction Policy** that requires each new Director to receive a formal and tailored induction with respect to UGB's vision, strategic direction, and core values including ethics, corporate governance practices, financial matters and business operations. The familiarisation is aimed at ensuring that the new Director meets with the Bank's Senior Management, and that he/she is provided with the necessary documents, brochures, reports and internal policies. In April 2012, an induction pack was sent to Mr. Faick Al Saleh and Mr. Bader Al Awadhi following their election as Board members These were acknowledged by the new Directors.

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 :

- The overall business performance and strategy for UGB.
- Causing financial statements to be prepared which accurately disclose UGB's financial position;
- Monitoring management performance;
- 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 the objectives of the Bank
- Ensuring that the systems and controls framework, including the Board structure and organisational structure, is appropriate for the bank's business and associated risks.

These are enumerated in detail, in the [Corporate Governance guidelines](#) published on the website, and the [Charter of the Board of Directors](#).

### 3.5 Board Meetings

UGB's Board of Directors met frequently for a total of five times during 2012, details of which are given below. This exceeds the CBB's minimum requirement of having at least four meetings in any given year that are scheduled once a quarter.

<b>Attendance</b>	<b>28 Feb 2012</b>	<b>8 May 2012</b>	<b>28 May 2012</b>	<b>7 August 2012</b>	<b>7 November 2012</b>
Masaud J. Hayat (Chairman)	x	x	x	x	x
Sh. Hamad Sabah Al Ahmed Al Sabah (Vice Chairman)	x	x	x	x	x
Faisal Al Ayyar (Chairman of the Board Audit Committee)	x	x	x	x	x
Samer Khanachet	x	x	x	x	x
Sheikh Abdullah Nasser Sabah Al Ahmad Al Sabah	x	x	x	x	x
Mubarak Al Maskati	x	x	x	x	x
Faick Al Saleh	NA	x	x	x	x



Bader Al Awadhi	NA	x	x	x	x

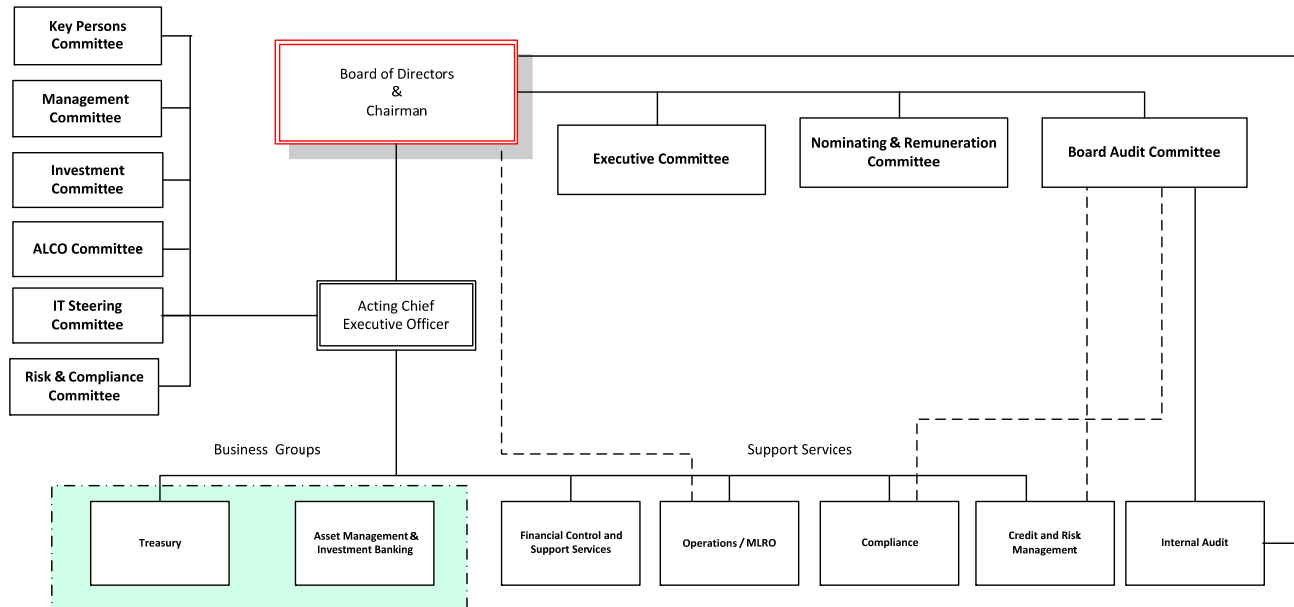
*\*NA – these two members were elected in March 2012.*

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.

### 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 shareholders are being served. The Chairman of the Board is assisted by the Executive Directors, the Independent Directors and the senior managerial personnel 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 & Remunerations Committee. (Each of these has its own charter that enumerates the responsibilities of its members. The Board is authorised to constitute additional functional Committees from time to time, depending on the business needs. The governance structure and the organisation chart is given below.



### 3.6.1. Executive Committee (EC)

**Composition :** The Executive Committee of the Board comprises four executive directors, namely Mr. Masaud Hayat, Sh. Hamad Al Ahmad Al Sabah, 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 between Board meetings and by circulation when a full meeting of the Board is not possible. 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 basic responsibility of the EC is to consider and approve/amend the overall impact of the policy recommended by the CEO in the key areas of strategy and planning, investments (policies, acquisitions and sales), risk management and asset and liability management. Any improvements deemed necessary or desirable to the committee’s charter, will be recommended by the Executive Committee to UGB’s Board’s of Directors.

**Meetings :** During the year 2012, the Executive Committee conducted 8 meetings through circulation on 14 February 2012, 11 April 2012, 19 April 2012, 26 June 2012, 27 September 2012, 4 November 2012, 9 December 2012 and 18 December 2012. The attendance on these was as follows:

Name of Committee Member	# of Meetings	# of Meetings
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	Held	attended
Mr. Masaud J. Hayat	8	7
Sh. Hamad Sabah Al Ahmad Al Sabah	8	8
Mr. Faisal Al Ayyar	8	8
Mr. Samer Khanachet	8	8

The members sign the underlying memos that constitute their decisions. There are no separate minutes maintained.

### 3.6.2 Board Audit Committee (BAC)

*Composition:* Following the election of two new independent directors in March 2012, the Board Audit Committee was reconstituted and comprises two executive directors and three independent directors – namely, Mr. Faisal Al Ayyar, Mr. Samer Khanachet , Mr. Mubarak Al Maskati, Mr. Faick Al Saleh and Mr. Bader Al Awadhi. The requirement to have a majority of independent members is hence met. All of them have sufficient technical expertise to enable the Committee to perform its functions.

The CBB Rulebook and the Code of Corporate Governance also states that the Chairman of the Board Audit Committee should be an independent director. UGB’s Chairman of the BAC – Mr. Faisal Al Ayyar has been an Executive Board Director of UGB for the past 22 years. During this period, he has served as the Chairman of the Board for 13 years and Managing Director for 6 years. He hence has a thorough understanding of the Bank, its history, its functioning style and its operations. Mr. Ayyar represents the interests of the Bank’s controlling shareholder.

*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**, encompass:

- assessing the quality and integrity of UGB’s financial 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 the implementation of, enforcement of and adherence to the bank’s code of conduct and
- 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 regulations. As the scope of corporate governance falls within this purview, permission was

obtained from the CBB to merge the Board Audit Committee and the Corporate Governance Committee.

*Meetings* : During the year 2012, the Board Audit Committee met five times on 28 February 2012, 7 May 2012, 7 August 2012, 7 September 2012 and 19 December 2012. This meets the requirement of the CBB of having at least four meetings in any financial year.

Attendance of each Member at the Audit Committee Meetings held during the year:

Name of Committee Member	# of Meetings Held	# of Meetings attended
Mr. Faisal Al Ayyar	5	5
Mr. Samer Khanachet	5	5
Mr. Mubarak Al Maskati	5	5
Mr. Faick Al Saleh	5	4
Mr. Bader Al Awadhi	5	4

### 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. Following the receipt of the CBB's approval to combine both roles, UGB's Board of Directors approved the creation of a Nominating & Remuneration Committee. This was constituted following the election of the two independent Directors. The NRC comprises Mr. Masaud J. Hayat, Mr. Mubarak Al Maskati, Mr. Faick Al Saleh and Mr. Bader Al Awadhi.

The CBB Rulebook and the Code of Corporate Governance (Code) states that the Chairman of the Chairman should be an independent, non Executive Director. The Chairman of the NRC – Mr. Masaud J. Hayat has been an Executive Board Director of UGB for the past 22 years and has a thorough understanding of the Bank, its functioning style and its policies. He represents the interests of the Bank's controlling shareholder

*Responsibilities:* The NRC assists the Board in assessing the skill sets of Board members and ensure 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, to oversee the preparation of appropriate nomination documents and notifications proposing candidates for Directorships. It reviews the independence of Directors on an annual basis, supervises the preparation of induction materials and orientation sessions, makes recommendations to the Board regarding the management structure 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 and officers 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.

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. Since 2007, UGB has made no further grants under the Employee Stock Option Plan that was approved by its shareholders in 2004.

*Meetings* : During the year 2012, the Nominating & Remunerations Committee met twice on 7 August 2012 and 7 November, 2012. This meets the CBB requirement of having at least two meetings on an annual basis. The attendance of each member at the NRC Meetings is as follows:

Name of Committee Member	# of Meetings Held	# of Meetings attended
Mr. Masaud J. Hayat	2	2
Mr. Mubarak Al Maskati	2	2
Mr. Faick Al Saleh	2	2
Mr. Bader Al Awadhi	2	2

While Corporate Governance principles are uniformly endorsed by UGB's Board of Directors and Executive Management, the extent of arrangements is subject to the requirements of the regulators of the jurisdictions in which UGB's subsidiaries operate.

### 3.7 Evaluation of the Board and Its Committees

The Board of Directors completed the annual evaluation of its performance and the performance of Executive Committee , the Board Audit Committee and the Board Nominating & Remunerations 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 operated, 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 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.

The performance of each individual director will be reviewed at the time of re-election. The evaluations were conducted by the Board and the committees themselves. The need for an internal board committee or external experts, was not deemed necessary.

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

In accordance with Article 173 (3) of the Bahrain Commercial Companies Law (2001), and the Bank's Articles of Association, each member of the Board of Directors must personally own a number of shares with the nominal value of which shall be at least ten thousand Bahraini Dinars. Details of the holding of UGB shares by the Directors, is given below.

	31 December 2012	31 December 2011	Shares Acquired / Disposed in 2012
Masaud M.J. Hayat	106,100	106,100	-
Sh. Hamad Sabah Al Ahmad Al Sabah	106,100	106,100	-
Faisal Hamad Al Ayyar	106,100	106,100	-
Sh. Abdulla Nasser Al Sabah	106,100	106,100	-
Mubarak Al Maskati	106,100	106,100	-
Samer Khanachet	106,100	106,100	-
Faick Al Saleh	106,100		106,100
Bader Al Awadhi	106,100		106,100

A report disclosing the holding positions and any trades that occurred during the month, is submitted to the Bahrain Bourse and the Kuwait Stock Exchange on a monthly basis during 2012. UGB's shares have been delisted from the Kuwait Stock Exchange, effective January 2012. The share continues to be traded on the Bahrain Bourse.

### 3.9 Directors' Remuneration

The remuneration policy of UGB is in consonance with the existing industry practice. Each member of the Board of Directors is paid an annual Director's fee which is approved by shareholders at the AGM. There are no other sitting fees or any other remuneration paid to committee members. The Board of Directors have recommended an allocation of US\$ 200,000 (2011 : \$ 200,000 ) as Board fees for the year ended 2012.

#### 4. Management

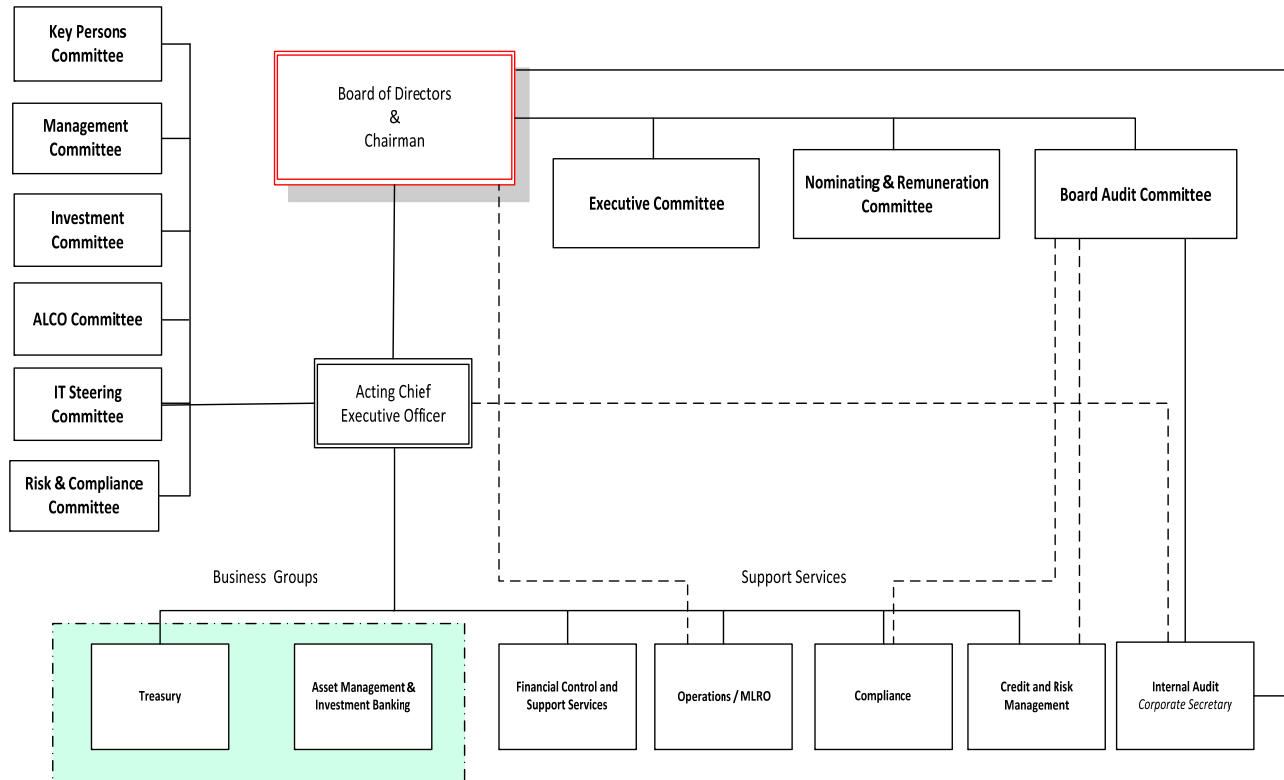
The positions of Chairman & Deputy Chairman are established by UGB's Articles of Association. These are distinct from that of the Acting Chief Executive Officer of the Bank. Furthermore, there is a clear division of responsibility between these two positions, as defined in the **Charter of the Board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

The Acting Chief Executive Officer is responsible for the executive leadership and the day to day operations of UGB. The ACEO is assisted by Management Committee team members, who are responsible for implementing the Board strategies. As evident in the organization chart, this team is headed by the ACEO and includes all Department Heads. In accordance with best practice, there is complete segregation of duties between the business and support functions. Additionally, the Internal Audit & Quality Assurance Department has a direct reporting line to the Board Audit Committee. The Chief Compliance Officer & the Head of Credit and Risk Management have 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](http://www.ugbbah.com)

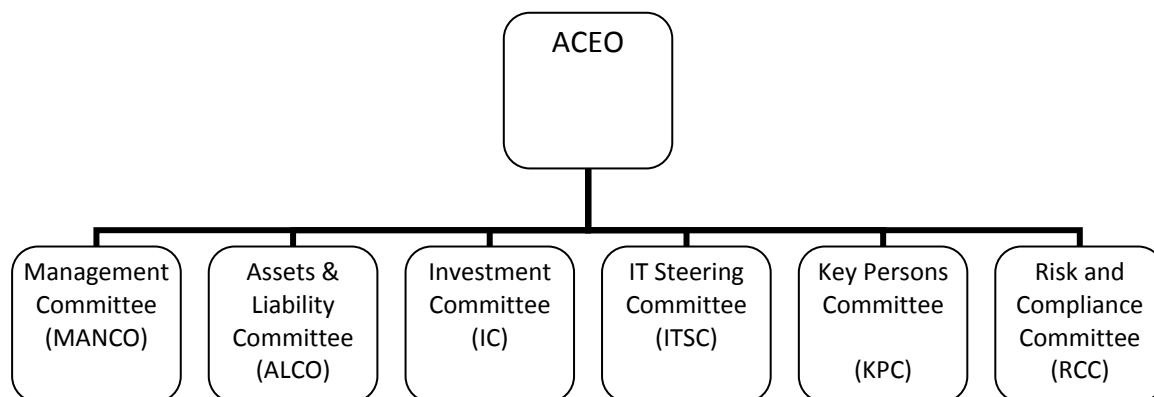




#### 4.1 Management Committees

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 Acting Chief Executive Officer 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. It provides a forum for discussing all relevant issues pertaining to the Bank's ongoing activities. It meets at least twice a month and consists of the Acting Chief Executive Officer and all Department Heads. It also serves to follow up on any action points that are warranted.

### **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 once in two months. It is headed by the Acting Chief Executive Officer and includes the Chief Financial Officer, Head of Credit and Risk Management and other senior management team members. The Treasurer acts as the Secretary of this Committee. The Head of Internal Audit and Quality Assurance attends the meetings in his capacity as an observer.

### **Investment Committee (IC)**

The three member Investment Committee has been constituted by the Executive Committee. It comprises the Acting Chief Executive Officer, the Chief Financial Officer and the Head of Treasury. 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 Acting Chief Executive Officer, is responsible for assisting the Board in the supervision of IT related activities. It meets at least four times 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 Head of Internal Audit and Quality Assurance attends the meetings in his capacity as an observer.

#### **Key Persons Committee (KPC)**

The Key Persons Committee was constituted in March 2012. It comprises the Acting Chief Executive Officer, the Chief Financial Officer and the Head of Operations (who acts as the Secretary of this committee)..

The Committee's broad mandate is to provide approvals for staff designated as 'Key Persons'<sup>1</sup> to trade in UGB Shares and ensure that there is no scope of market abuse or insider trading.

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<sup>1</sup> As per the Bahrain Bourse's definition, a Key Person is a member of an issuer's Board Of Directors, senior management, the Issuer itself and such other such persons as decided by the Issuer's board, to have access to



Reports on transactions in UGB shares conducted by Key Persons, were reviewed by the Committee twice a year and submitted to the Board of Directors at their meetings held on 7<sup>th</sup> August and 7<sup>th</sup> November 2012.

### **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 Acting Chief Executive Officer and includes the Heads of Credit and Risk Management, Compliance and other senior management team members. The Head of Internal Audit and Quality Assurance attends the meetings in his capacity as an observer.

#### **4.2 Incentive Structure**

The remuneration policy of UGB is directed towards rewarding performance, based on the review of the employees' achievements on a yearly basis. It is in consonance with existing industry standards. The aggregate remuneration for Senior Management was US\$ 2.9 million (2011: US\$ 5.0 million)

In accordance with the CBB requirements, no approved person took any benefits from any projects or investments which were managed by UGB except for board related remuneration.

#### **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 Board of Directors reviewed the succession plan put forth by the ACEO, at their meeting held on March 15, 2012.

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inside information relating to the Issuer from time to time. UGB's Board of Directors has approved that all Directors, members of the various standing committees of the Board and UGB employees designated with the rank of Assistant Vice President and above will be deemed to be Key Persons.

#### 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. The job descriptions for all Senior Managers were reviewed by the NRC in August 2012.

#### 4.5 Review of internal control processes and procedures

UGB has a functional Internal Audit Department reporting directly to UGB's Board Audit Committee with a dotted reporting line to the ACEO. The department is staffed by experienced and qualified employees and is governed by a detailed 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 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 on a periodic basis performs follow ups on raised internal control recommendations / corrective actions and reports their updated status to the Board Audit Committee.

#### 4.6 Authority Levels

The Bank has a detailed 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 of US\$ 3 million. In August 2012, the Board of Directors reviewed and approved a revised Payment Authority Matrix that documents the thresholds for approval by the ACEO and the CFO, for day to day operational expenses.

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

Details of the movement of UGB shares held by Senior Management who were employees of the Bank as at 31 December 2012, is given below.

Name	31 December 2011	ESOP Shares Acquired	ESOP Shares Sold	31 December 2012
Rabih Soukarieh	-	-	-	-



Hussain Lalani	133	-	-	133
Jawad Al Asfoor	139,376	-	-	139,376
Mohammed Al Qumaish	51,875	-	-	51,875
Deepa Chandrasekhar	-	-	-	-
Rehan Ashraf	22,232	-	-	22,232
Ameer Ali	-	-	-	-

As at year end 2012, there were 264,316 shares held by Senior Management under the Employee Stock Option Plan (ESOP) that have been vested but not exercised.

### 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 Board and Senior Management of the Bank view the Code of Conduct as an integral part in the way they 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 abide by the tenets of the Code and disclose any conflicts of interest that they might have. 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.ugbbah.com](http://www.ugbbah.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 2012.

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 26 of the Financial Statements.

The Bank's major related party transactions are generally with its controller – KIPCO, its subsidiaries and its associates. 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.

Approval from the Board is sought for any transactions exceeding the Investment Committee's authority of US\$ 3 million. The Board of Directors ensures that all related party transactions are negotiated on an arm's length basis and are intended to further the interests of the Bank.

## 7. Disclosure of Conflicts of Interest

During the financial year ended 2012, there were no materially significant transactions entered into between UGB and its controller, directors or the management, subsidiaries or associates, that 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 states that in the event that there is any conflict, directors should 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 2012.

## 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 Disclosure Policy reiterates the Bank's commitment to disclose all relevant information to stakeholders on a timely basis in a timely manner, and emphasises:

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

### 8.1 Means of Communication

- a) Annual and Quarterly Results: In accordance with the CBB's Disclosure Standards, these are published in 'The Bahrain Tribune', the 'Al Ayam' and the 'Al Wasat'. These are also displayed on the Bank's website [www.ugbbah.com](http://www.ugbbah.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.ugbbah.com](http://www.ugbbah.com), after they have been released to the CBB and the stock exchanges.
- c) Website : The Bank maintains a website [www.ugbbah.com](http://www.ugbbah.com) which contains information related to its profile as well as audited financial data for the past 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.ugbbah.com](http://www.ugbbah.com).

Each quarter, the Acting 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 and the Acting Chief Executive Officer.

- e) Basle II related Pillar 3 disclosures: In accordance with the Bank's requirement, the Basle II related disclosures are published annually and semi-annually on the Bank's website [www.ugbbah.com](http://www.ugbbah.com)
- f) Chairman's Communiqué: A printed copy of the Chairman's statement is distributed to all shareholders along with the consolidated financial statements at the AGM.
- g) Communication with investors: In accordance with the Bahrain Commercial Companies Law, 2001, notices to shareholders are published in the local newspapers. Reminders to investors to collect their dividends are published in prominent newspapers in English and Arabic. In the event that no dividend is distributed, this is communicated to the stock exchanges. The agenda and proxy forms for attendance in the Annual General Assembly, are also available on the Bank's website [www.ugbbah.com](http://www.ugbbah.com).
- h) Designated exclusive email-ID's: In accordance with the **Dispute Resolution Policy** and the **Whistleblowing Policy**, the designated the following e-mail ids exclusively for handling complaints and potential whistle blowing cases:
  - For the resolution of complaints: [complaints@ugbbah.com](mailto:complaints@ugbbah.com)
  - For the investigation of whistle blowing instances: [auditcompliance@ugbbah.com](mailto:auditcompliance@ugbbah.com)

Both policies are available on the Bank's website [www.ugbbah.com](http://www.ugbbah.com). There were no customer complaints or whistle blowing instances received in 2012.

There is a separate section on the website (under Investor Relations) where the bank posts relevant shareholders' information eg. AGM agenda, proxies, Corporate Governance report etc.). The bank has an email ([info@ugbbah.com](mailto:info@ugbbah.com)) which is already in place to allow shareholders to obtain any further information that they may want.

## 9. External Auditor

The Bank's external auditors are Ernst and Young. They have been the auditors since 2001. In accordance with Article 206 of the Bahrain Commercial Companies Law (2001), the external auditors are re-appointed each year by the shareholders at the AGM, subject to the procurement of the no objection letter from the CBB. The decision was to taken to re-appoint Ernst & Young as the external auditors, as they are a well established name and part of the Big 4 audit firms in the world. Conflict of interest is not an issue as there are three partners

responsible for the audit of UGB (Engagement Partner, Technical Partner and Independent Partner). Ernst & Young also follow best practice of rotating their partners regularly. The external auditors' fees are approved by shareholders. For the year ended 2012, the external fees for audit services were US\$ 217 thousand (2011: \$ 222.7 thousand).

In addition to the audit fees, Ernst and Young provided the non-audit services in 2012 details of which are provided in "Affirmation of independence by external auditor". For the year ended 2012, fees for non-audit services amounted to US\$ 41.9 thousand (2011: \$ 330.8 thousand).

In October 2011, the Board of Directors 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. The External Auditor is also expected to annually confirm 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 partner in December 2012. 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 external auditor's independence and documented its acceptance of the certification in its meeting held in February 2013. The aggregate fees for audit and non audit services were also ratified at the 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. The entire audit process was smooth.

#### Conclusion:

The Board of Directors and Senior Management of UGB, take this opportunity to thank all shareholders and stakeholders for their on-going support and affirm to maintain high levels of corporate governance.