

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



**Corporate Governance  
Report - 2016**

**GLOSSARY**

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

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 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). KIPCO's operations extend across diverse geographical regions ranging from Europe, the Middle East, and North Africa amongst others. With holdings in sectors such as financial services, media, manufacturing and real estate, the Group comprises over 60 companies and employs over 12,000 people in 24 countries and has consolidated assets of US \$ 32.7 billion (KD 10 billion) as at 31 December 2016. Through its core companies, subsidiaries and affiliates, KIPCO also has interests in the education and medical sectors. It is listed on the Kuwait Stock Exchange. (<http://kipco.com/>)

The shareholding structure of UGB as at 31 December 2016 was as follows:

| Holding                 | Number of shares   | Number of shareholders |
|-------------------------|--------------------|------------------------|
| 0 to 1%                 | 16,616,543         | 1,781                  |
| 1% up to less than 5%   | 32,904,229         | 2                      |
| 5% up to less than 10%  | 75,440,000         | 1                      |
| 10% up to less than 20% | 0                  | 0                      |
| 20% up to less than 50% | 0                  | 0                      |
| 50% and above.          | 709,641,523        | 1                      |
| <b>Total</b>            | <b>834,602,295</b> | <b>1,785</b>           |

The two largest shareholders of the Bank are KIPCO and its subsidiary Overland Real Estate Company, with an ownership stake of 83.98% and 9.04% respectively (net of Treasury Shares). On an aggregate basis, these two entities hold 93.01% of the total number of shares issued. 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. During 2016 the Bank entered into an agreement with the Bahrain Bourse to assume the responsibilities of shareholder registrar.

The breakdown by nationality as at 31 December 2016 was as follows:

| Nationality              | Number of shareholders | %     | Number of shares | %      |
|--------------------------|------------------------|-------|------------------|--------|
| Bahrain                  | 1,129                  | 63.25 | 19,724,336       | 2.36   |
| India                    | 2                      | 0.11  | 98,012           | 0.01   |
| Jordan                   | 1                      | 0.06  | 5,741            | 0.00   |
| Kuwait                   | 626                    | 35.07 | 794,276,157      | 95.20  |
| Oman                     | 2                      | 0.11  | 3,638            | 0.00   |
| Qatar                    | 5                      | 0.28  | 15,496           | 0.00   |
| Saudi Arabia             | 17                     | 0.95  | 1,003,741        | 0.12   |
| United Arab Emirates     | 1                      | 0.06  | 1,039            | 0.00   |
| United States of America | 1                      | 0.06  | 20,000           | 0.00   |
| UGB Treasury Shares      | 1                      | 0.06  | 19,454,135       | 2.33   |
| Total                    | 1,785                  | 100   | 834,602,295      | 100.00 |

\*Small differences in the totals are attributed to rounding off.

### 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 the Board as on 31 December 2016 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

are placed before the Nominating and Remuneration Committee and 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 they hold, and their biographical details are available in UGB's Annual Report and on its 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 Director. UGB's Chairman – Mr. Masaud J. Hayat has been an Executive Board Director of UGB for the past 27 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 following members were last elected to UGB's Board of Directors at the Annual General Meeting held on 23 March 2014. They have consented to being considered for re-election at the next Annual General Meeting scheduled for March 2017.

#### 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

Following their re-election at the AGM, each member of the Board of Directors will receive an appointment letter which documents their powers, duties, responsibilities, accountabilities, term, time commitment, entitlements and access to independent professional advice.

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 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 request for the CBB to review and approve the applications submitted by UGB's Directors who are standing for re-election, was made on 19 February 2017.

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. During the elections to be held on the 28<sup>th</sup> of March 2017, the number of vacancies is expected to equal the number of directors who will stand for re-election.

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. None of this is expected to be applicable for the Directors who are standing for re-election in 2017.

**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 2016, the minimum attendance requirement was met by all members of the Board of Directors.

### 3.3 Board Induction Policy

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

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

### 3.4 Responsibilities of the Board

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

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

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

There was no change to UGB's strategy during 2016, which required the CBB's prior approval.

### 3.5 Board Meetings

UGB's Board of Directors met frequently for a total of four times during 2016, details of which are given below. Three of these were held in Bahrain.

| Attendance                                     | 28 Feb<br>2016 | 11 May<br>2016 | 10 Aug<br>2016 | 10 Nov<br>2016 |
|--|----------------|----------------|----------------|----------------|
| Masaud J. Hayat, Chairman                      | x              | x              | x              | x              |
| Faisal Al Ayyar, Vice Chairman                 | x              | x              | x              | x              |
| Sheikh Abdullah Nasser Sabah Al Ahmad Al Sabah | x              | x              | x              | x              |
| Samer Khanachet                                | x              | x              | x              | x              |
| Mubarak Al Maskati                             | x              | x              | x              | x              |
| Bader Al Awadhi                                | x              | x              | x              | x              |
| Mohammed Haroon                                | x              | x              | x              | x              |

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. Additionally, informal communication is 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 2016, there were no reasons for the Independent Directors to determine the need for a session at which only they needed to be present.

The CBB rules require that Board attendance percentages have to be reported during any general assembly meeting, when Board members stand for re-election. The attendance of the current Board Members during their last term of three years (April 2014 to date) is as follows:

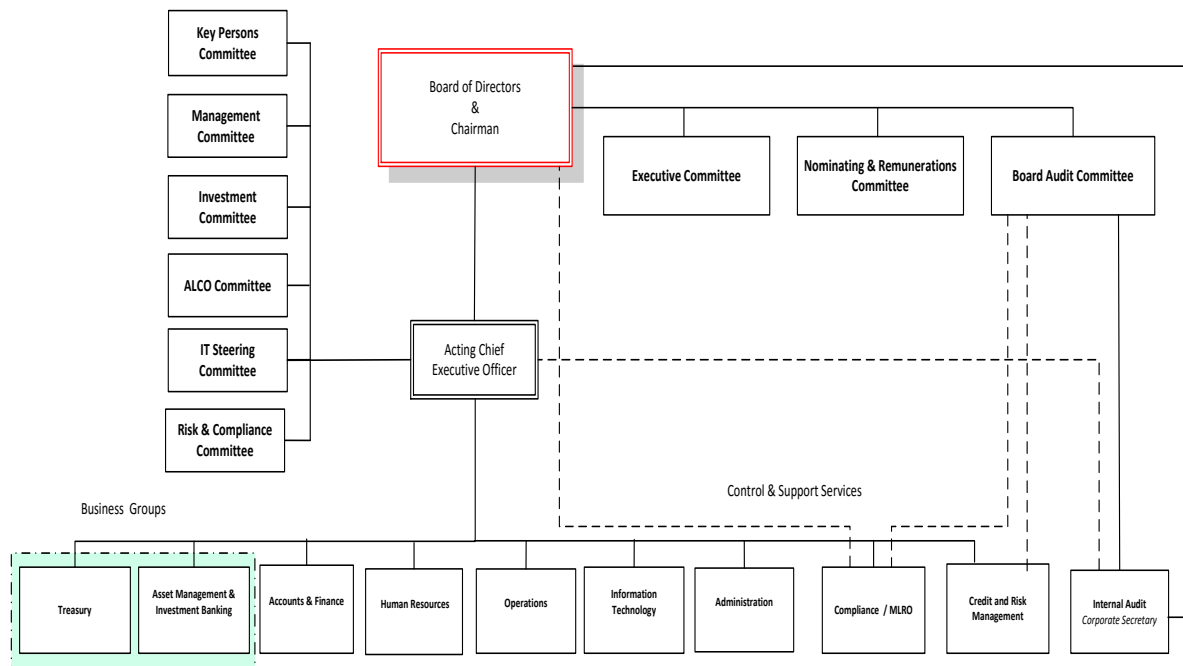
|  | Number of Meetings | Number attended | % of attendance |
|--|--------------------|-----------------|-----------------|
| Masaud J. Hayat, Chairman                      | 13                 | 13              | 100%            |
| Faisal Al Ayyar, Vice Chairman                 | 13                 | 13              | 100%            |
| Sheikh Abdullah Nasser Sabah Al Ahmad Al Sabah | 13                 | 13              | 100%            |
| Samer Khanachet                                | 13                 | 13              | 100%            |
| Mubarak Al Maskati                             | 13                 | 13              | 100%            |
| Bader Al Awadhi                                | 13                 | 13              | 100%            |
| Mohammed Haroon                                | 13                 | 13              | 100%            |

### 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 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 authorised to constitute additional functional Committees from time to time, depending on the business needs. A detailed report on the dates and attendance of committees meetings, were submitted to the Central Bank of Bahrain on the 19<sup>th</sup> of January 2017.

The governance structure and the organisation chart of the committees are given below.



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.

The Board committees were last reconstituted in November 2015 in order to be aligned with the CBB's requirements. Membership of the Board committees is approved on an annual basis, with the Board approving committee members on the 28<sup>th</sup> of February 2017. 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 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 charter was last approved by the Board on the 10<sup>th</sup> of August 2016.

The basic responsibility of the EC is to consider and approve/amend the overall impact of the policy recommended by the ACEO 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:* During 2016 the Executive Committee met 19 times; the attendance on these was as follows:

|    |                    | Masaud J. Hayat<br>Chairman | Faisal Al Ayyar | Samer Khanachet |
|----|--------------------|-----------------------------|-----------------|-----------------|
| 1  | 5 January, 2016    | x                           | x               | x               |
| 2  | 5 January, 2016    | x                           | x               | x               |
| 3  | 11 February, 2016  | x                           | x               | x               |
| 4  | 17 March, 2016     | x                           | x               | x               |
| 5  | 28 March, 2016     | x                           | x               | x               |
| 6  | 30 March, 2016     | x                           | x               | x               |
| 7  | 30 May, 2016       | x                           | x               | x               |
| 8  | 19 June, 2016      | x                           | x               | x               |
| 9  | 20 June, 2016      | x                           | x               | x               |
| 10 | 22 June , 2016     | x                           | x               | x               |
| 11 | 28 June, 2016      | x                           | x               | x               |
| 12 | 4 July , 2016      | x                           | x               | x               |
| 13 | 4 August, 2016     | Absent                      | x               | x               |
| 14 | 20 September, 2016 | x                           | x               | x               |
| 15 | 26 October, 2016   | x                           | x               | Absent          |
| 16 | 2 November, 2016   | x                           | x               | x               |
| 17 | 13 November, 2016  | x                           | x               | x               |
| 18 | 27 November, 2016  | x                           | x               | x               |
| 19 | 28 November, 2016  | x                           | Absent          | x               |

### 3.6.2 Board Audit Committee (BAC)

*Composition:* During 2016, 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 28th of February 2016, 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 to merge the Board Audit Committee and the Corporate Governance Committee.

*Meetings:* During the year 2016, the Board Audit Committee met seven times; the attendance on these was as follows:

|   |                   | Mohammed Haroon<br>Chairman | Faisal Al Ayyar | Mubarak Al Maskati |
|---|-------------------|-----------------------------|-----------------|--------------------|
| 1 | 01 February, 2016 | x                           | x               | x                  |
| 2 | 28 February, 2016 | x                           | x               | x                  |
| 3 | 25 April, 2016    | x                           | x               | x                  |
| 4 | 11 May, 2016      | x                           | x               | x                  |
| 5 | 10 August, 2016   | x                           | x               | x                  |
| 6 | 9 November, 2016  | x                           | x               | x                  |
| 7 | 12 December, 2016 | x                           | x               | x                  |

The external auditors – Ernst & Young, attended the BAC meetings conducted on 25 April 2016 and 12 December, 2016.

### 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 28<sup>th</sup> of February 2017.

The Committee was tasked with overseeing the preparation of appropriate nomination documents and notifications proposing candidates for Directorships. As the Directors will stand for re-election 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 authorising the ACEO 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 2016 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 | 15 February, 2016 | x                  | x               | x               |
| 2 | 28 February, 2016 | 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, FIMBank plc, UGFS – North Africa and Takau'd Savings and Pensions. 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 Board of Directors completed the annual evaluation of its performance and the performance of Executive Committee, the Board Audit Committee and the Nominating & Remuneration 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 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.

As re-election is due this year, the performance of each individual director was reviewed by the NRC in depth based on another self-assessment questionnaire. In line with the CBB's requirement to demonstrate training and competency, the necessary number of 15 hours of CPD was completed by all Directors during 2016.



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

Details of the holding of UGB shares by the Directors, is given below.

|   | 31 December<br>2016 | 31 December<br>2015 | Shares<br>Acquired /<br>Disposed in<br>2016 |
|---|---------------------|---------------------|---|
| Masaud M.J. Hayat (Chairman)                      | 106,100             | 106,100             | -   |
| Faisal Hamad Al Ayyar (Vice Chairman)             | 106,100             | 106,100             | -   |
| Sheikh Abdullah Nasser Sabah Al Ahmad<br>Al Sabah | 106,100             | 106,100             | -   |
| Mubarak Al Maskati                                | 106,100             | 106,100             | -   |
| Samer Khanachet                                   | 106,100             | 106,100             | -   |
| Bader Al Awadhi                                   | 106,100             | 106,100             | -   |
| Mohammed Haroon                                   | 126,100             | 126,100             | -   |

A report disclosing the holding positions and any trades that occurred during the month is submitted to the Bahrain Bourse on a monthly basis.

### 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 proposed aggregate of the Directors' fees for the year ended 2016 is \$ 195,000. This is subject to the receipt of the shareholders' and regulatory approvals. (2015: \$ 195,000 ).

## 4. Management

The positions of Chairman and 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.

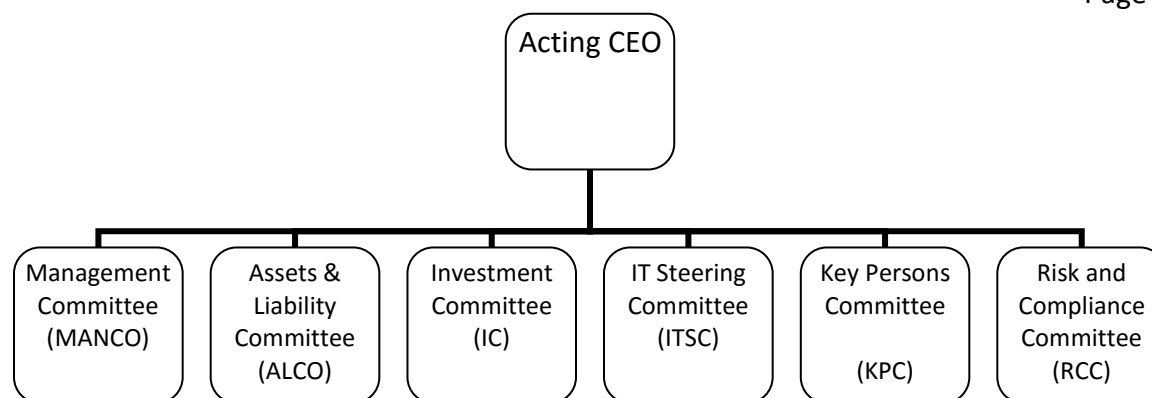
Mr. Hussain Lalani is the Acting Chief Executive Officer of the Bank. He is responsible for the executive leadership and the day to day operations of UGB. He is assisted by Management Committee team members, who are responsible for implementing the Bank's strategies. As evident in the organization chart in the next section, this team is headed by the ACEO 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 Acting 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](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 ACEO 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 ACEO and all 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. There were no changes in the management team during 2016. 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 MANCO members.

### 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 Acting 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 Head of Internal Audit and Quality Assurance attends the meetings in his capacity as an observer.

### Investment Committee (IC)

The Investment Committee comprises the Acting Chief Executive Officer, the Head of Asset Management and Investment Banking and the Chief Financial Officer. The Acting 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 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 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 line with the requirements of the Bahrain Bourse. It comprises the Acting Chief Executive Officer, the Chief Financial Officer and the Head of Operations/Key Persons Registrar who acts as the Secretary of this committee. The Head of Internal Audit and Quality Assurance attends the meetings in his capacity as an observer.

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. Reports on transactions in UGB shares conducted by Key Persons, are reviewed by the Committee and submitted to the Board of Directors. The Key Persons Register is independently verified by the Head of Internal Audit and Quality Assurance on an annual basis. The assurance letter was forwarded to the CBB on the 22<sup>nd</sup> of March 2016.

**Risk and Compliance Committee (RCC)**

The primary function of the Risk and Compliance Committee is to assist the Board of Directors in fulfilling its responsibilities of defining UGB's risk appetite and overseeing the identification, measurement, monitoring and controlling of UGB's principal business risks. It also monitors adherence to stipulated regulatory deadlines, reviews compliance to internal and external policies and appraises senior management on the impact of newly introduced regulatory requirements. It is headed by the 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 Management Remuneration Structure**

The aggregate remuneration for UGB Senior Management was US\$ 1.9 million (2015: US\$ 2.4 million)

In 2014, the CBB introduced stringent standards of remuneration to ensure that there was a balanced methodology followed by banks, while determining their compensation practices. This takes into account present and potential risk alongside performance goals. In line with the

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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 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.

regulator's requirements, an independent consulting firm undertakes an annual 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](http://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 2016, there were no cases of relatives of approved persons who were working for the Bank. This has been affirmed by the ACEO to the Board of Directors and was reviewed by them at the Board Meeting held on 28 February, 2017.

#### 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 reviewed by the NRC on the 15<sup>th</sup> of February 2017 and was ratified by the Board on the 28<sup>th</sup> February, 2017.

#### 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 submitted for review by the NRC on the 28<sup>th</sup> of February 2016. The remaining Bank's staff members Job Descriptions were reviewed and approved by the NRC the 15<sup>th</sup> of February 2017. The Job Descriptions are continuously assessed and updated based on changes in underlying responsibilities.

#### 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 an administrative reporting line to the ACEO. 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 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.

UGB also has an independent Compliance & MLRO Department that has a reporting line to the Board of Directors for AML related issues, UGB's Board Audit Committee for Compliance related risks and to the ACEO for other Compliance related matters. Quarterly reports related to the Compliance function of UGB and its subsidiaries, are presented to the BAC and the R&CC. Additionally, an annual self-assessment is carried out benchmarking UGB's practices with the Basel Committee publication 'Compliance and the Compliance Function in Banks.'

#### 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 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 ACEO and the CFO, for day to day operational expenses, the policy was last approved by the Board on the 10<sup>th</sup> of August 2016.

#### 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 2016, is given below.

|                     | 31 December<br>2016 | ESOP Shares<br>Acquired | ESOP Shares<br>Sold | 31 December<br>2015 |
|---------------------|---------------------|-------------------------|---------------------|---------------------|
| Hussain Lalani      | 133                 |                         |                     | 133                 |
| Mohammed Al Qumaish |                     |                         |                     |                     |
| Deepa Chandrasekhar |                     |                         |                     |                     |
| Rehan Ashraf        |                     |                         |                     |                     |
| Adel Al Arab        |                     |                         |                     |                     |
| Yasser Al Saad      |                     |                         |                     |                     |
| Nirmal Parik        |                     |                         |                     |                     |
| Abbas Al Tooq       |                     |                         |                     |                     |
| <b>Total</b>        | <b>133</b>          |                         |                     | <b>133</b>          |

There are no more shares with existing employees outstanding or remaining to be vested under previous ESOP schemes.

#### 4 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 28<sup>th</sup> of February 2017.

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 bound by the tenets of the Code and disclose any conflicts of interest that they might have. Full disclosure of the ownership interests in any company in which the Director or member of staff or his/her immediate family has a >5% ownership stake, or where he/she serves as a manager, Director, or other form of significant participation, is made on an annual basis. Any incidents of non-compliance with the Code or the lack of affirmation by any member of staff, is escalated to the Board Audit Committee and the Board of Directors. A copy of the Code of Conduct is available on the website [www.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 2016.

Masaud J. Hayat  
Chairman.

## **5 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 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.

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.

## **6 Disclosure of Conflicts of Interest**

During the financial year ended 2016, 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 2016. All individual directors have complete access to UGB's Corporate Secretary.

## **7 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.

### **7.1 Means of Communication**

- a) Annual and Quarterly Results: In accordance with the CBB's Disclosure Standards, these are published in 'The Bahrain Tribune' or 'The Gulf Daily News' and the 'Al Ayam'. 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 Bahrain Bourse.
- 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 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.ugbbah.com](http://www.ugbbah.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 II 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.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 and a reminder to shareholders to attend the AGM are published in the local newspapers. Reminders to investors to collect their dividends are also published in prominent newspapers in English and Arabic. In the event that no dividend is distributed, this is communicated to the Bahrain Bourse. 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). Representative of the CBB, the Bahrain Bourse and the Ministry of Industry and Commerce, are always present at the AGM.
- h) Corporate governance guidelines: These are available on the website [www.ugbbah.com](http://www.ugbbah.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 available to shareholders 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](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 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@ugbbah.com](mailto:info@ugbbah.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.

## 8 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 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 2016, the external fees for audit services were approximately US\$ 136 thousand (2015: \$ 212.9 thousand).

In addition to the audit fees, Ernst and Young provided the non-audit services in 2016 details of which are provided in "Affirmation of independence by external auditor". For the year ended 2016, fees for non-audit services amounted to US\$ 248 thousand (2015: \$ 31.8 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 10<sup>th</sup> of August 2016. 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 on 4<sup>th</sup> December 2016. 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 15<sup>th</sup> January 2017. 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.