

UNITED GULF BANK B.S.C.



CORPORATE GOVERNANCE GUIDELINES

Date of Last Review: August 2015

Date of Current Review: March 2017



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**GLOSSARY**

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

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**Introduction** (HC A.1.9 , HC A.1.10, HC B.2.2)

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

This document is a synopsis of the overall corporate governance guidelines that are elaborated in detail in the underlying PPMs. An assessment of compliance with these guidelines is conducted on an annual basis and reported to the shareholders in the Annual General Meeting in the form of the Corporate Governance Report.

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1. Principle 1

1.1. Informed Board – HC 1.1

One of the principles of the **Charter of the Board of Directors**, is that the Bank is headed by an effective, collegial and informed Board of Directors.

1.2. Roles and Responsibilities - HC 1.2

The Board of Directors recognises its fiduciary duties of care and loyalty to UGB and its shareholders.¹ It is accountable and responsible for the affairs, performance of the Bank, and its compliance with laws, rules and regulations of the Kingdom of Bahrain. The members recognise and understand that the board's role is distinct from the role of its shareholders (who elect the board and whose interests the board serves), and the role of the officers (whom the board appoints and oversees).

The Board establishes the objectives for UGB and develops the strategies that direct the ongoing activities of the Bank to achieve those objectives. By approving the Bank's strategy, the Board demonstrates that it is able to proactively identify and understand the risks that the Bank faces in achieving its business objectives through its business plans. This enables it to be effective, collegial and well informed.²

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

- i. The overall business performance and strategy for UGB.
- ii. Reviewing financial statements that accurately disclose UGB's financial position;
- iii. Monitoring management performance;
- iv. Convening and preparing the agenda for shareholder meetings;
- v. Monitoring conflicts of interest and preventing abusive related party transactions;
- vi. Assuring equitable treatment of shareholders including minority shareholders; and
- vii. Establishing the objectives of the Bank.³

As part of its **strategy review** process, the Board's role involves:

- i. The adoption and annual review of the strategy;
- ii. Reviewing major strategy papers and business plans and the inherent level of risk of the plans;
- iii. Assessing the adequacy of capital to support the risk profile of UGB;

¹ Principle 1.1, HC 1.2.1

² HC 1.1.1

³ HC 1.2.2

- iv. Setting performance objectives, approving budgets and reviewing performance against those budgets and key performance indicators;
- v. Overseeing major capital expenditures, divestitures and acquisitions.⁴
- vi. Monitoring and implementation of strategy by management.⁵
- vii. Supervising the management of the Bank's compliance risk.⁶

All major proposed changes to the strategy and/or corporate plan of UGB are notified to the CBB in writing prior to implementation⁷.

Additionally, the Board establishes its **accountability for internal controls** through⁸:

- i. The adoption and review of management structure and responsibilities. This involves appointing key executives with integrity, technical and managerial competence and appropriate experience, overseeing succession planning and replacing key executives when necessary, reviewing key executive and board remuneration packages and ensuring such packages are consistent with the Bank's corporate values and strategy;
- ii. Ensuring that there is appropriate delegation of authority from the Board to executive management;
- iii. Reviewing the integrity of the Bank's accounting and financial reporting systems;
- iv. Regular assessment of the systems and controls framework; this ensures that the systems and controls framework, including the Board structure and organisational structure of UGB is appropriate for the Bank's business and associated risks. The Board ensures that individually and collectively, it has the expertise to identify, understand and measure the significant risks to which the Bank is exposed in its business activities.⁹ Care is also be taken to ensure that there are appropriate, effective and prudent risk management systems that are commensurate with the scope of UGB's activities;
- v. Ensuring that the Bank's operations are supported by an appropriate control environment. It is emphasised that the compliance, risk management and financial reporting functions are adequately resourced, independent of business lines and run by individuals not involved with the day-to-day running of the various business areas.¹⁰

⁴ HC 1.2.5, HC 1.2.7

⁵ HC 1.2.3

⁶ HC 1.2.7

⁷ HC 1.2.6

⁸ HC 1.2.3

⁹ HC 1.2.10

¹⁰ HC 1.2.10



- vi. Ensuring that management develops, implements and oversees the effectiveness of comprehensive know your customer standards, as well as ongoing monitoring of accounts and transactions, in keeping with the requirements of relevant law, regulations and best practice¹¹.
- vii. Ensuring that the control environment maintains client confidentiality and that clients' rights and assets are properly safeguarded¹²;
- viii. Supervising the management of the Bank's compliance and regulatory risk, the effectiveness of the governance practices under which the Bank and the senior management are monitored, and subsequent changes. The Board pro-actively identifies any significant issue related to the overall governance process and ensures that timely actions are taken to address issues of concern;
- ix. Establishing corporate standards for itself, senior management and employees through the code of conduct. This includes procedures for dealing with conflict of interest and a prohibition on market abuse.

Board members are encouraged to independently assess and question the policies, processes and procedures of the Bank, with the intent of identifying and initiating management action on issues requiring improvement. (i.e. to act as checks and balances on management)¹³. Procedures may be defined to appoint advisors or external experts to assist Board members in effectively discharging their responsibilities. Nevertheless, it is the Board's ultimate responsibility to ensure responsible stewardship such that an adequate, effective, comprehensive and transparent corporate governance process is in place.

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

1.3. Decision Making Process - HC 1.3

UGB's **Charter of the Board of Directors**, reiterates that the board must be collegial and deliberative, in order to gain the benefit of each individual director's judgement and

¹¹ HC 1.2.10

¹² HC 1.2.10

¹³ HC 2.2.5

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experience. The importance of fostering an environment of mutual trust, open discussion, constructive dissent and support for decisions after they have been made, is constantly emphasized by the Chairman.

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

1. The Board shall meet frequently to enable it to discharge its responsibilities effectively, but in no event less than four times in every financial year i.e. once every quarter, to address the Board's responsibilities for management oversight and performance monitoring (required by Articles of Association, the Code & the CBB's rulebook) . All Directors are expected to contribute actively to the work of the Board in order to discharge their responsibilities and must attend the meetings whenever possible. Directors are also required to maintain informal communication between meetings.
2. It is mandatory for Directors to attend at least three fourths of all Board meetings within a calendar year. Voting and attendance proxies for board meetings are prohibited at all times.
3. At least half the Board meetings in any twelve month period, will be held in the Kingdom of Bahrain.¹⁴
4. Directors may be requested to step down by the Chairman if they are not actively participating in the meetings. The absence of Board members at the Board and committee meetings will be noted in the meeting minutes. In addition, Board attendance percentages have to be reported during any general assembly meeting, when Board members stand for re-election. A report recording the attendance of Board Members at the previous year's Board meetings will be submitted to the CBB by 20 January of each year;
5. If a Board member has not attended at least 75% of Board meetings in any given financial year, UGB's CEO or CCO is obliged to immediately notify the CBB indicating which member has failed to satisfy this requirement, his level of attendance and any mitigating circumstances affecting his non attendance. The CBB has the authority to take disciplinary action including disqualification of that Board member, unless there are exceptional circumstances.
6. The Board of Directors recognize that physical presence of all Directors may not be possible due to work commitments. Participation in board meetings by means of video or telephone conferencing is regarded as attendance and may be recorded as such ;

¹⁴ HC-1.3.7 A

7. Board meetings held through circulation of board documents will not be counted as a Board Meeting;
8. The Chairman will have the authority to relieve Board members from their posts, if they are unable to attend three or more consecutive Board meetings, or at least 75% of the meetings conducted in a financial year;
9. The Chairman of the Board, pursuant to following the resignation / nomination procedures, may ask any member to step down if the member is found not actively participating in Board meetings. Directors are reminded that non attendance at Board meetings does not absolve them of their responsibilities;
10. The Chairman of the Board with the assistance of the Corporate Secretary, will ensure that all Directors receive an agenda, minutes of prior meetings and adequate background information in writing, before each Board meeting and when necessary, between meetings. All Board members will receive the same level of information, so that they can keep themselves informed and review the adequacy and timeliness of information provided to them.
11. Independent, non executive directors have the right (but not the obligation) to meet independently in a session at which only they are present, except as may otherwise be determined by the independent directors themselves. The objective of such meetings is to facilitate free and open communication. Upon resignation, a non executive director will be asked to provide a written statement to the Chairman, for circulation to the Board, if he has any concerns about the running of the Bank or a proposed action.

The section on Board Composition and Size (in the Board Charter) stipulates that

1. The Bank shall be administered by a Board of Directors consisting of a number of Directors not less than 5 (five), as stipulated by the Bank's Articles of Association. The maximum number of the Board members of Directors is capped at 15.¹⁵
2. Board members are not allowed to have more than three Directorships in public companies incorporated inside Bahrain. In addition, members holding two Directorships in banks incorporated in Bahrain may not have more than one directorship in a full commercial bank or wholesale bank. There is no restriction on the Directorships held for institutions outside Bahrain (other than the practicality of managing multiple Board memberships) including UGB's Group companies, as long as it does not impede their ability to contribute effectively as Directors of the Bank, and that there is no conflict of interest. The Board will not propose the election or re-election of any director who does not meet the above criteria.

¹⁵ Principle 1.2 and HC 1.3.10

1.4 Independence of Judgment - HC 1.4

The section on Board Composition and Size in the Charter of the Board of Directors, states that:

1. No individual or group of directors will dominate the Board's decision making and no one individual will have unfettered powers of decision.
2. Non-executive directors will be made aware of their duties before their nomination, particularly as to the time commitment required. They are fully independent of management and are expected to constructively scrutinize and challenge management¹⁶
3. Executive directors must provide the board with all relevant business and financial information within their cognizance and must recognise that their role as a director is different from their role as a member of management.¹⁷
4. Every director (executive, non executive and independent) is expected to bring independent judgement to bear in decision making. He/she should recognize their specific responsibility to the other minority shareholders.
5. There will be at least three independent directors to protect the interests of minority shareholders. Accordingly, it will be ensured that at least one third of the composition of members is from the independent category.¹⁸
6. Although best practice states that the Chairman of the Board shall be a non-executive, independent one, however this is not practical given the significant stake held by the Bank's parent as a major controller. The Charter however mandates that the Chairman will be a different person from the Chief Executive Officer (CEO), so that there is an appropriate balance of power and greater capacity for independent decision making.¹⁹
7. The Board the NRC will review the independence of each director on an annual basis. Such disclosure will be through the **Questionnaire for Independent Directors** and also the requirements of UGB's '**Disclosure of Conflict of Interest**' policy. Minority shareholders will generally look to independent directors' diligent regard for their interests, in preference to seeking specific representation on the Board;

¹⁶ HC 1.4.3

¹⁷ HC 1.4.2

¹⁸ Principle 1.4, HC 1.5.2

¹⁹ Principle 1.3 and HC 1.4.7

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1.5 Representation of all Shareholders - HC 1.5

The section on Board Composition and Size in UGB's **Charter of the Board of Directors**, reiterates that

1. Each Director should consider himself as representing all shareholders and should act accordingly. The board should avoid having representatives of specific groups or interests within its membership and should not allow itself to become a battleground of vested interests.²⁰
2. There will be at least three independent directors to protect the interests of minority shareholders. Accordingly, it will be ensured that at least one third of the composition of members is from the independent category.²¹

The Board Charter also stipulates that both controlling and non-controlling shareholders of UGB should be aware of the controllers' specific responsibilities regarding their duty of loyalty to the Bank and managing conflicts of interest. They should also be aware of the rights that minority shareholders may have, to elect specific directors under the Company Law. The Chairman of the Board should be in a position to explain this at the AGM, with the help of professional advisors / lawyers / members of Senior Management.²²

1.6 Directors' Access to Independent Advice - HC 1.6

UGB has developed a **Directors' Access to Independence Advice Policy**. This document states that:

1. The entire Board of Directors, Board Committee members or individual Directors, may retain independent professional advice from any legal, accounting, or other advisor, consultant or expert (the 'Independent Professional Advisor') or request the opinion of the Independent Professional Advisor under the following circumstances:
 - Where the Board exercises its authority to fulfil its responsibilities and perform its duties, including the conduct or direction of any investigation;
 - In relation to any of the Bank's affairs within their authority
2. When the Director has serious concerns on the running of UGB or a proposed action which cannot be resolved amicably – the concerns should be recorded in the Board

²⁰ Principle 1.4, HC 1.5.1

²¹ Principle 1.4, HC 1.5.2

²² HC 1.5.3

minutes and any dissent from a Board action, should be noted and delivered to the Corporate Secretary in writing. This will be part of the agenda for discussion at the next Board meeting.²³

3. Individual directors must have unrestricted access to the Corporate Secretary.²⁴
4. Any Director may retain or request an opinion of an Independent Professional Advisor provided that certain requirements are satisfied:
 - Prior to seeking independent professional advice as an individual, the Director/s must consult with, and obtain written approval from, the Chairman of the Board as to the parameters of the advice required and give an approximate cost entailed. If the advice is in relation to an issue concerning the Chairman, the Director should seek approval from the Chairman of the Board Audit Committee;
 - Cost quotations shall be procured from three independent alternate professional advisors, in accordance with the Bank's procurement policies;
 - The Independent Professional Advisor shall be genuinely independent and must not have any conflict of interest with the Bank, the Director/s or the Committee/s; the Bank's external audit firm ideally should not be selected as an independent advisor.
 - The requesting body (Board, Director, Committee member), shall submit the reasons of the final choice of advisor to the Chairman, in writing;
5. Directors may not claim independent advice at the expense of the Bank on personal matters such as personal taxation, personal financial or personal legal matters, or other such advice which does not relate specifically to the fulfilment of their duties and responsibilities as a Director of UGB's Board or as a member of the Bank's Board Committee/s.
6. Upon resignation, a non-executive director or an independent director should provide a written statement to the Chairman, for circulation to the board, if he has any concerns such as those listed above.²⁵

²³ Principle 1.5, HC 1.6.3

²⁴ HC 1.6.2

²⁵ Principle 1.5, HC 1.6.4

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1.7 Directors' Communication with Management - HC 1.7

UGB's **Charter of the Board of Directors** states that while Management members are not entitled by right to attend Board meetings, the Board encourages participation by management regarding matters that the board is considering, and also by management members who by reason of their responsibilities or succession, the CEO believes should have exposure to the Directors.²⁶ The CEO and other members of Senior Management can attend such meetings upon invitation by the Board.

Every director (executive , non executive and independent) has free access to UGB's management beyond that provided in Board meetings. Such access is conducted through the Chairman or the CEO.²⁷ By documenting the 'right of access by Board members to management' in the Charter, the Board makes this policy known to the management of UGB to alleviate any management concerns about the director's authority in this regard²⁸.

1.8 Committees of the Board - HC 1.8

The section on Committees of the Board in the **Charter of the Board of Directors** states that:

1. Specialized committees of the Board are created as and when such committees are needed²⁹. Each Committee mentioned below, is charged with distinct responsibilities by the Board and has an agreed Charter which is an integral part of the Corporate Governance procedures of UGB:
 - Executive Committee
 - Board Audit Committee (also responsible for the implementation of the corporate governance guidelines)
 - Nominating and Remuneration Committee.
2. The Board or the Committees may invite non directors to participate in their meetings, so that they may gain the benefit of their advice and expertise in financial or other areas.³⁰ Committees act only within their mandate, and will not dominate or replace the whole board in their decision making responsibility.³¹ Care will also be taken to minimize the conflicts of interest between the duties of such committees.³²

²⁶ HC 1.7.2

²⁷ Principle 1.6, HC 1.7.2

²⁸ HC 1.7.2

²⁹ HC 1.8.1

³⁰ HC 1.8.3

³¹ HC 1.8.4

³² HC 1.8.5

Although the Board may delegate certain functions to committees or management, it does not delegate its ultimate responsibility in ensuring that there is an adequate, effective, comprehensive and transparent corporate governance framework in place.³³ The establishment of committees does not mean that the role of the Board is diminished or that the Board becomes fragmented.³⁴ All committees have formal documented charters, keep full minutes of their activities and meet regularly to fulfill their mandates.³⁵ Detailed information is available in the respective Board committee Charters.

1.9 Evaluation of the Board and each Committee - HC 1.9

In accordance with the Code, the Board adopts the **annual** evaluation of its performance and the performance of each of its committees³⁶. The evaluation process includes:

- Assessing how the Board operates
- Evaluating the performance of each committee in light of its specific purpose and responsibilities, which shall include the review of the self-evaluations undertaken by each committee.
- The attendance record of each Director at Board and Committee meetings.
- Reviewing the Board's current composition against its desired composition with a view toward maintaining an appropriate balance of skills and experience and to ensure that there is planned and progressive refreshing of the Board.
- Recommendations for new Directors to replace long standing members or those members whose contribution to the Bank or its committees is deemed to be inadequate.³⁷

The evaluation process is conducted through a questionnaire administered by the Chairman of the Board, and the Chairmen of the various committees to their members. The results are collated by the Chairman of the Board and the Corporate Secretary. The evaluation process is a responsibility of the entire Board; it can however be organized and assisted by an internal board committee and, when appropriate, with the help of internal and/or external experts.³⁸

The Chairman of the AGM (on behalf of the Board of Directors), affirms to the shareholders at each annual shareholder meeting, whether the evaluations have been completed.³⁹ Further details are available in the Evaluation Policies of the Board and the respective committees.

³³ HC 1.2.4

³⁴ HC 1.8.7

³⁵ HC 1.8.6 and HC 1.8.7

³⁶ HC 1.9.1

³⁷ HC 1.9.2.

³⁸ HC 1.9.3

³⁹ HC 1.9.4

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2. Principle 2

2.1 Principle of Loyalty – HC 2.1

The **Charter of the Board of Directors, the Code of Conduct and the Disclosure of Interest policy**, reiterate that all **approved persons** must have full loyalty to the Bank.

2.1.1. Approved Persons

The Bank defines approved persons as all persons wishing to undertake a controlled function.⁴⁰ In accordance with the CBB's requirements, controlled functions encompass those of:

- Member of the Board of Directors
- Corporate Secretary
- Chief Executive Officer
- Senior Managers / Heads of Department directly reporting to the CEO
- Compliance officer
- Money Laundering Reporting Officer and
- Deputy Money Laundering Reporting Officer

The Compliance Department of UGB is responsible to secure prior CBB approval for management wishing to undertake a controlled function. For appointing members to the Board of Directors, UGB seeks CBB approval for all the candidates to be put forward for election at a shareholder meeting, in advance of the agenda being issued to shareholders. CBB approval of the candidates does not in any way limit shareholders' rights to refuse those put forward for election.

UGB also immediately notifies the CBB and other regulatory authorities when an approved person ceases to hold the controlled function for which they have been approved. Notification is also made if the approved person transfers to another group entity or else resigns, is suspended or dismissed. The Bank is aware that if a controlled function falls vacant, the vacancy should be filled after obtaining CBB approval within 120 calendar days. Interim arrangements will be made to ensure continuity of the duties and responsibilities of the controlled function affected after securing the CBB's approval.

UGB will also immediately notify the CBB if it becomes aware of information that could reasonably be viewed as calling into question an approved person's compliance with CBB's 'fit and proper' requirement.

⁴⁰ LR-1 A 1.1

2.1.2 Fit and Proper requirements

Incumbents to all controlled positions are assessed against the CBB's 'fit and proper' requirements.

To be considered 'fit and proper', those nominated are expected to demonstrate:

- Personal integrity, honesty and good reputation
- Professional competence, experience and expertise, sufficient for the controlled function for which authorization is being applied for, and given the scale, complexity and nature of UGB;
- Financial soundness.

2.2 Personal Accountability – HC 2.2

The Section on Personal Accountability in the **Charter of the Board of Directors**, states that:

1. Each Director and approved person by the CBB understands that under the Bahrain Commercial Law and the Code, he/she is personally accountable to UGB and its shareholders, if he/she violates his legal duty of loyalty to the company. He/she can also be personally sued by UGB or the shareholders for such violations.⁴¹ Directors and other approved persons are expected to have full loyalty to UGB.
2. UGB's Board of Directors recognizes that the reputation and integrity of the Bank are valuable assets that are vital to its success. Each employee of the Bank is responsible for conducting the Bank's business in a manner that demonstrates a commitment to the highest standards of honesty, integrity and in good faith, with due diligence and care, towards the best interests of the Bank, its shareholders and other stakeholders. The **Code of Conduct** as approved by the Directors, represents ethics and policies long followed by the Bank and are applicable to its Directors, Senior Management, Officers and Employees. It is widely communicated throughout the Bank; staff, employees and Directors are required to fulfil their fiduciary responsibilities in accordance with the Code of Conduct. A yearly written affirmation is submitted by all Directors and staff to the Chairman of the Board and the Chief Compliance Officer respectively.

2.3 Avoidance of Conflict of Interest – HC 2.3

The section of managing conflicts of interest in the **Charter of the Board of Directors**, states that:

⁴¹ HC 2.2.2

1. Each Director and approved person should make every practical effort to arrange his personal and business affairs to avoid a conflict of interest with the business of UGB.
2. Directors/ Approved persons must inform the entire Board of conflicts of interest in their activities with, and commitments to other organisations as they arise, and abstain from voting on any matter where they have an actual or perceived conflict. This Disclosure shall include all material facts in the case of a contract or transaction involving the director or approved person;⁴²
3. Further details are provided in a separate policy approved by the Board of Directors called '**Disclosure of Conflict of Interest.**' In addition to the requirements of the Code, the Board of UGB establishes and affirms values for itself, senior management, and employees and has codified them by means of the Code of Conduct policy document that it has approved.

In accordance with the CBB's requirements, no member of the Board of Directors, or senior management or their immediate family (i.e spouse, father, mother, sons, daughters, brothers or sisters) should:

- i. Enter into competition with the Bank;
- ii. Misuse the banks' assets or using the property of the Bank for personal needs;
- iii. Demand or accept substantial gifts for himself or his associates;
- iv. Enter into abusive related party transactions;
- v. Take business opportunities of the Bank for himself;
- vi. Compete in business for the Bank's business;
- vii. Use UGB privileged information or to take advantage of business opportunities to which the Bank is entitled for himself/herself or his/her Associates.
- viii. Compromise client confidentiality or the privacy of UGB such that the clients' / Bank's rights and assets are not properly safeguarded.⁴³

2.4 Disclosure of Conflict of Interest – HC 2.4; HC 2.4.1A

The Directors and Approved persons understand that any approval of a conflict transaction is effective only if all material facts are known to the authorizing persons and the conflicted person did not participate in the decision;⁴⁴

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

⁴² HC 2.4.1

⁴³ HC 2.3.2,

⁴⁴ HC 2.4.1

1. Each member of the Board of Directors and approved persons must declare in writing all of their other interests in other enterprises or activities (whether as a shareholder or above, 5% of the voting capital of a company, a manager, or other form of significant participation) to the Nominating & Remunerations Committee of the Board.⁴⁵ This declaration should be made to the Chairman of the Board of Directors on an annual basis, before 31st January of each year. The information provided to the Chairman of the Board will be published in the bank's Annual Report;
2. Advance approval from all disinterested directors of shareholders, is required for all transactions in which a Board Director or officer has a personal interest.⁴⁶ The Board requires that such approval be sought in writing and addressed to the Chairman of the BOD. The relevant templates are included in the **Disclosure of Interest Policy**;
3. The Chief Executive is required to disclose to the Board of Directors on an annual basis, those individuals who are occupying controlled functions and who are relatives of any approved persons within the Bank. While this disclosure will be part of the CG report presented to the shareholders, affirmation from all controlled staff will be sought as part of their annual adherence to the Code of Conduct

3.5 Disclosure of Conflict of Interest to Shareholders – HC 2.5

The **Charter of the Board of Directors** stipulates that UGB shall disclose to its shareholders in the Annual Report, any abstention from voting motivated by a conflict of interest and shall disclose to its shareholders, any authorization of a conflict of interest contract or transaction, in accordance with the Bahrain Commercial Companies Law⁴⁷;

⁴⁵ HC 2.4.1

⁴⁶ HC 2.4.2

⁴⁷ Principle 2.4, HC 2.5.1

3. Principle 3

3.1 Principle of rigorous controls – HC 3.1

The **Charter of the Board of Directors** and the **Board Audit Committee Charter**, emphasize the requirement of the Board to have rigorous controls for financial audit, reporting, internal controls and compliance with law.

3.2 Audit Committee – HC 3.2, 3.3

The **Charter of the Board of Directors** provides for the establishment of an audit committee with a separate charter of its own. The membership section of the Board **Audit Committee Charter** states that:

1. The members of the BAC will be appointed by the Board. Any member of the Committee may be removed or replaced at any time by unanimous consent of the Board. The Committee will elect one member as its chair.
2. The Committee will comprise a minimum of three directors of which the majority should be independent including preferably the Chairman. This charter however mandates that the Chairman will be different from the Chairman of the Board of Directors, so that there is an appropriate balance of power and greater capacity for independent decision making⁴⁸.
3. Members of the Committee shall elect a Chairman for the Committee.
4. The committee members must have sufficient technical expertise to enable the committee to perform its functions effectively. The majority of the members of the committee must be financially literate and have recent and relevant financial ability and experience.⁴⁹ The CEO will not be a member of this committee.⁵⁰

In accordance with the Code, the Board Audit Committee is responsible for:

1. The oversight of UGB's accounting and financial practices;
2. The oversight of the integrity of UGB's financial and internal controls and financial statements;

⁴⁸ Principle 1.3

⁴⁹ Principle 1.3, HC 3.3.2

⁵⁰ HC 3.2.4

3. The oversight of UGB's compliance with legal and regulatory requirements;
4. Recommendation of the selection, appointment, compensation, oversight and termination where appropriate of UGB's external auditor, subject to ratification of the Board of Directors, Shareholders and the CBB;
5. Reviewing the activities and performance of the external audit , internal audit and the compliance function.⁵¹
6. Ensuring that measures are in place such that UGB communicates with shareholders and relevant stakeholders openly and promptly and with the substance of compliance prevailing over form; and
7. Reviewing the implementation of, enforcement of and adherence to the bank's code of conduct.⁵²
8. Ensuring that procedures are in place for the receipt, retention and treatment of complaints received by UGB regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of UGB or outside on improprieties in financial or legal matters. This is done through the approval of the whistle blowing policy.⁵³
9. Ensuring that measures are in place to apply changes as required, to UGB's corporate governance policy framework. A review of these guidelines will be conducted at least once a year.⁵⁴

The responsibilities related to the **oversight of the UGB's accounting and financial practices** and their integrity, include:

- i. Assisting the Board in ensuring that financial reports to external parties, in particular the annual financial statements, are balanced and fair and conform to accounting standards;
- ii. Assisting the Board in ensuring the integrity of UGB's accounting and financial reporting systems through regular independent review conducted by the external auditors. External Audit findings are used as an independent check on the information received from management on the Bank's operations and performance and effectiveness of internal controls;⁵⁵

⁵¹ Principle 3.1, HC 3.2.1, Appendix A

⁵² HC 2.2.3

⁵³ Principle 3.2, HC 3.3.3

⁵⁴ Principle 8.1 & Appendix C

⁵⁵ HC 3.2.2

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- iii. Review the un-audited quarterly and draft annual financial statements before submission to the Board, focusing particularly on:
- Any changes in accounting policies.
 - Major judgmental areas.
 - Significant adjustments resulting from audit, if any.
 - Compliance with International Financial Reporting Standards.
 - Compliance with guidelines and regulations of the CBB and other regulatory bodies.

The responsibilities related to the **oversight of the UGB's internal controls** include:

- i. Satisfying the Board that there is a sufficient, systematic review of the internal control arrangements of the business, both operational (relating to effectiveness, efficiency and economy) and financial reporting controls.
- ii. Making use of self-assessments, stress/scenario and/or independent judgments made by external advisors. The Board has the authority to approve the appointment of supporting committees, and engaging senior management to assist the audit committee in the oversight of risk management.⁵⁶
- iii. Ensuring that Senior Management has put in place, appropriate systems of control for the business of the Bank and the information needs of the Board. There should be adequate systems and functions for identifying as well as for monitoring risk, and the financial position of the bank.⁵⁷
- iv. Satisfying the Board that weaknesses in control are being corrected and recommend the improvement of such internal control procedures or particular areas where new or more detailed controls or procedures are desirable. Particular emphasis is given to the adequacy of such internal controls to monitor banking risk and to expose any payments, transactions or procedures that might be deemed illegal or otherwise improper.
- v. Commissioning special investigations of matters of particular concern relating to internal control.

The responsibilities related to the **oversight of the external auditors** include:

⁵⁶ HC 3.2.2

⁵⁷ HC 3.2.2

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- i. Making relevant recommendations for the appointment, remuneration, oversight and termination where appropriate for the external auditor, subject to ratification of the Board of Directors, Shareholders and the CBB;
- ii. Receiving the External Auditors' Management Letter and the annual External Auditors report related to audit matters arising from the year end review;
- iii. Determining on an annual basis, the independence of the external auditor including determining whether its performance of any non-audit services compromised its independence and obtaining from the external auditor, a confirmation of its independence or a written report listing any relationships between the external auditor and UGB or with any other person or entity that may compromise the auditor's independence;
- iv. Reviewing and discussing with the external auditor, the scope and results of its audit, any difficulties that the auditor encountered including any restrictions on its access to requested information or any disagreements or difficulties encountered with management;
- v. Having a discussion with the external auditors at least twice a year⁵⁸, to ensure that there are no unresolved issues of concern.
- vi. Confirming to the Board that there are no outstanding matters of disagreement between management and the external auditors.
- vii. Reassuring the Board that the scope and depth of external audit work is sufficient and that it is conducted competently

The BAC's **oversight of internal audit** includes:

- i. Approving the Internal Audit Charter, to ensure that it is appropriate, to approve any scope limitations contained therein, and to ensure that it is endorsed by formal resolution of the main Board.
- ii. To approve in advance the selection, appointment and termination of the Bank's Head of Internal Audit & Quality Assurance,
- iii. Ensure that the Head of Internal Audit & Quality Assurance has an unrestricted access to information, records, systems and personnel within the Bank.

⁵⁸ Appendix A of the HC Module



- iv. Review and approve the Annual Audit Plan of the Internal Audit and Quality Assurance Department to ensure its appropriateness in addition to reviewing the annual budget allocated to the internal audit & quality assurance function.
- v. Reviewing and discussing the adequacy of UGB's Internal Audit and Quality Assurance Department staffing to ensure that it is sufficiently resourced.
- vi. Reviewing *activity reports* from the Head of Internal Audit Quality Assurance explaining (a) progress of internal audit work against plan, reasons for variances and corrective action being taken, and (b) major findings relating to control weaknesses raised during audit reviews. -.
- vii. Receiving briefings from the Head of Internal Audit Quality Assurance of any major audit findings where management has decided to assume the risk because of cost or other considerations.
- viii. Monitor the responsiveness of management to the Internal Audit's recommendations and findings.

The BAC's **oversight of compliance with legal and regulatory requirements** includes:

- i. Approving the Compliance Charter, to ensure that it is appropriate to approve any scope limitations contained therein, and to ensure that it is endorsed by formal resolution of the main Board.
- ii. Approving in advance the selection, appointment and termination of the Chief Compliance Officer,
- iii. Ensuring that the Chief Compliance Officer has an unrestricted access to information, records, systems and personnel within the Bank.
- iv. Reviewing and approving the Annual Audit Plan of the Compliance Department to ensure its appropriateness
- v. Reviewing and discussing the adequacy of UGB's Compliance Department staffing to ensure that it is sufficiently resourced.
- vi. Receiving briefings from the Head of Internal Audit & Quality Assurance, the Chief Compliance Officer and the External auditors, any correspondence with or other action by regulators or governmental agencies, any material issues on UGB's compliance with applicable laws, regulations, best practice and listing standards;

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- vii. Receiving and discussing management reports on an annual or as needed basis related to compliance matters (including anti-money laundering, regulatory and fiduciary compliance), significant reported code of conduct or ethics violations and/or compliance with regulatory internal controls.
- viii. Reviewing and discussing arrangements under which UGB employees / shareholders can confidentially raise concerns about grievances, possible improprieties in financial reporting or other relevant matters. This includes the commission of independent investigation and follow-up regarding the issues that were raised.
- ix. Receiving and reviewing the breach register and the Compliance Report on a quarterly basis.

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

- i. Ensuring that a comprehensive corporate governance code implementation process is in place and related guidelines cover the matter stated in the Code and other corporate governance matters that are in line with the CBB's requirements.
- ii. Overseeing the organization of regular briefing and updating sessions for all Directors, in consultation with senior management. This includes reviewing directors' familiarization with corporate governance developments and activities in the Kingdom of Bahrain;
- iii. Ensuring that UGB has a separate section on its website where corporate governance related information is made available to stakeholders and the public;
- iv. Ensuring that at each Annual General Meeting commencing 2012, the Board reports on UGB's compliance with the guidelines and the Code, and explain the extent if any, to which it has varied them or believes that any variance or non compliance was justified;
- v. Ensuring that there are adequate disclosures in line with corporate governance regulatory requirements. Further details on these are available in the Bank's Disclosure Policy which has been approved by the Board of Directors.

Details of such disclosure will be provided either through:

- a separate section in the Annual Report or
- through the UGB website or
- information held at UGB's premises on behalf of shareholders.

3.3 Certification of financial statements – HC 3.4

To encourage management accountability for the financial statements, UGB's CEO and the CFO affirm in writing to the BAC and the Board as a whole, that to the best of their knowledge,

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UGB's interim and annual financial statements present a true and fair view in all material respects of UGB's financial condition and results of operations, in accordance with applicable accounting standards.⁵⁹

⁵⁹ Principle 3.3, BAC 3.4.1

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4. Principle 4 & 5

4.1 Principle of rigorous and transparent procedures - HC 4.1, HC 5.1

for appointment, training & evaluation of the Board - HC 4.1

Principle of remunerating approved persons responsibly – HC 5.1

Both the above principles are reiterated in the **Charter of the Nominating and Remunerations Committee**.

4.2 Nominating & Remuneration Committee – HC 4.2, HC 4.3, HC 5.2, HC 5.3

The Charter of the Board of Directors and the **Charter of the Nominating and Remunerations Committee**, approves the formation of the Board Nominating and Remuneration Committee (“NRC”) as a standing committee of the main Board. The purpose of the NRC is to enable the Board to fulfil its responsibilities in relation to the oversight of:

1. the appropriate composition of the members of the Board;
2. The identification of persons qualified to become members of the Board of Directors, the Chief Executive Officer, Chief Financial Officer, Corporate Secretary and any other officers of UGB considered appropriate by the Board. This includes reviewing the job description which documents the job responsibilities, qualifications needed and other relevant matters. The sole exception is the appointment of the internal auditor and the Chief Compliance Officer; this is responsibility of the Board Audit Committee;⁶⁰
3. Make recommendations to the whole board of directors of candidates proposed for board membership after ensuring that they meet the criteria for board membership (a separately approved board policy). The recommendations will be included by the board of directors on the agenda for the next annual shareholder meeting;⁶¹
4. Review the remuneration policies for the board of directors and senior management, which should be approved by the shareholders and is consistent with the corporate values and strategy of the Bank;⁶²
5. Make recommendations regarding remuneration policies and amounts for approved persons, taking account of total remuneration including salaries, fees, expenses and employee benefits;⁶³

⁶⁰ Principle 4.1, HC 4.2.1

⁶¹ HC 4.2.1

⁶² Principle 5.1, HC 5.2.1

⁶³ Principle 5.1, HC 5.2.1

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6. Make recommendations on remunerations for board members based on their attendance and performance;⁶⁴
7. Play a key role in the assessment process of the performance of the Board, its members and its individual committees;⁶⁵
8. Review succession plans for Board Members and Senior Management;⁶⁶

The constitution of the Committee encompasses the following:

1. The members of the Committee will be appointed by the Board of Directors. Any member of the Committee may be removed or replaced at any time by unanimous consent of the Board.
2. The Committee will comprise of a minimum of three members.
3. The composition of the committee should include only independent directors or alternatively, only non executive directors of whom a majority comprises independent directors⁶⁷.
4. Best practice states that the Chairman of the NRC shall be a non-executive, independent one, as this is consistent with international best practice and recognizes that the committee must exercise judgment free from personal career conflicts of interest.⁶⁸
5. The Chairman of the NRC will be a different person from the Chief Executive Officer (CEO), so that there is an appropriate balance of power and greater capacity for independent decision making. The Chairman of the Board Audit Committee will not be the Chairman of this Committee. The Chairman of the NRC has to be a director who has expertise in the area of corporate governance and remuneration.
6. The Committee shall comprise only members of the Board. Officials of the Bank's management team or third parties may be invited to attend meetings on a temporary or permanent basis, if their attendance will assist the Committee in fulfilling its duties. Such invitees who are not Directors have no voting rights on decisions made by the Committee.

⁶⁴ Principle 5.1, HC 5.2.1

⁶⁵ Principle 1.8 & Appendix C

⁶⁶ Appendix C

⁶⁷ HC 4.2.2, HC 5.3.2

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4.3 Board Nominations to Shareholders – HC 4.4

The Nominating & Remuneration Committee will:

1. Make recommendations to the Board from time to time as to changes the committee believes to be desirable to the size of the Board or any committee of the Board;
2. Oversee the preparation of appropriate nomination documents and notifications proposing candidates for Directorships. This includes quality assurance that each proposal by the Board to the shareholders, for election or re-election of a director, shall be accompanied by a recommendation from the Board, a summary of the advice of the NRC, performance evaluations (if available) and the following specific information:
 - The term to be served Biographical details, professional qualifications, experience and technical skills.
 - In the case of independent directors, the completed questionnaire from the candidate that affirms independence.
 - Any other directorships held.
 - Particulars of other positions which involve significant time commitments, and
 - Details of relationships between the candidate and UGB, and the candidate and other directors of the company;⁶⁹
3. Oversee the preparation of appropriate appointment documents, regulatory approvals and notifications of new directors, in consultation with legal advisors if necessary, setting out the terms and conditions of their Directorships;
4. Ensure that any term beyond six years for a Director, is subject to a particular rigorous review to demonstrate that the individual Director's performance continues to be effective and continues to demonstrate commitment to the role. This can be determined through a formal performance evaluation and will be confirmed by the Chairman to the shareholders;⁷⁰

4.4 Induction and Training of Directors – HC 4.5

The **Directors' Induction Policy** provides for the Chairman of the Board ensuring that each new Director receives a formal and tailored induction, to ensure his contribution to the Board from the beginning of his/her term. The Chairman will also forward an Induction Package to the new member. This will include a welcome letter and will provide him/her with:

- Any necessary background information about the Bank;

⁶⁹ Principle 4.3, HC 4.4.1

- Contact information about Board members, and Senior Management of the Bank;
- Group operational and committee structure;
- Information on significant financial, accounting practices, risk management mandates, compliance programs, internal and external auditors and legal counsel⁷¹;
- Organizational documents such as the strategic plan, relevant Board policies, current year-to-date budget and financial information, the organization chart of UGB, group structure of UGB, and the most recent Annual Report.

The induction process may include meetings of the new Directors with senior management and visits to the conventional bank facilities.⁷²

All continuing directors will be invited to attend orientation meetings and all directors shall continually educate themselves as to the company's business and corporate governance.⁷³ In accordance with the CBB's requirements, each director (in his capacity as holding a 'controlled' position, has to complete 15 hours of CPD each year⁷⁴.

Management in consultation with the Chairman of the Board, can hold programs and presentations to Directors with respect to UGB's business and industry. This includes updates of periodic attendance at conferences and management meetings.⁷⁵

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 the Corporate Secretary.

4.5 Standard for all Remuneration – HC 5.4

The responsibilities of the Nominating & Remuneration Committee include the review of UGB's remuneration policies for the Board of Directors and Senior Management and ensure that all payments are fair and responsible.⁷⁶ The remuneration of both Directors and officers should be sufficient enough to attract, retain and motivate persons of the quality needed to run UGB successfully. UGB will however avoid paying more that is necessary for that purpose.⁷⁷

⁷¹ Principle 4.4, HC 4.5.1

⁷² HC 4.5.1

⁷³ Principle 4.4, HC 4.5.2

⁷⁴ TC 1.2.1

⁷⁵ Principle 4.4, HC 4.5.3

⁷⁶ Principle 5.1

⁷⁷ Principle 5.3, HC 5.4.1

4.6 Non Executive Directors' Remuneration – HC 5.5

The **Charter of the Nominating & Remuneration Committee** also states that the remuneration for non executive directors does not include performance related elements such as grants of shares, share options or other deferred stock related incentive schemes, bonuses or pension benefits;⁷⁸ The Board's Remuneration is capped such that total remuneration is in line with Article 188 of the Company's Law, and is approved by the shareholders.⁷⁹

4.7 Senior Management's Remuneration – HC 5.6

The Nominating & Remuneration Committee's responsibilities vis a vis Senior Management's Remuneration, include the following:

1. Ensure that the remuneration for officers is structured and that the employee's interest is aligned with the interests of the shareholders. These rewards include grants of shares, share options and other deferred stock related incentive schemes, bonuses and pension benefits which are not based on salary. If an officer is also a director, his remuneration as an officer should take into account, compensation received in his capacity as a director;⁸⁰
2. Ensure that all performance based incentives are awarded after being approved by the board, and such that they are in line with enhancing the shareholder's and UGB's value.
3. Ensure that any employee stock option plan is approved by the shareholders⁸¹. The approval is only of the plan itself and not of the grant to specific individuals of benefits under the plan.⁸² Shares will be granted under the terms of the Employee Share Option Plan that has the necessary approvals of the Board.

Further details on the Bank's philosophy, standards and the methodology of compensation, are available in the **UGB Remuneration Policy** which is approved by the Board of Directors. These incorporate the new rules on remuneration that were introduced by the CBB.

⁷⁸ Principle 5.4, HC 5.5.1

⁷⁹ HC 5.5.2

⁸⁰ HC 5.5.3

⁸¹ HC 5.4.3

⁸² HC 5.4.3

5 Principle 6

5.1 Principle of establishing a clear and efficient management structure – HC 6.1

This is documented in the Charter of the Board of Directors.

5.2 Establishment of the Management structure – HC 6.2

The Board of Directors recognises its fiduciary duties of care and loyalty to UGB and its shareholders.⁸³ It is accountable and responsible for the affairs and performance of the Bank. In order to discharge its duties, the Board approves establishing a clear and efficient management structure⁸⁴, and has appointed officers whose authority includes management and operation of activities on an ongoing basis, reporting to and under the direction of the Board. The Code and the CBB rules require a minimum appointment of a CEO, a CFO, a Corporate Secretary and an Internal Auditor. All other approved persons that the Board considers appropriate or which are mandated by the CBB, should also be appointed.⁸⁵

5.2.1 The Responsibilities of the Bank's Executive Management

The Executive Management of the Bank is headed by the Chief Executive Officer who is responsible for the day to day conduct of the Bank's business in line with the Board's approved Policies and Procedure. His role is also to facilitate the Board towards meeting its responsibility towards all the stakeholders. The CEO is assisted by Senior Management (Department Heads) who are responsible for:

- Proposing work strategies, plans, policies and procedures in the area of banking and financial operations for approval by the Board of Directors; these policies shall be specific to the unique nature of the Bank's business and adequate experiences in these areas;
- Implementing policies and procedures that are endorsed by the Board concerning the Bank's various operations and activities, and to put appropriate methods into action for ensuring that these policies are duly respected;
- Submitting to the Board periodically, all financial and management reports regarding policies endorsed by the Board, work in progress at the Bank, results of operations and comparison of rates of actual performance against budget and objective expectation; explanation of material deviations and submission of remedial suggestions to correct any potential shortcomings;

⁸³ Principle 1.1

⁸⁴ HC 6.1.1

⁸⁵ HC 6.2.1

- Adhering to generally accepted principles of transparency and objectivity when reporting on actions relating to the Bank’s operations. Senior Management is responsible for compliance with laws and regulations and circulars issued by the CBB and other supervisory authorities. In order to avoid exposure to risks resulting from non-compliance (i.e. penalties, fines, financial losses and reputation damage), the Board shall establish adequate compliance policies;
- Conducting its activities in compliance with generally accepted professional practices and establishing appropriate regulations and controls for compliance by all employees at the institution;
- Preparing the Bank’s financial statements according to applicable IFRS accounting principles or any other standards or regulations mandated by the CBB or any other concerned authorities;
- Forming and monitoring the functionality of various management committees. These include the Investment Committee, the Management Committee, the Asset & Liability Committee, the Key Persons Committee, the Risk & Compliance Committee and the IT Steering Committee. Each of these has a well defined Charter that enumerates the membership and responsibilities.

5.3 Titles, authorities, duties and reporting responsibilities – HC 6.3

UGB has detailed job descriptions (JD’s) for all approved persons and senior managers. These descriptions reflect the title, authorities, duties, accountabilities and internal reporting responsibilities. This is done under the guidance of the CEO and has the approval of the Board of Directors.⁸⁶

The **authorised signatory book and the payment authority matrix**, authorise the CEO to represent UGB’s interests in concluding transactions.

The **Charter of the Board of Directors** mandates the appointment of a Corporate Secretary and defines this role’s responsibilities. These include arranging, recording and following up on the actions, decisions and meetings of the Board and of the shareholders (at AGM’s and extraordinary meetings), in minutes of meetings, resolutions and other Board related documents.

The **Charter of the Board Audit Committee** provides for the supervision of the internal controls and audit and compliance function of the Bank. These include

⁸⁶ HC 6.3.1

- Ensuring that Senior Management has put in place, appropriate systems of control for the business of the Bank and the information needs of the Board. There should be adequate systems and functions for identifying as well as for monitoring risk, and the financial position of the bank.⁸⁷
- Satisfying the Board that weaknesses in control are being corrected and recommend the improvement of such internal control procedures or particular areas where new or more detailed controls or procedures are desirable. Particular emphasis is given to the adequacy of such internal controls to monitor banking risk and to expose any payments, transactions or procedures that might be deemed illegal or otherwise improper.

5.4 Authority Matrix

The Board of Directors has approved a Payment Authority Matrix. This document sets out the limits and the authority of the CEO and other designated officers, for the purposes of authorizing payments for transactions that do not require separate board approval.

5.5 Succession Planning

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.⁸⁸

5.6 Supervision of the Compliance Function

The **Charter of the Board Audit Committee** provides for the supervision of the compliance function of the Bank. The responsibilities include:

- Receiving briefings from the Head of Internal Audit & Quality Assurance, the Chief Compliance Officer and the External auditors, any correspondence with or other action by regulators or governmental agencies, any material issues on UGB's compliance with applicable laws, regulations, best practice and listing standards;
- Receiving and discussing management reports on an annual or as needed basis related to compliance matters (including anti-money laundering, regulatory and fiduciary compliance), significant reported code of conduct or ethics violations and/or compliance with regulatory internal controls.

⁸⁷ HC 3.2.2

⁸⁸ Principle 6.2,⁸⁹ HC 7.3.1

- Receiving and reviewing the breach register and the Compliance Report on a quarterly basis.

6. Principle 7

6.1 Principle of communicating with shareholders and respecting their rights – HC 7.1

This is documented in a separate policy & procedure manual on 'Ordinary / Extraordinary General Assembly Meetings'.

6.2 Conduct of shareholders' meetings – HC 7.2

Principle 7 of the Code of Corporate Governance and HC 7.2 of the CBB's rulebook recommend certain steps to be taken by the Board of Directors while conducting shareholders' meetings. The CBB mandates that Banks incorporated in Bahrain communicate with shareholders, encourage their participation and respect their rights.

UGB's Board has approved a detailed policy & procedure manual on '**Ordinary / Extraordinary General Assembly Meetings**' that enumerates the requirements for conducting meetings. All Board Members are expected to attend and be available to answer questions from shareholders at any shareholder meeting. In particular, the chairs of the audit and nominating and remunerations committee and the external auditor must answer appropriate questions regarding matters within their committee's responsibility.

The policy & procedure manual on '**Ordinary / Extraordinary General Assembly Meetings**'

provides for the Bank dedicate a specific section of its website to corporate governance/investor relations. This section describes shareholders' rights to participate and vote at each shareholders' meeting and contains significant documents relating to meetings including the full text of notices and minutes. The Code recommends establishing an electronic means for shareholders' communications including the appointment of proxies. In order to maintain confidentiality, controlled access to such information to its shareholders, will be considered by the Bank.

The same PPM states that 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.

6.3 Direct Shareholder Communication – HC 7.3

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The responsibilities of the Chairman of the Board, as defined in the **Charter of the Board of Directors**, stipulates that he is expected to maintain continuing personal contact with the major shareholders and controllers to solicit their views and understand their concerns.⁸⁹ The Chairman's role also involves ensuring that the views of shareholders are communicated to the Board as a whole, and that governance and strategy are discussed with the major controllers and shareholders.⁹⁰

6.4 Controllers – HC 7.4

The **Charter of the Board of Directors** states that both controlling and non-controlling shareholders of UGB should be aware of the controllers' specific responsibilities regarding their duty of loyalty to the Bank and managing conflicts of interest.

⁸⁹ HC 7.3.1

⁹⁰ Code - Principle 7.2, HC 7.3.1

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7. Principle 8

7.1 Principle of disclosing corporate governance – HC 8.1

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

7.2 Disclosure under the Company Law and CBB Requirements – HCA 1.8, HC A 1.9, HAC A.1.10, HC 8.2

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

UGB will conduct an annual review and disclose its compliance with these guidelines and with Module HC. Using the comply or explain philosophy, the Bank will explain the extent to which any rules have varied or believes that any variance / non compliance is justified. This will be done in the form of a Corporate Governance Report that will be presented to the Board Audit Committee and then the shareholders at the AGM. It is the BAC’s responsibility to review the report and determine the level of accuracy and completeness. Information that is deemed public will be posted on UGB’s website.

7.3 Board’s responsibility for disclosure – HC 8.3

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

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Version Control

Version #	Date Issued	Originator/ Modified By	Reason for Issue / Re-Issue
1.	May 2006	Credit & Risk Management	Disclosure under the Company Law and CBB Requirements.
2.	March 2008	Credit & Risk Management	Review and ensuring that CBB requirements are met.
3.	December 2011	Compliance	Separation of the Compliance and the Corporate Governance Manual, to incorporate the Implementation of Module HC and the Code of Corporate Governance.
4.	January 2013	Compliance	Including the requirement to hold at least half the Board meetings in Bahrain; reporting of the Compliance Function to the BAC; change in terminology of Advisor to Corporate Secretary.
5.	August 2015	Compliance	Reference to the new rules on remuneration for senior management; requirement of all approved persons to complete 15 hours of CPD.
6.	February 2017	Compliance	Including the Reference to the new rule on disclosure regarding any relatives of controlled persons employed by the Bank;

Date of Last Review: August 2015	Date of Current Review: March 2017
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