

KFH Bahrain Group Corporate Governance

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1. Introduction

Corporate Governance is a system by which companies are directed and controlled. Good corporate governance practice is an important function in creating and sustaining shareholder value and ensuring that the organisational behaviour is ethical, legal and transparent.

This Corporate Governance policy, therefore, is established to provide a framework for setting the principles of effective Corporate Governance across Kuwait Finance House B.S.C. (c), and its subsidiaries (Bank) taking into consideration the following:

- a) International best practice corporate governance standards set by bodies such as the Basel Committee for Banking Supervision;
- b) Corporate governance principles issued by the Ministry of Industry and Commerce in Bahrain as "The Corporate Governance Code"; and as incorporated in the High-Level Controls Module of the Central Bank of Bahrain ("CBB");
- c) Related Central Bank regulations; and
- d) Related standards set by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

It is to be noted that the requirements outlined herein should be considered as minimum requirements for the Bank. Wherever, the local jurisdictional requirements are more stringent than those outlined in this policy, then the local requirements are to be applied.

2. Corporate Governance Statement

The Board is committed to implementing the best practices of Corporate Governance standards in conducting its affairs and the management of the Bank. The Bank seeks to manage its business in accordance with the principles of appropriate Corporate Governance which provide a basis for performance of high quality, solid and sound financial standing as well as sustainable growth.

The guiding principle is the perseverance of independence in absolute sense as well as in the views of the investing public. The Bank maintains and enforces written policies, procedures and systems of supervision (related to fair disclosure) reasonably designed to:

- a) Ensure the fair and timely release of material information about the Bank
- b) Ensure that the information it releases about the Bank is factually correct, clear and transparent
- c) Ensure that the information it releases does not intentionally or unintentionally mislead investors.

3. Role of the Board

The Board sets out the "tone at the top" and approves and oversees the development of the Bank's strategy, business plans and budget, and monitors their implementation; implement appropriate policies to ensure that transparency; effective internal controls and accurate disclosure of material information about the Bank are observed.

The Bank shall be headed by an effective, collegial and informed Board. The Board of Directors is responsible to shareholders for creating and delivering sustainable shareholder value through the management of the Bank's business. The Board should therefore determine the strategic objectives and policies of the Bank to deliver such long-term value, providing overall strategic direction within a framework of rewards, incentives and controls.

The Board must ensure that collectively it has sufficient expertise to identify, understand and measure the significant risks to which the bank is exposed in its business activities. Board and senior management of subsidiaries of the Bank must remain responsible for developing effective governance and risk management framework for their entities and must clearly understand the reporting obligations they have to the parent bank. The Board must ensure that management strikes an appropriate balance between promoting long term growth and delivering short term results.

All Directors should understand the Board's role and responsibilities under the Commercial Companies Law, High Level Controls module of the CBB Rulebook, and the relevant regulation of the regional Central Bank. The Directors in particular, should be aware of the Board's role as distinct from the role of the shareholders (who elect the Board and whose interest the Board serves) and the role of the officers (whom the Board appoints and oversees), and the Board's fiduciary duties of care and loyalty to the company and the shareholders.

The Board is also responsible for ensuring that management maintains a system of internal control which provides assurance of effective and efficient operations, internal financial controls and compliance with laws and regulations. In carrying out this responsibility, the Board must have regard to what is appropriate for the Bank's business and reputation, the materiality of the financial and other risks inherent in the business and the relative costs and benefits of implementing specific controls.

The Board of the Bank must:

- (a) Have the overall responsibility for the group and exercise adequate oversight over subsidiaries and overseas branches while respecting the independent legal and governance responsibilities that might apply to subsidiary Boards;
- (b) Establish, subject to CBB's approval, a group structure (including the legal entity and business structure) and a group corporate governance framework with clearly defined roles and responsibilities at both the parent Bank's and the subsidiaries' level as may be appropriate based on the complexity, risks and significance of the subsidiaries;
- (c) Set adequate and comprehensive criteria for composing Boards at subsidiaries' level;
- (d) Have a clear strategy and group policy for establishing new structures and legal entities, and ensure that they are consistent with the policies and interests of the group;
- (e) Have sufficient resources at group and subsidiaries levels to monitor risks and compliance at the level of the group and its subsidiaries;
- (f) Pay special attention and due care to any significant subsidiary based on its risk profile or systemic importance or due to its size relative to the parent bank;
- (g) Assess and discuss material risks and issues that might affect the group and its subsidiaries and overseas branches;
- (h) Establish effective group functions at the parent bank, including but not limited to, internal audit, compliance, risk management and financial controls to whom the relevant subsidiaries' functions must report;
- (i) Maintain an effective relationship, through the subsidiary Board or direct contact, with the regulators of all subsidiaries and overseas branches; and

(j) ensure that:

- i. The group has appropriate policies and controls to identify and address potential intragroup conflicts of interest, such as those arising from intragroup transactions;
- ii. The group is governed and operating under clear group strategies, business policies and specific set of group policies on risk management, internal audit, compliance and financial controls;
- iii. There are no barriers to exchanging information between the subsidiaries and the parent bank and that there are robust systems in place to facilitate the exchange of information to enable the parent bank to effectively supervise the group and manage its risks; and
- iv. Adequate authority is available to each subsidiary pursuant to local legislations.

The Board and senior management of the Bank must be cognisant of the challenges arising from operating under complex or opaque structures, including special purpose vehicles, and must act to avoid or mitigate these by:

- (a) Avoiding setting up complicated structures that lack economic substance or business purpose;
- (b) Continually maintaining and reviewing appropriate policies, procedures and processes governing the approval and maintenance of those structures or activities, including fully vetting the purpose, the associated risks and the bank's ability to manage those risks prior to setting up new structures and initiating associated activities;
- (c) Having a centralised process for approving the creation of new legal entities and subsidiaries based on established criteria, including the ability to monitor and fulfil each entity's regulatory, tax, financial reporting, governance and other requirements and for the dissolution of dormant subsidiaries;
- (d) Establishing adequate policies, procedures and processes to identify and manage all material risks arising from these structures, including lack of management transparency, operational risks introduced by interconnected and complex funding structures, intragroup exposures, trapped collateral and counterparty risk, etc. The bank must only approve structures if the material risks can be properly identified, quantified, monitored and mitigated; and
- (e) Ensuring that the activities, controls and structures are subject to periodic reviews by compliance, internal audit and risk management functions as well as external audit to ensure effectiveness and consistency with Board-approved strategy and policies.

The Bank must assign to one of its senior management, the role of a corporate governance officer who is responsible for the tasks of verifying the bank's compliance with corporate governance rules and regulations. Specific to KFH Bahrain, the Group Corporate Secretary is the designated Group Corporate Governance Officer.

4. Role of the Management

The Bank's management are responsible for the implementation of appropriate procedures and processes in place to ensure adherence to the Board approved policies, laws, regulations and other guidelines to ensure appropriate Corporate Governance standards throughout the Bank.

Management shall be appointed under employment contract specifying the terms of the appointment. Management shall be accountable to the Board and the committees of the Board.

The Bank's management monitors the performance of the Bank on an ongoing basis and advises the Board. The monitoring of performance is carried out through a regular assessment of performance trends against budget, and prior periods and peer banks in each of the markets and collectively through Group Committees and Sub Committees. The minutes of all management committees are sent to the Audit and Compliance Committee who assess the effectiveness of the committees.

Chief Executive Officer and Chief Financial Officer shall state in writing to the Audit and Compliance Committee and the Board as a whole that Bank's interim and annual financial statements present a true and fair view, in all material respects, of the Bank's financial condition and results of operations in accordance with applicable accounting standards.

5. Composition of the Board of Directors

Subject to compliance of the provisions of the Commercial Companies Law and CBB Rulebook, the following shall apply:

- At least half of the Board should comprise of non-executive directors and at least three of those persons should be independent directors.
- A minimum of 1/3rd of the full Board shall comprise of independent directors.
- The roles of CEO and Chairman and/or Deputy Chairman shall not be combined.
- The Chairman must not be an Executive Director.
- Director classification shall be identified in the Annual Report.
- If a director resigns or is removed from the office, the bank shall notify the relevant Central Bank with reasons thereof.
- Where an independent director has served three consecutive terms on the Board, such director will lose his/her independence status and shall not be classified as an independent director if reappointed
- A CEO of the Bank who has resigned or retired, may serve as a Board member of the same bank but not as an independent director unless a period of three years has passed from the date of his/her resignation/retirement.

6. Functions of Directors

Under the Corporate Governance principles, each director represents all shareholders and should act accordingly to exercise due care and skill. The responsibilities of Directors are included in the Terms of Reference of the Board of each Bank.

7. Board Meetings and Attendance

The Board shall meet at least four times in a year. To meet its obligations, the full Board should meet once every quarter to address the Board's responsibilities for management oversight and performance monitoring. At least half the Board meetings of the bank in any twelve months period must be held in the Kingdom of Bahrain. Papers relevant to the agenda of each Board and Board Committees meeting should be sent to Board and Committees members as appropriate in advance of the meeting. Board Member may attend the meetings by means of video or telephone conferencing is regarded as attendance and are recorded accordingly.

The Board collectively is responsible for setting its own agenda. All papers and matters discussed at meetings of the Board and its Committees are strictly confidential.

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. Board attendance percentage must be reported during any general assembly meeting when board members stand for re-election. In the event a director has not attended at least 75% of Board meetings in any given financial year, the director must immediately notify the Bank with details of any mitigating circumstances affecting his non-attendance. Non-attendance at Board meetings does not absolve directors of their responsibilities. Central bank rules require Directors' to step down from their membership if they are not able to actively attend and participate in the Board meetings.

Voting and attendance proxies for board meetings are prohibited at all times.

8. Board Secretary and the Minutes

The Board, immediately after its composition, shall appoint a secretary to the Board. The secretary shall draw the minutes of each Board meeting mentioning the subjects discussed, decisions reached, names of the members present, and vote cast by each member.

9. Director Nomination Process and Induction

The process for appointing new Directors to the Board is determined by the law and the Articles of Association of the Bank. All Directors are elected by the shareholders at the annual General Meeting every three years. The Directors should be individuals who have the competence, qualification and the credibility to hold such responsible positions. The process is coordinated through the Nominating Committee.

The Nominating, Remuneration & Corporate Governance Committee shall strive to seek candidates possessing the following characteristics:

- High ethical standards and integrity in their personal and professional dealings.
- Possession of high intelligence and wisdom and who apply it in decision making.
- Capacity to read and understand financial statements.
- Potential to contribute towards effective stewardship of the company.
- Capacity to activate and counsel employees to attain high standards of management.

The Board shall strive to achieve the following core competencies, for the Board as a whole.

- Strategic insight and ability to direct by encouraging innovation and continuously challenging the organization to sharpen its vision.
- Expertise in financial accounting and corporate finance.
- Understanding of management trends in general and concerned industry in particular.
- Ability to perform during periods of both short term and prolonged crises.
- Appropriate and relevant industry specific knowledge.
- Business expertise in international markets if the company operates in international markets.

The Bank shall arrange a process of induction for newly appointed Directors.

10. Conflict of Interest

Each approved person (Directors and Senior Management personnel) should make every practicable effort to arrange his personal and business affairs to avoid a conflict-of-interest situation with the Bank and shall inform the bank of any conflicts of interest as they arise and abstain from voting on any related subject matter. Each approved person is personally accountable to the Bank and the shareholders if he violates his legal duties to the Bank. No approved person should put himself in a position where his personal interest conflicts or potentially conflicts with those of the Bank. An approved person is considered to have a "personal interest" in a transaction with a bank if:

- (a) He; or
- (b) A member of his family (i.e. spouse, father, mother, sons, daughters, brothers or sisters); or
- (c) Another company of which he is a director or controller or,
- (d) is a party to the transaction, or has a material financial interest in the transaction or
- (e) is expected to derive material personal benefit from the transaction.

a. (Transactions and interests which are not material in value should not be included)

All approved persons must:

- i) Promptly disclose any matter that may result, or has already resulted, in a conflict of interest;
- ii) Abstain from getting involved in or voting on any matter where they may have a conflict of interest or where their objectivity or ability to properly fulfil duties to the licensee may be otherwise compromised. Any decision to enter into a transaction in which an approved person appears to have a material conflict of interest must be formally and unanimously approved by the entire Board;
- iii) Act with honesty, integrity and care for the best interest of the Bank and its shareholders and other stakeholders;
- iv) Not use properties of the Bank for their personal needs;
- v) Not misuse or misappropriate the Bank's assets or resources;
- vi) Not disclose confidential information of the Bank or use it for their personal profit or interest;
- vii) Make every practicable effort to arrange their personal and business affairs to avoid a conflict of interest with the Bank;
- viii) Not take business opportunities of the Bank for themselves; and
- ix) Not compete in business with the Bank or serve the Bank's interest in any transaction with a company in which they have a personal interest.

If Directors have any doubts about conflicts, they should consult the Chairman before doing anything that might compromise the Bank. Directors are required to notify the Bank of any potential conflicts through other directorships or shareholdings and disclose annually/as and when the potential conflict appear to occur through the Board Secretary.

Approved persons, including those appointed as members of the Board of special purpose vehicles or other operating companies, are not permitted to take any benefits (commission, fees, shares, consideration in kind, or other remuneration or incentives in respect of the performance of the project or investment) from any projects or investments which are managed by the Bank or promoted to its customers or potential customers except for Board related remuneration linked to their fiduciary duties to the investors of the project/investment.

Each approved person must inform the entire Board of (potential) conflicts of interest in their activities with, and commitments to other organizations as they arise and abstain from voting on the matter in accordance with the relevant provisions of the Bahrain Commercial Companies Law. This disclosure must include all material facts in the case of a contract or transaction involving the approved person. The approved persons must understand that any approval of a conflicted transaction is effective only if all material facts are known to the authorizing persons and the conflicted person did not participate in the decision. In any case, all approved persons must declare in writing all of their other interests in other enterprises or activities (whether as a shareholder of above 5% of the voting capital of a company, a manager, or other form of significant participation) to the Board (or the Nominations or Audit Committees) on an annual basis.

The Board of Directors shall adopt a policy on the employment of relatives of approved persons and a summary of such policy shall be disclosed in the annual report.

11. Succession Planning

The Boards of Directors are responsible for key succession planning and ensure that succession planning is in place for all other key executive roles both in emergencies & normal course of business. This includes identifying potential succession candidates and development plans for the CEO; and fostering management depth by rigorously assessing candidates for other senior positions. The Board shall annually review and evaluate the succession plans and management development programs for all members of executive management, including the Chief Executive Officer.

12. Whistle Blowing Policy

The Board adopts the whistleblowing policy & enables the employee at all levels to raise concerns against any malpractices or irregularities in legal or financial matters. The Board shall take responsibility for ensuring that staff who raise concerns are protected from detrimental treatment or reprisals, and that their rights are not undermined. This section shall be read in conjunction with KFH Bahrain Group Banking Integrity & Whistle Blowing Policy & Procedures.

13. Remuneration Policy

The Board of directors must actively oversee the remuneration system's design and operation for approved persons as well as for material risk-takers. The Board must approve the remuneration policy and amounts for each approved person and material risk takers. Banks' remuneration policies and practices must be designed to reduce employees' incentives to take excessive and undue risk. Bank must remunerate the approved persons and material risk-takers fairly and responsibly. The performance evaluation and remuneration of senior management and staff of the Bank is based on the achievement of the Key Performance Indicators (KPIs) relevant to ensuring compliance with AML/CFT requirements as specified in Paragraphs FC-2.1.3 and FC-2.1.4.

14. Code of Conduct

The Board aims to ensure that all Directors, managers and employees act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Bank. The code of conduct is linked with the objectives of the Bank and its responsibilities and undertaking to customers, shareholders, staff and wider community. This code shall be read in conjunction with the KFH Bahrain Group Code of Business Conduct.

15. Board Effectiveness Review

The Board of Directors shall review the performance of each Committee on an annual basis.

The evaluation process shall include:

- a) Assessing how the Committee operates, especially in light of Chapter HC-3;
- b) Evaluating the performance of each committee in light of its specific purposes and responsibilities.
- c) Reviewing the board's current composition against its desired composition with a view toward maintaining an appropriate balance of skills and experience and a view toward planned and progressive refreshing of the board; and
- d) Recommendations for new Directors to replace long-standing members or those members whose contribution to the Bank or its committees (such as the audit committee) is not adequate.

16. Annual General Meeting

All Directors are expected to attend the annual General Meeting and to make themselves available during and after the meeting to answer questions from shareholders.

17. Risk Management

The Bank must establish a sound risk management framework commensurate with the Bank's size, complexity and risk profile. A risk management framework must have the following key features:

- (a) active Board and senior management oversight;
- (b) independent risk management function;
- (c) a Board driven sound risk management culture that is established throughout the Bank;
- (d) appropriate policy, procedures and limits;
- (e) comprehensive and timely identification, measurement, mitigation, controlling, monitoring and reporting of risks;
- (f) appropriate management information systems ('MIS') at a business and bank-wide level; and
- (g) comprehensive internal controls.

Board Risk Committee shall commission every five years, a quality review of the effectiveness and efficiency of the risk management framework and function, an independent review by a third-party consultant, other than their external auditors. The results of such independent review must be provided to the CBB by 31 May of the relevant year. More specifically, the Bank must undertake reviews referred to above with regards to the following individual areas that are relevant to the risk management framework:

- i. ICAAP Framework referred to in Module IC;
- ii. Capital adequacy requirements under Module CA;
- iii. Recovery and resolution planning (RRP) and related documents referred to in Module DS;
- iv. Credit risk management framework and compliance with Module CM;
- v. Operational risk management framework and compliance with Module OM;
- vi. Stress testing framework included in Module ST;
- vii. Liquidity risk management framework and compliance with Module LM; and
- viii. Compliance with Module RR.

Resources involved in the independent third-party review must be competent and appropriately trained. The independent third-party must not have been previously involved in the development, implementation and operation of the Bank's risk management framework.

The independent review reports must be presented to the Board or a designated committee of the Board. The agreed action planning steps to remedy any material weaknesses must be documented.

The Bank must appoint a chief risk officer (CRO) or equivalent with an overall responsibility for the licensee's risk management function.

18. Internal Audit

Bank must establish and implement an effective internal audit function which provides an independent and objective assurance to the Board of Directors and senior management on the quality and effectiveness of a bank's internal control, risk management and governance systems and processes, to protect the Bank and its reputation. The internal audit function must develop an independent and informed view of the risks faced by the Bank based on its access to all Bank records and data, its enquiries, and its professional competence. The internal audit function must discuss its views, findings and conclusions directly with the audit committee and, if necessary, with the Board of Directors at their routine quarterly meetings, thereby helping the Board to oversee senior management.

The Bank must have an internal audit charter that articulates the purpose, standing and authority of the internal audit function within the Bank in a manner that promotes an effective internal audit function. The charter must be drawn up and reviewed annually by the head of internal audit and approved by the board of directors or audit committee. It must be available to all internal stakeholders and, in certain circumstances, such as listed entities, to external stakeholders.

The internal audit function must be independent of the audited activities. This means that the internal audit is independent of all functions including compliance, risk management and financial control functions. The internal audit function must also have sufficient standing and authority within the Bank and must operate according to sound principles.

The internal audit function must report directly to the audit and compliance committee of the Board and administratively to the CEO, thereby providing a framework for internal auditors to carry out their assignments with objectivity.

The internal audit function must be able to perform its assignments on its own initiative in all areas and functions of the Bank based on the audit plan established by the head of the internal audit function and approved by the Board of Directors or Audit and Compliance committee of the Board.

The internal audit function must not be involved in designing, selecting, implementing or operating specific internal control measures. However, the independence of the internal audit function must not prevent senior management from requesting input from internal audit on matters related to risk and internal controls. Nevertheless, the development and implementation of internal controls must remain the responsibility of management.

The Board Audit and Compliance Committee shall commission every five years, a quality review of the effectiveness and efficiency of the Internal Audit function by a third-party consultant, other than the external auditor. The results of such independent review must be provided to the CBB by 30th September of the relevant year;

19. Compliance

The Bank must establish and implement an effective compliance framework, which is appropriate for the size and complexity of their operations, for managing their Compliance risks. For effectively managing the compliance risk, Compliance function must have access across the Bank and must have adequate resources to carry out its functions effectively and commensurate with the size and complexity of the organisation.

Compliance function is a second line defence along with support functions, such as risk management, legal, human resources, finance, operations, and technology.

The Board of Directors is responsible for overseeing the management of the Bank's compliance risk. The Board must establish a permanent and effective compliance function and approve the Bank's compliance policies for identifying, assessing, monitoring, reporting and advising on compliance risk. At least once a year, the Board or a designated Board committee must assess the extent to which the Bank is managing its compliance risk effectively.

Senior management is responsible for effective management of Bank's compliance risk. Senior management is responsible for establishing the operating framework and the processes to support a permanent and an effective compliance function. It is responsible for establishing and communicating a written compliance policy through all levels of the organisation for ensuring that it is adhered to in practice. It is responsible also for approving the Bank's compliance procedures for identifying, assessing, monitoring, reporting and advising on compliance risk.

The compliance function must be independent and effective. It must be headed by an executive or senior staff member with overall responsibility for co-ordinating the identification and management of the Bank's compliance risk and for supervising the activities of other compliance function staff.

The Group head of compliance must ensure that:

- i. Adequate reports and information are received from subsidiaries and overseas branches on compliance related issues and must report the same to the Audit and Compliance Committee; and
- ii. It conducts annual compliance testing on subsidiaries and overseas branches whose total revenue represents 20% or more of the group's total revenue and every two years for other overseas operations.

The Board Audit and Compliance Committee shall commission every five years, a quality review of the effectiveness and efficiency of the compliance functions by a third-party consultant, other than the external auditor. The results of such independent review must be provided to the CBB by 30th September of the relevant year;

The responsibilities of the compliance function must be carried out under a risk-based compliance programme that sets out its planned activities, such as the implementation and review of specific policies and procedures, compliance risk assessment, compliance testing, and educating staff on compliance matters. The compliance programme must be risk based and subject to oversight by the head of compliance to ensure appropriate coverage across businesses and co-ordination among risk management functions.

20. External Auditor Appointment and Internal Control systems

The annual general meeting shall appoint external auditors on the following guideline:

- The Board shall recommend the name of the auditor for election after considering the recommendations of the audit committee.
- The auditor shall be appointed for 1 financial year. The partner in-charge of the firm shall not be continuing for more than 5 consecutive financial years.
- The auditor shall not be allowed to provide non-audit services, which might affect their independence.
- The external auditors, as part of their audit procedure, shall report to the shareholders any significant concern(s) that come to their attention on:
 - a) Adequacy and efficacy of the internal control systems in place.
 - b) Whether the business is a going concern (separately from Directors' assumption of going concern)
 - c) Compliance with setting up internal systems and regulations and their adequacy and their implementation.
 - d) Frauds detected or suspected by the external auditors shall be reported to the Board of the Bank.

21. Board Committees

The Board may, where appropriate, delegate certain of its powers to an individual Director or to a Committee comprised of Directors and other persons constituted in the manner most appropriate to those tasks and enjoy powers of the Board and shall be advisory in nature. Although the Board may delegate certain functions to committees or management, it may not delegate its ultimate responsibility to ensure that an adequate, effective, comprehensive and transparent corporate governance framework is in place. The terms of reference (formal written charter) of each of the Board Committees set out the specific membership requirements for those Board Committees.

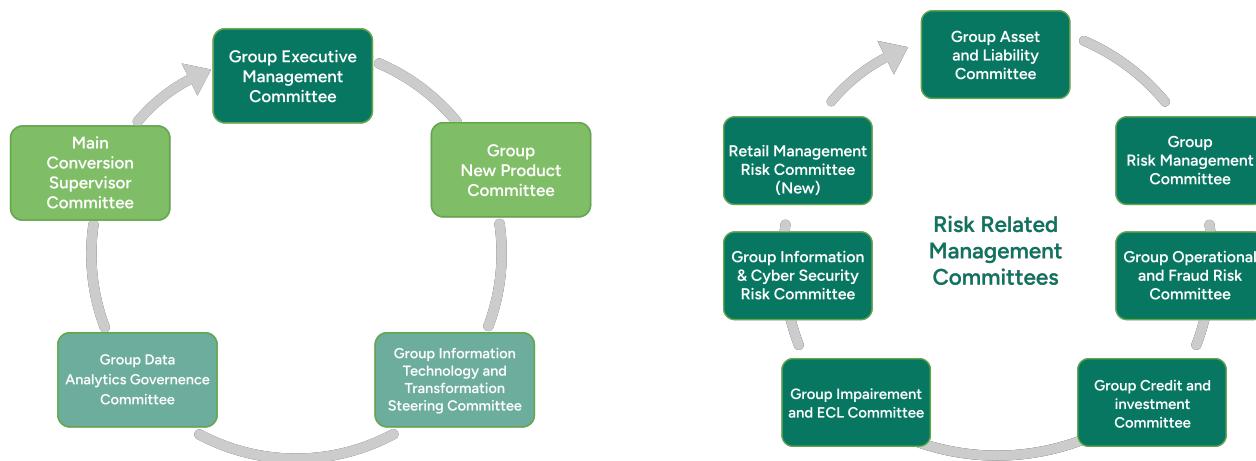
The Group Board has constituted a total of four (4) board committees, membership of which is drawn from the Directors and to which it has delegated specific responsibilities with formal Board approved written charters, as listed below:

1. Group Board Executive Committee (GBEC) (Chaired by Non-Executive Board Member)
2. Group Board Audit & Compliance Committee (GBACC) (Chaired by Independent Board Member)
3. Group Board Risk Committee (GBRC) (Chaired by Independent Board Member)
4. Group Board Nominating, Remuneration and Corporate Governance Committee (GBNRCG) (Chaired by Independent Board Member)

22. Management Committees

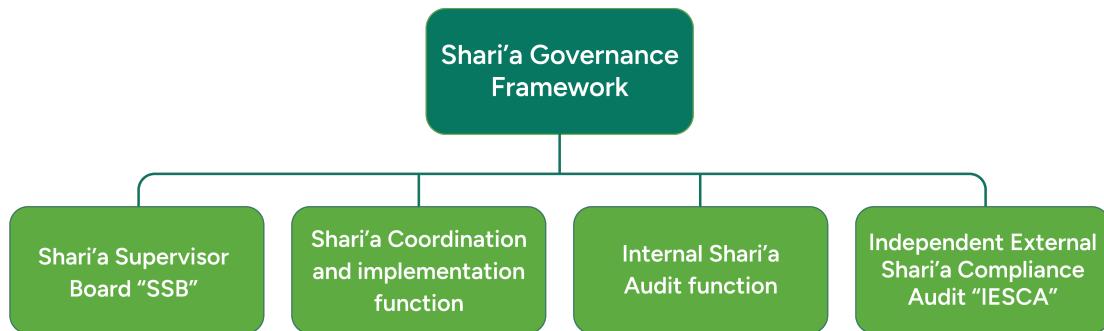
The Group Board has established a management structure with clearly defined roles, responsibilities and reporting lines. The Bank's management monitors the performance of the Bank and each of its subsidiaries, and managed affiliates on an ongoing basis and reports this performance to the Group Board. The monitoring of performance is carried out through regular assessments of performance trends against budget, and prior periods and peer banks in each of the markets and collectively through KFH Bahrain Group Committees and Sub-Committees at the parent bank and its subsidiary/affiliated banks' level. Specific responsibilities, as explained below, have been delegated to each management committee, as appropriate.

The main management committees are illustrated below:



23. Shari'a Governance

The Shari'a Governance structure adopted by the Bank must be commensurate and be proportionate with the size, complexity and nature of its business. The Shari'a Governance structure consists, at a minimum, of the following:



(a) Shari'a Supervisory Board (SSB)

The SSB is an independent body that consists of 4 scholars specialized in Fiqh Al Muamalat (Islamic jurisprudence), approved by the shareholders in the AGM. The main responsibility is:

- Supervising the Bank's operations and activities to ensure compliance with Shari'a.
- Monitor and review transactions to ensure full compliance with Shari'a rules and principles.
- And the issuance of SSB report as part of the annual report.
- The SSB report must also include any non compliance issues, if present, to the Shari'a rules and principles and SSB resolutions.

(b) Shari'a Coordination and Implementation Function

SSB has established a dedicated Shari'a Coordination and Implementation function comprised of Shari'a officers and staff. The head of the function directly reports to the SSB and administratively to the GCEO to ensure his/her independence.

The Shari'a Coordination and Implementation function must be governed by a policy and procedures manual prepared by the management in consultation by SSB. The policy must be approved by the Board of Directors while the procedures must be approved by senior management. The function must:

- Review and evaluate, before any product or transaction is offered to the customer, the contracts, agreements, fees, charges, policies, procedures, product manuals, product transaction structures, complete offering documentation including promotion and marketing materials, advertisements and other communications to general public, memorandum and articles of association, and any other matter which can potentially impact the Shari'a compliance of the Bank or influence the perception of its Shari'a compliance, and submit thereafter their report, along with all the relevant documentation, to the SSB for their review and decision.
- Involvement in the testing and implementation of any new products or services to ensure full Shari'a compliance under the relevant Fatawa.

- Assist the relevant staff in dealing with any Shari'a non-compliance issues arising from the implementation stage.
- Participate in and arrange, in conjunction with HR, the training of the Bank's employees. This can be done through holding regular meetings, discussion forums, arranging courses and seminars, etc.
- Disseminate knowledge by publishing and distributing pamphlets, brochures, etc., explaining principles of Fiqh Al-Muamalat in general, and raising awareness of the Fatawa issued by the SSB about the products and services offered by the Bank.
- Must follow up to ascertain that appropriate action is taken on his reported findings and recommended corrective actions. In addition, any other recommendations relating to Shari'a matters made by the SSB, the IESCAAs and the CBB must be followed up.
- Must have an internal Shari'a audit plan in place which must be approved by the SSB on an annual basis.

SSB Secretary

The Head of Shari'a Coordination and Implementation acts as the Secretary to SSB.

His main responsibilities shall be as follows:

- Prepare and attain the SSB Executive Committee meetings.
- Prepare for the meetings of the Shari'a Supervisory Board.
- Prepare and maintain Fatawa and resolutions issued by SSB.
- Answer questions and clarifications sought by departments concerning the Shari'a correctness of some procedures or transactions, and clarifying the viewpoint of Shari'a Supervisory Board, if any, otherwise he refers them to the Shari'a Supervisory Board to provide answers.

(c) Internal Shari'a Audit Function

SSB has established an internal Shari'a audit function directly reporting to the SSB and administratively to the CEO. The function must be governed by a policy and procedures manual prepared by the management in consultation by SSB. The policy must be approved by the Board of Directors while the procedures must be approved by senior management.

The Head of Internal Shari'a audit function must be a full-time employee of the Bank and must be responsible for examining and evaluating the extent of the Bank's compliance with the following:

- Examining and evaluating the extent of the Bank's Compliance with the following:
 - a) The SSB's Fatawa, guidelines, pronouncements and instructions/recommendations;
 - b) Shari'a related regulations, resolutions and directives issued by the CBB;
 - c) Shari'a standards issued by AAOIFI; and
 - d) Shari'a related policies and procedures of the Bank.

- Express opinion on the extent of Shari'a compliance of the Bank's operations through an actual audit of the business transactions.
- Review and examine the adequacy and effectiveness of the Bank's Shari'a compliance system. This must cover all aspects of the Bank's business operations and activities in order to assess the extent of Shari'a compliance requirements.
- Must have direct and regular communications with all levels of management, SSB, Audit Committee, Shari'a Officer and IESCA. No scope limitation and/or restriction of access to documents, reports, etc. must be placed on internal Shari'a audit staff.
- Must be objective and maintain independent attitude in performing the internal Shari'a audit and must reach objective conclusions based on work performed and the results thereof.
- Prepare periodic reports to the SSB, based on the audit plan, for consideration and appropriate action. A copy of such reports must also be presented to the Audit Committee and the CEO.
- Must follow up to ascertain that appropriate action is taken on his reported findings and recommended corrective actions. In addition, any other recommendations relating to Shari'a matters made by the SSB, the IESCAAs and the CBB must be followed up.
- Must have an internal Shari'a audit plan in place which must be approved by the SSB on an annual basis.

(d) Independent External Shari'a Compliance Audit (IESCA)

The Bank must appoint, on an annual basis, an independent external Shari'a compliance auditor (IESCA) approved by the CBB.

The IESCA shall conduct an annual independent external Shari'a compliance audit, to be completed before the issuance of the annual SSB Report and submit his independent assurance report on the management's report to the Audit Committee and thereafter to the SSB and the management of the Bank. IESCA must assess the existence of relevant controls and their effectiveness in implementation by the Bank's management of the policies, procedures, and decisions of the SSB to achieve Shari'a compliance.

24. Independent Advice

Independent professional advice is available, on request, to all Directors at the organizations expense. The Board has agreed that, subject to adherence to the procedure outlined below, the organization will meet the costs of independent professional advice obtained jointly or severally by a Director or Directors where such advice is necessary to enable the obligations imposed on individuals, through membership of the Board, to be properly fulfilled. The Board shall also review the independence of each director in the light of annual interest disclosed by them.

The procedure requires prior reference to the Chairman or, in his absence (or if otherwise considered inappropriate), to the Deputy Chairman or the Chairman of the Audit and Compliance Committee.

25. Disclosure

The Bank has a responsibility to communicate effectively with the shareholders. The goal of shareholder communication is to help shareholders understand the business, risk profile, financial condition, and operating performance and trends of the Bank. The Bank has a website and has dedicated a section of its website describing shareholder's rights and obligations. Accordingly, the Bank's annual report should disclose true and fair accounting information prepared in accordance with applicable standards; consider substance over form in the presentation of accounts; disclose and discuss all material risks; disclose and explain the rationale for all material estimates; show manner of compliance, or explain deviations, if any, with applicable corporate governance codes; discuss goals, plans, and progress.

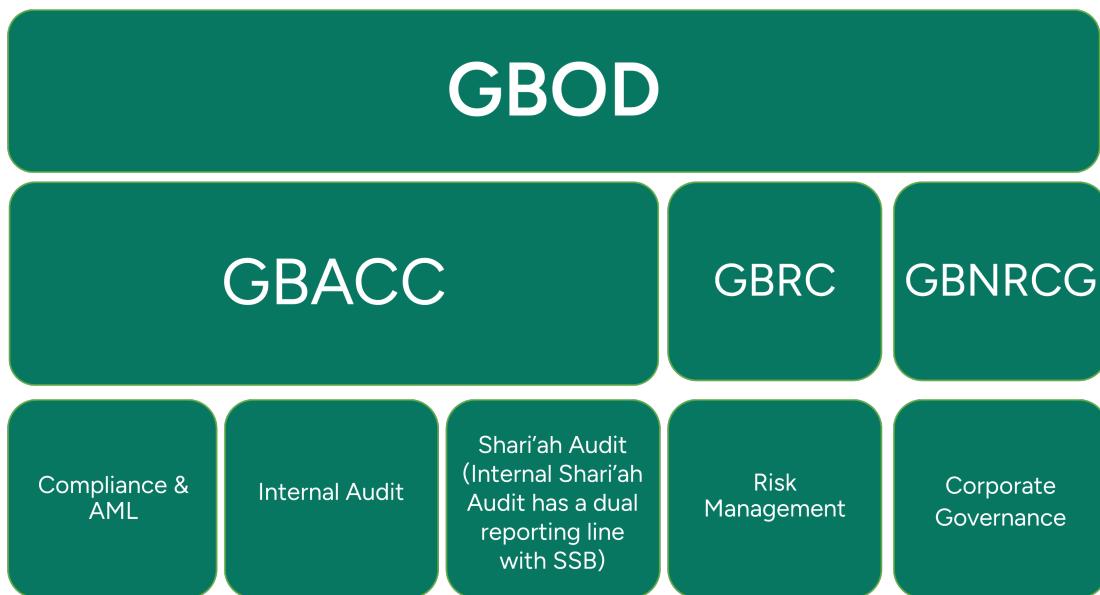
The Report on Corporate Governance shall include a separate chapter on corporate governance in the annual reports of the Bank with details and descriptive on how the company has applied the principles of corporate governance.

This policy shall be posted on the Bank's website and shall be available for shareholder requesting it.

26. Other Governance Principles

Independence of Control Functions

The Corporate Governance function within the Bank has a responsibility to ensure independency of control functions through high level reporting:



Three Lines of Defence

The Corporate Governance function within the Bank ensures application of three lines of defense to embed in the Bank's policies and procedures:



It further ensures that all Bank policies/procedures are in line with its operations and governing guidelines duly approved by the competent authorities (i.e. charters, ToRs, policies, procedures, reporting, etc.).

The Bank shall maintain core policies and artefacts such as Code of Business Conduct; Conflict of Interest and Related Party Transactions; Governance Policies; and Remuneration Policies.