



Corporate Governance Manual

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1. Introduction

- 1.1. The Board, the Senior Management and all employees of **Kuwait Finance House (KFH)** are committed to effective Governance and Control in accordance with the most updated globally applicable standards.
- 1.2. **Kuwait Finance House** is committed to promoting integrity and maintaining the highest standard of ethical conduct in all its activities.

2. Principles of Good Corporate Governance

- 2.1. Corporate Governance is a set of systems, rules, practices and processes that achieve institutional discipline according to global standards and principles through determining the responsibilities and duties of the board and the executive management of the organization taking into account protection of the rights of shareholders and stakeholders.
- 2.2. This Framework includes:
 - 2.2.1. The contract between **KFH**, shareholders and stakeholders
 - 2.2.2. Distribution of responsibilities
 - 2.2.3. Applicable procedure to reconcile conflicts among stakeholders.
 - 2.2.4. Procedures for proper supervision, control, and information
- 2.3. Key elements of good corporate governance are:
 - 2.3.1. **Transparency:** Making information widely known and/or available.
 - 2.3.2. **Accountability:** Justification of actions and/or decisions.
 - 2.3.3. **Justice:** Carry-out work fairly and neutrally.
 - 2.3.4. **Integrity:** The quality of being honest and ethical

3. Shari'a Supervisory Governance:

- 3.1. Islamic banks are characterized by its commitment to Islamic Shari'a rules and principles in all business and activities it practices and this is what distinguishes Islamic banks from conventional banks. To ensure the full compliance with Islamic Shari'a rules, banking regulations and laws in the state of Kuwait make it necessary for Islamic banks to form Fatwa and Shari'a supervisory boards with an aim to assume the responsibility for ensuring that all works of such banks are Shari'a compliant, give legal opinions on the activities, products and services provided by Islamic banks and provide solutions and alternatives for products and activities under Shari'a observations.
- 3.2. Central Bank of Kuwait (CBK) has issued in December 2016 Shari'a Governance instructions in Kuwaiti Islamic Banks. Such instructions came due to the development of Islamic banking business and Islamic economy industry,

which required the development of CBK instructions in order to tighten Shari'a Supervisory controls and the governance thereof.

- 3.3. **KFH** has developed a Shari'a supervisory organization in synchronization with the promulgation of such instructions and applied the same in conformity with the work nature in **KFH**.
- 3.4. Shari'a Supervisory Organization in **KFH** is based on (4) main pillars:
 - 3.4.1.1. Fatwa and Shari'a Supervisory Board
 - 3.4.1.2. Group Internal Shari'a Audit
 - 3.4.1.3. Shari'a Research and Advisory
 - 3.4.1.4. External Shari'a Audit

4. Fatwa and Shari'a Supervisory Board

- 4.1. Fatwa and Shari'a Supervisory Board (FASSB) occupies a distinct position in the organizational chart of **Kuwait Finance House** whereas its members are appointed from **KFH** General Assembly. Further, FASSB consists of five members at minimum. The formation of membership shall be subject to governance as provided in the guidelines issued by CBK.
- 4.2. FASSB duties in **KFH** are summarized as follows:
- 4.2.1. Ensure that the dealings and the contracts of the Bank are Shari'a compliant through reviewing the periodic and final reports raised thereto by the Internal Shari'a Audit on the course of work as well as the integrity of Fatwas' application and the decisions issued by FASSB. In event that there are errors, FASSB shall request the correction of the same, the amendment of the concluded operations and the settlement of liabilities and rights in accordance with the Islamic Shari'a rules.
 - 4.2.2. Verify the compliance of the executive management in the Bank by presenting all transactions to FASSB.
 - 4.2.3. Review the observations of the Internal Shari'a Audit periodically so that it can identify the issues that need its attention and suggest the remedies when required.
 - 4.2.4. Ensure that Zakat is calculated according to the Islamic Shari'a rules and principles when so required according to the Articles of Associations of the Bank.
 - 4.2.5. Issue Shari'a decisions and Fatwas in the Bank's transactions referred to the highly esteemed FASSB by the board of directors, the executive management or the Manager of Shari'a Research and Advisory.
 - 4.2.6. Study newly developed activities of the banks including issues and transactions submitted by different departments, branches or the public dealing with the bank and for which no Fatwas have been issued and in order to show its Shari'a rule before being implemented by the Bank.
 - 4.2.7. Prepare an annual Shari'a report on the activities of the Bank and raise the same to the General Assembly in order to show the result of bank's commitment to the Islamic Shari'a rules in its transactions implemented in light of the auditing activities conducted by the Internal Shari'a Audit, the cases presented and the opinions given on the transactions implemented by the bank as per the applicable rules and instructions. This report must be presented along with the bank's auditors' report in the ordinary General Assembly's meetings.

- 4.3. FASSB shall convene twelve meetings at least on an annual basis. Its meeting shall be in the location designated for it in **Kuwait Finance House** and its decisions shall be binding. The person nominated for board membership must have the required scientific qualifications or an experience or experiment in the field of Contemporary Islamic Financial Transactions Jurisprudence.

5. Group Internal Shari'a Audit

- 5.1. Internal Shari'a Audit is characterized by an organizational position that provides it with the highest degrees of independence and objectivity in its functions. It reports technically to the Shari'a Supervisory Board and administratively to the Chairman through Audit and Compliance Committee to enable it to perform its activities with no restrictions. Further, the Chief Internal Shari'a Auditor is appointed by the Chairman of the Board of Directors.
- 5.2. Internal Shari'a Audit plays an essential role in ensuring the extent of all **KFH** sectors and departments' commitment to Islamic Shari'a rules through auditing the contracts, products, services and the activities performed by **KFH** and that they are in conformity with the Fatwas and the decisions issued by the Shari'a Board whereas the Chief Internal Shari'a Auditor raises periodic reports to both of the Fatwa and Shari'a Supervisory Board and the Audit and Compliance Committee concerning the bank's compliance in the decisions of Fatwa and Shari'a Supervisory Board.

6. Shari'a Research and Advisory

- 6.1. Shari'a Research and Advisory has been established to prepare researches, develops the products and the services provided by **Kuwait Finance House**, provide the technical support and consultations to the executive management and run the daily activities of different departments inside the Bank. Further, it helps the Fatwa and Shari'a Supervisory Board perform its duties, and it also carries out FASSB Secretary related duties. In addition, the Shari'a Research and Advisory function prepares Shari'a studies about products, services, and activities performed by **Kuwait Finance House** and present the same to Fatwa and Shari'a Supervisory Board in **KFH** to get the final approval. Furthermore, it studies products, services and activities under Shari'a observations, provides appropriate alternatives to it and raise the same to Fatwa and Shari'a Supervisory Board to get the Shari'a approval. It further supervises the organization of Shari'a training programs and courses as well as Shari'a awareness programs amongst employees in **KFH**.

7. FASSB Secretariat

- 7.1. Board secretariat prepares FASSB meetings in **KFH**, follows up the application of its resolutions to all concerned **KFH** departments and sectors, receives inquiries from various departments on Shari'a issues and determines the issues to be presented to the Shari'a board to obtain Shari'a opinion.

8. Governance in Kuwait Finance House

- 8.1. **Kuwait Finance House** applies CBK instructions, for which an update has been issued on 10th September 2019 with an aim to update the instructions of governance rules and systems in local banks in Kuwait. The instructions include a development of governance standards according to the last updated international standards and in light of the promulgation of relevant local laws.
- 8.2. In the new standards, the structure of the Kuwaiti banking sector, the basic characteristics of the Kuwaiti economy and its integration with global economy as well as other factors that underline the critical importance of governance in Kuwaiti banks were taken into consideration.
- 8.3. Governance framework in **KFH** includes the following pillars in consistency with CBK instructions:
- 8.3.1. First Pillar: Board of Directors
 - 8.3.2. Second Pillar: Behavioral Values, Conflict of Interest and Group Structure
 - 8.3.3. Third Pillar: Top Executive Management
 - 8.3.4. Fourth Pillar: Risk Management, Internal Controls and Cyber Security
 - 8.3.5. Fifth Pillar: Remuneration Policies and Procedures
 - 8.3.6. Sixth Pillar: Disclosure and Transparency
 - 8.3.7. Seventh Pillar: Banks with Complex Structures
 - 8.3.8. Eighth Pillar: Protection of Shareholders' Rights
 - 8.3.9. Ninth Pillar: Protection of Stakeholders' Rights
- 8.4. The following pages include a brief on each pillar and the steps taken by **KFH** to implement the requirements under each pillar to comply with the CBK instructions and promote sound governance within **KFH**.

9. First Pillar: Board of Directors

9.1. Overall Responsibilities of the Board of Directors (BoD)

- 9.1.1. BoD shall assume the overall responsibility for **KFH**, including the establishment of **KFH** strategic objectives, risk strategy and corporate standards as well as the responsibility for applying such objectives and standards, overseeing its sound application and supervising the executive management including the chief executive officer.
- 9.1.2. The Board shall further assume all responsibilities pertaining to **KFH**'s operations and financial soundness and for ensuring that CBK requirements are met, safeguarding the interests of shareholders, depositors, creditors, employees and other stakeholders and ensuring that **KFH** management is handled prudently and within the framework of enforceable laws and instructions as well as **KFH**'s internal policies and in strict compliance with Islamic Shari'a rules.
- 9.1.3. Ensure that the governance structure helps effectively oversee the bank and the subsidiaries and takes into account the nature, the weight and the overlapping of the risks, to which the group and the subsidiaries are exposed.
- 9.1.4. Ensure that the dealings made with related parties are reviewed, verify the soundness of such transactions and stabilize the principle of independence for the board of directors to perform its role towards the bank and the shareholders.
- 9.1.5. Ensure that there are written policies available in the bank which cover all its banking activities, distribute the same to all managerial levels and regularly review the same to ensure that they include all amendments or changes occurring to the laws, the instructions, the economic circumstances and all other matters that may be related to the bank.

9.2. Supervising Executive Management

The Board of Directors must appoint a Chief Executive Officer (CEO) with integrity, technical competence and banking experience for **KFH**. Approval of the Board must be obtained prior to the appointment of all executive management reporting to the CEO or the Chairman of the Board of Directors. The Board supervises **KFH** executive management in order to ensure that they carry out their assigned roles in line with **KFH** objectives and targets and that BoD approved policies are applied.

9.3. Segregation of Chairman and CEO Positions

The Board should clearly segregate the position of the Chairman from that of the Chief Executive Officer and also ensure that they should not be first degree

relatives, or have any relationship that may affect the independence of decisions taken by each of them.

9.4. Succession Plans

Ensure that HR has succession plans in place for the executive positions in **KFH** and that such plans are effectively applied within **KFH**.

9.5. Board Formation

The Board of Directors (BoD) must include a sufficient number of members including independent members, which allows the bank to effectively discuss all different aspects of its activities and works and establish the required board committees under the requirements of sound governance standards issued by CBK and so as the number of board members shall not be less than eleven members and the number of independent members shall not be less than four members and not more than half board members.

Further, an independent board member must fulfill the following conditions starting from his nomination and throughout the period of his membership:

- 1- His shareholding and that of any of his first-degree relatives, jointly, directly or indirectly, must not be more than 1% of the bank' shares.
- 2- Upon nomination or during the past two years prior to the nomination date, he must not have had effective commercial, administrative or consultancy relationship with any of the key shareholders in the bank or any of the owning groups, whose alliance constitutes a shareholding percentage that renders them in a position of the main shareholder.
- 3- Upon nomination or during the past two years prior to the nomination date, he must not have occupied a board membership role or an executive position in the bank or within its group.
- 4- He must not have a first-degree relationship with any member of the board of directors or the executive management in the bank or its group.
- 5- Upon nomination or during the past two years prior to the nomination date, he must not have worked with the bank, within its group or with any of the key shareholders in the bank or the group.
- 6- He or his first-degree relatives must not have any credit relationship with the bank or the group in amount exceeding the limit specified in consumer and housing financing instructions. Further, they must not have deposits or portfolios managed by the bank or the group and which in totality exceed 100 thousand Kuwaiti Dinars or its equivalent in other currencies.
- 7- He must not own a company, be a main shareholder therein, a member in its board of directors or an executive member therein, which company has a credit or guaranties a credit from the bank or the group with a value exceeding 5% of the paid capita.
- 8- Upon nomination or during the past two years prior to the nomination date, he must not have been a partner in the external audit bureau of the bank, a member in the team auditing the group of the bank or he must not have a

first-degree relationship with the partner responsible for the external audit process.

- 9- He must not receive from the bank any salary or financial amount, except for what he may receive in consideration for his board membership or the dividends that he receive in his capacity as a shareholder other profits payable to his deposits or investments from the usual activities of the bank.
- 10-The membership of independent members shall not exceed two cycles.

9.6. Chairman's Role

- 9.6.1. The Chairman plays an important role to ensure the proper functioning of the Board and to maintain a relationship of trust with the Board members. He/she ensures that Board decisions are taken on a sound and well-informed basis through proper discussion and dialogue. He should enhance discussions and seek to exchange points of view within the Board so that adequate information reaches all the Board members and shareholders on a timely basis.
- 9.6.2. The Chairman plays a major role in maintaining a constructive relationship between the Board and the senior management of **KFH** and ensures that **KFH** has sound corporate governance standards in place.
- 9.6.3. Create a culture, during board meetings, that encourages constructive criticism on issues, regarding which there are different points of view among the members, along with encouraging the discussion and voting process on such issues.
- 9.6.4. Ensure that adequate information reaches all board members and shareholders on a timely basis and also that there are high governance standards are in place with the bank.

9.7. Organization and Functioning of the Board

- 9.7.1. The Board shall meet as often as it deems fit but at least 6 times a year with at least 1 meeting in each quarter. The decisions taken within the minutes of meetings shall be mandatory and become part of **KFH** records.
- 9.7.2. The Chairman shall discuss with the executive management the important topics that will be included in the agenda of the Board meeting. Further, he shall provide the board members with sufficient information enough time before each Board meeting so as to be able to take the required decisions. The Board Secretary shall take record of all Board discussions, suggestions by the Board members and results of voting conducted during the Board meetings.
- 9.7.3. The responsibilities of the Chairman and the board members must be defined in writing so that they may not be in conflict with the relevant legislations and regulations.

- 9.7.4. All banking transactions that require board approval (including, for instance, the authority of the board to grant credits exceeding a certain amount or its authorities regarding the dealings with related parties or any other banking transactions falling within the competences of the board) must be defined in writing.
- 9.7.5. The Board or any board committees may, wherever applicable and after obtaining BoD approval, seek the assistance of experts and consultants from external entities with an aim to benefit from their opinions upon carrying-out the tasks assigned to them.
- 9.7.6. The Board must evaluate the performance of the CEO on an annual basis and also conduct an annual review of governance practices to verify its effectiveness and enter the required improvements in its regard.

9.8. Board Secretary

The Board of Directors must determine the duties of the board secretary in an official and written manner. Further, any decision pertaining to the appointment or the dismissal of the board secretary must be taken by the Board. The role of the board secretary is to help the Board and its Chairman run board affairs including the following:

- 9.8.1. Ensure timely preparation of Board agendas in conjunction with the Chairman and the CEO.
- 9.8.2. Organize and coordinate the attendance of Board meetings.
- 9.8.3. Archive the minutes and the drafts of Board meetings.
- 9.8.4. Implement any instructions issued by the Board.
- 9.8.5. Ensure compliance with all statutory requirements in relation to Board affairs.

9.9. Powers of Board Members

- 9.9.1. Provide board members with any available information immediately and before a sufficient time from the meetings. Grant sufficient time to board members to study and discuss the issues pertaining to the bank to give their opinions thereon.
- 9.9.2. Enable board members to obtain required and reliable information through appropriate channels and they shall be entitled to have access to **KFH** staff through appropriate channels.
- 9.9.3. The board or any board Committee shall be entitled, with the prior approval of the Chairman, seek their own independent legal or other professional advice at **KFH** expense to assist them in the performance of their duties to **KFH** and the shareholders.

9.10. Delegation of Authority

The Board has delegated the task of running day to day operations of **KFH** to **KFH** top management headed by the CEO through a written authorization of financial and administrative authorities. All banking transactions, which cannot be delegated to **KFH** top management or the CEO and which require BoD approval, have been defined.

9.11. Qualifications of Board Members

- 9.11.1. **KFH** board members, including independent members, must have qualified and experienced members in order to serve the interests of **KFH**, its shareholders and stakeholders. The Board Nomination and Remuneration Committee (NRC) assists the Board in the selection / appointment of Board Directors and Committees by setting the basic criteria for such memberships. This is with an aim to create a Board that is capable of challenge and motivation to achieve **KFH**' strategic objectives and do outstanding performance in all aspects.
- 9.11.2. Board members shall always remain qualified, through training. They must further have a clear understanding of their role in corporate governance and be able to give sound and objective opinion on the affairs of **KFH**.

9.12. Ongoing Training and Development

The Board members, through regular trainings and participation in conferences and seminars, must develop their skills and experience in finance and banking business in line with the future visions of the risks facing **KFH** and the surrounding environment.

9.13. Effectiveness

The Board is required to review and assess, once annually at least, the performance of board members and committees and that of all directors appointed by the board.

10. Second Pillar: Group Behavioral Values, Conflict of Interest and Structure

10.1. Behavioral Values and Rules

- 10.1.1. The Board shall define, through the Code of Business Conduct and Ethics, appropriate governance practices for its own duties and that they include the means that ensure that such practices are followed and periodically reviewed for ongoing improvement. The Board must take the lead in establishing and setting professional standards and corporate values that promotes integrity in **KFH** and both of the Board of Directors, the Top Management and the employees in a way that prevents the use of insider information of **KFH** for private interests and establishes proper mechanism for handling customers' complaints.
- 10.1.2. The Code of Business Conduct and Ethics must be circulated to all **KFH** staff and Board members, whose signatures shall be obtained as an acknowledgement of their familiarity with the content thereof. **KFH** shall publish the Code on its website.

10.2. Conflict of Interests

The Board shall have written policies concerning Conflict of Interest, which policies shall cover all conflict of interest related matters and possibilities including, but not limited to:

- 10.2.1. Board member shall avoid practicing activities that are likely to create a conflict of interests.
- 10.2.2. Establish policies and procedures to prevent the conflict of interests for the board members, the top executive management and the employees.
- 10.2.3. Obtain the board approval on any activity carried out by a board member and which may result in a conflict of interest event.
- 10.2.4. Board member shall disclose any matter that may result, or has already resulted, in a conflict of interest;
- 10.2.5. Board member shall abstain from voting on any matter that may imply a conflict of interest or may have an impact on the objectivity of the voting.
- 10.2.6. All transactions with related parties shall be treated equally. The same applies to the board's dealing with issues in case of non-compliance with the policy.

10.3. Related Parties

- 10.3.1. **KFH** shall have in place written policies concerning related parties which shall include the rules and procedures regulating operations with related parties. **KFH** shall keep records of all related party transactions and keep them under appropriate audit.
- 10.3.2. **KFH** related parties must be determined based on the definition provided in International Accounting Standards (IAS). **KFH** shall keep updated records of these parties in order to control any transactions with them. All related party transactions must be disclosed in accordance with IAS and applicable IFRS in this regard and as required by the local regulatory authorities including CBK.

10.4. Banking Confidentiality

- 10.4.1. Banking confidentiality is considered as one of the main pillars of banking business and a cornerstone in dealing with customers including depositors, borrowers, investors or other stakeholders.
- 10.4.2. **KFH** has in place policies and procedures to maintain banking confidentiality as follows:
- 10.4.2.1. Board members and all employees in **KFH** shall observe the confidentiality of information and data of **KFH** and its clients, and the information and data of the clients of other banks, which may have reached them by virtue of their work.
- 10.4.2.2. Non-disclosure of any information or data of **KFH** or its clients unless by the authorized persons, and to the extent permissible by the Laws, the Instructions and **KFH**'s internal policies.
- 10.4.2.3. Maintaining the security of the information of **KFH** and its clients and setting the regulatory controls to prevent access to the same by any unauthorized persons. Further, the Board of Directors in **KFH** shall be deemed responsible for establishing controls to restrict the accessibility to such data and information to the authorized persons and verifying that the controls available in the bank prevent the leakage of any banking information in breach of banking confidentiality.
- 10.4.2.4. **KFH** Board and top management shall recognize their responsibilities for developing security awareness in **KFH** in a way that enhances and maintains banking business.
- 10.4.2.5. Such policies shall affirm that no Information about **KFH** conditions and which may be available with a Board member or any of **KFH** staff shall be used for serving personal interests or the interests of other related parties.

- 10.4.2.6. Such policies shall contain an affirmation that its implementation shall be monitored by the Internal Audit Function in **KFH**.

10.5. Group Structures and Parent Bank Board

- 10.5.1. **KFH** Board has the overall responsibility for the existence of adequate governance standards across the group, ensuring that there are governance policies and mechanisms appropriate to the structure, business and risks of the group and its entities, evaluating such policies on a regular basis to keep pace with the growth, increased complexity and geographic expansion and finding the appropriate ways to ensure that every affiliate complies with all applicable governance requirements.
- 10.5.2. **KFH** BoD shall review the group governance policy, which has been prepared according to CBK instructions concerning governance rules regulations in Kuwaiti banks and also according to what is provided in the fifteenth volume of Capital Markets Regulations (Corporate Governance).

10.6. Board Committees

- 10.6.1. The board shall establish board committees in order to enhance the effective supervision of the board on **KFH** significant operations and the appointment of an adequate number of non-executive board members and independent members in the respective committees with tasks that may lead to conflict of interest events. Further, each committee must have an internal charter, which shall be annually reviewed and which sets out its duties, its scope of work and the achievements expected from its members as well as all matters pertaining to the preparation of reports and its presentation to the Board of Directors. In addition, such committees shall raise periodic reports to the Board in light of the nature of the duties of each committee, **taking into consideration that the existence of such committees shall not release the Board from assuming the direct responsibility for all matters pertaining to the bank.** Board Committees shall include the following:
- 10.6.1.1. Nomination and Remuneration Committee
 - 10.6.1.2. Risk Committee
 - 10.6.1.3. Audit and Compliance Committee
 - 10.6.1.4. Executive Committee
 - 10.6.1.5. Governance Committee
 - 10.6.1.6. Investment Committee
 - 10.6.1.7. Merger Committee
- 10.6.2. The chairman may not be a member in Audit and Compliance (ACC), Risk (RC) or Nomination and Remuneration (NRC) committees.

10.7. Nomination and Remuneration Committee:

- 10.7.1. The NRC assists the Board in nominating members of each Committee based on membership criteria in each committee and to ensures that there is a sufficient number of non-executive directors in each committee to ensure the independency of their decisions.
- 10.7.2. It shall include three non-executive members at least, provided that the committee shall be headed by one of the independent members. The main functions of NRC shall include, but not limited to, the following:
- 10.7.2.1. Give recommendations to the Board regarding the nomination for Board membership in accordance with approved policies and standards as well as CBK instructions regarding nomination rules for board membership. This shall include verifying the requirements essential for ensuring the independence of the independent member.
 - 10.7.2.2. Conducting an annual review of the required appropriate skills for Board membership, preparing a description of the capabilities and qualifications required for membership, conducting an annual review of the Board structure and raising recommendations about the changes that can be conducted in line with **KFH** interest.
 - 10.7.2.3. Conduct an annual assessment of the Board overall performance and that of each Board member separately. Such assessment covers the expertise and knowledge of Board members, assessment of their powers and authorities and their leadership qualifications.
 - 10.7.2.4. Provide information and summaries about certain critical issues to **KFH** and submit reports and information to Board members, in addition to ensuring that Board members are continuously updated with the latest banking business related affairs. For this purpose, the Board should attend the specialized scientific seminars and conferences in the field of banking and financial business.
 - 10.7.2.5. Control remuneration rules and policy as provided in detail in the fifth pillar hereof.
 - 10.7.2.6. Recommend to the Board of Directors on nomination, re-nomination or cancellation of Shari'a Supervisory Board membership, ensure the transparency of appointment and reappointment of Shari'a Supervisory Board and evaluate the effectiveness of FASSB.

10.8. Risk Committee

- 10.8.1. Risk Committee shall help the Board of Committee perform its responsibilities in generally supervising current or future risk

conditions, risk strategies, particularly the bank's appetite to credit, banking, real-estate and investment activities, policies and procedures including capital plan and allocation and investment portfolios.

- 10.8.2. Risk Committee shall include three non-executive members at least, provided that the committee shall be headed by one of the independent members. Further, the Board of Directors may use external consultancy entities experienced in risk management to support the efforts of Risk Committee in the bank and enhance the efficiency of the role assigned to this committee. The primary functions of Risk Committee shall include, but not limited to, the following:
 - 10.8.2.1. Provide advice to the board on **KFH** strategy and current and future risk appetite and supervise the executive management's implementation of such strategy.
 - 10.8.2.2. Ensure proper preparation of risk management framework across **KFH** including risk strategies, risk appetite, policies, procedures, tools and methodologies.
- 10.8.3. Risk committee shall review risk department policies and strategies in **KFH** to have the same approved by the board. Executive management shall be responsible for the implementation of these strategies in addition to the development of policies and procedures to manage various types of risks.
- 10.8.4. **KFH** executive committee shall propose risk department structure, mission, responsibilities and methods of development provided that the department structure and duties shall be reviewed by the risk committee as a preliminary step for having it approved by the board.

10.9. Audit and Compliance Committee

- 10.9.1. Compliance and Audit Committee shall help the Board of Directors fulfill its supervisory responsibilities on accounting operations in the bank, current control systems, dealings of essential persons, corruption practices in the market, internal audit rules, compliance procedures, the duties of financial reporting management with internal and external auditors of the bank and regulatory authorities with an aim to ensure compliance with regulatory requirements and in line with the best practices in the market.
- 10.9.2. A committee shall be formed from board members and called “Audit Committee”, which comprises three non-executive members at least, provided that the committee shall be headed by one of the independent members. Further, two members at least of Audit and Compliance Committee must have scientific qualifications or work experience in financial fields. The committee shall meet once every three months at least, whenever required or based on a request from the head of the committee or other members. The main functions of ACC shall include, but not limited to, the following:
- 10.9.2.1. Review scope, results and extent of adequacy of **KFH** internal and external audit.
 - 10.9.2.2. Review accounting issues having material impact on financial statements.
 - 10.9.2.3. Review **KFH** internal controls and ensure sufficiency of human resources allocated for control positions.
 - 10.9.2.4. Review **KFH** financial statements before presenting the same to the board and ensure adequacy of allocated provisions.
 - 10.9.2.5. Ensure **KFH** compliance with the related laws, policies, rules and regulations.
 - 10.9.2.6. Assess the effectiveness and sufficiency of Internal Shari’a Audit function and the extent of its contribution to ensuring the compliance with Islamic Shari’a rules and principles (specifically the Fatwas and decisions issued by Shari’a Supervisory Board).
- 10.9.3. Audit and Compliance Committee shall conduct an annual performance appraisal of the Chief Internal Auditor, the Head of Regulatory Compliance and Information, the Head of AML and CFT and the head of Internal Shari’a Audit and fix their remunerations. Further, it shall meet with the external auditor and the internal auditor once a year at least and without the presence of the executive management.

- 10.9.4. Audit and Compliance Committee responsibility shall not waive that of the Board and the Executive Management in regard to monitoring the adequacy of internal control systems in **KFH**.
- 10.9.5. Audit and Compliance Committee shall give recommendations to the Board on appointing, terminating and fixing the remunerations of the external auditor as well as any other relevant contractual conditions in addition to the assessment of external auditor's objectivity.
- 10.9.6. Audit and Compliance Committee shall meet with the external auditor, the internal auditor and the compliance executives once a year at least and without the presence of the executive management.

10.10. Executive Committee

- 10.10.1. Executive Committee shall assist the board in fulfilling its obligations concerning banking and investment activities of the bank according to the authorities given by the board to the committee. The Board may entrust the committee with other duties, which may help the board perform its duties and responsibilities. The board shall appoint the committee members, who shall not be less than 5 members. The head of the committee shall be one of the committee members assigned by the board. Committee membership duration shall be 3 years or the remaining period of board membership.
- 10.10.2. The main functions of the executive committee shall include, but not limited to, the following:
 - 10.10.2.1. Supervise the execution mechanism of the bank's business plan and strategy, oversee performance efficiency, review performance reports and raise recommendations to the board in this respect.
 - 10.10.2.2. Review and approve finance transactions and investment offers presented by the executive management as per the authorizations list determined by the board.
 - 10.10.2.3. Approve or reject any proposals related to finance, liquidity and / or market risks within the limits of the approved financial authorities in regard to the maximum credit concentration limit per customer.
 - 10.10.2.4. Review management strategy concerning proposed provisions and management plan to recover bad debts, if any.
 - 10.10.2.5. Periodical review of the diversity and durability of finance portfolio.
 - 10.10.2.6. Coordinate with risk committee to prepare periodical reports to update risk limits and its potential aggravation.

10.11. Governance Committee

- 10.11.1. Governance committee shall assist the board in performing its responsibilities in supervising sound governance and working on developing the set of governance instructions and policies and monitor the compliance with its application and the compliance with the governance manual by the Board of Directors, board committees and the executive management..
- 10.11.2. Board Governance Committee shall comprise three board members including one independent member at least. This committee may be headed by the chairman of the Board of Directors whereas their membership shall be in synchronization with that of the Board of Directors. The main functions of the governance committee shall include, but not limited to, the following:
 - 10.11.2.1. Develop a framework and prepare a comprehensive updated governance manual to have it approved by the Board of Directors, publish it on the website of the bank and submit suggestions for updating and changing the same.
 - 10.11.2.2. Review adequacy of bank's policies and practices concerning governance standards.
 - 10.11.2.3. Review and evaluate adequacy of code of business conduct and ethics and other approved policies and guidelines inside the bank.
 - 10.11.2.4. Review the main issues related to shareholders relations and bank's contributions to charity works.
 - 10.11.2.5. Review the governance section in the Annual report and in regard to the extent of bank's compliance with the governance manual. An annual evaluation of the committee and its duties including annual review of the committee's responsibilities and authorities.

10.12. Investment Committee

- 10.12.1. Board Investment Committee shall assist the board in setting up general principles of investment, supervising investment activities of the bank and its subsidiaries according to the authorities bestowed by the board to this committee and ensuring the extent of compliance with investment objectives of the bank.
- 10.12.2. The main functions of Investment Committee shall include, but not limited to, the following:
 - 10.12.2.1. The committee shall assist the board in conducting its supervisory responsibilities over the investment assets of the bank including investment funds and portfolios. The

committee shall raise its recommendations to the board and follow-up investments in line with approved policies.

- 10.12.2.2. Review the reports associated with the current investments of the bank, the conditions of international and local capital markets as well as all data that enables the committee to practice its responsibilities in a professional and effective manner.
- 10.12.2.3. Advise the board on any material changes to the investments of the bank.
- 10.12.2.4. Follow-up the implementation of the strategic policies and goals set by the board in regard to all investment activities.
- 10.12.2.5. View all proposed new investments and verify their compliance with the board instructions and present recommendations to the board accordingly.
- 10.12.2.6. Raise recommendations to the board on any topic it deems suitable.
- 10.12.2.7. Obtain any required information concerning the investment portfolio status through the CEO.
- 10.12.2.8. The committee shall review executive management's recommendations on the consolidation of current investments and raise the same to the board.
- 10.12.2.9. The committee shall conduct any other responsibilities and duties assigned thereto by the board.
- 10.12.2.10. The committee shall raise its recommendations to the board in case need arises to increase/ decrease the capital of the companies, in which the bank is a shareholder.

10.13. Merger Committee

- 10.13.1. Merger Committee shall help the Board of Directors supervise merger activities of the bank according to the authorities given by the Board to this committee and verify the extent of compliance with the merger objectives of the bank.
- 10.13.2. The main functions of the Merger Committee shall include, but not limited to, the following:
 - 10.13.2.1. Follow-up the latest updates on the Memorandum of Understanding and Information Confidentiality signed between Kuwait Finance House and Ahli United Bank – Bahrain in the context of the planned merger process between both banks.

- 10.13.2.2. Recommend to the board on the evaluation and exchange rate report.
- 10.13.2.3. Recommend to the bank on the need for appointing additional consultants for completing merger phases.
- 10.13.2.4. Follow-up the topics pertaining to the merger with the regulatory authorities such as CBK, CMA and any other regulatory authorities.
- 10.13.2.5. Recommend to the Board on any other matters related to the merger and which are required to be raised to the Board of Directors.

11. Third Pillar: Top Executive Management

- 11.1. Top management consists of a group of experienced and qualified individuals including the CEO, other employees directly reporting to him, general managers and executive managers, who are responsible for overseeing the management of KFH.
- 11.2. Under the supervision of the Board, the top executive management shall ensure that **KFH's** activities are consistent with the business strategy, risk appetite and policies approved by the Board, whereas the Board depends on the top management's competency in implementing the Board's resolutions without any direct intervention by the Board.
- 11.3. Top executive management shall contribute substantially to the sound corporate governance of **KFH** through the personal conduct and by providing adequate oversight of the activities managed by them. Further, the top management shall be responsible for delegating duties to the staff and establishing a management structure that promotes accountability and transparency.
- 11.4. Top executive management is responsible for supervision and control over **KFH** business, particularly in connection with ensuring compliance, risk control and the establishment of appropriate systems for managing financial and non-financial risks in conformity with the direction of the Board of Direction, the independence of functions and the segregation of duties. Further, the top management shall provide the Board with financial and administrative reports transparently, objectively and periodically, each two months at least. In the event that any board member is involved in the implementation of decisions issued by the Board of Directors, such involvement must be made based on an authorization issued by the Board of Directors and subject to obtaining the prior approval of CBK in this regard along with updating the Board on what has been completed in this respect.
- 11.5. Top management shall be responsible for overseeing the implementation of Shari'a decisions issued by FASSB and instilling the culture of compliance with Islamic Shari'a rules inside the bank and which indicate the compliance of the bank with the Islamic Shari'a principles in all its operations and dealings.
- 11.6. Top management shall practice the business according to the code of business conduct.
- 11.7. Executive management shall assume the responsibility for preparing financial statements according to international standards and other approved standards including the instructions issued by CBK in this regard.

11.8. Chief Executive Officer

- 11.8.1. Chief Executive Officer (CEO) is responsible to the Board for assuming the management and evaluation of **KFH**'s overall performance. The CEO shall manage the Bank in accordance with the strategies, plans and policies approved by the Board.
- 11.8.2. The responsibilities of the CEO shall include the following:
 - 11.8.2.1. Apply **KFH** strategic and business plans subject to board approval.
 - 11.8.2.2. Refer transactions exceeding his line of authority to the Board
 - 11.8.2.3. Ensure that all actions adhere to **KFH**'s policies as well as the laws and the regulating instructions.
 - 11.8.2.4. All key duties delegated to him by the Board
- 11.8.3. The performance of the CEO shall be reviewed by the Board on an annual basis. Nominations and Remuneration Committee shall consider the remuneration of the CEO and give recommendation to the Board after the annual review of performance.

12. Fourth Pillar: Risk Management and Internal Controls

12.1. Internal Control Systems

- 12.1.1. **KFH** has efficiently and effectively established internal control systems and risk management processes. The Board shall approve **KFH's** organization structure in line with **KFH's** strategy and activities, the approved job descriptions of the roles, responsibilities, and the official policies and procedures for all banking functions and operations.
- 12.1.2. Internal Audit shall monitor the implementation of all the foregoing. Such policies and procedures determine the duties and responsibilities of each function, the authorities and reporting lines on different management levels in a way that realizes dual control and segregation of duties in order to avoid any conflict of duties.
- 12.1.3. **KFH** conducts an annual Internal Controls Review (**ICR**) through certified independent auditors other than **KFH's** external auditors to ensure the effectiveness of internal control systems.
- 12.1.4. Procedures have been established in the Whistleblowing Policy to enable the employees to speak up regarding the possibility of the occurrence of violations. Such procedures must ensure that **KFH** shall provide the required protection for those employees in a manner that give them sufficient assurance that they will not be exposed to any threat or penalties even such concerns are proven to be incorrect.

12.2. Risk Management

- 12.2.1. The Board and the Board Risk Committee (**BRC**) have established comprehensive policies on risk control and management. Such policies describe the roles and responsibilities of the Board, the **BRC**, the Chief Risk Officer (**CRO**) and Internal Audit Function.
- 12.2.2. The **CRO** shall be deemed to be responsible for **KFH's** risk management duties and has direct access to the Board Chairman and the Chairman of the **BRC**. The **CRO** must have the ability to influence **KFH's** decisions pertaining to exposure to risks. The responsibility of the **CRO** shall prevent the Board from assuming the final responsibility.
- 12.2.3. **CRO** shall be deemed to be independent and shall not assume any financial responsibilities. **The CRO may not be dismissed or moved away for any reason whatsoever without obtaining the prior consent of the board; the bank shall discuss the reasons with CBK before his dismissal.**
- 12.2.4. Risk Management function is responsible for identifying, measuring, monitoring, controlling, mitigating risks and reporting on **KFH's** risk exposures. In this connection, a due consideration must be given to the overlapping among the different types of risks; e.g. the overlapping between market risks and credit risks and between credit risks and operation risks. Risk Management function is independent from other

business units. However, it has access to all internal and external business activities to understand its nature and request certain data for properly evaluating its exposure risks.

- 12.2.5. **KFH** has robust and comprehensive risk management systems and procedures that are able to identify the nature of all influential risks, to which the bank is exposed, along with spreading risk governance culture inside the bank.
- 12.2.6. The authorities of risk management include the ability to access all banking business lines that imply the possibility of generating high risks to the bank. This is in addition to the authority of raising reports directly to both of the chairman of BRC and the executive management and so as such reports include information about Risk Profile for all activities of the bank comparative to Risk Appetite and handling any negative deviation.
- 12.2.7. Risk management function shall determine capital needs on an ongoing basis, monitor and evaluate the decisions pertaining to the acceptance of certain types of risks. Risk Governance Framework shall include well-defined organizational responsibilities for risk management and which are referred to as the “**Three Defense Lines**”, which are:

First Defense Line: It is represented in the business line, which functions and activities imply the possibility of creating risks to the bank; accordingly, these groups are responsible in evaluating and managing such risks.

Second Defense Line: It includes risk management and compliance functions (Risk Management Team and Compliance Functions) so as risk management shall be independent, enhance and complete the function of the first defense line through monitoring and raising reports to the management, supervising the aspects of bank’s risks and evaluating the same independently from the first defense line. The second defense line includes also compliance function that includes monitoring the compliance with laws, regulatory instructions and governance rules. Such functions are independent from the first defense line.

Third Defense Line: It is represented in the Internal Audit Function, which is independent from the first defense line and the second defense line.

12.3. Internal Audit

- 12.3.1. Internal audit function conducts its activities independently under the supervision of the Chief Internal Auditor in **KFH**. Internal audit function provides the board, top management and stakeholders with a reasonable assurance that the organization and the main procedural controls are effective, appropriate, and complied with and so as the internal audit shall be entitled to access any information or any

employee in **KFH** and also shall have the full responsibility to perform the tasks assigned to it. However, an internal audit employee may not perform any executive responsibilities.

- 12.3.2. Board's approval must be obtained upon the appointment of the Chief Internal Auditor whereas the internal auditors shall be appointed after obtaining the approval of the Chief Internal Auditor, who shall report to Board Audit and Compliance Committee.
- 12.3.3. The scope and particulars of a system of effective organizational and procedural controls shall be based on the following factors:
 - 12.3.3.1. Nature and complexity of business and its culture
 - 12.3.3.2. Volume and complexity of transactions
 - 12.3.3.3. Degree of risk
 - 12.3.3.4. Degree of centralization and delegation of authority
 - 12.3.3.5. Extent and effectiveness of information technology; and the extent of regulatory compliance.
- 12.3.4. The key responsibilities of the Internal Audit function include the following:
 - 12.3.4.1. Verify the sufficiency and effectiveness of internal control systems and ensure that the internal control systems pertinent to financial and administrative issues are inclusive and are being reviewed on timely manner.
 - 12.3.4.2. Verify that **KFH** internal policies are in full conformity with the relevant laws, policies, regulations and instructions.
 - 12.3.4.3. Examine particular business activities relating to **KFH's** financial position, internal control systems, risk management and others.
 - 12.3.4.4. Internal Audit employees may not assume any executive responsibility. They shall be responsible for proposing internal audit structure and scope.
- 12.3.5. **KFH** shall not outsource any of the main tasks of internal audit. In event that **KFH** needs to assign some of such activities to external entities, CBK's approval must be obtained and provided that this arrangement shall be for specific purposes and for a limited period of time.

12.4. External Audit

- 12.4.1. An external auditor shall enable an environment of good corporate governance to be reflected in **KFH**'s financial records and reports. An external auditor shall be selected and appointed by the shareholders upon recommendation of the Audit and Compliance Committee and the Board.
- 12.4.2. The Audit and Compliance Committee shall set appropriate standards to ensure that the external audit process is carried out in a manner that achieves Dual Audit principle.
- 12.4.3. External auditor shall provide the Audit and Compliance Committee with a copy of audit reports and will meet with the Audit and Compliance Committee to discuss these reports and any other significant observations thereon. Such meetings shall be in the presence of the executive management. Further, Audit and Compliance Committee shall meet with the external auditor in the absence of the executive management at least once a year.
- 12.4.4. **KFH** Board of Directors shall establish appropriate policies concerning conducting a rotation for external audit bureaus with an aim to ensure that there will be no slackness in the supervision process, which slackness may result from the continuity of an external audit bureau for long years in covering the same audit fields and **provided that such policies are in line with the decisions issued by CMA in the state of Kuwait.**
- 12.4.5. The external audit bureau shall abide by the instructions imposed upon it by the regulatory authorities (Central Bank of Kuwait – Capital Market Authority – Ministry of Commerce and Industry). In addition, the external auditor may not provide internal audit services to **KFH**. Further, **KFH** shall ensure that other works shall be out of audit scope and it must be rotated every four (4) years at least.

12.5. Information Security and Cyber Security Risks

Information and Cyber Security Risks

- The Board of Directors shall approve information security system and cyber security related strategies, policies and rules.
- The Board of Directors shall have a sufficient amount of knowledge and expertise pertaining to information security and cyber security risks.
- The Board of Directors shall emphasize the importance of the fact that the executive management must prepare follow-up reports on information security risks and cyber incidents and that the executive management is aware of the latest updates on facing such risks.

- The Board of Directors shall discuss the risks appetite of information security and cyber security in the bank on a regular basis through board meetings and the ongoing review of its responsibilities and trends.
- The bank shall establish an information security function approved by the Board of Directors and which shall be independent from IT operations. Such function shall be headed by information security specialist having the required skills, knowledge and competence and who shall be responsible for establishing the policies and the standards pertaining to the execution, operation and monitoring of cyber security controls in line with the strategy of the bank and the risk appetite. Further, he shall ensure obtaining the required approvals on any exception from such policies subject to the applicable regulatory instructions and the risk appetite in the bank. In addition, he shall raise the reports to the Board of Directors on the ability of the bank to manage information security and cyber security risks and follow-up the implementation of its respective objectives through Risk Management Committee.
- InfoSec employees shall provide the necessary awareness about cyber security risks and effective trainings for all employees and third party vendors, whenever required.
- The bank shall involve a specialized and independent external entity to assess and test the ability of the bank to face and manage information security and cyber security risks in light of the last updated international practices, on an annual basis and whenever required.
- Information Security and Cyber Security Risk Systems must be added to the Internal Annual Evaluation of Internal Control Review (ICR).

12.6. Compliance Governance

Compliance Function is considered to be one of the essential elements in the context of banks' risk management due to the special nature of non-compliance risks that include legal or regulatory penalty risks, financial risks, reputation risks and others, to which **KFH** may be exposed in the event of not complying with laws, regulations, instructions, code of business conduct and good banking practices. Accordingly:

- 1) The Board of Directors shall approve the roles and responsibilities of the function responsible for compliance.
- 2) The Board shall approve a policy to ensure that the bank complies with all legislations pertaining to the activities of the bank along with reviewing such policy periodically and verifying the application thereof.
- 3) Compliance Function shall have independence and sufficient authorities so as to ensure the effectiveness of compliance function inside the bank. Further, the management of the bank shall not intervene with the activities of compliance function along with giving it the authorities to access the Board of Directors.
- 4) Compliance Function shall advise the Board of Directors and the Top Executive Management on the compliance of the bank with the regulatory rules, instructions and legislations and update them at all times on the latest developments in this field.
- 5) Compliance Function shall, once a year at least, identify and assess non-compliance risks that face the bank and the plans of the bank regarding how efficiently such risks are managed.
- 6) Compliance Function shall raise its reports on how efficiently such risks are managed by the bank to the Board of Directors or the Board Compliance Committee, if found.
- 7) Despite the importance of the role assigned to the compliance function in insuring the bank's fulfillment of the requirements of all regulatory rules, instructions and legislations related to the activities of the bank, it will also remain the responsibility of the Board of Directors and the Top Executive Management in the bank.

13. Fifth Pillar: Remuneration Policies and Schemes

- 13.1. The Board shall oversee the design, control, activation and review of the remuneration system of **KFH** to ensure that it works as required. Nominations and Remuneration Committee shall establish guidelines to the Board in respect of all remuneration related matters.
- 13.2. Payroll Management Policy is a part of HR Policies in **KFH** and serves as the remuneration policy and includes all requirements as mentioned in CBK Corporate Governance Instructions. The policy includes all aspects and components of financial remuneration taking into consideration the enhanced risk management in **KFH**; whereas the policy has been designed to attract qualified and experienced professionals.
- 13.3. **KFH's** remuneration system has main compensatory components as follows:
 - 13.3.1. Fixed Remuneration
 - 13.3.2. Variable Remuneration:
 - 13.3.2.1. Short Term Incentives
 - 13.3.2.2. Long Term Incentives.
- 13.4. **Top Management Remuneration Guidelines**
 - 13.4.1. All elements must be set at an appropriate level taking into consideration market practices, wage indicators and similar skills.
 - 13.4.2. Remuneration must be used to encourage and motivate the effective performance on an ongoing basis.
 - 13.4.3. Remuneration should be linked to key business goals as defined by the Board and should also be linked to **KFH's** performance and risk duration.
 - 13.4.4. Any remuneration should be granted to achieve the interests of shareholders with the top management.
- 13.5. **KFH** has a mechanism for performance management and for objectively evaluating and measuring the performance of all employees at all levels. The variable remuneration is linked to the performance. Further, **KFH's** philosophy of top management's remuneration is based on rewarding the ongoing effective performance. In addition, **KFH** discloses, in the annual report, the most important aspects of remuneration policies and systems.

14. Sixth Pillar: Disclosure and Transparency

14.1. Disclosure Policy

- 14.1.1. **KFH** realizes that the disclosure system is an effective tool for influencing its behavior, protecting investors and enhancing their confidence in the bank. **KFH** shall provide its shareholders and the investors with accurate, comprehensive, detailed, sufficient, and timely information with an aim to enable the shareholders and the investors to evaluate **KFH**'s performance and take their decisions properly and effectively.
- 14.1.2. **KFH** shall be committed to:
 - 14.1.2.1. Ensure that stakeholders have the opportunity to access externally available information issued by **KFH**.
 - 14.1.2.2. Provide information by the timely disclosure to the market about **KFH**'s activities.
 - 14.1.2.3. CBK and CMA related instructions and regulations.
- 14.1.3. Information and data included in **KFH**'s annual or quarterly reports as well as the lectures given by the top management shall be posted on **KFH**'s website, in both Arabic and English.
- 14.1.4. Further, **KFH** shall abide by disclosing, at the appropriate and accurate time and according to CMA's instructions, all issued materials and as per the approved policies, including, but not limited to:
 - 14.1.4.1. Financial and operational ownership shares
 - 14.1.4.2. **KFH**'s Objectives
 - 14.1.4.3. Controlling ownership shares
 - 14.1.4.4. Details of Directors, top executives and their remuneration
 - 14.1.4.5. Expected Risks
 - 14.1.4.6. Essential matters regarding employees and stakeholders.
- 14.1.5. The Board has approved the Disclosure Policy including the policies and procedures to be followed by **KFH** for announcing sensitive information to market, shareholders and stakeholders and to ensure that there are proper controls in place for timely and accurate disclosure of essential information related to **KFH** in line with local regulations, IFRS, Basel requirements as well as CBK instructions on corporate governance and what is stipulated in the tenth volume (disclosure and transparency) of CMA Regulations.
- 14.1.6. **KFH** shall maintain a disclosure record for board members and executive management, which record shall include the data required by the regulatory authorities. Such record shall be regularly updated.

- 14.1.7. The Board shall be deemed ultimately responsible for ensuring integrity, accuracy and impartiality of the disclosed information and having necessary controls and mechanisms in place for the proper implementation of the disclosure policies and procedures. The Board monitors compliance with the Disclosure Policy and takes corrective action where necessary.
- 14.1.8. As part of transparency and disclosure duties, **KFH** shall disclose, in its annual report, the qualifications and experiences of the CEO of the bank, his delegates and assistants in addition to information about each board member in terms of the date of his appointment in the board, his qualifications, experiences and his membership in board committees as well as a statement of the names of independent members in such committees and the extent of each member's compliance with attending board meetings during the year including a statement of the number of attendances of such meetings in addition to the membership in the board of directors of other companies.
- 14.1.9. From another side, **KFH** shall not disclose any information, which is confidential and private by its nature as well as the information pertaining to customers, products or systems and which can have a material impact on **KFH's** investment in those products or systems, the matter that will result in impairing **KFH's** competitive position. Moreover, **KFH** will not disclose any information or data that may have an adverse impact on the financial position of certain categories; e.g. financial analysts, financial institutions or others prior to the disclosure of the same to the public.

15. Seventh Pillar: Banks with Complex Structures

15.1. Acquaintance with the Structure

- 15.1.1. **KFH** Board and senior management shall be fully aware of the structure of **KFH**'s operations and related risks. Further, they shall be fully aware of the structure of **KFH** group and the organization thereof in terms of the objectives of each unit or entity and the official and unofficial relationships between the units and the parent company.
- 15.1.2. Proper and effective measures and systems are in place for obtaining and exchanging information among group's entities with an aim to manage the risks of the group as a whole and control the same effectively. **KFH**'s Board of Directors and the top management shall evaluate all products and the risks thereof by each entity in the group and on the basis of the group's entities as a whole.

15.2. Establishment of New Structures

- 15.2.1. **KFH** has approved certain policies to establish new structures, thus confirming the following:
 - 15.2.1.1. Avoid building unnecessary complex structures.
 - 15.2.1.2. Availability of central procedures to approve and monitor the incorporation of new legal entities under specific criteria including ability to supervise and fulfil the requirements necessary for the continuity of each unit.
 - 15.2.1.3. Ability to obtain information about **KFH**'s structure, including type, charter, ownership structure, and activity of each legal entity.
 - 15.2.1.4. Observe risks accompanying the complex structure, including the lack of transparency of operational risks arising the overlapping and the complexity of financing structures.

16. Eighth Pillar: Protection of Shareholders' Rights

- 16.1. The Board shall ensure to protect shareholders rights, minority's rights and stakeholders' rights in **KFH** as per the provisions of Law No. 32 of 1968 concerning Currency, Central Bank of Kuwait and Organization of Banking Business and its amendments, CBK instructions on governance rules and regulations in Kuwaiti banks and **KFH's** Articles of Association and internal policies that include rules and foundations for protecting the rights of shareholders and stakeholders and other relevant laws.
- 16.2. **KFH** shall abide by preparing a list of financial and non-financial penalties imposed on it during the fiscal year and read out the same during the annual meeting of the assembly meeting.

16.3. Shareholders' Rights

- 16.3.1. Review and participate in the decisions related to the amendment of **KFH's** Article of Association, as well as the decisions related to extraordinary transactions which might affect **KFH's** future or business; e.g. mergers, the sale of a substantial portion of its assets or assigning subsidiaries
- 16.3.2. Participate in general assembly meetings, show observations and give recommendations, if found, regarding any required improvements.
- 16.3.3. Participate in the decision-making process concerning any significant changes being made in **KFH**.
- 16.3.4. Express an opinion on the appointment of any board member.
- 16.3.5. Obtain accurate, comprehensive, detailed, sufficient, and timely essential information in order to evaluate investments and make informed decisions in its regard.
- 16.3.6. Receive dividends, participate in the General Assembly meetings and vote on the decisions thereof.
- 16.3.7. Minorities or foreign shareholders shall have the right to be treated equally and given a sufficient opportunity to rectify any violations or errors related to their rights. This is addition to other rights ensured by the relevant laws and regulations for a shareholder.

17. Ninth Pillar: Protection of Stakeholders' Rights

17.1. Stakeholders (other than shareholders) are considered as related entities contributing to the success of the organization. The Board realizes that **KFH**'s ultimate success is an outcome of the joint efforts of a several parties including depositors, borrowers, staff members, investors and other parties having business relationships with **KFH**.

17.2. The various procedures, policies and practices followed in **KFH** stress the importance of respecting stakeholders' rights according to relevant laws, bylaws and regulations.

17.3. Pursuant to the governance system in KFH, the Board shall support the following:

17.3.1. Respect of all stakeholders' legal rights.

17.3.2. Availability of performance enhancing mechanisms for stakeholders to take part in the governance process so that it can be a consultative process with an aim to ensure following an effective and responsible approach by **KFH** management.

17.4. Stakeholders' Rights

17.4.1. Right to be treated in a way that ensures justice and equality for them.

17.4.2. Right to receive direct and clear disclosures on related information.

17.5. Compliance Assessment

17.5.1. Board Governance Committee shall be deemed responsible for maintaining this manual and monitoring compliance by all relevant parties inside **KFH**. The manual shall be subject to an annual review and be posted on **KFH**'s website.

17.5.2. Corporate Governance Unit in **KFH** has established a system to determine and measure the compliance with this Manual. Violations shall be reported to the Board Governance Committee, which in its turn shall raise the same to the Board of Directors.