Enhanced Governance System In Kuwait Finance House

(Kuwait)

Table of Contents

1. Definitions 2

2. Introduction 4

3. First Pillar: Shariah System 6

4. Second Pillar: Board of Directors 8

5. Third Pillar: Code of Business Conduct, Conflict of Interests and Group Structure 17

6. Fourth Pillar: Senior Executive Management................................ 19

7. Fifth Pillar: Internal Shariah Controls and Risk Management 20

8. Sixth Pillar: Remuneration Policies and Systems 23

9. Fourth Pillar: Disclosure and Transparency................................. 24

10. Eighth Pillar: Group KFH Organizational Structure...................... 25

11. Ninth Pillar: Protecting Stockholders' Rights.............................. 25

12. Tenth Pillar: Protecting Stakeholders' Rights 26

Definitions:

KFH:	Kuwait Finance House.
Board of Directors:	Board of Directors of Kuwait Finance House.
Shariah Board:	Fatwa and Shariah Supervisory Board in Kuwait Finance House.
Central Bank:	Central Bank of Kuwait.
Capital Markets Authority (CMA):	Capital Markets Authority in the state of Kuwait.
Board of Directors Term:	The membership duration specified as three years in accordance with Law No. 1 of 2016 issuing the Companies Law.
KFH Group:	Kuwait Finance House Group, which includes Kuwait Finance House and its subsidiaries.
Parent Company:	The company (entity) that has one or more subsidiaries.
Subsidiary:	The company that is controlled by the parent company. It is the company in which the parent company owns more than 50% of its capital or has effective control over it.
Major Shareholder:	The natural or legal person that directly or indirectly owns 5% or more of the company's capital.
Financial Remunerations:	Financial remunerations refer to salaries, wages, allowances, and similar compensation, as well as periodic or annual bonuses linked to performance and short- or long-term incentive plans, and any other tangible benefits including stock option plans.
Institutional Organization:	Organization of the relationship between the Board of Directors, senior executive management, shareholders, and stakeholders.
Institutional Discipline:	Compliance with laws and instructions issued by regulatory authorities, as well as adherence to the policies and internal procedures approved by the Board of Directors with an aim to apply governance and protect the rights of shareholders and stakeholders.
Shareholders	Any natural or legal person, who legally owns a share in the company.
Stakeholders:	Persons, who have an interest in the company, e.g., employees, creditors, suppliers, customers, agents, depositors, and service providers.

Board Member:	The natural person or the corporate person's representative, who holds a board membership of the company.
Non-Executive Board Member:	A member who is not dedicated to managing the company on a full-time basis and does not receive a salary from the company where the remuneration he receives as a board member is not considered a salary.
Independent Board Member:	A member who is not under the influence of any factor that might limit his ability to consider and discuss the company's matters and make decisions objectively and impartially in the bank's interest, while adhering to the conditions specified in the instructions stipulated in governance rules and regulations in Kuwaiti banks as issued by the Central Bank of Kuwait.
Conflict of Interests:	Decisions that may negatively affect the interests of the bank due to the personal interest of an individual or one of the parties connected to them.
Group Structure:	The ownership structure of the subsidiaries in which the company participates.
Related Parties:	Defined as stated in the International Accounting Standard (IAS) No. 24 and the subsequent amendments made thereto.
Board Secretary:	The person appointed by the Board of Directors from among the company's employees to record, document, and keep all minutes of meetings and any other tasks assigned to him by the Board in this regard.
Senior Executive Management:	A group of individuals holding the highest positions in each sector, including the Chief Executive Officer and his deputies and assistants who report directly to him and are appointed by the Board of Directors.
Fatwa and Shariah Supervisory Board:	An independent body of scholars specialized in Islamic banking transactions' jurisprudence that supervises the bank's transactions, activities, and products, ensuring compliance with the provisions and objectives of Islamic Shariah.
Disclosure and Transparency:	Commitment to sharing information with shareholders and stakeholders on a timely manner as required by laws and instructions from regulatory authorities.

Complex Structures:	A significant number of legal entities that result in a legal overlap between these entities and its interlocked operations, leading to difficulty in identifying the risks of each entity and the group as a whole, as well as challenges in supervision and oversight.

Introduction

Board of Directors and Senior Executive Management at KFH adhere to governance rules following the latest and best global standards, in addition to the instructions of both the Central Bank and the Capital Markets Authority, to enhance integrity and uphold the highest level of ethical conduct in all activities of the bank.

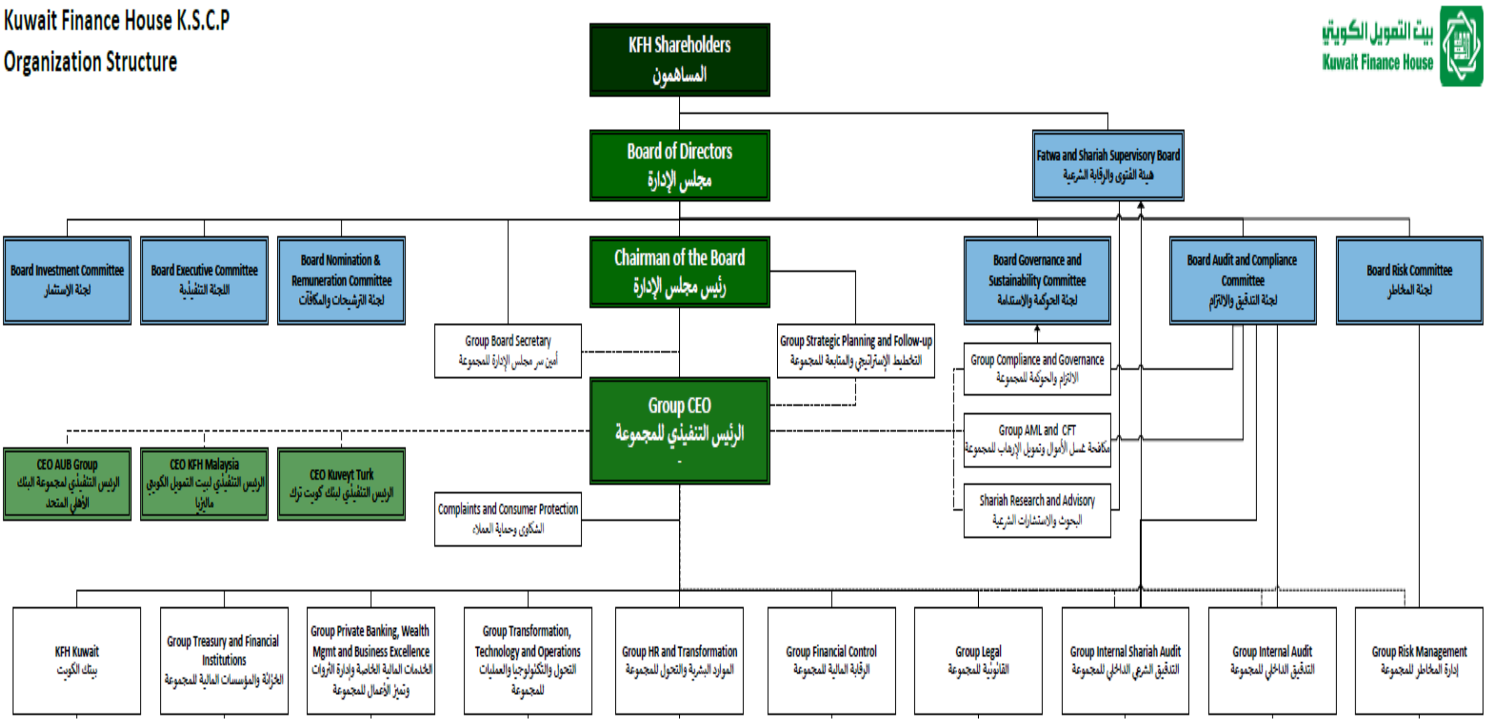
Governance is defined as a set of systems, organizational structures, processes, and policies that ensure institutional discipline in accordance with global standards and principles. This is achieved by defining the responsibilities and duties of both the Board of Directors and Senior Executive Management of the bank, setting the bank's goals and strategies, monitoring performance, defining powers, responsibilities, and methods of decision-making to achieve accountability, while protecting the rights of shareholders and stakeholders, and ensuring the protection of depositors' rights. This requires continuous quantitative and qualitative development in robust systems for managing comprehensive risks and regulatory functions to protect the safety and integrity of bank's operations, thereby enhancing public trust in the banking system and maintaining financial stability.

Governance at KFH aims to achieve the following:

- Institutional Organization: Organization of the relationship between the Board of Directors, senior executive management, shareholders, and stakeholders.
- **Enhanced Transparency:** Timely disclosing information and data as per regulatory authority directives.
- **Accountability:** Clearly defining the responsibilities of all management levels to avoid overlapping duties and authorities.
- **Fairness and Equality:** Conducting business in a fair and impartial manner for all related parties.

KFH recognizes that governance plays a crucial role in all bank's operations, particularly in sustainability practices. The Board of Directors places a significant importance on enhancing sustainability standards across all environmental, social, and governance levels. The governance framework of KFH represents the foundation of our strategic orientation to integrate sustainability into our business practices and manage our material issues in alignment with global standards and national needs.

KFH Organizational Structure



First Pillar: Shariah System

Islamic banks are distinguished by their commitment to the principles and provisions of Islamic Shariah in all business and activities they undertake. This commitment is one of the most significant factors that set Islamic banks apart from conventional banks. To ensure full compliance with Islamic Shariah, regulations, instructions, and banking laws in the State of Kuwait mandate the formation of Fatwa and Shariah Supervisory Boards in Islamic banks with a responsibility to ensure that all activities of these banks comply with Islamic Shariah provisions. Such boards provide religious opinions on the activities, products, and services offered by Islamic banks and offer solutions and alternatives for products and activities subject to Shariah observations. In December 2016, the Central Bank issued instructions for the governance of Shariah supervision in Kuwaiti Islamic banks. This was in response to the development of Islamic banking and the Islamic economic industry, which required further development of CBK instructions to strengthen Shariah Supervisory Control and Governance.

It is noteworthy that KFH has a Shariah compliance system that aligns with the nature of its business. This system consists of :

1. Fatwa and Shariah Supervisory Board (FSSB):

This board occupies a prominent position within the organizational structure of KFH. Its members are appointed based on a recommendation submitted by the Board of Directors to the General Assembly on an annual basis. It consists of a minimum of five members.

The duties FSSB are summarized as follows:

- Verify that KFH transactions and contracts are Shariah compliant through reviewing the periodic and final reports submitted by Group Internal Sharia Audit function on the progress of work and the proper implementation of fatwas and decisions issued by the FSSB. In the event there are violations or deviations, FSSB will request the same to be corrected and the operations made to be amended along with settling rights and liabilities in accordance with Islamic Shariah provisions.
- Ensure the commitment of the Senior Executive Management at KFH with presenting all transactions to FSSB.
- Ensure that Zakat calculation is made in accordance with Islamic Shariah provisions and principles in the events where the same is requested by FSSB in alignment with the Articles of Association of KFH.
- Take decisions and give religious opinions on transactions referred to it by the Board of Directors, Senior Executive Management or Shariah Research and Advisory.
- Prepare an annual report on KFH's activities and submit it to the Annual General Assembly (AGM) to demonstrate to what extent KFH is committed to Islamic Shariah provisions in its executed transactions in light of the audits made by the Internal Shariah Audit function, the addressed cases and the opinions given on KFH's transactions executed as per the applicable regulations and instructions. This report is presented in KFH's annual report during the ordinary General Assembly meetings.

  FSSB holds its meetings regularly at KFH headquarters with a periodicity not less than four meetings a year. However, it may hold its meetings outside KFH's headquarters.

2. Group Internal Shariah Audit:

This department is uniquely positioned for maximum independence and objectivity in performing its duties. It technically reports to FSSB and administratively to the Chairman of the Board of Directors through Board Audit and Compliance

Committee (BACC), allowing it to perform its functions with no restrictions. The Executive Management shall submit the names of the candidates for the position of the Head of Group Internal Shariah Audit to FSSB to give its opinion. However, the appointment is made by a decision from the Chairman of the Board of Directors. The Head of Group Internal Shariah Audit presents his reports to both the FSSB and BACC where he shows to what extent KFH is committed to the decisions of FSSB.

Further, Internal Shariah Audit Department also plays a key role in ensuring that all sectors and departments at KFH adhere to the Islamic Shariah provisions. This is achieved through auditing the contracts, products, services, and activities carried out by KFH and ensuring that they comply with the fatwas and decisions issued by FSSB.

3. Shariah Research and Advisory:

This department is responsible for conducting research and developing products and services offered by KFH, providing technical support and advice to the Senior Executive Management, running the daily operations of different departments in accordance with Islamic Shariah provisions, and assisting FSSB in carrying out its duties. Sharia Research and Advisory prepares Shariah studies concerning KFH's products, services, and activities and presents the same to FSSB for final approval. Further, it examines products, services, and activities subject to Shariah observations and proposes appropriate solutions and alternatives, submitting them to FSSB for Shariah approval. This department also oversees organizing Shariah training programs and courses as well as Shariah Awareness programs among KFH employees.

4. FSSB Secretariat:

The secretariat is responsible for preparing and arranging for FSSB meetings at KFH, ensuring the communication of its decisions to the concerned sectors and departments, receiving inquiries and questions from various departments regarding Shariah matters related to KFH's business and activities, and determining which matters are to be referred to FSSB for its opinion. FSSB appoints a secretary from among Shariah Research and Advisory Department' staffs.

5. External Shariah Audit Bureau:

An independent entity specialized in auditing KFH's transactions to verify their compliance with Islamic Shariah provisions based on FSSB's decisions and Fatwas. This bureau is appointed by the General Assembly upon a recommendation from the Board of Directors and submits its reports annually to KFH's General Assembly and provides a copy of such reports to FSSB.

Second Pillar: Board of Directors

1. Formation of the Board of Directors:

The Board of Directors (BoD) consists of fourteen members including four independent members. The ordinary General Assembly elects all members by secret ballot with a membership term of three renewable years. The term of the independent member's membership ends at the end of the term of the Board of Directors for which he was selected. The Ordinary General Assembly may select him for one additional term only subject to provisions of the Companies Law and its amendments as well as the instructions of the relevant regulatory authorities. The Board of Directors shall be elect by secret ballot its chairman and a vice chairman for a term of three years.

- **General Responsibilities of the Board of Directors:**
- Set the bank's strategic goals and risk strategy of as well as all matters related to governance systems and ensure their proper implementation, in addition, it is responsible for supervising Senior Executive Management.
- Supervise KFH's operations and the integrity of its financial position, ensuring compliance with the requirements of the Central Bank, the Capital Markets Authority, and all other relevant laws, safeguarding the interests of shareholders, depositors, creditors, employees, and other stakeholders and ensuring that KFH is prudently managed within the framework of the laws and the instructions issued by the regulatory authorities and the internal policies and in full adherence to the provisions of Islamic Shariah.
- Ensure that the governance system facilitates effective oversight of KFH and its subsidiaries, taking into consideration the nature, weight and complexity of the risks, to which the group may be exposed.
- Ensure that the transactions made with related parties are reviewed and verify the soundness of such transactions.
- Identify risk appetite and tolerance of the bank, review it on an annual basis, and approve risk management policies, strategies and scope of work to ensure the optimal application thereof to control risks including risks associated with the delegation of authorities, credit approvals, treasury operations, diverse investments, and all potential risks; e.g., risks of non-compliance with Islamic Shariah provisions, while providing adequate support to the Chief Risk Officer to enhance efficiency in organizing and running the department.
- Ensure the availability of written policies covering all activities carried out by KFH and disseminate these policies across all management levels, regularly review them to ensure that they reflect any amendments or changes to applicable laws, instructions and other matters related to KFH.

- Define the responsibilities and duties of the Chairman of the Board of Directors and Board members in writing so as they do not conflict with laws and instructions from regulatory authorities.
- Appoint the Chief Executive Officer of the bank, his deputies, and assistants, the Chief Executive Officer of KFH Kuwait, as well as the heads of Internal Audit, Compliance, Finance, Risk, and the Board Secretary, appoint or nominate representatives of KFH at subsidiaries where they hold substantial shares, and appoint the Chief Executive Officers of these companies.
- Oversee the Senior Executive Management to verify that they perform the roles entrusted to them in achieving KFH's goals and objectives and ensuring the implementation of decisions and policies approved by the Board of Directors.
- Monitor the actions taken by the Senior Executive Management to ensure its alignment with the strategies and policies approved by the Board, especially those pertaining to acceptable risk tolerances (the bank's risk appetite).
- Set performance standards for the Senior Executive Management that are aligned with KFH's goals and strategies, financial soundness, and monitor the performance of the Executive Management against these standards.
- Delegate the Senior Executive Management at KFH to manage daily operations of the bank, define the authorities and lines of communication for managers at various administrative levels, thus achieving dual control and segregation of responsibilities principals.
- Separate the roles of the Chairman of the Board of Directors and the Chief Executive Officer, ensuring that there is no first-degree relative or relationship between them that could influence the independence of the decisions taken by either of them.

2. Role of the Chairman of the Board of Directors:

- The Chairman plays an important role in maintaining the smooth operation of the Board of Directors and the mutual trust among members, ensuring that the decisions made by the Board are based on sound foundations and information, while encouraging effective discussion and exchanging viewpoints within the Board of Directors, and ensuring that the information is communicated to the board members on a timely basis.
- The Chairman of the Board of Directors plays a key role in maintaining a constructive relationship between the Board of Directors and the Senior Executive Management while ensuring the application of sound governance systems at KFH.
- The Chairman of the Board of Directors receives, through the board secretary, board members' requests for information from the Executive Management.

3. Organizing Board Activities:

- The Board meets regularly with a minimum of six meetings annually, including at least one meeting each quarter. Decisions made and recorded in the minutes of meetings are binding and become part of KFH's records.
- The Chairman of the Board of Directors coordinates with Senior Executive Management regarding important topics proposed for inclusion in the agenda of Board meetings.
- Board members shall receive comprehensive data and information on agenda items before a sufficient time from Board meetings to study the same before making appropriate decisions.
- The Board adopts an authorities matrix that defines all banking and other operations requiring Board approval (including, for example, the Board's authority to grant loans exceeding a certain amount, its authorities regarding dealings with related parties, and any other banking operations within the Board's competencies).

- The Board or any of its committees may, if necessary, seek assistance from external experts and consultants to benefit from their opinions when performing assigned tasks.
- For more information regarding BoD duties and responsibilities, please refer to the Board Charter.

4. Group Board Secretary:

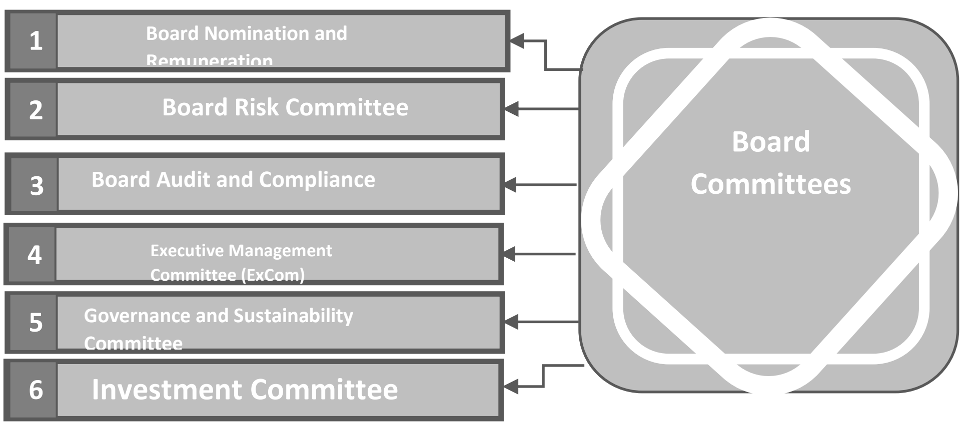
The Board appoints a board secretary and defines his roles and responsibilities in writing according to established policies. The Chairman of the Board of Directors designates a person to replace the board secretary in his absence. Further, the Board is responsible for appointing or dismissing the board secretary. The responsibilities of the secretary include the following:

- Organize and coordinate invitations for board meetings and provide members with the respective memos before a sufficient time from meeting times.
- Record Board discussions, members' suggestions, and the results of votes on the decisions made during meetings.
- Prepare minutes of BOD meetings in coordination with the Chairman of the Board of Directors and Board members, get it signed by all attending members, and keep them in KFH's records.
- Adhere to all legal requirements pertaining to Board affairs.
- Implement any instructions issued by the Chairman of the Board of Directors.
- For more information on the duties and responsibilities of the Group Board Secretary, please refer to the relevant job description.

Board Committees

At the beginning of each three-year term, BoD forms board committees to assist it in effectively performing its tasks and enhancing oversight of KFH's significant operations. Further, the Board appoints the chairpersons of such committees and ensures sufficient numbers of non-executive and independent Board members are included in the formation process. These committees continue for the duration of the Board of Directors, with each committee consisting of no less than three non-executive members, and an independent member shall chair the following committees: Nomination and Remuneration Committee, Board Risk Committee, and Board Audit and Compliance Committee. The Chairman of the Board of Directors may not be a member of any of the following committees: Board Audit and Compliance, Board Risk Committee and Board Nomination and Remuneration.

In addition, each board committee has a periodically reviewed charter outlining its duties, scope of work, meeting frequency, and reporting mechanism and its submission to the Board according to the nature of each committee's tasks, noting that the existence of these committees does not exempt the Board of Directors from assuming the ultimate responsibility for all matters related to KFH.SEGEND:0d453762-951f-4c10-b2db-bd6cc27fb012:196



A. Board Nomination and Remuneration:

This committee assists the Board in performing its oversight responsibilities regarding the nomination of qualified individuals for Board and Senior Executive Management positions and evaluating the performance of the Board of Directors and its members, helping the Board oversee short- and long-term remuneration systems and recommending board members' compensation for board approval in alignment with the applicable laws, KFH's Articles of Association, and international best practices.

The key responsibilities of the committee include the following:

- Submit recommendations to the Board of Directors on the nominations for Board membership according to approved policies and criteria and the instructions issued by the Central Bank concerning Board membership nomination rules, including verifying requirements to ensure that the independent member performs his duties independently.
- Conduct annual reviews of the skill set requirements for Board membership, prepare a description of the necessary capabilities and qualifications for Board members, and yearly review the Board structure, recommending any changes that may be made in the interests of KFH.
- Conduct an annual evaluation of the performance of the Board of Directors as a whole and the performance of each member separately. This evaluation should include members' experience, knowledge, and leadership qualities, as well as an assessment of their powers and authorities.
- Provide information and summaries about important issues related to KFH and submit reports and information to the Board of Directors, ensuring that Board members are kept informed of the latest topics related to banking practices. To achieve this, the Board must establish a system to encourage its members to attend seminars and events that provide them with opportunities to interact with local and global corporations to foster skills in banking and financial sectors.
- Recommend to the Board of Directors on the qualified individuals for the position of the group's CEO, his deputies and assistants, the CEO of KFH Kuwait, the

head of finance, and any other general manager reporting directly to the CEO as deemed appropriate by the Board of Directors.

- Recommend to the Board on the nomination, re-nomination, or cancellation of membership of FSSB, ensure transparency in their appointment and reappointment and evaluate their effectiveness.
- Approve the remuneration policy and submit it to the Board of Directors for approval, oversee its application, conduct periodic reviews and recommend updates for Board approval.
- Recommend to the Board of Directors on the remuneration proposed for board members.
- Submit annual recommendations to the Board of Directors on the level and components of remuneration for the GCEO and Senior Executive Management and all other bank employees as per the arrangements stipulated in the BoD approved Remuneration Policy.
- Review the payroll program and make recommendations to the Board if amendments are required.
- For more information on the committee's roles and responsibilities, please refer to the committee charter.

B. Board Risk Committee (BRC):

This committee assists the Board of Directors in generally overseeing current and future risk conditions and strategies, particularly the bank's risk appetite toward financing, banking, real estate, investment activities, and other risks that KFH may face.

The key responsibilities of the committee include the following:

- Provide recommendations to the Board of Directors on current and future risk strategy and appetite of KFH and supervise the executive management's implementation of such strategy.

- Ensure that a risk management framework is properly prepared at KFH level including risk strategies, risk appetite, policies, procedures, tools and methodologies.
- Review the risk management area' structure, functions, responsibilities and how it can be developed.
- Review and discus the appointment or dismissal of the Chief Risk Officer and submit appropriate recommendations to the Board of Directors for approval, taking into account that the Chief Risk Officer may not be dismissed or ousted from his position for any reason unless the board approval is secured and that the bank must discuss such reasons with the Central Bank before his dismissal.
- Review the adequacy of risk management practices, at least quarterly, in addition to following up on the periodic reports issued by the risk management area.

- For more information on the committee's roles and responsibilities, please refer to the committee charter.

C. Board Audit and Compliance Committee:

This committee assists the Board of Directors in fulfilling its supervisory responsibilities over accounting operations and evaluating internal control systems, internal audit controls, compliance procedures, financial reporting management tasks. Also, it supervises KFH's internal and external auditors to ensure compliance with all regulatory requirements in line with global best practices.

The key responsibilities of the committee include the following:

First: Auditing:

- Review the scope, results and adequacy of KFH's internal and external audits.
- Review accounting issues having a significant impact on financial statements.
- Review internal control systems at KFH and ensure the adequacy of human resources designated to oversight jobs.
- Review KFH's financial statements prior to its presentation to the Board of Directors, including ensuring the adequacy of necessary provisions.
- Evaluate the effectiveness and adequacy of Internal Shariah Audit function and its contribution to ensuring compliance with Islamic Shariah provisions and principles (specifically the fatwas and decisions issued by the FSSB).
- Meet with external and internal auditors at least once a year without the presence of Senior Executive Management.
- Provide recommendations to the Board of Directors on the appointment or termination of employment and fixing the fees of the external auditor and any other related contractual conditions, in addition to evaluating the objectivity of the external auditor.
- Provide recommendations to the Board of Directors on the appointment or termination of employment and setting the remuneration of the external Shariah auditor and any other related contractual conditions, in addition to evaluating his performance.
- Annually assess the performance of the Chief Internal Auditor and fix his remuneration and evaluate the performance of the Head of Internal Shariah Audit and fix his remuneration in coordination with the Fatwa and Shariah Supervisory Board.
- For more information on the committee's roles and responsibilities, please refer to the committee charter.

Second: Compliance:

- Ensure KFH's compliance with laws, regulations, and directives issued by regulatory authorities.
- Meet with the head of Compliance and Governance and the head of Anti-Money Laundering and Combating the Financing of Terrorism (AML and CFT) at least once a year without the presence of the Senior Executive Management.
- Review CBK inspections related reports and the responses thereto submitted by the Executive Management through the head Compliance and Governance.
- Annually assess the performance of the head of Compliance and Governance and the head of AML and CFT and fix their remuneration.
- For more information on the committee's roles and responsibilities, please refer to the committee charter.

D. Executive Management Committee:

This committee assists the Board of Directors in fulfilling its responsibilities, particularly concerning KFH's banking and investment activities, in accordance with the authorities delegated by the Board of Directors to this committee. The Board of Directors may also assign other tasks to this committee.

The key responsibilities of the committee include the following:

- Oversee the implementation of KFH's strategy and action plan, monitor performance efficiency by reviewing financial and administrative performance reports and provide necessary recommendations to the Board of Directors in this regard.
- Review and approve financing transactions and investment proposals presented by Senior Executive Management, according to the Delegation of Authorities Matrix (DOA) defined by the Board of Directors.
- Review the management's strategy regarding provisioning proposals and the management's plan for recovering defaulted debts.

- Periodically review of the diversity and strength of financing and facilities portfolio.
- For more information on the committee's roles and responsibilities, please refer to the committee charter.

E. <u>Governance and Sustainability Committee</u>:

This committee assists the Board of Directors in overseeing the implementation of governance and developing a set of governance guidelines and policies, ensuring compliance with their implementation by the Board of Directors and its committees, the Senior Executive Management and all KFH employees.

Also, it helps the Board of Directors in monitoring sustainability efforts in the bank by following up on the sustainability strategy and approving periodic reports issued by the bank in this regard.

The key responsibilities of the committee include the following:

- Continuously enhance the governance system and prepare a comprehensive updated framework approved by the Board of Directors and published on KFH's website.
- Review the section related to the governance report within KFH's annual report regarding its compliance with governance system related provisions.
- Conduct an annual review of governance practices and submit a report on the findings of the review to the Board of Directors.
- Review the governance policy at the group level for subsidiaries, ensure compliance with all applicable governance requirements, and submit it to the Board of Directors for approval in case of amendments.
- Approve KFH's annual sustainability report and submit it to the Board of Directors for endorsement.
- Follow-up on the implementation of sustainability strategy.
- For more information on the committee's roles and responsibilities, please refer to the committee charter.

F. Investment Committee:

This committee assists the Board of Directors in establishing general investment principles, overseeing the investment activities of KFH and its subsidiaries according to the authorities delegated to it by the Board of Directors and ensuring the achievement of investment objectives.

The key responsibilities of the committee include the following:

- Assist the Board of Directors in the execution of its supervisory responsibilities over KFH's investments including funds and investment portfolios, and submit necessary recommendations to the Board of Directors.
- Review the reports related to the status of current investments and the conditions of local and international financial markets.
- Study proposed new investments, assess its alignment with the Board of Directors' direction and subsequently submit recommendations thereon to the Board of Directors.
- Recommend to the Board of Directors, if deemed necessary, on the increase/decrease of the capital of companies, in which KFH has shares.
- Perform any other responsibilities and duties assigned to it by the Board of Directors.
- For more information on the committee's roles and responsibilities, please refer to the committee charter.

5. Continuous Training and Development:

KFH regularly conducts training sessions for board members with an aim to enhance their skills and knowledge, particularly in relation with governance, risk management and the most important banking, financial and Islamic finance topics. Also, members should participate in relevant conferences and seminars.

6. Performance Evaluation:

The Board of Directors reviews and approves, once yearly at least, the recommendations issued by the Board Nomination and Remuneration Committee on the evaluation of its members and committees' performance, as well as that of the Chief Executive Officer and the Senior Executive Management members through the Board Nomination and Remuneration Committee, provided that such evaluations are approved by the Board of Directors.

Third Pillar: Code of Business Conduct, Conflict of Interests and Group Structure

1. **Code of Business Conduct:**

   KFH has issued a Code of Business Conduct and Ethics outlining the sound practices that must be followed by its employees and including mechanisms to ensure adherence to these practices with regular reviews aimed at improvement. The Board of Directors also sets professional standards and corporate values that promote integrity at KFH, ensuring that insider information is not exploited for personal gain.

   The Code of Business Conduct and Ethics is distributed to all KFH employees and board members where their signatures are taken to acknowledge their awareness of its contents. This code is also published on KFH's website.

   Conflict of Interest:

   KFH has issued written policies on conflicts of interest covering all related matters and potential scenarios. These policies regulate any conflicts of interest, if found, that may arise between KFH and its board members and/or Senior Executive Management and/or all employees.

   The policies include examples of situations that may lead to a conflict of interest, and mechanisms for disclosure to relevant parties within KFH.

2. **Related Parties:**

   KFH has issued written policies regarding related parties, which policies outline rules and procedures governing transactions with such parties whether they are board members or their affiliates, and/or Senior Executive Management members and all KFH employees. KFH. KFH keeps records of related parties' transactions. KFH's related parties are defined as stated in the international accounting standards and the transactions with them are disclosed according to international accounting standards and the applicable international financial reporting standards (IFRS) and any requirements from local regulatory authorities. Furthermore, KFH's

Related Parties Policy is circulated among all its employees and board members where their signatures are taken to acknowledge their awareness of its contents.

3. **Banking Confidentiality:**

Banking confidentiality is one of the most important principles upon which banking operations are based as it forms one of the essential cornerstones of trust with customers whether they are depositors, borrowers, investors, or other stakeholders.

Moreover, KFH has established policies and procedures to maintain banking confidentiality, which include the following:

- All board members and employees at KFH must adhere to maintaining confidentiality of data and information regarding KFH and its customers as well as the data and information about other banks' customers and which may have reached them by nature of their jobs.
- No KFH data or client information may be disclosed except by authorized personnel and only in accordance with applicable laws, regulations, and KFH's internal policies unless there are legal requirements to do so.
- Maintain information security of KFH and its customers and establish controls to restrict access to authorized staffs only. The Board of Directors is responsible for having in place control systems to limit access to such data and information and verify that these controls prevent any leakage of banking information that would violate banking confidentiality.
- Increase banking and security awareness among KFH employees to promote and maintain banking confidentiality.
- Internal Audit function in KFH shall monitor the implementation of banking confidentiality policies.
- KFH's service providers are required to adhere to the policies that require maintaining the confidentiality of banking data and information.

4. Group Structure and Board of Directors of Parent Bank:

KFH's Board of Directors adopts a group governance policy that meets all applicable governance requirements and must ensure having in place appropriate governance policies and mechanisms for the group's structure, activity, and risk profile, periodically reviewing these policies to suit growth, increased complexity, and geographical expansion, and establishing suitable means to ensure each subsidiary's compliance with all requirements of group governance policy.

The group governance policy is prepared according to the Central Bank's instructions concerning governance rules and regulations in Kuwaiti banks and to the provisions of the fifteenth chapter of the Executive Regulations of Capital Markets Authority (Corporate Governance) for subsidiaries falling under the CMA' supervision. For companies operating outside the State of Kuwait, the said policy is applied in conformity with regulations of its respective regulatory authorities.

Fourth Pillar: Senior Executive Management

Senior Executive Management consists of a group of individuals appointed by the Board of Directors to assume their responsibilities in managing the bank's operations, comprising the Chief Executive Officer, his deputies and assistants.

Senior Executive Management, under the Board of Directors' supervision, must ensure that KFH's activities align with business strategy, risk appetite and policies approved by the Board of Directors relying on the competence of Senior Executive Management to implement its decisions without interference from the Board of Directors. Senior Executive Management is also responsible for fostering governance principles through the personal conduct and providing adequate oversight over its managed activities.

Thus, Senior Executive Management assumes the responsibility of monitoring and overseeing KFH's operations, particularly regarding compliance and risk oversight while establishing appropriate systems for managing financial and non-financial risks in accordance with the Board of Directors' policies and instructions and maintaining independence of jobs and segregation of duties. Senior Executive Management periodically provides the Board of Directors with financial and administrative reports with transparency, accuracy, and objectivity in light of the relevant regulatory instructions. It is worth noting that if any board member participates in implementing the decisions issued by the Board of Directors, such participation must take place based on an authorization from the Board of Directors, provided that the Board of Directors is to be informed about the actions taken in this regard.

Senior Executive Management is responsible for implementing the Shariah decisions issued by FSSB and fostering a culture of compliance with Islamic Shariah provisions within KFH, which indicates its commitment to Shariah principles in all operations and transactions.

Moreover, the Senior Executive Management is responsible for preparing financial statements in accordance with international standards and other applicable standards including the instructions issued by the Central Bank in this regard.

Group Chief Executive Officer (GCEO):

He is directly accountable before the Board of Directors for KFH management and performs his duties according to the strategies, plans, and policies approved by the Board of Directors.

The primary responsibilities of GCEO include:

- Implement the strategic plans approved by the Board of Directors.
- Ensure that action plans, policies, and procedures are in place for all sectors within KFH.
- Ensure that all actions comply with KFH's policies and relevant laws and regulations.
- Ensure that all KFH transactions are Shariah compliant.

Fifth Pillar: Internal Controls and Risk Management

1. **Internal Control Systems:**
   - KFH has established internal control and risk management systems. The Board of Directors has approved an organizational structure aligned with KFH's business strategy and activities. Also, it approved job descriptions, roles, policies and procedures for all sectors and banking operations.
   - Internal Audit area examines and monitors the implementation of what is mentioned in the above paragraph. Policies and procedures define the duties and responsibilities of each sector, the authorities, and communication lines for administrators at various management levels, ensuring dual control and segregation of responsibilities to avoid conflict of duties.
   - KFH conducts an annual Internal Control Review (ICR) by independent, certified auditors, who are not KFH's external auditors, to assess the effectiveness of internal control systems.
2. **Risk Management:**
   - The Board of Directors has established comprehensive policies for oversight and risk management. These policies define the roles and responsibilities of the

Board of Directors, the Board Risk Committee (BRC), the Chief Risk Officer, and the Chief Internal Auditor.

- The Chief Risk Officer is responsible for risk management duties within KFH and is authorized to communicate directly with the Chairman of the Board of Directors and the Chairman of the Board Risk Committee.
- The Chief Risk Officer is independent and does not have any executive responsibilities.
- Risk Management area is responsible for identifying, measuring, monitoring, and mitigating risks, preparing reports regarding KFH's exposure to all types of risks. Risk Management area operates independently from other business units and it is allowed to access local and international activities to understand its nature or request specific data to properly assess its exposure risks.
- Risk Management area submits its reports directly to both the chairman of Board Risk Committee and the CEO where such reports include information about the risk profile of all activities of the bank compared to the defined risk appetite document and propose remedies for any negative deviations.
- Risk Management area determines capital needs on an ongoing basis, monitors and evaluates decisions regarding the acceptance of specific types of risks. The Risk Governance Framework defines clear and well-defined regulatory responsibilities for Risk Management, referred to as the three lines of defense as follows:

- **First Line of Defense:**

  It is represented in the business unit that has functions and activities with a potential of risks to be generated for the bank.

- **Second Line of Defense:**

  It includes risk and compliance functions so as Risk Management function operates independently, reinforces and completes the job of the first line of defense by monitoring and reporting to management, and overseeing and evaluating the bank's risks independently from the first line of defense. Also, the second line of defense includes the compliance management, which includes monitoring the compliance with laws, regulatory instructions and governance rules. These functions are independent of the first line of defense.

- **Third Line of Defense:**

  It is represented in the Internal Audit function, which is independent of the first line of defense and the second line of defense.

3. Information Security and Cybersecurity Risks

- The Board of Directors continually approves strategies, policies, and controls pertaining to information security and cybersecurity.
- Senior Executive Management prepares periodic reports submitted to the Board Risk Committee regarding information security risks and cybersecurity incidents while keeping up with the latest developments in facing such risks.
- The Board of Directors regularly discusses the risk appetite of information security and cybersecurity at KFH and continuously reviews its levels and trends.
- KFH has established an Information Security function, which is independent of technology operations, headed by an information security specialist with necessary skills, knowledge, and competence and is responsible for establishing policies and standards for implementing, operating and monitoring

cybersecurity controls in accordance with KFH's strategy and risk appetite. This function submits its reports to the Board Risk Committee on KFH's capability to manage information security and cybersecurity risks and follow-up on the implementation of its respective objectives.

- The Information Security function provides necessary awareness regarding cybersecurity risks and organizes effective training sessions for all employees and third-party vendors periodically.
- On a yearly basis, KFH engages an independent external specialized body to evaluate and examine the bank's ability to face and manage information security and cybersecurity risks in light of global best practices and whenever required.

4. **Compliance Management:**

Compliance management is a core element in the risk management framework for banks due to the specific nature of non-compliance risks, which include legal or regulatory penalties related risks, financial risks, reputation risks and other risks that KFH may face in the event that it fails to comply with laws, regulations, instructions from regulatory authorities, codes of business conduct, and sound banking practices.

- KFH has an independent Compliance function that ensures KFH's adherence to all relevant laws, related directives and the policies relevant to its businesses and submits its reports to the Board Audit and Compliance Committee (BACC).
- Compliance function identifies, assesses topics related to the non-compliance risks that KFH faces, develops plans to mitigate such risks and provides BACC with reports on this matter.

5. **Internal Audit Area:**

- Internal Audit practices its duties independently under the supervision of the Chief Internal Auditor at KFH. Internal Audit area provides a reasonable assurance to the Board of Directors, the Audit and Compliance Committee and the Senior Executive Management that the operational system and the primary procedural controls are effective, appropriate and adhered to. Internal audit management has the right to access any information or employee at KFH and is fully authorized to perform its assigned tasks.

- The Internal Audit area assesses and evaluates the adequacy and effectiveness of internal control systems while ensuring that such systems are comprehensive, monitored and reviewed in a timely manner.
- The Internal Audit area conducts regular assessments of the governance framework across KFH's group.
- Internal Audit personnel are not tasked with any executive responsibilities.
- The primary tasks of internal audit shall not be outsourced externally. The Central Bank's approval is required when KFH finds it necessary to outsource some of these tasks to external parties, provided that it is for specific purposes and for a limited period of time.

6. **External Audit:**

- External auditors are appointed by KFH's General Assembly based on a recommendation from the Board of Directors.
- Board Audit and Compliance Committee establishes appropriate criteria to ensure that the external audit is conducted in a manner that upholds the principle of dual audit.
- External auditors provide the Audit and Compliance Committee with copies of audit reports and they are required to meet with the committee to discuss such reports and any related observations.
- KFH adheres to external audit firms rotation policies that comply with the decisions and instructions issued by regulatory authorities in the State of Kuwait.
- The external audit office complies with the instructions imposed by regulatory authorities, e.g. the Central Bank, Capital Markets Authority, and Ministry of Commerce and Industry. The external auditor may not provide internal auditing services to KFH or any consulting services outside the audit scope.

Sixth Pillar: Remuneration Policies and Systems

The Board of Directors oversees the preparation, monitoring, and review of KFH's remuneration system to ensure that it works as required. The Nomination and Remuneration Committee submits recommendations to the Board of Directors regarding all matters related to remuneration.

The remuneration policy includes all aspects and components of financial rewards and it is designed to attract qualified professionals and experienced individuals while retaining talents at KFH.

The remuneration system at KFH contains the following key components:

1. Fixed Compensation:
   - Salaries, Wages and Allowances
2. Variable Compensation:
   - Short-term Incentives
   - Short-term Incentives

Guidelines for Remuneration Management:

- Remuneration indicators in the market are periodically studied to ensure that the remuneration policy is competitive what the market offers.
- Remunerations are used to encourage and motivate effective ongoing performance.
- Remunerations should be linked to the strategic objectives as defined by the Board of Directors.
- KFH has a mechanism to objectively evaluate and measure employee performance across all levels. Variable remunerations are linked to KFH's financial performance where a claw back policy is applied in cases of poor or negative financial performance of KFH. Further, essential aspects of the remuneration systems and policies are disclosed in the annual report.

Seventh Pillar: Disclosure and Transparency

KFH recognizes that an effective disclosure system serves as an effective tool for protecting shareholders, depositors, stakeholders, and market participants to enhance their trust in the bank. Further, KFH provides accurate, comprehensive, and detailed information in a timely manner as per the instructions of regulatory authorities with an aim to enable them to make appropriate and effective decisions. Moreover, the Board of Directors adopts an information disclosure policy, including the procedures and policies that KFH must follow to announce material information on Boursa Kuwait and ensure that there are in place appropriate controls for the accurate and timely disclosure of essential information related to KFH in alignment with local regulations, international financial reporting standards, Basel Committee requirements, and the governance instructions issued by the Central Bank, in addition to the stipulations in Chapter 10 (Disclosure and Transparency) of the Executive Regulations of the Capital Markets Authority.

KFH commits to the following:

- Disclose on a timely basis the material information that affects KFH's activities on Boursa Kuwait and other exchanges where KFH shares are listed in accordance with the instructions of CBK, CMA and other regulatory authorities.
- Publish information and data included in quarterly and annual financial reports on KFH's website in both Arabic and English.
- Accurately and timely disclose, based on the instructions from CMA, any changes concerning major shareholders, board members, Senior Executive Management, auditors, subsidiaries, associated companies, and other requirements as instructed by regulatory authorities.
- Maintain a disclosure registry for Board members and Senior Executive Management that includes data required by regulatory authorities and periodically update it.
- Disclose in its annual report the qualifications and experiences of the Chief Executive Officer, his deputies and assistants, and information about each board

member in terms of the date of his appointment date in the Board of Directors, his qualifications, experiences, committee memberships, names of independent members in such committees, and to what extent each member is committed to attending the meetings of the Board of Directors and its committees.

Eighth Pillar: Organizational Structure of KFH Group

- KFH has a clear and uncomplicated organizational structure that illustrates its relationship with its subsidiaries, enhancing its ability to communicate effectively with them and improving oversight across the group.
- The Board of Directors and Senior Executive management fully understand the ownership structure of KFH and the associated risks, along with a comprehensive knowledge of KFH's group structure, the objectives of each unit or entity, and the interrelations between units and the parent company.
- KFH has systems in place for collecting and exchanging information among group entities to manage group-wide risks and ensure effective oversight. Risk Management area evaluates all products and its associated risks in each group entity and on a group-wide basis and reports to the Board Risk Committee accordingly.

  Upon establishing new organizational structures, KFH ensures the following:
  - Avoid unnecessary complex structures.
  - Have in place centralized procedures for the approval and oversight of establishing new legal entities based on specific criteria including oversight capability and meeting the requirements required for the continuity of each entity.
  - Evaluate the risks associated with complex structures including the lack of transparency in operational risks arising from the overlap and complexity of financing structures.

Ninth Pillar: Protecting Shareholders' Rights

The Board of Directors ensures that policies and procedures are in place to protect shareholders' rights, including minority rights, in accordance with the instructions from regulatory authorities. The most important of these rights include the following:

- The right to receive dividends, participate in ordinary and extraordinary general meetings, and vote on its resolutions.

- The right to review and participate in decisions pertaining to the amendments to KFH's Articles of Association as well as the decisions related to extraordinary transactions that may affect KFH's future or business, e.g., mergers and acquisitions, selling a significant portion of its assets or disposing of subsidiaries.
- The right to receive accurate, comprehensive, detailed, and up-to-date information for evaluating investments and making sound decisions.
- The right of minority and foreign shareholders to be treated equally and provided with sufficient opportunities to address any violations or mistakes that may arise in relation with their rights, in addition to the rights guaranteed to the shareholder by relevant laws and regulations.

Tenth Pillar: Protecting the Stakeholders' Rights.

The Board of Directors ensures that policies and procedures are in place to protect stakeholders' rights in accordance with the instructions from regulatory authorities. The Board of Directors recognizes that KFH's success results from the combined efforts of many parties including depositors, borrowers, employees, and investors, who have business relationships with KFH.

These policies and procedures emphasize the importance of respecting stakeholders' rights. The most important of these rights include the following:

- The right to fair and equitable treatment.
- The right to receive direct and clear disclosures of relevant information.

Approved by the Board Governance Committee on 27/11/2024.