

CORPORATE GOVERNANCE GUIDELINES

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بيت التمويل الكويتي
Kuwait Finance House

البحرين ب.س.ك. (م) (Bahrain B.S.C.(c))

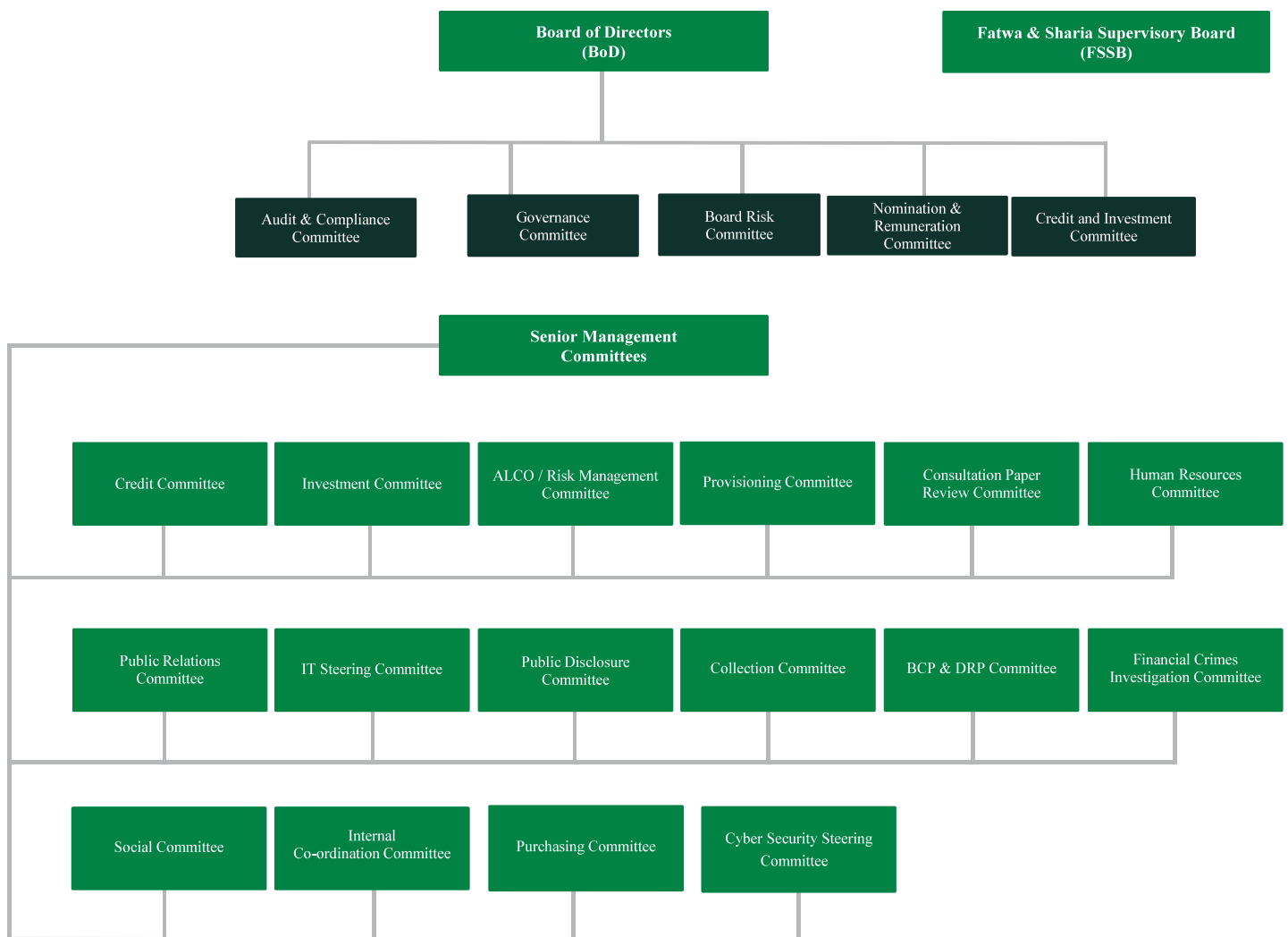
Licensed as an Islamic Retail Bank by the Central Bank of Bahrain



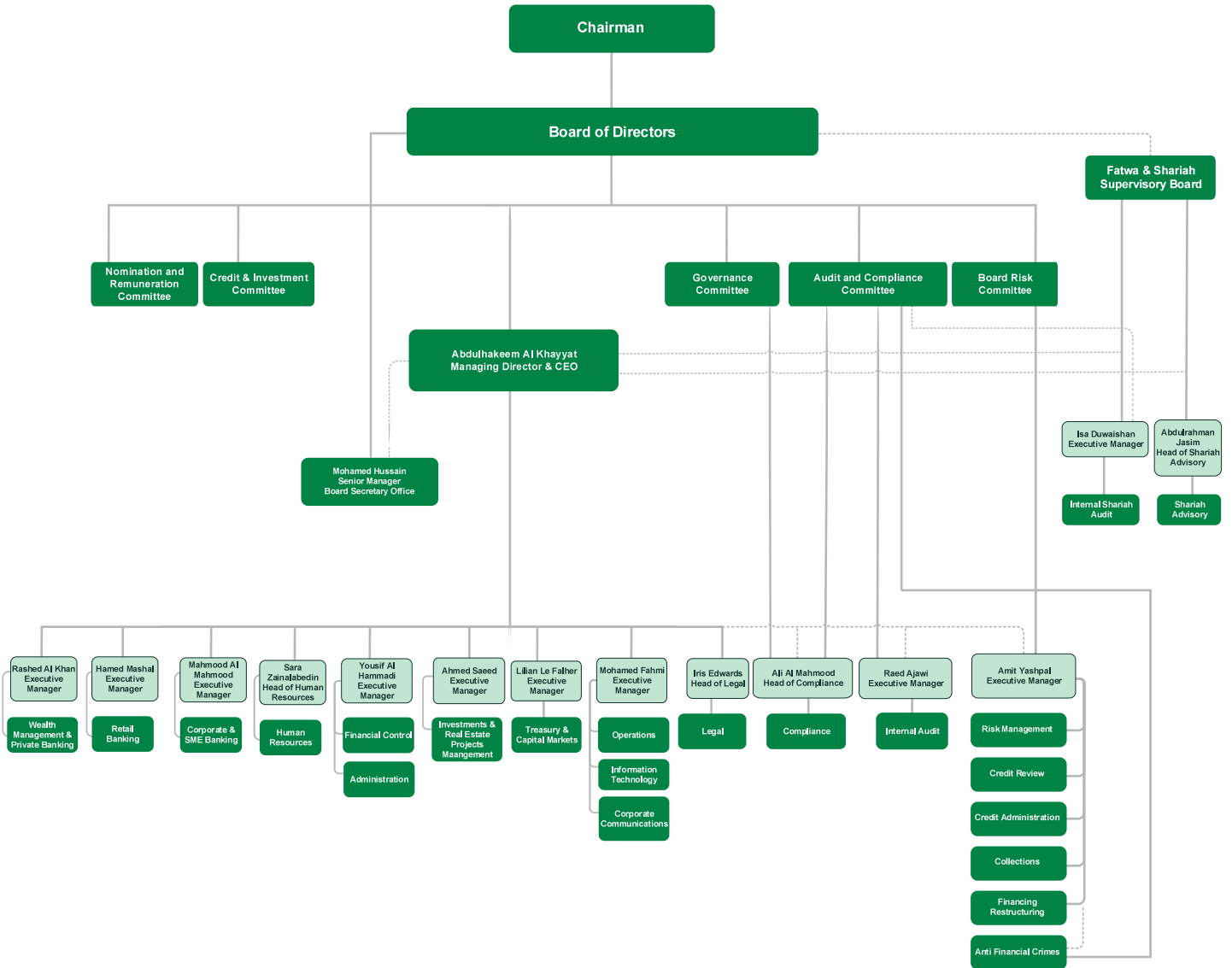
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BOARD AND MANAGEMENT COMMITTEES STRUCTURE



ORGANIZATIONAL STRUCTURE



SECTION 1 - KUWAIT FINANCE HOUSE OVERVIEW

Kuwait Finance House-Bahrain is a leading provider of Islamic commercial and investment banking services. Established in January 2002 as a wholly owned subsidiary of Kuwait Finance House-Kuwait, an industry leader for more than 30 years and specializes in conceptualizing the development and introduction of innovative, Shari'a compliant banking and investment products, all of which are delivered by a staff of experienced and dedicated professionals that are empowered to think innovatively and act strategically.

KFH-Bahrain pioneers the introduction of compelling financial solutions in a fast-growing, high-demand Islamic banking industry.

It is our mission to take Islamic banking and finance to new heights through an unwavering focus on innovation and the desire to deliver excellence in everything we do including the development and offer of a broad and integrated range of products and services that are in perfect harmony with "Shari'a" principles.

This commitment to excellence is further combined with a commitment to long-term relationships with customers, and to the markets in which we operate with a view towards:

- Creating wealth and assets for our stakeholders.
- Supporting advancements and growth in the Gulf Cooperation Council (GCC) economies and others in which we invest; and
- Promoting awareness and the use of Islamic banking and financing vehicles worldwide.

Our mission and our commitment are backed by a robust financial position and a long and proven heritage of ingenuity, integrity and thought-based leadership.

The Bank has established a strong corporate governance framework that is designed to protect the interests of all stakeholders, ensure compliance with regulatory requirements, and enhance organizational efficiency. The Bank has also established a robust organizational structure that clearly segregates functions and responsibilities, and reflects a division of roles and responsibilities of the Board of Directors and Management. Clear mandates exist for the Board, Chairman of the Board, Board Committees, Managing Director and Chief Executive Officer, the Management, and Senior Management Committees.

SECTION 2 - BOARD OF DIRECTORS & BOARD COMMITTEES

The Board

The Bank's Board of Director (Board) comprises of eight directors, including the Chairman of the Board and the Managing Director and the Chief Executive Officer ("MD&CEO"). The Board periodically assesses its composition and size, and where appropriate re-constitutes itself and its committees. Appointment and termination of board members are in accordance with the Articles of Association of the Bank. While deciding upon the composition of the Board, the Bank will ensure compliance with the requirements of the High-Level Controls Module, Volume2 issued by the CBB.

The Board is accountable to the shareholders for the creation and delivery of strong and sustainable financial performance and long-term sustainable shareholder value by providing effective governance over the Bank's affairs. It determines the strategic objectives and policies of the Bank to deliver such long-term value, providing overall strategic direction to the Bank within a framework of rewards, incentives and controls. Detailed responsibilities of the Board are provided in their respective terms of references.

The Chairman of the Board is responsible for leading the Board, ensuring its effectiveness, monitoring the performance of the Executive Management, and maintaining a dialogue with the Bank's shareholders.

With regard to the procedures relating to conflict of Interest, the Board charter states that all transactions of the Bank shall be carried out on an arm's length basis. Any decision to enter into a transaction, under which Board members or any member of the management have conflicts of interest that are material, shall be formally and unanimously approved by the entire Board.

The Board has the following committees:

1- Audit & Compliance Committee

The ACC is a Board appointed committee which is comprised of two independent directors and an executive director. The Chairman of the Committee is also an independent director. For audit related matters, the committee assists the Board of Directors in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting, the audit thereof and the soundness of the internal controls of the Bank. For compliance related matters, the committee assists the Board of Directors in the assessment of compliance with law, regulations and other requirements imposed on the Bank from time to time. The committee also oversees and manages the compliance and anti-financial crime requirements of the Bank and legal related matters.

2- Governance Committee

The GC is a Board appointed committee which is comprised of three independent directors including the Chairman. The committee is a reviewing and recommending body appointed by the Board of Directors to assist the Board in discharging its oversight duties relating to: - Establishing appropriate Corporate Governance structures, delegation of authority and reporting protocols; and - Ensuring the Bank's adherence to best corporate governance practices as applicable on Islamic retail banks in Bahrain

3- Nomination & Remuneration Committee

The Nomination and Remuneration Committee of the Bank is charged to recommend performance based incentives for the senior management including the MD & CEO. Such recommendations are also subject to the Board approval.

4- Board Risk Committee (BRC)

The BRC is a Board appointed committee which is comprised of two independent directors and one executive director. The Chairman of the Committee is also an independent director. The committee is a reviewing and recommending body appointed by the Board of Directors to assist the Board in discharging its oversight duties relating to: - Recommendation of the risk charter of the bank to the Board, highlighting the key risks from identified business strategies, the risk appetite, the risk governance models including strategies, policies, processes, roles and responsibilities relating to various departments and various levels of risk management within the Bank; and - Establishing appropriate policies and procedures to mitigate the applicable risks on the overall operations of the Bank

5- Credit & Investment Committee

The CIC is a Board appointed committee which is comprised of three executive directors. The general objective of the CIC is to provide an independent and objective view (approve or disapprove) of credit, treasury and investment proposals, approved by management, or the Credit or Investment committees.

Corporate Governance Charters

Each committee has specific terms of references that define its responsibilities, scope and powers. Detailed responsibilities of the Board and its committees are provided in the Bank's Corporate Governance Charters.

The Bank has developed Corporate Governance Charters that provide the basis for promoting high standards of corporate governance in the Bank. It sets out high level guidelines and lays the foundation for the overall corporate governance system in the Bank. It outlines the key elements of an effective corporate governance framework and describes the roles and responsibilities of the Board of Directors which outlines the role of the Board in its review, approval and monitoring of the Bank's strategy and financial performance within a framework of sound corporate governance. It also contains the terms of reference for all the Board and Senior Management Committees.

SECTION 3 - FATWA AND SHARI'A SUPERVISORY BOARD

The Fatwa and Shari'a Supervisory Board (FSSB) is an independent body comprises of three Shari'a Scholars having extensive experience in the field of Islamic banking and finance and meet the fit & proper criteria specified by the CBB. The appointment of FSSB members are approved by the shareholders in their annual general meeting upon the recommendation of the Board of Directors taking into consideration the CBB regulations, resolutions and directives.

The FSSB entrusted with the duty of directing, reviewing and supervising the activities of the Bank in order to ensure the compliance with Islamic Shari'a rules and principles as expressed by AAOIFI Shari'a standards, the rulings of the Centralized Shari'a Supervisory Board and the FSSB rulings.

The fatwa and rulings of the FSSB are binding. The Board meets at least four times a year, however, the Chairman may convene for additional meetings as and when he deems necessary. The decisions taken in FSSB meetings are reflected, as appropriate, in policies and procedures and day to day operations of the Bank as applicable.

Before launching any new products/ services, the related policies and agreements shall be verified by the FSSB in coordination with the Bank management. The FSSB evaluates, approves and monitor the execution of the annual Internal Shari'a audit plan in order to verify and assure the Bank's compliance with Shari'a rules and principles. The roles and responsibilities of the Fatwa and Shari'a Supervisory Board are outlined in the respective terms of references. The FSSB submit its' report as part of the annual report of the Bank to the shareholders with a copy to the Board of Directors and the Central Bank of Bahrain.

SECTION 4 - MANAGEMENT COMMITTEES

The Bank has established management committees to meet regularly in order to review, discuss and approve various matters. Each Committee involves a group of senior management and has a specific charter that defines its scope, roles & responsibilities, reporting lines and powers.

Management committees include the following:

Credit Committee

The primary objective of the credit committee is to protect and enhance the Bank's business through participating in the establishment of policies and guidelines for KFHB financing; review of the quality of credit portfolio; review and approve credit applications within the established limits and assess and approve allowances for credit losses.

Investment Committee

The primary objective of the Investment Committee (IC) is to provide assistance and recommendations to the senior management and Board in the review and oversight of KFHB's key investment objectives, strategies and policies. Such assistance and recommendations should help to enhance the shareholders' and investors' value.

Asset & Liability Committee (ALCO) / Risk Management Committee (RMC)

ALCO / RMC is responsible for maintaining oversight of the Bank's risk profile and governance aspects. It helps the Board Risk Committee in establishing the risk policies and strategies and monitors the risk appetite in terms of risk limits and reports. It also controls the risks by appropriate actions. ALCO / RMC establishes policy and objectives for the asset and liability management of the Bank in terms of structure, distribution, risk and return and its impact on profitability. It also monitors the cash flow, cost and yield profiles and tenor of assets and liabilities and evaluates both from profit rate sensitivity and liquidity points of view, makes corrective adjustments based upon perceived trends and market conditions and monitors liquidity, foreign exchange exposures and positions. The committee performs active management of all the material risks faced by the Bank including credit, market, operational, liquidity, profit rate, reputational and others. The committee also sets balance sheet growth and profitability targets and suggests appropriate mix of markets and products.

Provisioning Committee (PC)

The PC is responsible for ensuring adequate provisions and profit suspensions against all the past due and impaired exposures of the Bank. It reviews past due details and approves the resulting provisioning and profit suspension amounts submitted by the respective departments in line with the approved Provisions & Impairment Policy of the Bank. The PC also reviews credit classification and reclassification requests submitted by Business Units and recommends the provisions and profit suspensions to the Audit & Compliance Committee and Board of Directors for final approval.

Human Resources (HR) Committee

The HR committee is established to provide and exchange consultative opinion, feedback, recommendations and perspectives relating to Human Resources strategic plans and development initiatives, whilst ensuring maximum adherence to HR Policies and Procedures Manual and local regulations.

Public Relations Committee

The Public Relations Committee (PRC) ensures KFHB's advertising and public relations activities align with policies, procedures, and strategy, generating positive publicity. Its objectives include evaluating campaign requests, approving advertising plans, budget allocation, and designing ads and marketing materials.

Information Technology Steering Committee (ITSC)

The ITSC is responsible for overseeing IT projects and information security at KFHB. It reviews project progress, establishes priorities, and oversees information security projects, audits, and assessments. The ITSC identifies risks, provides mitigating actions, and ensures the bank's IT systems are effective and data is secure.

Cyber Security Steering Committee

The Cyber Security Steering Committee (CSSC) oversees the implementation of KFHB's cyber security strategy, cybersecurity management framework, and governance. It reviews and recommends strategies, reviews exceptions, issues, and incidents, and allocates resources for cyber security. The CSSC reviews progress in cyber security projects and activities, ensuring effective protection and data safety.

Public Disclosure Committee

The Public Disclosure Committee (PDC) ensures that KFHB complies with the regulatory disclosure requirements and implements the bank's Public Disclosure Policy. The committee reviews changes, developments and material information, and ensures effective processes for disclosures.

Business Continuity Plan (BCP) & Disaster Recovery Plan (DRP) Committee

The BCP & DRP Committee is responsible for counteracting interruptions, protecting critical business processes, reducing disruptions, developing a contingency plan, and ensuring its integration into management processes. The committee also reviews and updates the contingency plan regularly.

Financial Crimes Investigation Committee

The Financial Crimes Investigation Committee is responsible to oversee KFHB's financial crime risk profile, conduct investigations, and manage the financial crime risk.

Internal Co-ordination Committee

The objective of Internal Co-ordination Committee (ICC) is to ensure that the overall operations of the Bank do not expose the Bank to any material Sharia Compliance Risk by highlighting to the Sharia Department Sharia related issues that other departments come across while performing their duties.

Purchasing Committee

The Purchasing Committee oversees KFHB-Bahrain's procurement activities, focusing on Administration, IT, and Corporate Communication Departments exceeding BD 10,000. It ensures fair, transparent, and cost-effective procurement, recommending high-risk procurements to the MD & CEO, and protecting the Bank from fraud and abuse.

SECTION 5 - ANNUAL GENERAL MEETING

An Annual General Meeting is conducted between the Shareholders and the Bank. The Meeting is attended by Board Members, Senior Management, the external auditor and at least one member of the Fatwa and Sharia Supervisory Board to answer any questions arising from the Shareholders. The Annual General Meeting shall also include the following agenda items:

- Audited financial statements of the Bank;
- Related party transactions executed;
- Corporate Governance Report;
- Remuneration of the Board of Directors and the Shari'a Supervisory Board members.

Key Policies of the Bank

Code of Ethical Business Conduct

The Bank has developed a Code of ethical business conduct that covers the principles, policies and laws that govern the Bank's activities. The Code includes (but not limited to) the following:

- i. **Integrity, honesty and ethical conduct:** The Board and management of the Bank shall act with honesty, integrity and in good faith in line with the best interests of the Bank, its shareholders and other stakeholders. They shall also ensure that proper judgment is exercised when making business decisions.
- ii. **Commitment to the law and best practice standards:** The Board and management of the Bank shall always ensure their commitment to comply with the applicable laws and regulations. This commitment should also include adopting the highest industry practices.
- iii. **Confidentiality:** The Board and management of the Bank must maintain confidentiality of the Bank's information even after the termination of their contracts, is unless required by law.
- iv. **Conflict of interest:** The Board and management of the Bank shall act independently and avoid any conflict of interest in their decision-making process. They must declare in writing all of their interests in enterprises or activities (whether as a shareholder of above 5% of the voting capital of a Company, a manager, or other form of significant participation) to the Board on an annual basis.
- v. **Acceptance of gifts:** All staff of the Bank should not accept gifts or any kind of favors and services from the Bank's major customers, suppliers or other stakeholders.
- vi. **Cooperation with regulatory bodies:** The Board and the management shall ensure co-operation with the CBB and any other relevant regulatory authorities.

Public Disclosure Policy:

The Board and senior management ensure that the bank's disclosures are in line with relevant laws and requirements. The Bank established a policy overseen by the Board and management to ensure compliance.

Whistle Blowing Policy:

In order to enhance good governance, openness, integrity and transparency, KFHB sets a Whistleblowing Policy to enable its employees to report concerns internally in a responsible and effective manner when they discover information which they believe shows serious malpractice without having fearing that their actions may have adverse consequences.

Risk Management – Risk Appetite (Limit Structure)

The Limit Structure sets out operational and financial approval limits for the Board, Board Committees, Management Committees, Senior Management members and other designated individuals.