

BANK OVERVIEW

Khaleeji Commercial Bank BSC (KHCB) an Islamic bank, headquartered in the Kingdom of Bahrain, operates under a Retail Islamic Banking license granted by the Central Bank of Bahrain (CBB). It is a Public Bahraini Shareholding Company listed on the Bahrain Bourse. KHCB offers a comprehensive range of innovative banking and Investment products and services to high net worth individuals, corporate entities, and financial institutions. These include commercial and corporate banking, wealth management, structured investment products and project financing facilities.

The Bank seeks to expand its network of strategic alliances with other financial institutions and business partners to source new and mutually beneficial investment and financing opportunities.

In addition, the Bank actively provides financing opportunities for property developers, landowners and property investors. The Bank seeks to develop alliances with other Islamic banks, property developers, prominent regional investment groups and others in the region to source investment and financing opportunities. The Bank also offers a range of structured investment products to its clients and prospective clients, including funds, repackaged products and structured restricted Mudarabas. In order to offer diversity to clients, these products range in nature from capital growth products to income producing products. The Bank expects that going forward it will continue to leverage its relationship with its strategic partners as it participates in the economic and social development of Bahrain, the GCC and other identified regions.

KHCB's CORPORATE GOVERNANCE POLICY

Corporate Governance is about maintaining the highest standards of integrity, transparency and accountability. We maximize shareholder value while safeguarding and promoting the interests of other stakeholders and maintaining a steadfast commitment to ethics and code of conduct.

In KHCB, Corporate Governance philosophy stems from our belief that Corporate Governance is a key element to improve efficiency and growth as well as to enhance the confidence of the investors. We believe that retaining and enhancing stakeholder trust is essential for sustained corporate growth.

We have engrained into our culture and into each associate the values of honesty and fairness. For us, adherence to Corporate Governance stems not only from the letter of law but also from our inherent belief in doing business the right way. Our corporate structure, business and disclosure practices have been aligned to our Corporate Governance Philosophy.

We have tried to blend growth and efficiency with governance and ethics. Our Board of Directors, guided by the mission statement, formulate strategies and policies by focusing on optimizing value for various stakeholders.

VISION

To be a leading domestic and regional Islamic Bank, providing unique, innovative and high quality Shari'a compliant products, services and investment opportunities for our clients.

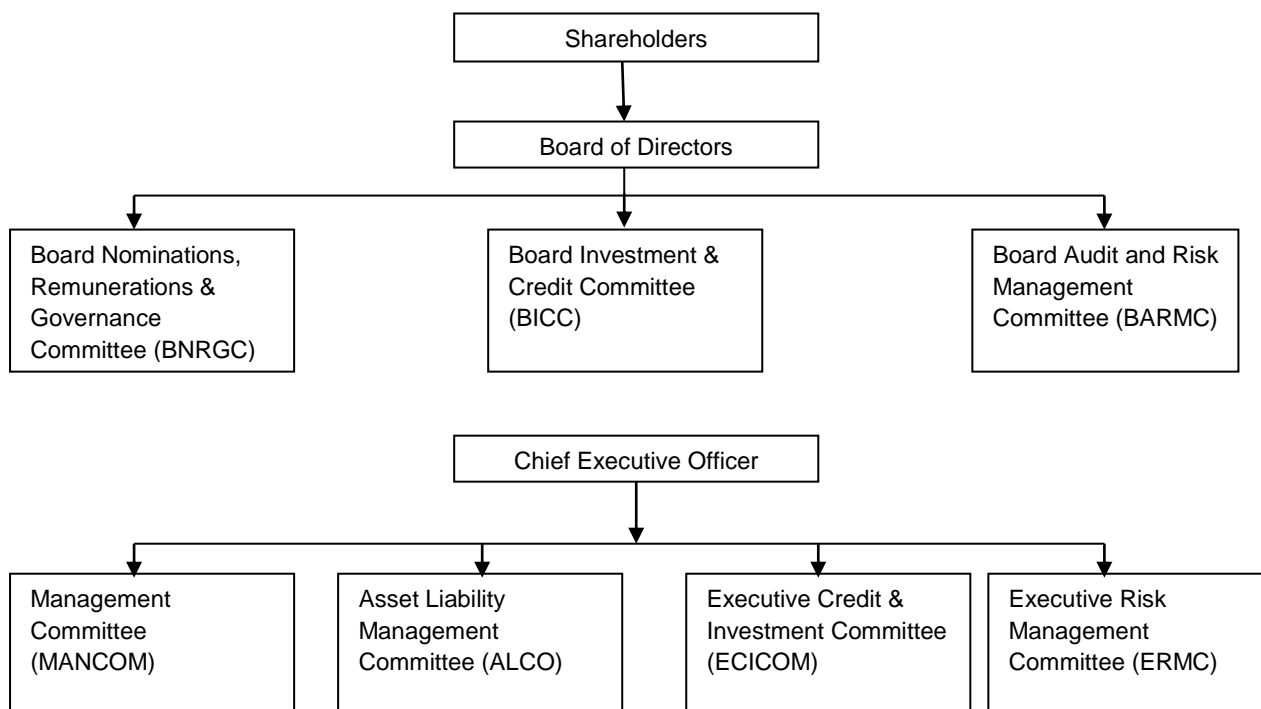
MISSION

To participate in the economic development of Bahrain, GCC and the MENA region, maximizing client and shareholder value in accordance with the principles of Shari'a, contributing towards the growth of Islamic Banking and providing a challenging environment to our employees to be innovative and realize their professional objectives.

VALUES

The Bank will empower its clients, creating long term relationships with them; provide the best service available; respond to clients' different needs and demands; provide superior products and services; use market knowledge and investment prowess to achieve our clients' business objectives.

CORPORATE GOVERNANCE STRUCTURE



The following elements work together to form the Corporate Governance structure of the Bank.

Board Operations, Matters Reserved For the Board and Delegation of Authority

- Board Charter – Details the broad guidelines for Board operations and matters reserved for the Board

Board Committee Structure, Composition & Terms of Reference

- Board Investment & Credit Committee - Terms of Reference
- Board Nominations, Remunerations & Governance Committee - Terms of Reference
- Board Audit and Risk Management Committee – Terms of Reference

Terms of References – Chairman & General Manager/Chief Executive Office

- Terms of References for Chairman
- Terms of References for the Chief Executive Officer

Managing Register of Directors' Interest

- Policy - Directors' Conflict of Interest.

Executive (Management-Level) Committee Structure, Composition & Terms of Reference

- Management Committee -Terms of References
- Executive Credit & Investment Committee - Terms of References
- Asset & Liability Management Committee - Terms of References
- Executive Risk Management Committee - Terms of References

THE BOARD

The influence of a business's approach to governance is evident in organizational ethics, brand loyalty and employee retention. It can impact the amount an organization pays to borrow money; influence the quality of its suppliers, business partners and employees; affect the premium investors will pay for its shares; and be reflected in an organization's reputation in the marketplace and with its regulators. Ultimately, given that businesses exist to create value (financial and otherwise) for their stakeholders, the values embodied in governance practices affect the value of the organization.

Fundamental to good corporate governance practices is the two-fold issue of the effectiveness and accountability of the Board of Directors:

- The effectiveness of the Board and therefore the quality of leadership and direction they provide are measured by performance, which in turn will be translated into enhanced shareholder value.
- Accountability – including all the issues surrounding disclosure and transparency – is what provides legitimacy to the classic model public company. Shareholders elect directors to run companies on their behalf and in consequence, boards are accountable to shareholders for their actions.

The Bank is subject to compliance with the following regulations:

- a. Bahrain Stock Exchange Law;
- b. Central Board of Bahrain (CBB) Rulebook;
- c. Bahrain Commercial Companies Law (BCCL) 2001; and
- d. Labour Law.

The Board reserves a formal schedule of matters for its decision to ensure that the direction and control of the Company rests with the Board. This includes approving the Company's strategic and planning issues; reviewing Management's performance vis-a-vis Company's targets; approving material acquisition and disposal of assets and capital expenditure; determining authority levels; approving risk management policies; and reviewing the adequacy and integrity of internal controls.

The Board is also responsible for recommending appointment of auditors and reviewing the Company's financial statements; and approving the financing and borrowing activities including annual operating plan and budget.

It is also responsible for ensuring that the Bank is compliant with all related laws and regulations; and protect the Bank from illegal, abusive or inappropriate actions and practices. Should the Articles of Association not contain an express provision, the provisions of the Commercial Companies Law Decree no. (21) of 2001 shall apply.

In addition to the responsibilities stated above the Board is responsible for:

- Strategic and Operational Considerations
- Structure, Capital and Financial Considerations
- Responsibility of approval of expenditure
- Responsibilities regarding Board Membership, Board Committees and Management
- Corporate Governance, Compliance and Internal Control Matters
- Remuneration for Board of Directors, CEO, CFO and Corporate Secretary on the recommendations of BNRGC
- Communications of resolutions and information
- Annual General Meetings
- Delegation of Authority

- Evaluating the performances of executive management
- External Service Providers
- Reporting to Shareholders
- Litigation
- Insurance

The above responsibilities are detailed in the Board Charter.

BOARD COMMITTEES

Board Nominations, Remunerations & Governance Committee

The Board Nomination, Remuneration and Governance Committee (BNRGC) of the Bank is a Board sub-committee appointed to assist the Board in formulating and reviewing the related bank's policies and rules including the administrative policy. The BNRGC will handle the nomination and remuneration process including nomination, remuneration and compensation of the Board and Executive Management (i.e. Deputy General Manager and above). The Committee will regularly review the Bank's succession plan as modified from time to time as well as ensure that a sound corporate governance framework is in place. The BNRGC shall report its activities to the Board on a regular basis.

Board Investment & Credit Committee

It is the policy of the Bank to maintain a highly efficient and responsible investment and credit decision-making process. The Board Investment & Credit Committee (BICC) is a sub-committee of the Board of Directors appointed to assist the Board in formulating the Bank's investment and credit policies and making investment and credit transaction decisions.

The BICC shall report its activities to the Board of Directors on a regular basis. It establishes operating guidelines and reviews and endorses the CEO's recommendations for investment strategies, products and services. Its actions are in accordance with the investment policies adopted by the Board of Directors. In addition, one of the primary tasks of BICC is to make investment and credit transaction decisions within the authority delegated by the Board of Directors.

BICC reviews and monitors investment, financing and trading decisions taken by the CEO and refers investment and credit decisions in excess of its own authority with their recommendations, to the Board of Directors. BICC also evaluates investment, credit, financing and trading performance and recommends enhancements, proposed by the ECICOM. In addition, it also reviews and approves investment and credit policies and plans.

The BICC approves banking relationships and placement arrangements as recommended by the CEO. It is also responsible for oversight of SPVs/ Off Balance Sheet entities or any other matters delegated by the Board.

Board Audit and Risk Management Committee

The Audit and Risk Management Committee of Khaleeji Commercial Bank is a sub-committee of the Board of Directors. The primary roles of the Audit and Risk Management Committee (BARMC) Committee are to:

- Assist the Board of Directors in fulfilling its oversight responsibilities by reviewing the financial information, which are provided to the shareholders and others, the systems of internal controls which was established by Management and approved by the Board of Directors.
- Provide an open avenue of communication between the Board of Directors, Management, the Internal Auditors, and the External Auditors.
- Confirm and ensure independency of both Internal and External Auditors; and supervise their functions.
- To ensure that the Bank's overall risk management framework is effective and that key risks are managed cost effectively and to an acceptable level.
- To consider matters relating to control and regulatory / compliance issues as well as key market, credit, investment, liquidity and operation risk exposures of the Bank.
- To make recommendations to the Board in relation to the Bank's overall risk appetite and tolerances; and to set policies, procedures within which to manage these.

EXECUTIVE/MANAGEMENT COMMITTEES

Management Committee

MANCOM is the principal management committee which is responsible for the general oversight of the Bank's business (budgetary / strategy / investment / personnel / audit issues / compliance / others).

The Committee shall:

- Ensure preparation and updating of the Bank's strategy and business plans
- Review Business Plans and recommend amendments thereto in consideration of revised market conditions, actual performance, potential opportunities, etc.
- Ensure that the business plan of the Bank is implemented;
- Review and approve budgets
- Receive and review budget variances.
- Review and ensure the HR policies / issues are handled effectively including the following. Approving individual appointments and/or individual compensation, etc is not under the scope of MANCOM,
 - Staff Recruitment
 - Staff Performance Appraisal

- Staff Compensation
 - Staff Retention Plan
 - Optimal levels of staffing
- Regularly review, approve & ensure implementation of strategic management plans, resource allocation decisions, policies and procedures.
 - Review and approve policies and procedures as per the committee's approval authority as well as recommend appropriate policies which should be in place.
 - Ensure that appropriate Disaster Recovery and Business Continuity Plans are developed, maintained and tested.
 - Together with the Bank's Legal Counsel discuss and review matters any legal matter that could have a significant or potentially significant impact on the Bank.
 - Recommend the Bank's insurance coverage.
 - Review annually the schedule of authority for current relevance and applicability and, recommend to the Board for approval for changes, if any.
 - Provide a general forum for aggregating ideas and interests regarding the operations.
 - Review the annual staff insurance programs including medical benefits and appointment of panel or insurance broker or third party administrator.
 - Review the safeguarding of Bank's assets and premises.
 - Review any significant incidents or events.
 - Review the results of major inspections and evaluations by external oversight bodies.
 - Appoint other committees composed of the management of the Bank as and when necessary.

Asset Liability Management Committee

The primary role of the Asset & Liability Management Committee (ALCO) is to manage the Bank's balance sheet profile and to derive the most appropriate strategy for the Bank in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of profit-rate movements, liquidity constraints, foreign exchange exposure and capital adequacy.

The Committee shall:

- Review the Bank's results to determine if the targets set as the previous ALCO meeting were achieved from an asset and liability management point of view.
- Assess the Bank's current balance sheet position from an asset and liability management point of view.
- Review the appropriateness of the existing strategies (including liquidity, profit rate, foreign exchange, investment, and derivative strategies, objectives, policies and limits)
- Project exogenous factors
- Develop asset and liability strategies
- Simulate the asset and liability strategies over time

- Determine the most appropriate asset and liability strategy
- Set measurable targets to achieve the asset and liability strategy
- Communicate the targets to the functions (operations and treasury)
- Monitor actions regularly to ensure compliance with the strategies decided on
- Evaluate the success of the current strategy
 - Given environmental volatility, reevaluate the current strategy on a regular basis to determine its appropriateness
 - Communicate the approved strategies and policies throughout the Bank

Executive Credit & Investment Committee

ECICOM is the principal management committee which reviews and recommends investment proposals, credit proposals and exit proposals as per their defined authority in the relevant policies. Also, it is responsible to develop and recommend the appropriate Investment policy for approval by the Board Investment & Credit Committee (BICC).

The Committee shall:

- Receive and review investment and credit proposals.
- Receive and review proposals for sale/ exit from investments.
- Monitoring investments and receive information periodically, the reports issued by Executive Risk Management Committee on the Bank's investment portfolio including adherence to established investment limits.

Executive Risk Management Committee

The Executive Risk Management Committee (ERMC) is the principal body which enables the Chief Executive Officer (CEO) and Executive Management (i.e. Deputy General Manager and above) to control and coordinate the management of all risks arising out of and associated with the Bank's activities.

The principal functions of the ERMC are:

- To define and set risk parameters and benchmarks that are consistent with bank's strategic business objectives and risk appetite
- To recommend risk policies to the Board of Directors and the Board Risk Management Committee (BRMC) for their approval
- To oversee and monitor the organization's framework of approved policies and procedures in relation to the measurement, management and control of risk
- To promote a strong control environment within the organization;
- To proactively review the bank's risk profile and ensure it is within the risk parameters approved by the Board of Directors and BRMC;
- To monitor the risk management department, which is charged with the responsibility for day to day monitoring of risk

- To review the bank's provisioning and capital adequacy requirements and to allocate capital to businesses as required.
- To monitor the internal capital adequacy requirements and calculate the internal capital

ERMC shall act to ensure that the Bank has an effective risk management framework in place, meets regulatory requirements and is in line with best practice. The ERMC is also responsible for determining and advising the Board as to whether the Bank is operating in accordance with the parameters of the Bank's stated risk appetite. The Committee will not be involved in the day to day management of individual risks, which is the responsibility of the line managers.

It is the responsibility of the Committee to:

- Receive and review risk reports on Operational, Market, Credit, Investment and Liquidity Risk from the Risk & Credit Management Department,
- Review and approve all risk policies before forwarding them to the Board of Directors and the Board Risk Management Committee for approval with their recommendations;
- Review and approve relevant procedures and methodologies;
- Review and approve all new product categories and key strategic projects before forwarding to final approval authority;
- Review key performance indicators related to risk and ensure adequate action to remedy any weaknesses highlighted;
- Review / consider any reports sent to the Committee to action or reference (e.g. by other Committees);
- Review the provisioning and impairment policies of the Bank and ensure that adequate provisioning has been done at the end of each quarter and annually;
- Approve quarterly and annual provisions before forwarding to final approval authority;
- Monitor internal capital requirement and pro-actively ensure adequacy with them;
- Review issues raised in regulatory reports as well as in internal and external audit reports and follow up on any management action that may be necessary; and
- Review regulatory reports and ensure compliance;
- Receive and review the Bank's compliance with the risk policies and tolerances agreed by the Board; and review and report on any risk management issues.

INSIDER TRADING

Insiders should be well aware of the legal and administrative requirements regarding the holding and trading of the Bank's securities. You may not engage in insider trading in securities, this means not dealing, or advising or arranging anyone else to deal, in any shares or other listed or traded securities if you have information which you know or believe is confidential relating to those securities or the company concerned. This covers: buying/selling for yourself, relatives, friends, and others or giving advice or information to a third party to buy or sell. Price sensitive information is that which, if it were generally known, would be likely to affect the price of securities.

MONEY LAUNDERING

KHCB is committed to identifying money laundering transactions and all employees are required to strictly follow the Bank's detailed guidelines. It is essential that all staff is familiar with these guidelines and any extra obligations imposed by local laws.

WHISTLE BLOWING

All employees are encouraged to raise genuine concerns about possible improprieties in matters of financial reporting and other malpractices at the earliest opportunity, and in an appropriate way.

This policy is designed to:

- Support Khaleeji Commercial Bank values
- Ensure employees can raise concerns without fear of suffering retribution; and
- Provide a transparent and confidential process for dealing with concerns.

This policy not only covers possible improprieties in matters of financial reporting, but also:

- Fraud;
- Corruption, bribery or blackmail;
- Criminal offences;
- Failure to comply with a legal or regulatory obligation;
- Miscarriage of justice;
- Coercion, harassment or discrimination by, or affecting, any member of the Bank;
- Endangering the health and safety of an individual; and
- Concealment of any of the above.