

KH FUNDING COMPANY

CODE OF ETHICS FOR PRINCIPAL EXECUTIVE OFFICERS AND SENIOR FINANCIAL OFFICERS

I. INTRODUCTION

This Code of Ethics ("Code") is applicable to KH Funding Company's (the "Company") chief executive officer, chief operating officer, chief financial officer, principal accounting officer, controller and any person performing similar functions.

While the Company and its stockholders expect honest and ethical conduct in all aspects of our business from all employees, the Company and its stockholders expect the highest possible standards of honest and ethical conduct from you. You are setting an example for other employees and are expected to foster a culture of transparency, integrity and honesty. Compliance with this Code and all other applicable codes of business conduct or ethics adopted by the Board of Directors of the Corporation is a condition to your employment and any violations will be dealt with severely.

II. CONFLICTS OF INTEREST

Conflicts of interest are strictly prohibited as a matter of Company policy. You must be scrupulous in avoiding any action or interest that conflicts with, or gives the appearance of a conflict with, the Company's interests. A "conflict of interest" exists whenever an individual's private interests in any way interfere or conflict with, or appear to interfere or conflict with, the interests of the Company or make, or appear to make, it difficult for the individual to perform his or her work for the Company objectively and effectively. Conflicts of interest arise when:

- your personal interests interfere, or appear to interfere, in any way, with the interests of the Company (for example, you compete with the Company);
- you take action for your direct or indirect benefit or the direct or indirect benefit of a third party that is inconsistent with the interests of the Company (for example, you cause the Company to engage in business transactions with a company you control or with friends or relatives);
- you, or a member of your family, receive improper personal benefits as a result of your position in the Company (for example, you receive a loan or other benefit from a third party to direct the Company business to a third-party).

There are other situations in which conflicts of interest may arise. Conflicts of interests may not always be clear-cut. If you have questions or concerns regarding a situation, please contact our Nominating and Corporate Governance Committee.

III. ACCURATE PERIODIC REPORTS

As you are aware, full, fair, accurate, timely and understandable disclosure in the reports and other documents that we file with, or submit to, the SEC and in our other public communications is critical for us to maintain our good reputation, to comply with our obligations under the securities laws and to meet the expectations of our stockholders and other members of the investment community. You are to exercise the highest standard of care in preparing such reports and documents and other public communications, in accordance with the following guidelines:

- all accounting records, and the reports produced from such records, must be in accordance with all applicable laws and regulations;
- all accounting records must fairly and accurately reflect the transactions or occurrences to which they relate;
- all accounting records must fairly and accurately reflect in reasonable detail the Company's assets, liabilities, revenues and expenses;
- no accounting records may contain any false or intentionally misleading entries;
- no transactions should be intentionally misclassified as to accounts, departments or accounting periods;
- all transactions must be supported by accurate documentation in reasonable detail and recorded in the proper account and in the proper accounting period;
- no relevant information should be concealed from the internal auditors or the independent auditors; and
- compliance with the Company's system of internal controls is required.

IV. COMPLIANCE WITH LAWS

You are expected to understand and comply with both the letter and spirit of all applicable laws and governmental rules and regulations.

V. REPORTING VIOLATIONS

You are expected to report any violations of this Code promptly to the Chairman of the Audit Committee of the Board of Directors.

VI. CONSEQUENCES OF NON-COMPLIANCE WITH THIS CODE

Violations of this Code will be reported to the Audit Committee. If you fail to comply with this Code or applicable laws, rules or regulations (including without limitation all rules and regulations of the Securities and Exchange Commission) you will be subject to disciplinary measures, up to and including discharge from the Company, and any

appropriate legal action.

VII. AMENDMENT, MODIFICATION AND WAIVER

This Code may be amended or modified by the Board of Directors of the Company. Waivers of this Code may only be granted by the Board of Directors or a committee of the Board of Directors with specific delegated authority. Waivers will be disclosed to stockholders as required by the Securities Exchange Act of 1934, as amended and the rules thereunder and the applicable rules of a national securities exchange or national securities association.

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