

# CORPORATE GOVERNANCE REPORT

31<sup>st</sup> December  
2018

## Introduction

Stemming from the principles of transparency and disclosure that enhance the stability and growth of the Company and in application of best global regulatory and supervisory practices, as well as in compliance with the instructions of the regulators, we prepared this report with a view to demonstrate our keenness to enhance the administrative efficiency of the Company, support the monitoring and auditing procedures and raise the level of effective social role in society, in addition to promoting justice, transparency and fair treatment and reducing the concept of conflict of interest. We have prepared a corporate governance report to include a set of rules that are the cornerstone of this report, as follows:

- Rule One: Building a balanced structure for the Board of Directors
- Rule Two: Proper identification of tasks and responsibilities
- Rule Three: Selection of competent persons for the Board of Directors and the Executive Management
- Rule Four: Ensuring the integrity of financial reports:
- Rule Five: Develop sound risk management and internal control systems
- Rule Six: Promoting professional conduct and moral values
- Rule Seven: Disclosure and transparency in an accurate and timely manner
- Rule Eight: Respect of Shareholders' Rights
- Rule Nine: Recognizing the role of stakeholders
- Rule Ten: Performance promotion and improvement
- Rule Eleven: Focusing on the importance of social responsibility



## **RULE ONE / BUILDING A BALANCED STRUCTURE FOR THE BOARD OF DIRECTORS**

### **Board of Directors**

The role of the Board of Directors (the “Board”) represents the point of balance that works to achieve shareholders’ objectives and follow-up the functions of the Executive Management of the Company. The Board of Arzan Finance Group believes that the skills, experiences and characteristics of its members fit with their responsibilities and the activities of the Company and its members provide a range of expertise to the Board, including, but not limited, the following:

International, regional and local experience;

- Technical expertise related to the business environment and the regulatory and economic environment in which Arzan Financial Group operates;
- Experience and knowledge of the financial sector.

### **Formation of Arzan Finance Group Board:**

The Board’s decisions have a significant impact on the performance of the Company and the integrity of its financial position. Therefore, the Company is keen to have a BOD that is composed of a sufficient number of members that allows to form the necessary number of committees emanating from the Board, within the requirements of good governance.

The Board of Directors consists of seven (7) members, including the independent members, for 2017-2019 Session.

The Nomination and Remuneration Committee examined the papers of the candidates nominated for the Board membership for 2017-2019 Session and it was ensured that the applicants have met the requirements of Kuwait Capital Markets Authority in terms of the rules of competence and integrity of the candidates.

### **Independence**

The Board of Directors shall be composed of two independent members. The Nomination and Remuneration Committee has ensured that the status of independence is fulfilled in accordance with the regulations of Kuwait Capital Markets Authority.

The following are the resumes of the BOD members for 2017-2019 Session:

Name	Member Classification (Executive, Non Executive, Independent, Secretary)	Qualifications and Practical Expertise	Election Date
<b>Wafa Ahmed Al Qatami</b>	Board Chairman, representing Al-Rana Trading Company (Non-Executive Member)	<ul style="list-style-type: none"> <li>Political Science and General Management, AUC of Beirut 1973, Lebanon</li> <li>Experience of 41 years in banking, investment, real estate and financial institutions.</li> </ul>	19 July 2017
<b>Jassem Hassan Zainal</b>	Board Vice Chairman and Chief Executive Officer Representative of Dhahiat Al-Sura Real Estate Company (Executive Member)	<ul style="list-style-type: none"> <li>Bachelor of Science - Civil Engineering, Miami University (1980), USA.</li> <li>BA in General Studies - Mathematics, Miami University (1981), Miami, USA.</li> <li>MA of Science - Civil Engineering, Kuwait University (1991), State of Kuwait.</li> <li>35 years of experience in banking, investment and financial institutions</li> </ul>	19 July 2017
<b>Ibrahim Saleh Al-Dhorban</b>	Board Member Representative of Manara Horizon Real Estate Company (Non-Executive Member)	<ul style="list-style-type: none"> <li>Bachelor of Commerce - Accounting, Kuwait University (1975), State of Kuwait.</li> <li>41 years of experience in banking, investment, real estate and financial institutions.</li> </ul>	19 July 2017
<b>Emad Abdullah Al-Issa</b>	Board Member Representative of Kivan International (Non-Executive Member)	<ul style="list-style-type: none"> <li>Bachelor of Science - Business Administration, Polytechnic University (1986), Pomona, California, USA.</li> <li>MA of Business Administration - Accounting, George Washington University (2004), Washington DC, USA.</li> <li>31 years of experience in investment, real estate and financial institutions.</li> </ul>	19 July 2017
<b>Rami Khaled Abdullah</b>	Board Member Representative of Asjad Kuwait (Non-Executive Member)	<ul style="list-style-type: none"> <li>Bachelor of Arts - Business Administration, Beirut American University (2000), Beirut, Lebanon.</li> <li>MA of Business Administration - Accounting, George Washington University (2004), Washington DC, USA.</li> <li>Certified Financial Analyst - CFA, (2008), USA.</li> <li>Certified Public Accountant (CPA), (2005) USA.</li> <li>Certified Financial Manager - CFM (2002), USA.</li> <li>Certified Administrative Accountant - CMA, (2001), USA.</li> <li>21 years of experience in auditing, consulting, investment, real estate and financial institutions.</li> </ul>	19 July 2017
<b>Ammar Talib Hajeyah</b>	Independent Member	<ul style="list-style-type: none"> <li>Bachelor of Business Administration - Finance, Kuwait University (2004), Kuwait.</li> <li>MA in of Strategic Management, Maastricht Business School - Kuwait (2008), State of Kuwait.</li> <li>16 years of experience in investment, real estate and financial institutions.</li> </ul>	19 July 2017
<b>Abdelhamid Mohamed Mehrez</b>	Independent Member	<ul style="list-style-type: none"> <li>Bachelor of Science - Biology, Beirut American University (1999), Beirut, Lebanon.</li> <li>MA in Business Administration - Finance, Lebanese American University (2002), Beirut, Lebanon.</li> <li>Certified Financial Analyst - CFA, (2005), USA.</li> <li>16 years of experience in investment, real estate and financial institutions.</li> </ul>	19 July 2017
<b>Ruba Ghanem</b>	Secretary	<ul style="list-style-type: none"> <li>Bachelor of Business Administration - Banking, Granttown University 2014, USA.</li> <li>19 years of experience in banking, investment and financial institutions.</li> </ul>	19 July 2017



### Board meetings and attendance

The Board of Directors shall devote sufficient time to carry out the tasks and responsibilities entrusted thereto, including preparing for the Board meetings and committees emanating therefrom. Meetings shall be held, at least, on a quarterly basis. Sufficient documentation shall be provided to the Board members to enable them assessing the topics for which decisions are required. Among the key documents submitted to the Board:

- Quarterly financial statements
- Minutes of the previous Board meeting
- Minutes of the Board committees
- Aspects / developments within each department of the Company
- Reports of regulatory violations.

The Board of Directors held 7 meetings in the year 2018, as follows:

Member's Name	Meeting # (01/2018) on 31/01/2018	Meeting # (02/2018) on 27/02/2018	Meeting # (03/2018) on 29/03/2018	Meeting # (04/2018) on 15/05/2018	Meeting # (05/2018) on 30/07/2018	Meeting # (06/2018) on 31/10/2018	Meeting # (07/2018) on 20/12/2018	Number of Meetings
Wafa Al Qatami	√	√	√	×	√	×	√	5
Jassem Hassan Zainal	√	√	√	√	√	√	√	7
Ibrahim Al-Dhorban	×	×	×	×	√	√	×	3
Abdel Hamid Mehrez	√	√	√	√	√	√	×	6
Emad Abdullah Al-Issa	√	×	×	√	×	×	×	2
Rami Khaled Abdullah	√	√	√	√	√	√	√	7
Ammar Taleb Hajeyah	×	√	√	√	√	√	√	6

### Record, coordinate and safekeeping minutes of meetings of the Board of Directors

keenness to attend these meeting and organizing the Board meetings in consecutive numbers for the year in which they are held, indicating the venue, date and starting and ending hours of the meeting, as well as preparing minutes of discussions and deliberations including the voting process. The said minutes shall be signed by all members and the Secretary. All Board minutes of meetings, records, books and reports submitted from/to the Board shall be kept, ensuring a full and rapid access of the Board members to the minutes of Board meetings, documents and records relating to the Company. The Board has appointed a Secretary of the Board from among the Company's employees, specifying her functions in accordance with the Company's corporate governance rules and in line with the responsibilities assigned to her.

## RULE TWO / PROPER IDENTIFICATION OF TASKS AND RESPONSIBILITIES

### Policies of the Functions, Duties and Responsibilities of the Board of Directors & Executive Management and the delegations of authorities:

The role of the Board of Directors in the Company is a balance point that works to achieve the shareholders' objectives and follow up the Executive Management of the Company. The Board seeks to achieve the Company's strategic objectives by ensuring that the Executive Management performs its tasks to the fullest and that it works to enhance the competitiveness of the Company, in addition to achieving high growth rates, working to maximize profits and that the Executive Management decisions and procedures always work to the interests of the shareholders.

Worth noting is that the Board operates in accordance with an approved code that includes the main responsibilities, as well as other responsibilities as provided for in the relevant regulations and laws.

The Board also determine and monitor the functions and responsibilities of the executive management and determine delegations of authorities to the executive management. Such delegations shall be reviewed to ensure its adequacy.

### Achievements of the Board of Directors during 2018:

Some of the most prominent actions undertaken by the Board during 2018 include, but not limited to, the following:

- Supervising the monitoring and review of the performance of the Board of Directors and the Executive Management.
- Ratify Arzan's financing and borrowing requirements.
- Ratify the annual and interim budget and ensure that performance is measured in accordance with the budget and work plans.
- Consideration of annual financial statements, interim lists, dividend declarations and notices to shareholders in accordance with the recommendation of the Board Audit Committee and its appropriations.
- Ensure risk management systems, internal controls and financial and operational systems.
- Adoption of the company's modern internal policies and procedures, including: record keeping and archiving, SWIFT, efficiency and integrity, FATCA, common reporting standard.
- Review and amend the existing internal policies and procedures of the company including: Business Continuity Plan, Disaster Response and IT Emergency, Charter of the Nomination and Remuneration Committee, Asset Management, Investment Advisory Services, Securities Broker, Social Responsibility, Human Resources, Department of Management, Board of Directors and Council Committees, Powers and Responsibilities, Credit Committee, Appropriations Committee, Marketing Department, Charter of the Board Risk Committee, SME Financing.
- Ensuring the company's compliance with policies and procedures that ensure that the company respects the shareholders' rights for the activities and internal regulations in force and the company's commitment to implementing the governance system.
- Review, amend and approve the company's organizational structure.
- Review and approve the company's overall strategy for the three years 2019-2021, the work plan.
- Adoption of annual estimated budgets.



- Monitor the performance of each member of the board of directors and executive management in accordance with KPI's
- Approval of the appointment of candidates for executive positions.
- Adoption of annual / semi-annual reports sent to government / regulatory authorities.
- Adoption of reports to the General Assembly.

### Board Committees

Arzan's internal control and management system is based on the directives and regulations issued by the Capital Markets Authority, the Central Bank of Kuwait, Kuwait Stock Exchange, the Company's Memorandum of Association, Articles of Association and internal practices. The Board shall bear full responsibility for the operations of the Company's operations and may delegate some of its powers to the Board Committees. The Board has formed three committees to assist it in monitoring the decision-making process and functions of Arzan. Each Board Committee shall perform its functions in accordance with its own code, as specified in the Code of the Board of Directors and in accordance with the regulations approved by the Board.

During 2017, the Board of Directors, during its meeting number 4/2017, has formed 3 committees emanating from the Board to assist them in making decisions and monitor the functions of the Company. These committees are working according to their own codes as approved by the Board for the period of 2017-2019. .

### Audit Committee:

The Audit Committee is responsible for assisting the Board in effectively performing its responsibilities in terms of financial reporting, internal controls and internal and external audit, in addition to developing Company's culture of compliance by ensuring the independence of external auditors and the integrity and fairness of the Company's financial statements, ensuring the adequacy and efficiency of the Company's internal controls. The Committee operates on the basis of a code approved by the Board. Among the prominent works practices in the year 2017, for example:

1. Reviewing and discussing the interim and final financial statements before submitting them to the Board of Directors and expressing their opinion thereon as of 31/12/2017, 31/3/2018, 30/6/2018, 30/9/2018 and studying the observations made by the external auditors on the financial statements.
2. Review the Audit of the Internal Control Systems evaluation report for the year ended 31/12/2017.
3. Recommend to the Governing Council the appointment/reappointment of external auditors
4. Adoption of the report of the Audit Committee for the financial year ended on 31/12/2017 and recommendation to the Governing Council.
5. Review the results of the internal audit reports and ensure that corrective action is taken on them.
6. Review and approve the annual audit management workplans.

The Audit Committee shall consist of the following three members, appointed by a resolution of the Board of Directors issued in its Minutes No. 4/2017, dated 19/07/2017, for the session (2017-2019):

- Ibrahim Al-Dhorban - Chairman of the Committee (Non-Executive Member, Non-Independent)
- Ammar Hajeyah - Independent Member (Non-Executive Member)
- Emad Al-Issa – Member of The Committee (Non-Executive, Non-Independent)

Audit Committee has convened Five (5) meetings during the year 2017, as follows:

Member's Name	Meeting # (01/2018) on 29/03/2017	Meeting # (02/2018) on 15/05/2018	Meeting # (03/2018) on 30/07/2018	Meeting # (04/2018) on 31/10/2018	Number of Meetings
<b>Ibrahim Al-Dhorban (Chairman of the Committee)</b>	√	×	√	√	<b>3</b>
<b>Emad Abdullah Al-Issa (Member of The Committee)</b>	×	√	×	×	<b>1</b>
<b>Ammar Taleb Hajeyah (Independent Member)</b>	√	√	√	√	<b>4</b>
<b>External Auditor</b>	√	√	√	√	<b>4</b>
<b>Internal Auditor</b>	√	√	√	√	<b>4</b>

#### Risk Committee:

The Risk Committee is responsible for assisting the Board in performing the special control and monitoring responsibility for the Company's risk management function, including identifying, assessing, controlling and mitigating the risks the Company is exposed to. The Committee assists the Board in developing the Company's risk management approach and strategy, as well as the overall risk management framework and monitoring the implementation of the executive management of this strategy. The Committee operates on the basis of a code approved by the Board of Directors. The following are examples to the key works undertaken by the Committee during 2018:

1. Review the periodic reports on the nature of risks to which the Company is exposed and submitting them to the Board of Directors.
2. Review the organizational structure of the Company and develop recommendations and submit them to the Board of directors for approval.
3. Review the risk management strategy for the next three years 2019-2021 and submit it to the Board of directors for approval.
4. Review and approve annual risk management workplans.
5. Review the issues raised by the Audit Committee on risk Management.
6. Review the auditor's report on the CRS common reporting Standard and submit it to the Board of directors for approval.
7. Review the external Penetration test report.
8. Review the discussion of the auditor's report on FATCA and submit it to the Board of directors for approval.





9. Reviewing current policies and procedures including: Business continuity plan, disaster response and information technology emergency, Charter of the Committee on nominations and rewards, asset Management, investment consultancy services, securities broker, social responsibility, powers and responsibilities, committee Credit, Allocation Committee, work charter of the Board of Directors of risk, financing of small and medium-sized enterprises.
10. Review of recent policies and procedures, including: record-keeping and archiving, financial transfers between banks, "Swift", Efficiency and integrity, FATCA, common reporting standard, training of board members.

The Risk Committee consists of 3 members appointed by Board o resolution issued in its minutes No. 4/2017, dated 19/07/2017, for the session (2017-2019):

- Ibrahim Al-Dhorban – Committee Chairman (Non-Executive, Non-Independent)
- Jassem Hassan Zainal - Committee Vice Chairman (Executive Member, Non-Independent)
- Abdel Hamid Mehrez – Committee Member (Non-Executive Member, Independent)

Risk Management Committee has convened 6 meetings, as follows:

Member's Name	Meeting # (01/2018) on 31/01/2018	Meeting # (02/2018) on 27/02/2018	Meeting # (03/2018) on 15/05/2018	Meeting # (04/2018) on 29/07/2018	Meeting # (05/2018) on 31/10/2018	Meeting # (06/2018) on 20/12/2018	Number of Meetings
<b>Ibrahim Al-Dhorban (Chairman of the Committee)</b>	x	x	x	√	√	√	<b>3</b>
<b>Jassem Hassan Zainal - Committee Vice Chairman</b>	√	√	√	√	√	√	<b>6</b>
<b>Abdel Hamid Mehrez – Committee Member</b>	√	√	√	√	√	x	<b>5</b>

#### Nomination and Remuneration Committee:

This committee shall assume the responsibilities related to the fees of the Arzan Board of Directors and its Executive Management, in line with their performance, qualifications and levels of expertise. The Committee also assumes additional responsibilities related to the nominations in accordance with CMA regulations and the other laws. The Committee operates on the basis of a code approved by the Board of Directors. Among the key works undertaken by the Committee during 2017, for example:

1. Adoption of the annual remuneration, remuneration and benefits report for the members of the Board of Directors and the Executive Board for the financial year ended 31 December 2017, and the recommendation on the Board of Directors' proposed remuneration for approval.
2. Study and review the applications of candidates for executive positions and raise the recommendation to the Board of Directors
3. Adoption of the self-evaluation of the members of the Board of Directors and the Committees of the year 2017.

The Nomination and Remuneration Committee consists of the following four (4) members appointed by Board resolution issued in its Minutes No. 4/2017, dated 19/07/2017, for the session (2017-2019):

- Wafa Al Qatami – Chairman of the Committee (Non-Executive Member, Non-Independent)
- Jassim Hassan Zainal - Committee Vice Chairman (Executive Member, Non-Independent)
- Rami Ali – Committee Member (Non-Executive Member, Non-Independent)
- Abdel Hamid Mehrez – Committee Member (Independent Member, Non-Executive)

The Nomination and Remuneration Committee has convened twice during 2018, as follows:

Member's Name	Meeting # (1/2018) on 29/03/2018	Meeting # (2/2018) on 20/12/2018	Number of Meetings
<b>Wafa Al Qatami (Chairman)</b>	√	√	<b>2</b>
<b>Jassim Hassan Zainal (Vice Chairman)</b>	√	√	<b>2</b>
<b>Rami Khaled Abdullah (Non-Executive Member)</b>	√	√	<b>2</b>
<b>Abdel Hamid Mehrez (Independent Member)</b>	-	√	<b>1</b>

#### Access to data and information mechanism:

The Board has appointed a secretary of the Board from among the employees of the company and determine its functions in accordance with the rules of corporate governance in line with the responsibilities entrusted to it. The Secretary shall ensure accurate access of members of the Board to information, data, documents and records relating to the Company in time.

### **RULE THREE / SELECTION OF COMPETENT PERSONS FOR THE BOARD OF DIRECTORS AND THE EXECUTIVE MANAGEMENT**

#### Responsibility of the Nomination and Remuneration Committee relevant to positions' occupancy:

The nomination mechanism set for the Board of Directors and Executive Management ensures continuous recruitment and selection of competencies to the membership of the Board and Executive Management. The Company's Board of Directors has formed a Nomination and Remuneration Committee consisting of three Board non-executive Board members, with independent member. The Board has determined the term of office of the Committee and its modus operandi, in addition to its terms of reference and responsibilities, within its code of work as adopted by the Board. The Company's Articles of Association also stipulate a clear policy for remuneration bonuses to the Board Chairman and members. The company's remuneration policy is based on the following principles:



- Observance of the provisions of Companies Law and related laws.
- Recruitment and retention of the best staff.
- Ensuring equality within the Company and competitiveness outside it.
- Transparency in awarding remunerations.

#### Directors' Remunerations:

The Company adheres to the remuneration system of the Board of Directors as stipulated in Article 198 of Companies Law No. (1/ 2016) and the approval of the General Assembly shall be taken regarding the remuneration of the Board members.

#### Executive Management Remuneration and Incentives:

Fixed Remuneration : Includes salaries and benefits (including end of service benefits), which are awarded under the scale of salaries approved by the Board of Directors, the applicable laws and regulations and the Human Resources Management Policies and Procedures Manual.

Variable Remuneration : Variable remunerations are linked to the achievement of previously determined objectives. This kind of remuneration is designed to motivate and reward Executive Management members. Variable remuneration is allocated according to the performance of the Executive Management member and the overall performance of the Company. Variable rewards are paid in cash.

The Company prepares an annual report on all remunerations granted to the members of the Board of Directors and the Executive Management, to be presented to the General Assembly of the Company and read by the Chairman of the Board.

#### Remunerations and incentives of Company's employees

1. One of the most important objectives of awarding bonuses and remunerations is to establish the principle of belonging to the Company and motivate the employees towards working to achieve the objectives of the Company and raise its level. The Company seeks to ensure that the remunerations system reflects and is commensurate with the functions and responsibilities and is fair and equitable.
2. Remunerations to the employees of the Company shall be adopted based on an evaluation of the level of performance, where remunerations are awarded in accordance with an approved policy, in order to achieve the operational and financial objectives, and based on the employees' individual performance and contribution to achieve the strategic objectives.

## **RULE FOUR: ENSURING THE INTEGRITY OF FINANCIAL REPORTS:**

### **Financial reports and the Board of Directors' and Executive Management's commitment to the credibility and integrity of reports**

The Board of Directors is responsible for monitoring and reviewing the credibility of the financial statements, accounting policies and information contained in the annual report. In undertaking that responsibility, Board members receive continuous support through certain processes to identify and assess the risks faced by the Company. The independent monitoring process is carried out to ensure the effectiveness of the Executive Management in conducting Company's business and achieving its objectives by the Internal Audit Department, the Risk Management Department and other Board subcommittees.

The credibility and integrity of the financial statements of the Company are among the most important indicators that to the Company's integrity and credibility in presenting its financial position, which increases the confidence of shareholders and investors in the data and information provided by the Company and disclosed to the shareholders. The Executive Management acknowledges to the Board, in writing, that the submitted financial reports are correct and fair and that they include all financial aspects of the Company in terms of data and operating results. These reports are also prepared in accordance with the international accounting standards adopted by the Authority. The annual report submitted to the shareholders from the Board of Directors acknowledges the credibility and integrity of all financial statements and reports related to the Company's activity. These undertakings and acknowledgements contribute to enhancing accountability; whether of the Executive Management to the Board or of the Board to the shareholders.

### **Composition requirements of the Audit Committee:**

The Audit Committee consist of three members, including an independent member. The Board takes into account, when forming the Committee, that the Chairman of the Board of Directors or the Executive Members shall not be members of the Committee. The Committee also includes members with academic qualifications and / or practical experience in the fields of accounting and finance.

### **The conflict between the recommendations of the Audit Committee and the Board of Directors resolutions:**

During the financial year ended 31/12/2018, there is no conflict between the recommendations of the Audit Committee and the Board of Directors.

### **Independence and impartiality of the Company's external auditor:**

The Company's Ordinary General Assembly appoints/reassigns the external auditor on the recommendation of the Board. The nomination of the auditor shall be based on the recommendation of the Audit Committee, which shall take into consideration that the auditor shall be registered in the special register of the Authority, so that he fulfills all the conditions stipulated in the Authority's regarding the system of recording the auditors. The Committee shall also ensure that the external auditor is



independent of the Company and its Board and that he is not performing any other works to the Company that are not within the scope of auditing, which may affect his neutrality or independence. The Audit Committee shall discuss with the external auditor before submitting the annual financial statements to the Board for decision.

The Grand Thornton - Al Qatami & Al Aiban Group Auditor has been reappointed for the current year ended 31/12/2018 by a resolution issued by the Ordinary General Assembly held on 13/05/2018.

The external auditor shall attend the Annual General Assembly meeting and shall recite his report to the shareholders of the Company.

## **RULE FIVE / DEVELOP SOUND RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS**

### **Risk Management:**

The company organizational structure approved by the Board of Directors have a Risk Management department, which is independence, affiliated to the risk committee and, accordingly, to the Board of Directors.

Arzan has a comprehensive risk management framework that is applied to ensure proper governance of the Company and its related entities. The Board directs the policy and procedures framework and is responsible for risk management and all existing risk control systems in Arzan.

Arzan's Board of Directors ensures integrating the risk management concept into the Company's culture, policies and processes. Risk Management Department enjoy broad powers to perform their duties without granting them any powers and executive and financial powers.

Risk Management Department identifies, evaluates, assesses and reports on all the significant risks to which Arzan is exposed, through key risk indicators identified according to the relevant risk categories, in addition to implementing periodic risk control and monitoring activities, with the preparation and implementation of new audit and control policies. The Department aims to enhance its risk control capabilities through the use of the best IT programs in the field of risk management and assessment. The Risk Management Department reports quarterly to the Board and semi-annually to the Capital Markets Authority.

### **Composition requirements of the Risk Management Committee:**

The Risk Management Committee consist of three members. The Board takes into account, when forming the Committee, that the Chairman of the Board of Directors shall not be members of the Committee and the Chairman of the Committee shall be not an executive member.

### **Internal Control Systems:**

The integrity and credibility of the internal control systems shall be achieved through policies and procedures, automating the processes in line with the policies and procedures adopted for the Company, wise selection of the employees and raising their awareness, as well as an organizational structure that separates responsibilities.

Internal control procedures are established to protect the Company's assets and to ensure the approval of the decisions and procedures. Periodic risk assessments are carried out by the Risk Management Department and compliance is being reviewed periodically by the Compliance Department.

#### Internal Audit:

The company organizational structure approved by the Board of Directors have an Internal Audit department, which enjoy full technical independence, affiliated to the audit committee and, accordingly, to the Board of Directors.

The Internal Audit Department reports separately to the Audit Committee of the Board. Audits are performed by an internal audit team within the Company, in accordance with the internal audit plan approved by the Audit Committee. Comprehensive reports shall be submitted by the internal auditors directly to the Audit Committee, in addition to adopting appropriate corrective policies and procedures where necessary. The internal audit plan shall be implemented through assessing the effectiveness of the risk control instruments, the risk management and the control and governance systems.

## RULE SIX / PROMOTING PROFESSIONAL CONDUCT AND MORAL VALUES

### Standards and determinants of professional conduct and ethics

Arzan adopts a Code of Professional Conduct, to which the Board, the Executive Management and all employees of the Company are committed. The Code defines the following topics:

**Compliance with laws, rules and regulations:** The Board of Directors and the Executive Management shall comply with the laws, rules and regulations in force at Arzan and its subsidiaries.

**Trading on the basis of internal information:** All Board members and officials shall not use any special data and information that are not intended for publication or use them for the purpose of trading in shares and achieving commercial gains through such data and information.

**Interests of the Company:** The members of the Board and the officials shall not use the Company's property, information or positions in order to achieve personal interests and gains and shall not compete with the Company, either directly or indirectly.

**Competitiveness and fair dealing:** The Board and the Company's management are committed to fair treatment and respect for the rights of the Company's customers, suppliers, competitors and employees. Members of the Board or the officials shall not make unfair gains from any party by manipulating or concealing information, misusing any confidential information, misrepresenting fundamental facts or committing any other illegal business practices.

**Recordkeeping, financial controls and disclosures:** The Company's books, records, accounts and financial statements shall be kept in detail and shall reflect the Company's transactions properly. They may be disclosed in accordance with any applicable laws and regulations, with full compliance with the applicable legal requirements and with the Company's internal regulations.



**Confidentiality of information:** The members of the Board, the Executive Management and the employees of the Company shall maintain the confidentiality of information and any information owned by the Company and entrusted to them by the Company, its customers or suppliers, unless the disclosure of such information is licensed/required by laws or regulations or if disclosed in accordance with the “need to know” rule.

**Protection and proper use of the Company’s assets:** The Board and Executive Management members are committed to protect the Company’s assets, including the Company’s proprietary information, including intellectual property rights; such as trade secrets, patents, trademarks and copyrights, as well as service, marketing and trade plans, databases, records, payroll information and any financial statements and unannounced reports. Unauthorized disclosure and distribution is an infringement of the Company’s policy and it may also be considered unlawful and would result in civil and criminal penalties.

**Financial reporting:** The Board of Directors and the Executive Management are responsible for the preparation of financial reports professionally and in accordance international standards, in addition to responding to any inquiries regarding general disclosure requirements to shareholders, stakeholders and any other parties.

#### **Policies and mechanisms to reduce conflicts of interests:**

The Board has developed policies and mechanisms to reduce cases of conflict of interest, as well as the methods of dealing with them within the framework of corporate governance, taking into account the provisions of the Companies Law. The Company, in its policies, has observed the existence of a clear separation between the interests of the Company and those associated with the Board members, through the Board’s establishing mechanisms to put the interests of the Company before the interests of its members. All Board members shall disclose to the Board any interests shared with him the Company, whether directly or indirectly. It is also prohibited for Board members to participate in any discussion, express opinion or vote on any subjects presented to the Board, where the member has a joint interest, directly or indirectly, with the Company. Employees of the Company may also report, internally, their doubts about any improper practices or suspicious matters in the financial reports, internal control systems or any other matters. The Company shall allow an independent and fair investigation of any matter brought to its attention, ensuring the good-faith reporter shall be protected against any adverse reaction or damage that may result from his reporting of such practices.

## **RULE SEVEN / DISCLOSURE AND TRANSPARENCY IN AN ACCURATE AND TIMELY MANNER**

### **Disclosure and transparency**

The Company is committed to applying the highest levels of transparency, where the Board has adopted disclosure policies and procedures to ensure accurate and timely information provision to shareholders and stakeholders. The Compliance Department shall coordinate with all departments of the Company to disclose information accurately and in a timely manner to the Capital Markets Authority, Kuwait Stock Exchange and to the stakeholders.

### Disclosure of Board of Directors and Executive Management

The Company has a special record that regulates the disclosures by the Board and Executive Management members. IT infrastructure has been developed to suit the Company's position.

### Investors Affairs Regulation Unit

The Investors Regulatory Unit has been established to provide communication and transparency with the shareholders and to respond to their complaints in accordance with approved policies and procedures. In addition, the Unit:

- Supervises the performance of the registrar and the stock transfer agent in the Company.
- Recommend the general development measures in the quality of the services provided to investors.

### Information Technology:

The Company has dedicated part of the Company's website to corporate governance, where all the latest information and data shall be presented to help the shareholders and current and prospective investors exercising their rights and evaluating the Company's performance.

## **RULE EIGHT / RESPECT OF SHAREHOLDERS' RIGHTS**

Protection of the shareholders' general rights to ensure equity and equality among all shareholders

The Company is committed to protecting shareholders' rights through a policy approved by the Board that guarantees protecting their rights and providing them with the exercise of those rights granted by the Commercial Companies Law in the State of Kuwait and the instructions of the Capital Market Authority in the state.

The Company shall treat all shareholders equally and without any discrimination. In no case the Company shall withhold any information from the shareholders or any of their rights. The general rights of the shareholders guaranteed by the Company include the following:

1. Registering the shareholders' propriety value in the Company's records.
2. Shareholders' right to dispose of the shares; ownership registration, assigning and/or transfer.
3. Shareholders' right to receive their share of dividends.
4. Shareholders' right to receive a share of the Company's assets in case of liquidation.
5. The right of shareholders to obtain data and information about the Company's activity and its operational and investment strategy in a regular and easy manner.
6. Shareholders' right to participate in the meetings of the General Assembly of shareholders and vote on their decisions.
7. Shareholders' right to elect the members of the Board of Directors





#### Ensuring accuracy and continuous follow-up of shareholders' data

For the purpose of continuous follow-up of all shareholders' data, the Company maintains a special record kept by Kuwait Clearing Company, listing the names, nationality and domicile of shareholders, and the number of shares owned by each of them. Any changes in the registered data shall be noted in the Shareholders Register, as per the data received by the Company or the Kuwait Clearing Company. Any interested party may request the Company or the clearing agency any data from the said register.

The data contained in the Company's Shareholders' Register shall be treated with the utmost protection and confidentiality, in a manner consistent with the law, the executive regulations and the instructions issued by the Regulatory Authority.

#### Data of the Clearing Agent that is maintain the Register

Kuwait Clearing Company  
POB: 22077  
Safat 13081  
Kuwait  
info@maqasa.com

#### Encouraging the shareholders to participate and vote in the Company's General Assembly meetings

The Company establishes a mechanism for participating in the meetings of the General Assembly of shareholders, where the following shall be considered upon conducting those meetings:

1. Inviting the shareholders to attend the General Assembly meeting, where the invitation shall include the agenda, time and venue of the meeting, through announcing according to the mechanism specified in the executive regulations of the Companies Law.
2. The Company shall make it clear to the shareholders that the shareholders are entitled to appoint another person in the presence of the General Assembly, under a special power of attorney or an authorization prepared by the Clearing Agency for this purpose.
3. The Company shall allow the shareholders an opportunity, sufficiently prior to the General Assembly, to obtain all information and data related to the agenda items, with a view to enable the shareholders to make their decisions properly.
4. The Company shall allow the shareholders to participate actively and effectively in the meetings of the General Assembly, discuss the issues on the agenda and the related queries on the different aspects of the activities, addressing the questions thereon to the members of the Board of Directors and the External Auditor. The Board of Directors or the External Auditor shall answer such questions to the possible extent that does not expose the Company's interests.

5. The Company shall allow all shareholders to exercise the right to vote without putting any obstacles that may hinder that voting, since voting is an inherent right of the shareholder and cannot be canceled in any way. The Company guarantees the exercise of all shareholders' rights through the following:

- Shareholders' enjoying the voting rights granted to them, with the same treatment by the Company.
- Shareholders' ability to vote in person or by proxy, with the same shareholders' rights and duties, whether in person or by proxy.
- Inform the shareholders of all rules governing the voting procedures.
- Provide all voting rights information to both existing shareholders and potential investors.
- All shareholders are entitled to vote on any changes in shareholders' rights by calling for a General Assembly meeting of shareholders.
- Voting to select the members for the Board of Directors during the General Assembly shall be carried out through the mechanisms stipulated in the Company's Memorandum and Articles of Association, in accordance with the provisions of the Companies Law and its Executive Regulations. In addition, the Company shall give a brief on the nominees for the Board membership before voting, giving the stakeholders a clear idea of the professional and technical skills, experience and other qualifications of their candidates.
- All categories of shareholders shall have the opportunity to hold the Board accountable for the tasks entrusted to them.

No fees shall be imposed for the attendance of any class of shareholders in the General Assembly meetings, nor they shall be given any preferential advantage to any other shareholders category.

## **RULE NINE / ACKNOWLEDGING THE ROLE OF STAKEHOLDERS**

### **Systems and policies that protect the stakeholders' rights**

Arzan acknowledges the rights of stakeholders and promotes cooperation between them and the Company in the various fields. The Company's Board has adopted a Stakeholder Rights policy.

### **Encouraging the stakeholders to participate in following-up the Company's various activities**

In order not to conflict with the transactions of stakeholders, whether contracts or transactions with the Company, with the interests of the shareholders, it shall be observed that none of the stakeholders may have any advantage in dealing with the contracts and transactions that fall within the Company's usual activities. The Company sets internal policies and regulations, including a clear mechanism for awarding the contracts and transactions of various types, through tenders or various purchase orders.



The Company has also established mechanisms to ensure maximum benefit from the contributions of stakeholders, encouraging them to participate in following-up the Company's activities, consistently with the full achievement of their interests. The Company provides the stakeholders with access to all information and data relevant to their activities, to be relied upon in a timely and on a regular basis. The Company has also facilitated stakeholders' reporting of any improper practices they may be exposed to by the Company, along with providing appropriate protection for the reporting parties.

## **RULE TEN / PERFORMANCE PROMOTION AND IMPROVEMENT**

### **Continuous training of Board and Executive Management members**

Arzan has developed training plans for the Board of Directors, executive management and employees of the company. Training programs are carried out on a regular basis in accordance with the company's approved training plan.

### **Evaluation of the BOD performance as a whole and the performance of each member of the Board of Directors and Executive Management**

#### **Evaluation of the performance of the Board of Directors and its Committees:**

The Company has established approved policies and procedures from the Board of Directors through which a formal process of reviewing the annual performance of the Board of Directors and its committees is carried out, and the effectiveness of their performance and their contribution to the management of Arzan Finance Group.

The purpose of the performance appraisal process is to have a formal, structured and coordinated way of evaluating the performance of the Board and its committees to take steps to improve the performance of the Board. This process will also benefit from the Board's recommendations to shareholders in the re-election phase.

#### **Executive Management evaluation performance:**

Performance evaluation is a powerful tool for translating business plans into actions, developing the Company's culture to achieve its strategic objectives. The Company assesses the Executive Management through the human resources system (MENAME) according to the key performance indicators approved for each department at the beginning of each year. The performance data obtained during the year shall be consolidated and summarized for a comprehensive annual assessment of all that has been achieved and how such results have been attained.

This process consists of questionnaires covering broad requirements/expectations under the Corporate Governance Guidelines methodology, for self-evaluation of the Board of Directors' performance, with a special evaluation of its committees, and an assessment of the overall performance of the Board; in order to take steps to improve the performance of the Board.

In addition, this evaluation includes the requirements set forth in the Code of the Board of Directors and its Committees, the Company's Code and the Conflict of Interest policies and procedures. This is done through the filling out of the questionnaires listed below by the members of the Board:

- A. Self-Assessment Questionnaire
- B. Committee Evaluation Questionnaire
- C. Board of Directors' Assessment Questionnaire

The Nominations and Remuneration Committee reviews the performance assessment of the board of Directors and the Committees and submits a short annual report to the Board of Directors on its recommendations.

**An overview of the Board of Director's efforts in asserting the importance of corporate value creation:**

The Board of Director's exercise a lot of effort with the employees at the company to help aid the achievement of the company's strategic goals, and to improve the key performance indicators. The Board of Directors also believe in the great importance of annual training of all staff to increase their efficiency and overall skills.

### **RULE ELEVEN / FOCUSING ON THE IMPORTANCE OF SOCIAL RESPONSIBILITY**

Achieving a balance between each of the Company's objectives, the goals of society and the programs and mechanisms used in the field of social work

The Company is committed to achieving sustainable development for society and the economy, in general, and for its employees in particular. The Company adopts a social responsibility policy approved by the Board of Directors to ensure its contribution to sustainable social and economic development.

The Risk Committee has adopted the updates on the Social Responsibility Policies and Procedures, in its 1st meeting, held on 24/12/2017 and was presented to the Board of Directors on its first meeting on the 31st of January 2018.

The programs and mechanisms that help to highlight the company's efforts:

The Arzan Group uses social networking and its main website to its advantage, allowing it to demonstrate its efforts on a large scale. Arzan is also highly active in the use of local newspapers and magazines to achieve this goal as well.



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Khaled Ben Waleed Street, Sharq  
P.O. Box 25578, Safat 13116  
Kuwait

## OPINION LETTER

The Board of Directors  
Arzan Financial Group for Financing and Investment - KPSC  
P.O.Box 13125  
State of Kuwait

25 March, 2019

**Dear Sirs,**

### **Internal Control Review**

In accordance with our letter of engagement dated 4 December 2018, we have examined and reviewed the internal controls systems of Arzan Financial Group K.P.S.C for the year ended 31 December 2018.

The review covered the following areas:

- Governance
- Investments
- Finance and Accounting
- Corporate Credit
- Human Resources
- Administration
- Risk and Compliance
- Information Technology
- Internal Audit

Our examination has been carried out as per the requirements of the Executive regulations of Kuwait Capital Market Authority (Book No. 15 "Corporate Governance" article 6-9).

As members of the company, you are responsible for establishing and maintaining adequate internal control systems, taking into consideration the expected benefits and relative costs of establishing such systems and complying with the requirements contained in the CMA instructions mentioned in the above paragraph. The objective of this report is to provide reasonable, but not absolute, assurance on the extent to which the adopted procedures and systems are adequate to safeguard the assets against loss from unauthorized use or disposition; that key risks are properly monitored and evaluated; that transactions are executed in accordance with established authorization procedures and are recorded properly; and to enable you to conduct the business in a prudent manner.

Because of inherent limitations in any internal controls system; errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of



## OPINION LETTER (CONTINUED)

The Board of Directors  
Arzan Financial Group for Financing and Investment - KPSC

the systems to future periods is subject to the risk that management information and control procedures may become inadequate because of changes in conditions or that the degree of compliance with those procedures may deteriorate.

With the exception of the matters set out in the accompanying report, and having regard to the nature and volumes of the Company's operations, during the year ended 31 December 2018, and the materiality and risk rating of our findings, in our opinion:

- a) The internal controls systems of the Company were established and maintained in accordance with the requirements of the Capital Market Authority and the sound governance rules.
- b) the findings raised in the examination and assessment of the internal controls do not have a material impact on the fair presentation of the financial statements of the Company for the year ended 31 December 2018, and
- c) the actions taken by the company to address the findings referred in the report are satisfactory.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'Qais M. Al Nisf'.

**Qais M. Al Nisf**  
License No. 38 "A"  
BDO Al Nisf & Partners

## BOARD DECLARATION

on the Integrity and Fairness of  
the financial statements

March 30, 2019

We, the CEO and CFO hereby certify that to the best of our knowledge and belief, the consolidated financial statements of Arzan Financial Group for Financing & Investment KPSC (“the Parent Company”) and its subsidiaries (collectively, the “Group”), which comprise:

- the consolidated financial position as at 31 December 2018,
- the related consolidated statement of income,
- consolidated statement of other comprehensive income,
- consolidated statement of changes in equity and
- consolidated statement of cash flows

for the year then ended, and notes to consolidated financial statements, including a summary of significant accounting policies present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Members Name	Position	Signature
<b>Wafa Ahmad Al Qatami</b>	Chairman	
<b>Jassem Hasan Zainal</b>	Vice Chairman	
<b>Ibrahim Saleh Al-Tharban</b>	Member – B.O.D.	
<b>Emad Abdullah Al-Essa</b>	Member – B.O.D.	
<b>Ammar Taleb Hajeyah</b>	Member – B.O.D.	
<b>Rami Khaled Abdullah</b>	Member – B.O.D.	
<b>Abdulhameed Mohammed Mehrez</b>	Member – B.O.D.	

## CEO AND CFO DECLARATION on the Integrity and Fairness of the financial statements

March 30, 2019

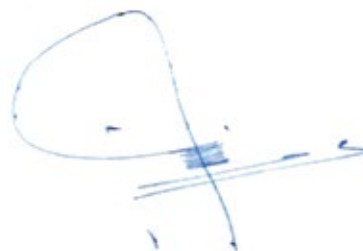
We, the CEO and CFO hereby certify that to the best of our knowledge and belief, the consolidated financial statements of Arzan Financial Group for Financing & Investment KPSC (“the Parent Company”) and its subsidiaries (collectively, the “Group”), which comprise:

- a) the consolidated financial position as at 31 December 2018,
- b) the related consolidated statement of income,
- c) consolidated statement of other comprehensive income,
- d) consolidated statement of changes in equity and
- e) consolidated statement of cash flows

for the year then ended, and notes to consolidated financial statements, including a summary of significant accounting policies present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards.



**Jassem Hassan Zainal**  
Chief Executive Officer



**Mohammed Farid**  
Finance Director



# REMUNERATION REPORT

For the year ending  
on 31 December 2018

### First: the system of remunerations used by the company and members of the Board of Directors and Executive Management

#### The Remunerations of the Board of Directors

The Company shall comply with the remuneration system of the Board of Directors as stipulated in Article 198 of the Companies Law No. 1 of 2016 and the approval of the General Assembly shall be taken on the remuneration of the members of the Board of Directors.

#### Remunerations and incentives for executive management:

**Fixed Remuneration:** Includes salaries and benefits (including end of service benefits), which are awarded under the grade and salaries scale approved by the Board of Directors, the applicable laws and regulations, and the Human Resources Management Policies and Procedures Manual.

**Variable Remuneration:** Variable remunerations are linked to the achievement of previously defined objectives. This type of reward is designed to motivate and reward executive management members. variable remunerations are allocated according to individual performance of the Member of executive management and the general performance of the company, and the variable remunerations are offered in cash.

#### Remunerations and incentives of Company employees

1. One of the most important objectives of awarding remunerations is to consolidate the principle of belonging to the company and motivate employees to work to achieve the objectives of the company and improve its status. The company seeks to ensure that the remuneration system reflects and commensurate with the tasks and responsibilities and is characterized by justice and fairness.
2. The remunerations for the employees of the company are based on an evaluation of the level of performance. The remunerations are awarded according to an approved policy to achieve the operational and financial objectives, the individual performance of the employees and their contribution to achieving the strategic objectives.

### Second / Details of the remuneration granted to members of the Board of Directors and the committees emanating from it for the year ending on 31 December 2018

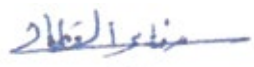
Number	Statement	Medical insurance	Business trips	Annual remunerations	Sitting fees allowance for members of the Board of Directors and the Committees	Total
7	Chairman and members of the Board of Directors	415		42,000	22,200	64,615

### Third: The values of the remuneration and other benefits to the senior management of the company

Number	Statement	Annual salaries	Social insurances	Life insurance	Medical insurance	Air Tickets	Accrued leave	Business trips	End of Service allowance	Annual remunerations	ESS	Business calls	Total
5	Executive Management	311,553	10,058	5,100	6,070	11,898	39,048	11,141	52,681	210,437	23,160	2,618	683,764

### Fourth: Statement of fundamental deviations from the policy of Remuneration

Not Available



Head of Nomination Committee