



CORPORATE  
GOVERNANCE  
REPORT

## 1. RULE ONE:

### **BUILDING A BALANCED STRUCTURE FOR THE BOARD OF DIRECTORS:**

The role of the Board of Directors (the “Board”) represents the point of balance that works to achieve the shareholders’ goals and follow up the tasks of the Executive Management of the Company. Arzan Financial Group’s Board of Directors believes that the skills, experiences and characteristics of its members commensurate with their responsibilities and the Company’s activities.

Board members provide a range of expertise to the Board, including, for example:

- International, regional and local experience.
- Technical expertise related to the business, regulatory and economic environment in which Arzan Group operates.
- Experience and knowledge of the financial sector.

#### 1.1 Formation of the Board of Directors

The decisions passed by the Board of Directors have a great impact on the Company’s performance and the integrity of its financial position. Therefore, the Company has been keen to ensure that its Board of Directors consists of a sufficient number of members that allows the formation of a number of committees emanating therefrom, within the requirements of wise governance.

The Board of Directors consists of seven (7) members, including independent members, for the 2020-2022 term.

Nomination and Remuneration Committee has examined the documents of the candidates nominated for the Board membership for the new 2020-2022 term and the applicants’ fulfilling the requirements of Kuwait Capital Markets Authority in terms of the rules of competence and integrity has been verified.

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



Name	Member Classification	Qualifications and Practical Expertise	Election Date
<b>Jassem Hasan Zainal</b>	Board Deputy Chairman and Chief Executive Officer Representative of International Financial Consulting Holding (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>• 38 years of experience in banking, investment and financial institutions</li> </ul>	8 June 2020
<b>Ibrahim Saleh Al-Tharban</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>• 43 years of experience in banking, investment, real estate and financial institutions.</li> </ul>	8 June 2020
<b>Emad Abdullah Al-Essa</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>• 34 years of experience in investment, real estate and financial institutions.</li> </ul>	8 June 2020
<b>Bader Jassim Al-Hajri</b>	Board Member. Representative of Asgad Kuwait General Trading and Contracting (Non-Executive Member)	<ul style="list-style-type: none"> <li>• Bachelor of Administrative Sciences, Marketing, Kuwait University, (1999), State of Kuwait.</li> <li>• 20 years of experience in banking, investment, real estate, financial and internet services.</li> </ul>	8 June 2020
<b>Mohammad Ahmad Al-Qahtany</b>	Board Member. Representative of Al-Faiha Real Estate Company (Non-Executive Member)	<ul style="list-style-type: none"> <li>• Bachelor of Commerce, Accounting, Kuwait University, (1992), State of Kuwait.</li> <li>• Master of Professional Accounting, University of Miami, (1995), Miami, United States of America.</li> <li>• Certified Public Accountant Certificate - CPA, (1999), USA.</li> <li>• 23 years of experience in banking, investment and financial institutions.</li> </ul>	8 June 2020
<b>Issa Abdullah Al-Muzaini</b>	Independent Member	<ul style="list-style-type: none"> <li>• Bachelor of Science, Civil Engineering, St. Martins College, (1983), USA.</li> <li>• 17 years of experience in banking, investment, educational and information technology institutions.</li> </ul>	8 June 2020
<b>Ruba Ghanem</b>	Secretary	<ul style="list-style-type: none"> <li>• Bachelor of Business Administration - Banking, Granttown University 2014, USA.</li> <li>• 21 years of experience in banking, investment and financial institutions.</li> </ul>	10 Jan. 2013

\* The company's board chairman, Mrs. Wafaa Ahmed Al Qatami, resigned on November 30, 2020, she is a representative of Al Nuzha International Real Estate Company, which retained the right to replace a member of the Board of Directors. Until now, Al Nuzha International Real Estate Company has not appointed a representative on the Board of Directors.

## 1.2 Meetings of the Board of Directors.

Six (6) Board meetings have been held during 2021, as follows:

Member Name	Meeting No. (1) on 30/03/21	Meeting No. (2) on 04/05/21	Meeting No. (3) on 28/06/21	Meeting No. (4) on 11/08/21	Meeting No. (5) on 08/11/21	Meeting No. (6) on 26/12/21	Total
Jassem Hasan Zainal	√	√	√	√	√	√	6
Ibrahim Saleh Al-Tharban	√	√	√	√	√	√	6
Emad Abdullah Al-Essa	√	√	√	√	√	√	6
Bader Jassim Al-Hajri	√	√	√	√	√	√	6
Mohammad Ahmad Al-Qahtany	√	√	√	√	√	√	6
Issa Abdullah * Al-Muzaini	√	√	√	×	√	×	4

## 1.3 Application of the requirements for registration, coordination and keeping minutes of the Board meetings.

The Board of Directors shall devote sufficient time to carry out the tasks and responsibilities entrusted thereto, including preparing for the meeting of the Board and the committees emanating therefrom and keenness to attend these meetings, in addition to 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 the minutes of discussions and deliberations, including the voting process, to be signed by all Board members and the Secretary. All Board minutes of meetings, records, books and reports of the Company, submitted from/to the Board, shall be kept, ensuring a full and rapid access of the members thereto. The Board has appointed a Secretary to 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 thereto.

The Board shall hold the least of six (6) meetings annually, with the minimum of one meeting per schedule. Where Sufficient documents 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.



#### 1.4 Acknowledgment of the Independent Board Member:

##### Independent Board Member Acknowledgement

As an independent member in Arzan Financial Group's Board of Directors, I hereby declare the below:

1. I do not hold 5% or more of the Company's shares.
2. I do not have a first-degree relation with any of the Members of a Board of Directors or executive management members in the Company or any other company in its Group or the relevant main parties.
3. I am not a Member of a Board of Directors in any company of the Group.
4. I am not an employee in the Company or any company in the Group or for any of the Stakeholders.
5. I am not an employee for corporate entities who own Control shares in the Company.
6. As an independent member, I have the qualifications, experiences and technical skills which are constituent with the Company's activity.
7. I do meet all board member independence requirements (of which the above serve as a non-exhaustive list) and I do not have any matter that contravenes with the independence requirements.
8. I pledge to notify the Company upon non-compliance to any of the above-mentioned independence requirements or any requirement determined by the regulatory entities (Ministry of Commerce and Industry, and/or Capital Markets Authority).
9. The Company shall have right to take all required procedures should it be deemed that the above acknowledgement is not true.

**Name of Independent Board Member:** Issa Abdullah Al-Muzaini

Signature:

A handwritten signature in black ink, appearing to be "Issa Abdullah Al-Muzaini", written over a light blue grid background.

**Date:** 28/03/2022

## 2. RULE TWO: PROPER SPECIFICATION OF TASKS AND RESPONSIBILITIES

### 2.1 Company's policy for the tasks, responsibilities and duties of each of the Board members and the Executive Management, as well as the powers and authorities delegated to the Executive Management

The Company's Board of Directors is a balance point that works to achieve the shareholders' objectives and follow up the Executive Management performance, since the Board seeks to achieve the Company's strategic objectives by ensuring that the Executive Management carries out 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.

The Board has approved the Company's Governance Policy, which clearly includes the tasks and responsibilities assigned to both the Board of Directors and the Executive Management, as well as a matrix of powers that promotes the separation of the terms of reference between the Board and the Executive Management, in a manner that guarantees full independence, so that the Board of Directors may effectively carry out its responsibilities. This includes the powers and authorities delegated to the Executive Management.

### 2.2 Board achievements during the year.

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. Among the most prominent actions undertaken by the Board during 2021, for example:

- Approving Arzan's financing and borrowing requirements.
- Approving the annual and interim budget and ensuring that performance is measured in accordance with the budget and action plans.
- Examining the annual financial statements, temporary lists, dividend announcements and notifications to shareholders, in accordance with the recommendations of the Board's Audit Committee and its approvals.
- Ensuring the risk management, internal control, financial and operational systems.
- Reviewing, amending and approving the organizational structure of the Company.
- Reviewing and approving the amendment of the Company's internal policies and procedures.
- Discussing the report on the business continuity and disaster response plan test results.
- Ensuring the Company's compliance with the policies and procedures that ensure the Company's respect for the rights of shareholders, the applicable internal activities and regulations and the Company's commitment to implementing the governance system.
- Approving the provision of margin trading service to clients' portfolios.
- Following up on the performance of each member of the Board of Directors and the Executive Management according to the key performance indicators.
- Assessing the performance of the Board, board members, board committees, committee members and the CEO.
- Approving the annual/semi-annual reports sent to government/supervisory entities.
- Approving the reports submitted to the General Assembly.



### 2.3 Implementation of the requirements for the Board's formation of specialized independent committees and relevant information on each committee.

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.

#### **The 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 the Company's culture of compliance by ensuring the external auditors' independence and the integrity and fairness of the Company's financial statements, in addition to 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 2021, for example:

- Reviewing and discussing the interim and final financial statements before submitting them to the Board and expressing pinion thereon as at 31/12/2020, 31/03/2021, 30/06/2021 and 30/09/2021, in addition to studying auditors' observations on the financial statements and follow them up.
- Reviewing the internal control systems' evaluation report for the year ending in 31/12/2020.
- Recommending to the Board to appoint/reappoint the external auditors.
- Approving the audit committee report for the financial year ending in 31/12/2020 and submitting recommendation to the Board.
- Approving the internal audit plan for the year 2021.
- Reviewing the results of internal audit reports and ensure corrective actions are taken.
- Reviewing the results of the Internal Audit Department review and evaluation report.
- Reviewing the results of the report and evaluation of the internal control systems.

#### **The Audit Committee shall consist of:**

Four (4) members appointed by a resolution of the Board of Directors, issued in its Minutes No. 04/2020, dated 15/06/2020, for (2020-2022) term:

- Ibrahim Saleh Al-Tharban - Chairman of the Committee (Non-Executive Member).
- Emad Abdullah Al-Essa - Deputy Chairman of the Committee (Non-Executive Member).
- Bader Jassim Al-Hajri – Committee Member (Non-Executive Member).
- Issa Abdullah Al-Muzaini - Committee Member - Independent (Non-Executive Member).

During the year 2021, the Audit Committee has convened four (4) meetings as follows:

Member Name	Meeting No. (1) on 30/03/21	Meeting No. (2) on 04/05/21	Meeting No. (3) on 11/08/21	Meeting No. (4) on 08/11/21	No. of Meetings
<b>Ibrahim Saleh Al-Tharban (Chairman of the Committee)</b>	√	√	√	√	4
<b>Emad Abdullah Al-Essa (Deputy Chairman of the Committee)</b>	√	√	√	√	4
<b>Bader Jassim Al-Hajri (Committee Member)</b>	√	√	√	√	4
<b>Issa Abdullah Al-Muzaini (Committee Member)</b>	√	√	√	√	4
<b>External Auditor</b>	√	√	√	√	4
<b>Internal Auditor</b>	√	√	√	√	4

#### **Risk Committee:**

The Risk Committee shall be 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 2021:

- Reviewing periodic reports about the nature of the risks the Company is exposed to and submitting them to the Board of Directors.
- Reviewing the external penetration test report.
- Reviewing the report on the business continuity and disaster response plan test results and submitting it to the Board.
- Reviewing and amending the Company's internal policies and procedures and submitting them to the Board for approval.
- Reviewing the information security framework and strategy and submitting it to the Board of Directors for approval.
- Reviewing the risk management strategy for the next three years 2022-2024, and submitting it to the Board of Directors for approval.





#### Risk Committee shall consist of:

Four (4) members appointed by a resolution of the Board of Directors, issued in its Minutes No. 04/2020, dated 15/06/2020, for (2020-2022) term:

- Ibrahim Saleh Al-Tharban - Chairman of the Committee (Non-Executive Member).
- Jassem Hasan Zainal - Deputy Chairman of the Committee (Executive Member).
- Emad Abdullah Al-Essa - Committee Member (Non-Executive member).
- Mohammad Ahmad Al-Qahtany – Committee Member (Non-Executive Member).

During the year 2021, the Risk Committee has convened six (6) meetings as follows:

Member Name	Meeting No. (1) on 30/03/21	Meeting No. (2) on 04/05/21	Meeting No. (3) on 28/06/21	Meeting No. (4) on 11/08/21	Meeting No. (5) on 08/11/21	Meeting No. (6) on 26/12/21	No. of Meetings
<b>Ibrahim Saleh Al-Tharban (Chairman of the Committee)</b>	√	√	√	√	√	√	6
<b>Jassem Hasan Zainal (Deputy Chairman)</b>	√	√	√	√	√	√	6
<b>Emad Abdullah Al-Essa (Committee Member)</b>	√	√	√	√	√	√	6
<b>Mohammad Ahmad Al-Qahtany (Committee Member)</b>	√	√	√	√	√	√	6

#### 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 shall also assume 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 2021, for example:

- Discussing the results of the self-evaluation of the members of the Board of Directors
- Approving the annual report on remunerations, salaries and benefits for members of the Board and the Executive Management, submitting the recommendation regarding the proposed remuneration to the Board for approval.
- Defining and approving objective indicators and behavioral competencies for the Board of Directors and each member of the Board of Directors, including the independents, the Nominations and Remunerations Committee, the Risk Management Committee, the Audit Committee and the CEO for the year 2021
- Reviewing amendments to the ESOP Stock Option Program Policy for the Company's employees, submitting them to the Board for approval.
- Approving the job description of the Executive Deputy Chairman - Kuwait, and submitting it to the Board of Directors for approval.
- Reviewing the governance report and submitting it to the Board of Directors in preparation for its inclusion in the annual report and its reading in the General Assembly.

The Nomination and Remuneration Committee shall consists of four (3) members, appointed by a resolution of the Board, issued in its minutes No. 04/2020, dated 15/06/2020, as follows:

- Jassem Hasan Zainal – Deputy Chairman of the Committee (Executive Member)
- Bader Jassim Al-Hajri – Committee Member (Non-Executive Member)
- Issa Abdullah Al-Muzaini - Member of the Committee (Independent Member)

During the year 2021, the Nomination and Remuneration Committee has convened one (1) meeting, as follows:

Member Name	Meeting No. (1) on 29/03/21	No. of Meetings
<b>Jassem Hasan Zainal (Vice Chairman)</b>	√	1
<b>Bader Jassim Al-Hajri (Committee Member)</b>	√	1
<b>Issa Abdullah Al-Muzaini (Committee Member)</b>	√	1

#### 2.4 Implementation of the requirements for allowing Board members to obtain accurate and timely information and data

The Executive Management works to provide complete, accurate and timely information and data to all Board members in general and to the non-executive and independent Board members in particular, through the Secretary of the Board, who provides the members of the Board with all the documents that will be discussed during the Board meeting sufficiently during the Board meeting, so as to obtain all basic information and data to enable the members of the Council to undertake and carry out their duties and tasks efficiently and effectively.

### 3. RULE THREE:

#### SELECTING QUALIFIED PERSONS FOR THE MEMBERSHIP OF THE BOARD AND THE EXECUTIVE MANAGEMENT

##### 3.1 Nomination and Remuneration Committee formation requirements

Following its selection by the General Assembly, the Board has formed the Nomination and Remuneration Committee, consisting of four (4) members, where one of them is an independent member and its Chairman is a Non-Executive Board member. The Board has defined the term of the Committee's membership and its method of work, as well as the powers and responsibilities of the Committee within its code of work, as adopted by the Board.



### 3.2 Report on the remunerations granted to the members of the Board of Directors, the Executive Management and Managers.

#### 3.2.1 Summary of the Nomination and Remuneration Policy at the company, specially for the Board of directors, Executive Management and the Managers

The Company's Articles of Association stipulate a clear policy for the remunerations of the Board Chairman and the Board members. Further, the company's remuneration policy is based on the following principles:

- Observing 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.

#### Board Members' Remuneration:

The Company adheres to the remuneration system of the Board of Directors as stipulated in Article 198 of Companies Law No. (01/ 2016) and the approval of the General Assembly shall be taken regarding the remuneration of the Board members.

#### Executive Management and Managers 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.

#### 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.

### 3.2.2 Remunerations Schedule:

**First: The Annual remuneration and sitting fees allowance for the Committees paid to all members of the Board during the period from 1<sup>st</sup> of January 2021 to 31 of December 2021**

The rewards and benefits through the mother company		The rewards and benefits through the subsidiary companies						
Number	The fixed rewards and Benefits	The variable rewards and Benefits		The fixed rewards and Benefits		The variable rewards and Benefits		
	Medical Insurance	Annual remunerations	Sitting fees	Committee rewards	Medical insurance	The total monthly salaries through the year	Annual remunerations	Committee rewards
7	0	37,000	27,300	0	0	0	0	0

**Second: The total remunerations and benefits granted to five senior executives who received the highest remuneration, in addition to the CEO and the Chief Financial Officer or his representative, if they are not among them, for the financial year ending on December 31, 2021**

The rewards and benefits through the mother company													The rewards and benefits through the subsidiary companies						
Number	The fixed rewards and Benefits							The variable rewards and Benefits					The fixed rewards and Benefits					The variable rewards and Benefits	
	Annual salaries	Social Insurance	Life Insurance	Medical Insurance	Air Tickets	Accrued leave	Business trips	End of Service allowance	Remuneration Provision	ESS	ESOP	Business calls	Other Benefits	Annual salaries	Medical Insurance	Air Tickets	Other Benefits	Annual remunerations	Annual Benefits
5	319,967	10,058	4,157	5,655	10,400	40,544	379	69,871	212,100	26,265	20,092	2,467	449	86,922	0	0	8,942	195,447	0

3.2.3 there is no substantial deviations from remuneration policy approved by Board of Directors.



#### **4. RULE FOUR: ENSURING INTEGRITY OF FINANCIAL REPORTS**

##### **4.1 Written undertakings by both the Board of Directors and the Executive Management of the soundness and integrity of the prepared financial 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.

##### **4.2 Audit Committee formation requirements**

The Board has formed the Audit Committee and determined the term of its membership and the method of work. The Committee's powers and responsibilities were stated in its code of work as approved by the Board. The Committee consists of four (4) members, including an independent member, and the Committee's membership does not include the Chairman of the Board of Directors or any of the Executive Members. Among the members of the Committee are members with academic qualifications and/or practical experience in the accounting and financial fields. The Committee meets regularly at least four times annually and on a quarterly basis, where minutes of the meetings shall be recorded. The Committee holds meetings with the external auditor and at least four times with the internal auditor.

##### **4.3 There was no conflict of interest, in 2021, between the Audit Committee recommendations and the decisions of the Board**

##### **4.4 Emphasizing the independence and impartiality of the external auditor**

The Company's Ordinary General Assembly appoints/reappoints 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 ensure that auditor is registered in the special register at the Authority, so that he would fulfill all the conditions stipulated in the Authority's requirements 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 neutrality or independence. The Audit Committee shall discuss with the external auditor before submitting the annual financial statements to the Board for decision.

Mr. Abdul Latif Muhammad Al-Aiban, from Al-Qatami, Al-Aiban and Partners Office (Grant Thornton), were appointed in the capacity of the Group's auditor for the current year ending in 31/12/2021, by a decision issued by the Company's ordinary general assembly, held on 27/05/2021.

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

## **5. RULE FIVE:**

### **ESTABLISHING SOUND SYSTEMS FOR RISK MANAGEMENT AND INTERNAL CONTROL**

#### **5.1 Implementing the requirements for forming an independent risk management department/office/unit.**

The organizational structure of the Company includes risk management that enjoys complete independence and the Risk Management Committee, in turn, reports 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.

#### **5.2 Risk Management Committee formation requirements**

The Board has formed a Risk Management Committee, consisting of four (4) members, where the Chairman of the Committee is a non-executive member and the Chairman of the Board of Directors is not a member of the Committee. The Board has determined the term of the Committee's membership, its method of work, responsibilities in the Committee's code of work as approved by the Board.

#### **5.3 Internal Control and Monitoring 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 by the Company, wise selection of 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.



#### 5.4 Implementing the requirements for forming an independent internal audit department/office/unit

The organizational structure of the Company includes an internal Audit Department that enjoys complete technical independence, which reports to the Audit Committee and, thus, the Board of Directors. The Internal Audit Department submits its reports independently to the Audit Committee, emanating from the Board of Directors. 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 are to 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.

### 6. RULE SIX: ENHANCING G PROFESSIONAL BEHAVIOR AND ETHICAL VALUES

#### 6.1 Code of Ethics that includes the standards and determinants of professional conduct and ethical values

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:

- 1. 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.
- 2. 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.
- 3. 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.
- 4. 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.
- 5. 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.
- 6. 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.

**7. 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.

**8. 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.

## 6.2 Policies and mechanisms for limiting conflict of interest cases

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.

## 7. RULE SEVEN:

### ACCURATE AND TIMELY DISCLOSURE AND TRANSPARENCY

#### 7.1 Accurate and transparent presentation and disclosure mechanisms that define the aspects, fields and characteristics of disclosure

The Company is committed to 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 and Kuwait Stock Exchange.





## 7.2 Board of Directors, Executive Management members' and Managers Disclosure Register requirements

The Company has a special register that regulates the disclosures by the Board, Executive Management members and Managers. IT infrastructure has been developed to suit the Company's position, this register includes all data related to bonuses, salaries, incentives, and other financial benefits that were granted directly or indirectly by the company or subsidiary companies. This record is updated periodically to reflect the reality of the conditions of the parties involved.

All shareholders of the company can view this record during the normal working hours of the company without any fee or charge.

## 7.3 Implementation of Investor Affairs Unit formation requirements

The Investors Affairs 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.
- Recommends the general development measures in the quality of the services provided to investors.

## 7.4 Information technology infrastructure development and reliance thereon in disclosures

The Company has dedicated part of the Company's website to corporate governance, where all latest information and data are presented to help the shareholders and current and prospective investors exercising their rights. This page includes information about the Company, the Board of Directors and the Executive Management, as well as a section on governance and a link to the Insider Disclosure Form. Disclosures of material information and financial statements are also presented through the Company's website.

## **8. RULE EIGHT: RESPECT FOR SHAREHOLDERS' RIGHTS:**

### **8.1 Requirements to define and protect the general rights of shareholders, in order to ensure fairness 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 treats 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. Shareholders' right 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

### **8.2 Clearing Agency's register to ensure continuous follow-up of shareholders data**

For the purpose of continuous follow-up of all matters related to shareholders' data, the Company maintains a special register at 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.

Data contained in the Company's Shareholders' Register is be treated with the utmost protection and confidentiality, in a manner consistent with the law, the executive regulations and the instructions and controls issued by the Authority.

#### **Clearing Agency Details:**

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



### 8.3 Encouraging shareholders' participation and voting in the Company's assemblies meetings

The Company establishes a mechanism for participating in the meetings of the shareholders' General Assembly, 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:
  - o Shareholders' enjoying the voting rights granted to them, with the same treatment by the Company.
  - o Shareholders' ability to vote in person or by proxy, with the same shareholders' rights and duties, whether in person or by proxy.
  - o Inform the shareholders of all rules governing the voting procedures.
  - o Providing all voting rights information to both existing shareholders and potential investors.
  - o All shareholders are entitled to vote on any changes in shareholders' rights by calling for a General Assembly meeting of shareholders.
  - o 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.

## **9. RULE NINE: RECOGNIZING STAKEHOLDERS ROLE**

### **9.1 Systems and policies that guarantee protection and recognition of stakeholders' rights**

Arzan recognizes the rights of stakeholders and guarantees the protection and acknowledgement of their rights in the various fields. The Company's Board of Directors has approved a Stakeholder Rights Policy and a link has also been placed on the Company's website allowing stakeholders to report any act that may constitute a violation of their rights.

### **9.2 Encouraging stakeholders' participation in following up the Company's various activities**

In order to avoid any conflict between stakeholders' transactions, whether they are contracts or deals with the Company and the interests of the shareholders, it shall be observed that none of the stakeholders may be granted 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 its 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.



## 10. RULE TEN: PERFORMANCE ENHANCEMENT AND IMPROVEMENT

### 10.1 Implementation of the requirements for establishing mechanisms to grant the Board and the Executive Management members continuous training programs and courses

Arzan has developed training plans for the members of the Board and the Executive Management, as well as for all the employees of the Company. Training programs are carried out on a regular basis in accordance with the Company's approved training plan.

### 10.2 Board of Directors performance evaluation and the performance of each Board of Directors and the Executive Management member

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

The Company has adopted policies and procedures approved by the Board of Directors, through which a formal process of reviewing the annual performance of the Board and its Committees is carried out, along with reviewing the effectiveness of their performance and their contribution to the affairs of Arzan Finance Group. The purpose of the performance appraisal process is to have a formal, structured and consistent way of evaluating the performance of the Board and its Committees, with a view to take steps to improve the performance of the Board. This process will also be used in submitting the Board's recommendations to the shareholders in the members' re-election phase.

#### Executive Management Performance Evaluation:

Performance evaluation is a powerful tool for translating business plans into actions, developing the Company's culture to achieve its strategic objectives. The Company evaluate 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 the Board's performance self-evaluation, with a special evaluation of its committees, and an evaluation 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, which shall be accomplished through filling out the below questionnaires by the Board members:

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

The Nominations and Remuneration Committee shall review these evaluations and submit a brief report to the Board of Directors with its recommendations.

### 10.3 Efforts of the Board to establish corporate values within the Company's employees, through achieving strategic goals and improving performance rates

The Board of Directors promotes corporate values and transmits them to the employees of the Company through achieving strategic goals and improving performance rates, in addition to the annual training programs that Arzan Group provides its employees with, in order to improve their performance and develop their skills.

## 11. RULE ELEVEN: FOCUSING ON SOCIAL RESPONSIBILITY

### 11.1 Setting a policy to ensure balance the Company's and society's objectives

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.

### 11.2 Used programs and mechanisms that help highlighting the Company's efforts in the field of social work

Arzan Group uses social media and its own website so as to demonstrate its efforts on a large scale, in addition to utilizing local newspapers and magazines to achieve this goal.

- May 2021 - Arzan Financial Group invited a number of fresh graduates from the Kuwait Investment Authority for a training program under the supervision of the group, due to its interest in investing in the Kuwaiti youth energies, developing and transferring knowledge and experiences.
- September 2021 - Arzan Financial Group for Finance and Investment announced its donation and participation as a humanitarian contributor with the Kuwait Red Crescent Society in its 2021 campaign: Education for children of needy families for the academic year 2021/2022, in addition to several other humanitarian donations within the same participation inside Kuwait.



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Kuwait

## OPINION LETTER

The Board of Directors  
Arzan Financial Group for Financing and Investment - K.P.S.C.  
P.O.Box 13152  
State of Kuwait

20 March, 2022

**Dear Sirs,**

### **Internal Control Review**

In accordance with our letter of engagement dated 30 November 2021, we have examined and reviewed the internal controls systems of Arzan Financial Group K.P.S.C for the year ended 31 December 2021.

The review covered the following areas:

- Governance
- Investment
- Finance and Accounts
- Corporate Credit
- Human Resources
- Legal and Compliance
- Risk
- Information Technology & Administration
- Asset Management & Brokerage
- Marketing
- Operation
- 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.



## OPINION LETTER (CONTINUED)

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 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 2021, 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 2021, 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', written over a light blue horizontal line.

**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, 2022

We, the Board of Directors 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:

- Consolidated statement of financial position as at 31 December 2021,
- Consolidated statement of profit or loss,
- Consolidated statement of profit or loss and other comprehensive income,
- Consolidated statement of changes in equity,
- 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 of 31 December 2021, 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>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>Bader Jassim Al Hajri</b>	Member – B.O.D.	
<b>Issa Abdullah Al-Muzaini</b>	Member – B.O.D.	
<b>Mohammad Ahmad Al-Qahtany</b>	Member – B.O.D.	

## CEO AND EXECUTIVE DIRECTOR - FINANCE DECLARATION

on the Integrity and Fairness of  
the financial statements

March 30, 2022

We, the CEO and Executive Director - Finance 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) Consolidated statement of financial position as at 31 December 2021,
- b) Consolidated statement of profit or loss,
- c) Consolidated statement of profit or loss and other comprehensive income,
- d) Consolidated statement of changes in equity,
- 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 of 31 December 2021, 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**  
Executive Director - Finance