

CORPORATE
GOVERNANCE
REPORT

CORPORATE GOVERNANCE REPORT

Transparency and disclosure drives and enhances the stability and growth of the organization by implementing the global best practices and complying with the instructions issued by the regulatory authorities; this report highlights our intention to enhance the management efficiency and also thereby enhancing the internal controls and auditing procedures and our contribution towards Corporate Social Responsibility in the society, thereby achieving fairness and transparency through code of ethics and limiting conflict of interest. This Corporate Governance Report has been prepared based on the following rules:

Rule 1: Construct a Balanced Board Composition

Rule 2: Establish Appropriate Roles and Responsibilities

Rule 3: Recruit Highly Qualified Candidates for Members of a Board of Directors and the Executive Management

Rule 4: Safeguard the Integrity of Financial Reporting

Rule 5: Apply Sound Systems of Risk Management and Internal Audit

Rule 6: Promote Code of Conduct and Ethical Standards

Rule 7: Ensure Timely and High Quality Disclosure and Transparency

Rule 8: Respect the Rights of Shareholders

Rule 9: Recognize the Roles of Stakeholders

Rule 10: Encourage and Enhance Performance

Rule 11: Focus on the Importance of Corporate Social Responsibility

Rule 1

Board of Directors

The Board considers that the skills, knowledge, experience and characteristics of the Directors are appropriate to their responsibilities and our activities. The Directors bring a range of skills to the Board, including, but not limited to:

- International and regional experience;
- Technical expertise of the business, regulatory and economic environment, in which Arzan operates; and
- Financial sector experience and knowledge

Board's Composition

As at 31 December 2016, the Board, including the Chairman, comprised 6 Directors (of which 1 is independent) and 1 Executive Director.

Independence

One Non-Executive Directors is totally independent. The factors the Board has taken into account in determining the independence of Directors are in line with the relevant Kuwait Capital Market Authority regulations.

The skills and experience profile of the Board is reviewed regularly to ensure an appropriate and relevant Board composition.



Name	Member Classification	Qualification and Experience	Date of the election
Jassem Hassan Zainal	Executive (Chairman)	<ul style="list-style-type: none"> - Bachelor of Science – Civil Engineering, University of Miami, (1980), USA. - Bachelor of General Studies – Mathematics, University of Miami, (1981), USA. - Master of Science – Civil Engineering, Kuwait University, (1991), State of Kuwait. 30 years of experience in banking, investment and financial institutions	June 26, 2014
Ibrahim Saleh Al Tharban	Non- Executive	<ul style="list-style-type: none"> - Bachelor of Commerce, Accounting Section, Kuwait University, (1975) State of Kuwait. 40 years of experience in banking, investment, real estate and financial institutions	June 26, 2014
Imad Abdullah Al Essa	Non- Executive	<ul style="list-style-type: none"> - Bachelor of Science, Business Administration, Polytechnic University, (1986), Pomona, California, USA. - Masters of Business Administration-Accounting, George Washington University, (2002-2004), Washington DC, USA. 30 years of experience in investment, real estate and financial institutions.	June 26, 2014
Rami Khaled Abdullah	Non- Executive	<ul style="list-style-type: none"> - Bachelor of Arts-Business Administration, American University of Beirut (1996-2000), Beirut, Lebanon. - Masters of Business Administration-Accounting, George Washington University (2002-2004), Washington DC, USA. - Chartered Financial Analyst (USA) – CFA, 2008. - Certified Public Accountant (USA) – CPA, 2005. - Certified Financial Manager (USA) – CFM, 2002. - Certified Management Accountant (USA) – CMA, 2001. 20 years of experience in auditing, consulting, investment, real estate and financial institutions.	June 26, 2014
Amar Taleb Hajeya	Non- Executive & Independent	<ul style="list-style-type: none"> - Bachelor of Business Administration and Finance, Kuwait University, (1999-2004), State of Kuwait. - MBA in Strategic Management, Kuwait Maastricht Business School, (2005-2008), State of Kuwait. 15 years of experience in investment, real estate and financial institutions.	June 26, 2014
Abdulhameed Mohammed Mehrez	Non- Executive	<ul style="list-style-type: none"> - Bachelor of Science – Biology, (1999), Beirut, Lebanon. - Master Degree in Business Administration and Finance, Lebanese American University, (2002), Beirut, Lebanon. - Chartered Financial Analyst (USA) – CFA, 2005. 15 years of experience in investment, real estate and financial institutions.	June 26, 2014
Ruba Fati Ghanem	Board Secretary	Bachelor of Business Administration – Banking, Town University, USA. 18 year of experience in Banking, Investment and Financial Institutions. Grant	January 10, 2013

Board Meetings and Attendance

All Directors are expected to attend meetings of the Board and Board Committees on which they serve. They are expected to prepare for each meeting in advance and to dedicate sufficient time at each meeting as necessary to properly discharge their responsibilities to the Company and its shareholders.

Board meetings are scheduled at the commencement of each calendar year and held at least on quarterly basis. Directors are provided with comprehensive documentation to enable their consideration regarding the issues on which they will be requested to make decisions. Board documentation typically includes among others:

- Quarterly financial statements;
- Minutes of the previously held Board and Committee meetings;
- Aspects/ developments within each of the operating divisions; and
- Reports on significant regulatory issues.

Member Name	Meeting No. (1/2016) held at 29/03/2016	Meeting No. (2/2016) held at 1/05/2016	Meeting No. (3/2016) held at 30/06/2016	Meeting No. (4/2016) held at 18/08/2016	Meeting No. (5/2016) held at 10/11/2016	Meeting No. (6/2016) held at 21/12/2016	Number of Meetings
Jassim Hassan Zainal (Board's acting Chairman)	✓	✓	✓	✓	✓	✓	6
Ibrahim Al Tharban (Board's Vice Chairman)	x	x	x	x	✓	✓	2
Abdul-Hameed Mehrez (Board's Member)	✓	✓	x	✓	✓	x	4
Imad Abdullah Al Essa (Member)	✓	✓	✓	✓	x	✓	5
Rami Khaled Abdullah (Member)	✓	✓	✓	✓	✓	x	5
Amar Taleb Hajeya (Board's independent Member)	✓	✓	✓	✓	✓	✓	6
Ahmad Al Qattami (Member)	✓	x	Resigned	Resigned	Resigned	Resigned	1



Board's Responsibilities

The role of the Board is to govern Arzan rather than day to day management of Arzan. In general, the Board is responsible for, and has the authority to determine, all matters relating to the strategic directions, policies, practices, management and operations of Arzan. It is the role of Executive Management to manage Arzan in accordance with the directions and delegations of the Board. The Board operates through an approved Board Charter, which captures the following key responsibilities of the Board, among various others as mandated by relevant laws and regulations:

- Set and agree Arzan' s objectives, strategies and plans for achieving those objectives;
- Review the Corporate Governance processes and assess achievement against objectives;
- Review and monitor the performance of Board and Executive Management;
- Approve Arzan's funding and borrowing requirements;
- Approve annual budgets and ensure that performance is measured against budgets and business plans;
- Recommend acquisitions, mergers, takeovers and divestments of operating companies to the shareholders for their approval, when and as required by local law;
- Consider and approve the annual financial statements, interim statements, dividend announcements and notices to shareholders as per the recommendation of the Board Audit Committee;
- Assume ultimate responsibility for financial, operational and internal control and risk management systems;
- Take ultimate responsibility for regulatory compliance; and
- Ensure a balanced assessment of the Group's position in reporting to stakeholders.

Rule 2 & 3

Board Committees

Arzan's internal management and control system is based on the directives and regulations issued by the Capital Markets Authority, Central Bank of Kuwait, Boursa Kuwait, the Company's Articles and Memorandum of Association and its own internal practices. The board of directors has the ultimate responsibility for the operations of the company, and delegates some of its authority to the Board Committees. The Board has formed four committees to help it oversee Arzan's decision making and oversight functions. Each Board committee performs its duties in compliance with its own charter as determined in the Board Charter pursuant to the applicable regulations.

1. Board Audit Committee:

The Board Audit Committee is responsible to assist the Board in the effective discharge of its responsibilities with respect to financial reporting, internal controls, internal and external audit; and to establish the compliance culture of the Company by ensuring the independence of the external auditors and the fairness and integrity of the Company's financial reports and ensuring that the internal controls within the Company are sufficient and efficient.

The Board Audit Committee comprises of following members:

- Ebrahim Al Tharban -Chairman
- Ammar Hajeyah – Independent Member
- Emad Al Essa - Member
- Ahmad Al Qatami- Member
- Ruba Ghanim - Secretary of the Committee

Member Name	Meeting No. (1/2016) held on 29/3/2016	Meeting No. (2/2016) held on 1/5/2016	Meeting No. (3/2016) held on 18/8/2016	Meeting No. (4/2016) held on 10/11/2016	Meeting No. (5/2016) held on 21/12/2016	Number of Meetings
Ibrahim Al Tharban (Chairman)	x	x	x	✓	✓	2
Imad Abdullah Al Essa (Member)	✓	✓	✓	x	✓	4
Amar Taleb Hajeya (Board's independent Member)	✓	✓	✓	✓	✓	5
Ahmad Al Qattami (Member)	x	x	Resigned	Resigned	Resigned	-

2. Board Risk Committee

The Board Risk Committee is responsible to assist the BOD in fulfilling their oversight responsibilities for the risk management function of the Company such as identification, evaluation, monitoring and mitigation of all risks that the Company is exposed to. The Committee assists the Board in setting the Company's risk strategy and appetite, the overall Risk Management Framework, and oversees the Executive Management's application of such strategy.

The Board Risk Committee comprises of three members:

- Ebrahim Al Tharban (Committee Chairman)
- Jassem Hassan Zainal - Member
- Ammar Hajeyah – Independent Board Member

The committee was formed during November 2016. Hence no meetings have been held during the year 2016.



3. Board Nomination & Remuneration Committee

This Committee discharges the responsibilities relating to compensation of Arzan's Board and Executive Management in line with their performance, qualifications and experience levels. The Committee also undertakes additional nomination related responsibilities as stipulated by the CMA and other provisions of law. The Committee operates on the basis of a Board approved Charter.

The Board Nomination and Remuneration Committee comprises of two members:

- Jassem Hassan Zainal - Member
- Rami Abdullah - Member

The committee was formed during November 2016. Hence no meetings have been held during the year 2016.

4. Board Executive Committee

The committee provides strategic oversight to the Business Departments of the Company and reviews the Company's overall performance. The committee aims at pro-actively reviewing the progress made by the business units in achieving their budgeted goals, the progress made on key strategic projects and initiatives and identifies opportunities for enhancing the synergies across the Business Departments.

The Board Executive Committee comprises of three members:

- Jassem Hassan Zainal - Chairman
- Rami Abdullah – Member
- Abdulhameed mehrez – Member

The committee did not have any meetings during the year 2016

Rule 4

Financial Reporting

The Board of Directors is responsible for monitoring and reviewing the reliability of the financial statements, accounting policies and the information contained in the Annual Report. In undertaking this responsibility, the Directors are supported by on-going processes for identifying, evaluating and managing risks we face. The processes are implemented by management and independently monitored for effectiveness by Internal Audit department, Risk Management department and other sub-committees of the Board.

External Audit

Our External Auditors during the year were M/s Grant Thornton and Rodl Middle east. The independence of the External Auditors is recognized and reviewed with the auditors by the Board Audit Committee on an annual basis. Non-audit services are dealt with in terms of the following:

- Our External Audit firms must have internal standards and processes to monitor and maintain their independence; and
- Safeguards must be in place to ensure that there is no threat to the objectivity and independence in the conduct of the audit, resulting from the provision of non-audit services by the External Auditors.

Rule 5

Internal Control Systems

The integrity and reliability of the internal control systems are achieved through policies and procedures, process automation, careful selection of employees, bringing awareness to the staff, and an organizational structure that segregates responsibilities.

Control procedures have been established to safeguard its assets and to ensure that decisions, actions, and transactions are properly authorized, and financially recorded. Risk Control Self Assessments (RCSA), compliance testing and reviews are conducted periodically by the Risk Management Department and Compliance Department respectively.

Internal Audit

The Internal Audit function independently reports to the Board Audit Committee (“BAC”). The audits are performed by in-house internal audit team according to the internal audit plan approved by the BAC and comprehensive reports are submitted by the internal auditors directly to the BAC. Necessary corrective policies and measures are adopted, wherever required. The Internal Audit plan is implemented through evaluating controls over significant risks and the effectiveness of risk management, control and governance processes.

Risk Management

Arzan has a comprehensive risk management and control framework in place to ensure that the Company and its related entities are appropriately governed. The Board directs the policy and process framework and is responsible for risk management and for all risk control systems that are implemented in Arzan.

The Arzan’s Board ensures that risk management is embedded into the Company’s culture, policies and processes. Officers at the Risk Management Department assume significant extent of power, in order to perform their roles without being granted financial powers and authorities.

The Risk Management Department identifies, measures, evaluates and reports on all critical risks to which Arzan is exposed, through defined key risk indicators under relevant risk buckets. It carries out periodic risk control and monitoring activities and also prepares and implements new policies for review and control. The department aims towards enhancing its risk monitoring abilities through appropriate automation. The Risk Department submits quarterly reports to the Board of Directors.



Rule 6

Code of Conduct for Board Members and Executive Management

Arzan has in place a Code of Conduct applicable to the Board of Directors, Executive Management, and all the employees of Arzan. The Code outlines the following issues:

Compliance with Laws, Rules and Regulations: The Board and Executive Management are committed to complying with all laws, rules and regulations applicable to Arzan and its subsidiaries.

Conflicts of Interest: This section establishes controls to manage conflicts of interest. Whenever such conflicts appear, they are immediately disclosed to Compliance department and recorded in a register.

Insider Trading: Use of non-public material information or sharing such information to trade shares and making financial gain on such information is prohibited for all Directors and Officers.

Corporate Opportunities: Directors and Officers may not use corporate property, information, or position for personal gain, and may not compete with the Company directly or indirectly.

Competition and Fair Dealing: The Board and Management respect the rights of and deal fairly with the Company's customers, suppliers, competitors and employees. Directors and Officers shall not take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other illegal trade practices.

Record Keeping, Financial Controls and Disclosures: All of the Company's books, records, accounts and financial statements must be maintained in reasonable detail, must appropriately reflect the Company's transactions, must be promptly disclosed in accordance with any applicable laws or regulations and must conform both to applicable legal requirements and to the Company's system of internal controls.

Confidentiality: Directors and Executive Management must maintain confidentiality of proprietary information entrusted to them by the Company or its customers or suppliers, except when disclosure is authorized/required by laws or regulations or when a disclosure is made in the ordinary course of business on a "need to know" basis.

Protection and Proper Use of Company Assets: The obligation of Directors and members of the Executive Management is to protect the Company's assets includes the Company's proprietary information. Proprietary information includes intellectual property such as trade secrets, patents, trademarks, and copyrights, as well as business, marketing and service plans, databases, records, salary information and any unpublished financial data and reports. Unauthorized use or unauthorized distribution of this information is a violation of Company policy. It could also be illegal and result in civil or criminal penalties.

Financial Reporting: Directors and Executive Management take the financial reporting responsibility professionally in accordance to IFRS and will provide prompt and accurate answers to inquiries related to the Company's public disclosure requirements to Shareholders, beneficial owners and other parties for any correspondence.

Rule 7

Disclosure and Transparency

The Company is committed to apply the highest standards of transparency, as the Board has approved policies and procedures for disclosure which guarantee the provision of accurate and timely information to shareholders and stakeholders. The Compliance Department coordinates with all departments of the Company to disclose accurate information on a timely basis to the Kuwait Capital Markets Authority, Boursa Kuwait and applicable stakeholders.

Arzan has a Board approved policy for disclosure and transparency.

Investor Relations Unit

The purpose of the Investor Relations Unit is to enhance communication & transparency with shareholders and address shareholders complaints. Additionally, the Unit:

- oversees the performance of the Registrar and Transfer Agent of the Company;
- recommends measures for overall improvement in the quality of services to the investors;

Rule 8

Shareholder Rights

The Company is committed to protect the rights of shareholders, and the Board of Directors has approved policies that ensure the protection of the rights of all shareholders and that provides the shareholders to exercise their rights given in the Kuwait Commercial Companies Law and the instructions of the Kuwait Capital Markets Authority.

Share Transfer System

The Company's shares are transferable through the depository system.

Registrar and Share Transfer Agent

Kuwait Clearing Company
P.O. Box 22077
Safat 13081
Kuwait
info@maqasa.com



Rule 9

Stakeholder Rights

Arzan acknowledges stakeholders' rights and works on encouraging the cooperation between the Company and the stakeholders in various areas. Arzan has a Board approved policy for stakeholder rights.

Rule 10

Training

Arzan has developed training plans for the Board of Directors, Executive Management and employees of the company. Regular training programs are conducted as per the approved training plan of the company.

Performance Evaluation

Executive Management Performance Evaluation:

Consists of approved Policies and Procedures for adopting and implementing a formal process of annual performance review of the Board of Directors in relation to their effectiveness and contribution in conducting the affairs of Arzan Financial Group.

Board and Committees Performance Evaluation:

The objective of the performance evaluation process is to have a consistent and systematic formal method to assess the performance of the Board of Directors, and their committees, in order to take the proper steps to enhance the overall performance of Board of Directors. This process will assist the board of directors in their recommendations to the shareholders at the re-election period.

This Process consists of various methods covering the requirements / expectations under the corporate governance approach to evaluate the board members through Self-Assessment, Specialized Committee's Assessment and assessing the overall performance of the Board, in order to take the necessary steps to improve the performance of the board of directors.

Additionally, this includes assessment related to requirement outlined in the Board Charter, Code of Conduct, Conflict of Interest policy & procedures. The process has the following 3 self-explanatory questionnaires to be completed by the Directors:

- a. Self-Assessment Questionnaire (A)
- b. Committee Assessment Questionnaire (B)
- c. Board Assessment Questionnaire (C)

The Nomination and Remuneration Committee will review the assessments and submit a summary report to the Board with their recommendations.

Board Members Remuneration:

For the year 2016 no remuneration was paid to the board members.

Executive management remuneration:

Fixed Remuneration includes: Fixed remunerations include salaries, allowances and benefits (including end of service benefits) is granted according to the Company's salary and grading structure approved by the Board, applicable laws and regulations, approved Human Resources Manual .

Variable Remuneration includes: The variable annual remuneration is linked to the achievement of previously established targets. This compensation system is designed to motivate and reward executive management. Variable remuneration amounts are allocated to individuals depending upon individual and companywide performance. The variable remuneration is provided as a cash bonus

Category	No. of Employees	Total of Fixed Remuneration (KWD)	Total of Variable Remuneration	Total (KWD)
Executive Management	3	276,584	NIL (To the date of the AGM)	276,584

Rule 11

Corporate Social Responsibility

The Company is committed to achieve sustainable development of our society and economy in general and employees in particular. The Company has a policy of social responsibility that has been approved by the Board of Directors to ensure contribution to the achievement of sustainable economic and social development.



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Kuwait

OPINION LETTER

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

30 March, 2017

Dear Sirs,

Review and Assessment of Internal Control Systems

In accordance with our letter of engagement dated 11 January 20 17, we have examined and reviewed the internal controls systems of Arzan Financial Group K.P.S.C for the year ended 31 December 2016.

The review covered the following areas:

- Corporate Governance;
- Internal Audit
- Risk and Compliance
- Finance and Accounting
- Information Technology
- Investments
- Corporate Credit
- Retail Credit and Collection
- Asset Management
- Human Resources and Administration
- Anti-Money Laundering
- Legal
- Operations
- Marketing

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 Board of Directors of ARZAN, 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

OPINION LETTER (CONTINUED)

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

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 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 2016, 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 2016, and
- c) the actions taken by the company to address the findings referred in the report are satisfactory.

Yours faithfully,



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, 2017

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:

- the consolidated financial position as at 31 December 2016
- 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 2016, 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
Jassem Hassan Zainal	Acting Chairman - B.O.D	
Ibrahim Saleh Al-Tharban	Vice Chairman - B.O.D	
Imad Abdullah Al Essa	Member - B.O.D	
Rami Khaled Abdullah	Member - B.O.D	
Amar Taleb Hajeyah	Independent Member - B.O.D	
Abdulhameed Mohammed Mehrez	Member - B.O.D	

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

March 30, 2017

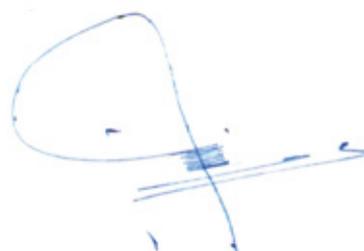
We, the CEO and CFO hereby certify that to the best of our knowledge and belief, the consolidated financial statements of Arzan Financial Group for Financing & Investment KPSC (“the Parent Company”) and its subsidiaries (collectively, the “Group”), which comprise:

- a) the consolidated financial position as at 31 December 2016,
- 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 2016, 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
Director - Finance