



CORPORATE GOVERNANCE REPORT

31st December
2019

1. RULE 1: CONSTRUCT A BALANCED BOARD COMPOSITION

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 Financial Group believes that the skills, experiences and characteristics of its members fit their responsibilities and the activities of the Company Board 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.

1.1. Brief on the composition of the Board of Directors, as follows:

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 sound governance.

The Board of Directors consists of seven (7) members, including the independent members, for 2017-2019 Session. (It is approved as of the General Assembly that took place on the 21st of May 2019, to appoint Mr. Bader Jassim Al Hajri – non-executive member, to the Board of Directors during the end of the financial year of 2019. And he also received 100% of the total attendance shares to replace the outgoing member, Mr. Ammar Taleb Hajeyah.

The Nomination and Remuneration Committee have reviewed the applications of the candidates for the position of membership of the Board of Directors for the session of 2017 – 2019. The Nomination and Remuneration Committee have also reviewed the applications of the candidates to fill in the vacancy of the resigned member of the Board of Directors for the session from 2017 - 2019, and it was confirmed that the applicants fulfilled the requirements mentioned in the instructions of the Kuwait Capital Markets Authority regarding the rules of competence and integrity of candidates.



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/ appoint Board Secretary |
|------------------------------------|--|--|--|
| Wafa Ahmad Al Qatami | Board Chairman, representing Al-Rana Trading Company (Non-Executive Member) | <ul style="list-style-type: none"> Political Science and General Management, AUC of Beirut 1973, Lebanon Experience of 42 years in banking, investment, real estate and financial institutions. | 19 July 2017 |
| Jassem Hassan Zainal | Board Vice Chairman and Chief Executive Officer Representative of Dhahiat Al-Sura Real Estate Company (Executive Member) | <ul style="list-style-type: none"> Bachelor of Science - Civil Engineering, Miami University (1980), USA. BA in General Studies - Mathematics, Miami University (1981), Miami, USA. MA of Science - Civil Engineering, Kuwait University (1991), State of Kuwait. 36 years of experience in banking, investment and financial institutions | 19 July 2017 |
| Ibrahim Saleh Al-Tharban | Board Member Representative of Manara Horizon Real Estate Company (Non-Executive Member) | <ul style="list-style-type: none"> Bachelor of Commerce - Accounting, Kuwait University (1975), State of Kuwait. 41 years of experience in banking, investment, real estate and financial institutions. | 19 July 2017 |
| Emad Abdullah Al-Essa | Board Member Representative of Kivan International (Non-Executive Member) | <ul style="list-style-type: none"> Bachelor of Science - Business Administration, Polytechnic University (1986), Pomona, California, USA. MA of Business Administration - Accounting, George Washington University (2004), Washington DC, USA. 32 years of experience in investment, real estate and financial institutions. | 19 July 2017 |
| Rami Khaled Abdullah | Board Member Representative of Asjad Kuwait (Non-Executive Member) | <ul style="list-style-type: none"> Bachelor of Arts - Business Administration, Beirut American University (2000), Beirut, Lebanon. MA of Business Administration - Accounting, George Washington University (2004), Washington DC, USA. Certified Financial Analyst - CFA, (2008), USA. Certified Public Accountant (CPA), (2005) USA. Certified Financial Manager - CFM (2002), USA. Certified Management Accountant - CMA, (2001), USA. 22 years of experience in auditing, consulting, investment, real estate and financial institutions. | 19 July 2017 |
| Abdul Hamid Mohammad Mihrez | Independent Member | <ul style="list-style-type: none"> Bachelor of Science - Biology, Beirut American University (1999), Beirut, Lebanon. MA in Business Administration - Finance, Lebanese American University (2002), Beirut, Lebanon. Certified Financial Analyst - CFA, (2005), USA. 17 years of experience in investment, real estate and financial institutions. | 19 July 2017 |
| Ammar Taleb Hajeyah | Independent Member | <ul style="list-style-type: none"> Bachelor of Business Administration - Finance, Kuwait University (2004), Kuwait. MA in of Strategic Management, Maastricht Business School - Kuwait (2008), State of Kuwait. 17 years of experience in investment, real estate and financial institutions. | 19 July 2017 |
| Bader Jassim Al Hajri | non-executive member | <ul style="list-style-type: none"> Bachelor of Business Administration - Marketing - Kuwait University (1999). 18 years of experience in banking, investment, real estate, financial, and internet services. | 21 May 2019 |
| Ruba Ghanem | Secretary | <ul style="list-style-type: none"> Bachelor of Business Administration - Banking, Granttown University 2014, USA. 19 years of experience in banking, investment and financial institutions. | 19 July 2017 |

1.2. Brief on the Company's Board of Directors' meetings, through the following statement

The Board of Directors held 7 meetings in the year 2019, as follows:

| Member's Name | Meeting # (01/2019) on 20/02/2019 | Meeting # (02/2019) on 24/03/2019 | Meeting # (03/2019) on 14/05/2019 | Meeting # (04/2019) on 17/06/2019 | Meeting # (05/2019) on 25/07/2019 | Meeting # (06/2019) on 31/10/2019 | Meeting # (07/2019) on 7/11/2019 | Number of Meetings |
|--------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|----------------------------------|--------------------|
| Wafa Al Qatami | √ | * | √ | √ | √ | √ | √ | 6 |
| Jassem Hassan Zainal | √ | √ | √ | √ | √ | √ | √ | 7 |
| Ibrahim Al-Tharban | * | * | * | √ | √ | √ | √ | 4 |
| Abdel Hamid Mihrez | * | √ | √ | √ | √ | √ | * | 5 |
| Emad Abdullah Al-Essa | √ | * | √ | √ | √ | √ | √ | 6 |
| Rami Khaled Abdullah | √ | √ | * | * | * | * | * | 2 |
| Ammar Taleb Hajeyah | √ | √ | Resigned | Resigned | Resigned | Resigned | Resigned | 2 |
| Bader Jassim Al Hajri * | * | * | * | √ | √ | √ | √ | 4 |

*Appointment of Mr. Bader Jassim Al Hajri on the 21st of May 2019, replacing Mr.Ammar Taleb Hajeyah

1.3. A summary of how to apply the requirements of registration and coordination and keeping the minutes of meetings of the Board of Directors of the company.

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, keenness to attend these meetings 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.

Meetings shall be held, at least Six meetings a year, included at least one meeting 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



2. RULE II: ESTABLISH APPROPRIATE ROLES AND RESPONSIBILITIES

2.1. Brief on how the company defines the policy of the tasks, responsibilities, and duties of each of the Members of the Board of Directors and executive management members, as well as the powers and authorities delegated to the executive management.

The role of the Board of Directors in the Company is a balance point that works to achieve the shareholders' objectives and follow with 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 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 adopted the corporate governance policy, which clearly includes the tasks and responsibilities entrusted to both the Board of Directors and the Executive Management, as well as authority matrix that promotes separation of competencies between Board and the Executive Management, and in a way that guarantees full independence, so that the Board of Directors can effectively carry out its responsibilities. This includes the powers and authorities delegated to the executive management.

2.2. Achievements of the Board of Directors during the year.

The Board operates in accordance with an approved code of conduct that includes the main responsibilities, as well as other responsibilities as provided by relevant regulations and laws. Some of the most prominent actions undertaken by the Board during 2019 include, but not limited to, the following:

- Supervising the monitoring and review 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.
- assurance of risk management systems, internal controls and financial and operational systems.
- Adoption of the modern internal policies and procedures for the company, including risk management framework manual.
- Review and approve the amendments of the company's internal policies and procedures, including: anti-money laundering and terrorist financing policy, SME credit policy, Board of Directors 'business charter, provision Committee charter, SWIFT policy, whistle-blower policy, financial management procedures, retail finance policy and procedures, Risk Policies and Procedures: Liquidity Risks - Investment Risks - Operations Risks, Policies and Procedures for Evaluating the Performance of Board Members, Board Committees, and Executive Management
- Ensuring the company's compliance with policies and procedures that respects the shareholders' rights, the activities and internal regulations in force and the company's commitment to implement the governance system.

- Review, amend and approve the company's organizational structure.
- Recommend the extraordinary general assembly to reduce the company's capital.
- Approving of the method of calculating the expected credit loss
- Monitor the performance of each member of the board of directors and executive management in accordance with KPI's
- Approving of the appointment of candidates for executive positions.
- Approving of annual / semi-annual reports sent to government / regulatory authorities.
- Adoption of reports to the General Assembly.

2.3. Brief about the applying the formation requirements of independent and specialized committees by the Board of Directors. The following information shall be mentioned about 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 charter, as specified in the Board of Directors charter and in accordance with the regulations approved by the Board.

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 charter approved by the Board. Among the prominent works practices in the year 2019, for example:

- Reviewing and discussing the interim and final financial statements before submitting them to the Board of Directors and expressing their opinion thereon as of 31/12/2018, 31/3/2019, 30/6/2019, 30/9/2019 and studying the observations made by the external auditors on the financial statements.
- Review the Audit of the Internal Control Systems evaluation report for the year ended 31/12/2018.
- Recommend to the Board of Directors the appointment/reappointment of external auditors
- Approve the report of the Audit Committee for the financial year ended on 31/12/2018 and recommendation to the BoD.
- Review the results of the internal audit reports and ensure that corrective action has been taken against it.
- Review the results of an audit report and evaluate the performance of the internal audit department.



The audit committee consists of the following:

1. The number of 3 members appointed according to the decision of the Board of Directors issued in its minutes No. 4/2017 dated 7/19/2017 for the session from (2017-2019) and they are:

- Ibrahim Al- Tharban - Chairman of the Committee (non-executive member).
- Ammar Hajeyah - Independent member (non-executive member) until March 28, 2019.
- Abdul Hamid Mihrez - Independent Member (Non-Executive member) from April 25, 2019, in accordance with the Board of Directors 'decision by passing on 15/4/2019.
- Imad Al-Essa - Member of the Committee (non-executive member).

2. The committee was reconstituted with 4 members who were appointed according to the decision of the Board of Directors issued in its minutes No. 4/2019 on 17/6/2019 in order to complete the session (2017-2019) and they are:

- Ibrahim Al- Tharban - Chairman of the Committee (non-executive member).
- Imad Al-Essa - Vice-Chairman of the Committee (non-executive member).
- Abdul Hamid Mihrez – Member of committee (Independent Member).
- Bader Al-Hajri - Member of committee (non-executive member).

Audit Committee has convened Four (4) meetings during the year 2019, as follows:

| Member's Name | Meeting # (01/2019) on 19/03/2019 | Meeting # (02/2019) on 14/05/2019 | Meeting # (03/2019) on 25/07/2019 | Meeting # (04/2019) on 31/10/2019 | Number of Meetings |
|--|---|---|---|---|-----------------------|
| Ibrahim Al-Tharban (Chairman of the Committee) | √ | * | √ | √ | 3 |
| Emad Abdullah Al-Essa (Member of The Committee) | √ | √ | √ | √ | 4 |
| Ammar Taleb Hajeyah (Member of The Committee) | √ | Resigned | Resigned | Resigned | 1 |
| Abdul hamid Mohammad Mihrez (Member of The Committee) | * | √ | √ | √ | 3 |
| Bader Jassim Al Hajri (Member of The Committee) | * | * | √ | √ | 2 |
| External Auditor | √ | √ | √ | √ | 4 |
| Internal Auditor | √ | √ | √ | √ | 4 |

Changes in the membership of the Audit Committee:

Mr. Abdel Hamid Mohammad Mihrez joined on April 15, 2019 in place of Mr. Ammar Taleb Hajeyah.

Mr. Imad Abdullah Al-Essa assumed the position of Vice-Chairman of the Committee on 17 June 2019.

Mr. Bader Jassim Al-Hajri joined on June 17, 2019.

Risk Committee:

The Risk Committee is responsible for assisting the Board in performing 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 charter approved by the Board of Directors. The following are examples to the key works undertaken by the Committee during 2019:

- Review the periodic reports on the nature of risks to which the Company is exposed to and submitting them to the Board of Directors.
- Review the organizational structure of the Company and develop recommendations and submit them to the Board of directors for approval.
- Review the risk management business plan for approval.
- Review the company division project report.
- Review the methodology for calculating Expected Credit Loss and submit it to the Board of Directors for approval.
- Approving the incentive program for the company's employees.
- Review the auditor's report on the CRS common reporting Standard and submit it to the Board of directors for approval.
- Review the external Penetration test report.
- Review the discussion of the auditor's report on FATCA and submit it to the Board of directors for approval.
- Review the amendments of the company's internal policies and procedures, including: anti-money laundering and terrorist financing policy, SME credit policy, Board of Directors 'business charter, provision Committee charter, SWIFT policy, whistle-blower policy, financial management procedures, retail finance policy and procedures, Risk Policies and Procedures: Liquidity Risks - Investment Risks - Operations Risks, Policies and Procedures for Evaluating the Performance of Board Members, Board Committees, and Executive Management, Conformity and Compliance Management Policies and Procedures.
- Review recent policies and procedures, including: a guide to the risk management framework

The risk committee consists of the following:

1. 3 members appointed according to the decision of the Board of Directors issued in its minutes No. 4/2017 dated 7/19/2017 for the session from (2017-2019) and they are:

- Ibrahim Saleh Al- Tharban - Chairman of the Committee (non-executive member).
- Jassem Hassan Zainal - Vice-Chairman of the Committee (Executive).
- Abdul Hamid Muhammad Mihrez - Committee Member (non-executive member-Independent).



2. The committee was reconstituted with 4 members who were appointed according to the decision of the Board of Directors issued in its minutes No. 4/2019 on 17/6/2019 in order to complete the session (2017-2019) and they are:

- Ibrahim Al- Tharban - Chairman of the Committee (non-executive member).
- Jassem Hassan Zainal - Vice-Chairman of the Committee (Executive)
- Emad Al-Essa - Member of the Committee (non-executive member).
- Badr Al-Hajri - Member of the Committee (non-executive member).

During 2019, Risk Management Committee has convened 4 meetings, as follows:

| Member's Name | Meeting # (01/2019) on 7/03/2019 | Meeting # (02/2019) on 14/05/2019 | Meeting # (03/2019) on 25/07/2019 | Meeting # (04/2019) on 31/10/2019 | Number of Meetings |
|---|---|--|--|--|-----------------------|
| Ibrahim Al-Tharban Chairman of the Committee | √ | √ | * | √ | 3 |
| Jassem Hassan Zainal - Committee Vice Chairman | √ | √ | √ | √ | 4 |
| Emad Abdullah Al Essa Committee Member | - | - | √ | √ | 2 |
| Abdel Hamid Mihrez – Committee Member | √ | √ | * | * | 2 |
| Bader Jassim Al Hajri Committee Member | * | * | √ | √ | 2 |

Changes of committee membership throughout the year:

Mr. Bader Jassim Al-Hajri joined on June 17, 2019, in place of Mr. Abdul Hamid Mohammad Mihrez.

Nomination and Remuneration Committee:

This committee bears the responsibilities related to the fees of 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 charter approved by the Board of Directors. Among the key works undertaken by the Committee during 2019, for example:

- approval of the annual remuneration, remuneration and benefits report for the members of the Board of Directors and the Executive Board, and the recommendation on the Board of Directors' proposed remuneration for approval.
- Review the employee motivation program
- Study and review the application for candidates for the membership of the group's board of directors to complete the Board membership.
- approval of the annually self-evaluation of the members of the Board of Directors and the Committees

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, and to reappoint them according to the decision of the Board of Directors issued in its MoM No. 4/2019 dated 17/6/2019 for the session from (2017-2019), they are:

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

The Nomination and Remuneration Committee has convened twice during 2019, as follows:

| Member's Name | Meeting # (1/2019) on 24/03/2019 | Meeting # (2/2019) on 02/05/2019 | Number of Meetings |
|---|--|--|-----------------------|
| (Wafa Al Qatami (Chairman | * | √ | 1 |
| (Jassem Hassan Zainal (Vice Chairman | √ | √ | 2 |
| (Rami Khaled Abdullah (Non-Executive Member | √ | √ | 2 |
| (Abdel Hamid Mihrez (Independent Member | √ | √ | 2 |

2.4. A summary of how to apply the requirements that allow the Members of the Board of Directors to obtain accurate and timely information and data.

The executive management provides full, accurate and timely information and data to all members of the board of directors in general and to non-executive and independent board members in particular, through the secretary of the board of directors who provides the members of the board with all the documents that will be discussed during the board meeting time Sufficient to obtain all the basic information and data that enables Council members to carry out their duties and tasks efficiently and effectively.

3. RULE III: RECRUIT HIGHLY QUALIFIED CANDIDATES FOR MEMBERS OF A BOARD OF DIRECTORS AND THE EXECUTIVE MANAGEMENT.

3.1. Brief about the application of the formation requirements of the nominations and remunerations committee.

After its selection by the General Assembly, the BoD formed the Nomination and Remuneration Committee, from 4 members and one of its members is an independent member, and its Chairman is a non-executive board member. the Board has specified the duration of the Committee's membership and its method of work, as well as identifying the committee responsibilities and authorities within its charter which was approved by BoD.



3.2. Report on the remunerations to the Members of the Board of Directors and Executive Management.

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.

The Nomination and Remuneration Committee has prepared the 2019 Remuneration Report for presentation to the General Assembly.

4. RULE IV: SAFEGUARD THE INTEGRITY OF FINANCIAL REPORTING

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 proves 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. Brief about the application of the formation requirements of 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 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 Audit Committee in Arzan consists of 4 non-executive Members.

4.3. During 2019, there is no contradiction between the recommendations of the Audit Committee and the decisions of the Board of Directors.

4.4. Verification of the independence and neutrality of the 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 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 office of Grand Thornton - Al Qatami and Al Aiban was reappointed as the Group's auditor for the current year ending 31/12/2019, by a decision issued by the ordinary general assembly of the company held on 21/05/2019.

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

5. RULE V: APPLY SOUND SYSTEMS OF RISK MANAGEMENT AND INTERNAL AUDIT

5.1. A brief statement on the application of the formation requirements of a department/ an office/ an independent unit of 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.

5.2. About the application of the requirements to form a risk management committee.

The Board has formed a Risk Management Committee, with 4 members, and the Chairman of the Committee is a non-executive member. The Chairman of the Board does not occupy the membership of the Committee, and the Board has specified the duration of the Committee's membership and its method of work, as well as identifying the responsibilities and authorities within the charter which was approved by the BoD.

5.3. Summary clarifying the control and internal audit 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.

5.4. A brief statement on the application of the formation requirements the internal audit department/office/ unit.

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.

6. RULE VI: PROMOTE CODE OF CONDUCT AND ETHICAL STANDARDS:

6.1. A summary of the business charter including standards and determinants of code of conduct and ethical standards.

- 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. Summary of the policies and mechanisms on reducing the conflicts of interest.

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 VII: ENSURE TIMELY AND HIGH-QUALITY DISCLOSURE AND TRANSPARENCY

7.1. Summary of applying mechanisms for presentation and accurate and transparent disclosure that define aspects, areas and characteristics of disclosure.

The company is committed to apply the highest levels of transparency, as the Board of Directors has adopted disclosure policies and procedures to ensure the provision of accurate and timely information to shareholders and stakeholders. The Compliance Department coordinates with all departments of the company to disclose information accurately and in a timely manner to the Capital Markets Authority and Bursa Kuwait.

7.2. Brief about the application of the requirements of the Board of Directors disclosure and executive management disclosures.

The company has a special record that organizes disclosures of board members and executive management. The IT infrastructure has also been developed in proportion to the company's position. Where the company has allocated a link on the electronic page to facilitate the process of disclosing insiders about dealing in company securities.

7.3. A brief statement on the application of the formation requirements of a unit of investors affairs.

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.

7.4. Brief on how to develop the infrastructure for the information technology on which it shall significantly rely on in the disclosure processes.

The company has created a dedicated section on the company's corporate governance website, so that all recent information and data that helps shareholders, current and potential investors to exercise their rights is displayed. This page includes information about the company and the board of directors and executive management, and also includes a section on governance, and a link to the insiders' disclosure form And disclosures on material information and financial data are also displayed on the company's website.

8. RULE VIII: RESPECT THE RIGHTS OF SHAREHOLDERS

8.1. A summary of the application of the requirements for the identification and protection of the general rights of shareholders, in order to ensure fairness and equality amongst all shareholders.

Arzan is committed to protect 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



8.2. A summary of the creation of a special record at the Clearing Agency as part of the requirements for on-going monitoring 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 Registrar and Stock Transfer Agent

Kuwait Clearing Company

POB: 22077

Safat 13081

Kuwait

info@maqasa.com

8.3. Brief on how to encourage 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.

9. RULE IX: RECOGNIZE THE ROLES OF STAKEHOLDERS

9.1. Brief about conditions and policies that ensure protection and recognition of the rights of stakeholders.

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. A link has also been placed on the company's website, allowing stakeholders to be notified about any act that may constitute a violation or a violation of their rights.

9.2. Brief on how to encourage stakeholders to keep track of the company's various activities.

In order not to create conflict between the transactions of stakeholders, whether contracts or transactions with the Company, 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.



10. RULE X: ENCOURAGE AND ENHANCE PERFORMANCE

10.1. A summary of the application of the requirements for the development of mechanisms that allow Members of the Board of Directors and Executive Management to attend the training programs and courses regularly.

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.

10.2. Brief on how to evaluate the performance of the Board as a whole, and the performance of each Member of the Board of Directors and the 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:

- Self-Assessment Questionnaire
- Committee Evaluation Questionnaire
- 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.

10.3. An overview of the Board of Director's efforts in asserting the importance of corporate (value creation) with the employees at the company through achieving the company's strategic goals and improving key performance indicators.

The Board of Directors promotes corporate values and applies them to the company's employees by achieving strategic goals and improving performance rates and annual training programs granted by Arzan Group to its employees, to ultimately improve their performance and develop skills.

11. RULE XI: FOCUS ON THE IMPORTANCE OF CORPORATE SOCIAL RESPONSIBILITY

11.1. A summary of the development of a policy to ensure a balance between each of the company goals and society goals.

The company is committed to achieving sustainable development for society and the economy in general, and those working for it in particular. The company has a social responsibility policy that was adopted by the Board of Directors to ensure contribution to achieving sustainable social and economic development.

11.2. Brief about the programs and mechanisms helping to highlight the company's efforts exerted in the field of social work.

Arzan Financial Group uses its social media and website to be able to show its efforts on a large scale, and it also uses local newspapers and magazines to achieve this goal as well.

- Arzan Financial Group held an awareness session regarding CPR for all employees on 14/1/2019.
- Arzan Financial Group was a golden sponsor for the Kuwaiti Special Needs Event that took place on 12/06/2019.
- Arzan Financial Group cooperated with the National Life-Saving Campaign "Help- Sa'ed" on 25/6/2019
- Arzan Financial Group provided a sponsorship for a student project of the University of Kuwait, College of Engineering for the project of "Water Cleaner Robot" 29/12/2019



BOARD DECLARATION

on the Integrity and Fairness of
the financial statements

March 30, 2020

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 2019,
- 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 at 31 December 2019, 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 |
|------------------------------------|-----------------|-----------|
| Wafa Ahmad Al Qatami | Chairman | |
| Jassem Hasan Zainal | Vice Chairman | |
| Ibrahim Saleh Al-Tharban | Member – B.O.D. | |
| Emad Abdullah Al-Essa | Member – B.O.D. | |
| Abdulhameed Mohammed Mehrez | Member – B.O.D. | |
| Bader Jassim Al Hajri | Member – B.O.D. | |
| Rami Khaled Abdullah | Member – B.O.D. | |

CEO AND EXECUTIVE DIRECTOR - FINANCE DECLARATION

on the Integrity and Fairness of
the financial statements

March 30, 2020

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 2019,
- 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 at 31 December 2019, 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