

Corporate Governance Report FY 2017

The Corporate Governance rules of Safat Investment Company comprises of commitment to work ethics and values, and in principles, systems and procedures that ensures the optimal protection and balance between the interests of the Company's management, shareholders and related stakeholders. The main objective of implementing Corporate Governance rules is to make sure the its goals align with its shareholders, which in turn will strengthen investor confidence in the Company's managerial efficiency and it's ability to face crises.

Corporate Governance is also related to the Company's management style, corporate culture, policies and how it deals with different stakeholders, in addition to accuracy in financial disclosures in a timely manner, performance and equity.

In 2017, the company worked diligently to implement its Corporate Governance rules to boost its transparency level and integrity of corporate operations. Also, a full review of Corporate Governances rules and practices was applied to reassure and expand trust in dealing with the Company. Furthermore, shareholders and stakeholders were able to monitor the Company efficiently, which is built on the independence of the Board of Directors and the separation between their roles as management and controller through committees.

Rule 1: Building a balanced Board of Directors

Safat Investment Company's Board of Directors is adequate to the size and the nature of activities of the Company, the tasks and responsibilities assigned to it, as it's made of seven members that were elected by shareholders of the Company's Ordinary General Assembly in August 23rd, 2016 for three years, after approval of the Capital Markets Authority of the names of nominees for the Board, taking into consideration that its made of four non-executive members, two independent members and one executive member.

All Board Members are experienced and qualified professionals with the right credentials for the Company, details as follow:

Name	Classification	Education & Experience	Election Date/ Appointment Date (Board Secretary)
Abdullah Hamad Al-Terkait	Chairman – Non-Executive	Bachelors of Public Administration & Political Science Has 12 years experience.	August 23 rd , 2016
Fahad Abdul Rahman Al Mukhaizim	Vice-Chairman Non-Executive	MBA and a Bachelors of Finance. Has 22 years experience.	August 23 rd , 2016
Abdul Muhsen Suliman Al Meshan	Member - Executive	Bachelors in International Finance and Marketing. Has 38 years experience.	August 23 rd , 2016
Naser Bader Al Sharhan	Member - Independent	Bachelors of Political Science and Marketing. Has 20 years experience	August 23 rd , 2016
Mishaal Ahmed Al Jareki	Member – Non-Executive	MBA with specialization in General and Strategic Management; Bachelors of Accounting. Has 12 years experience.	August 23 rd , 2016
Dr. Anwar Ali Al Naqi,	Member - Independent	PhD and MSc in Civil Engineering; Bachelors of Architecture. Has 40 years experience.	August 23 rd , 2016
Abdul Razzaq Zaid Al Dhubayan	Member – Non-Executive	Bachelors of Civil Engineering. Has 13 years experience.	August 23 rd , 2016
Khawla Mohammed Kendeel	Board Secretary	Certificate of Business Management. Has 20 years experience.	February 23 rd , 2014

The Board of Directors allocate enough time to conduct their assigned tasks and responsibilities, in which the Board meets when the Chairman calls for a meeting.

Brief on Board Meeting

Board meetings for FY 2017 is shown below

Name	Meeting (1) on 29/3/2017	Meeting (2) on 26/4/2017	Meeting (3) on 11/5/2017	Meeting (4) on 18/6/2017	Meeting (5) on 13/8/2017	Meeting (6) on 9/11/2017
Abdullah Hamad AlTerkait	√	√	√	√	√	√
Fahad Abdul Rahman Al Mukhaizim	√	√	√	√	√	√
Abdul Muhsen Suliman Al Meshan	√	√	√	√	√	√
Naser Bader Al Sharhan	√	√	√	√	√	√
Mishaal Ahmed Al Jareki	√	√	√	√	√	√
Anwar Ali Al Naqi, PhD	√	√	√	√	√	√
Abdul Razzaq Zaid Al Dhubayan	√	√	√	√	√	√

Also, all Board Members adopted two resolutions in the first pass on January 29th, 2017 and second on December 27th, 2017.

Explanation of applying registration, coordination, record keeping requirements for Board of Director meetings

The Board Secretary assists the Board Members completely to ensure availability of information available to them, and assists the Chairman of the Board in issues relating to the preparation of the Business Agenda and issuing invitations to Board Members. The Board Secretary also records all Board resolutions and discussions, in

addition to vote counting in Board meetings. Documents and ledgering with serial numbers per year along with the place, date, time of commencement and ending of meetings are documented by the Board Secretary.

Rule 2: Proper identification of tasks and responsibilities

This is how the Company defines the policy of the responsibilities, tasks, and duties of each member of the Board of Directors and Executive Management, and also the responsibilities which have been delegated to the Executive Management.

The Board of Directors has therefore adopted a special charter for itself which includes the duties and responsibilities assigned to them. However, this is not limited to:

- Adopting various strategic objectives, plans, and policies of the Company and reviewing them periodically;
- Approval of estimated annual budgets, approval of interim and annual financial statements before sending them to the regulatory authorities;
- Supervise major capital expenditures, in addition to owning and disposing of assets;
- Ensuring compliance with policies and procedures to in relation to internal procedures and regulations;
- Ensuring accuracy and safety of data and information to be disclosed in regard to the applicable disclosure and transparency policies and procedure;
- Establishing effective communication channels that will allow shareholders to view different aspects of the Company's activities;
- Forming technical committees originating from it in accordance to a charter that specifies the responsibilities and authority of each committee;
- Determining the powers entrusted to the Executive Management through the adoption of a comprehensive table of powers of the organization, supervised by the Board of Directors to ensure performance of tasks.

Achievements of the Board of Directors in 2017

In accordance with the Board's responsibilities in achieving the optimal financial, operational results and achieving the Company's strategic plan, the current Board of Di-

rectors was involved in the fulfillment of a number of tasks, as such was the approval of the Financial Statements for FY 2016 and interim (quarterly) reports and submitted them to regulatory authorities to be audited.

The decision was then made to make invest abroad through specialized parties to maximize returns. During the year, the Board of Directors appointed Mr. Abdul Muhsen Suliman Al Meshan as Chief Executive Officer (CEO) of the Company after being approved by the Capital Markets Authority for his candidacy.

This was followed by the appointment of two independent Board Members as Mr. Al Meshan served as an independent Board Member. Also, the Investor Relations Unit was established in compliance to the corporate governance rules, and the approval of the budget estimate for FY 2017, as well as approving some policies and internal regulations that were updated. Furthermore, the Board approved liquidating non-profitable investments and writing them off.

Highlight of specialized independent committees by the Board of Directors

The Board of Directors formed several committees and took into consideration Corporate Governance rules and regulations from the Capital Markets authority when establishing such committees, and laws and instructions issued from the Central Bank of Kuwait regarding Companies which carry out financial activities activities. The Board of Committees will include:

Audit Committee

This committee was formed on September 25th, 2016 and it's duration is related to the mandate of the current Board of Directors. It's members are Fahad Abdul Rahman Al Mukhaizim (Chairman), Dr. Anwar Ali Al-Naqi, (Vice Chairman) and Nasser Badr Al-Sharhan. It held 5 meetings.

Duties and the achievements of the Committee in 2017

- Reviewing interim and annual financial statements, the external auditors report and initially approving them before submission to the Board of Directors for final approval. This is to ensure the relevance of the financial statements of the company and the independence of the external auditor.
- Discussing and studying the observations contained in the External Auditor's Report for the fiscal year 2016.

- Adopting the internal audit plan for various Company departments.
- Recommend hiring new external auditors for the Company in compliance with article 3-4-6 of Module 5 – Securities Activities and Registered Persons which states that each registered auditor shall not review or audit for any client for a period exceeding four consecutive financial years unless the Client is under liquidation. The term shall be calculated as of the date of registration in the Auditors' register with the Capital Markets Authority;
- Review and approve Internal Control Review (ICR) report for FY 2016 that was prepared by Baker Tilly and submitted with the Capital Markets Authority, and authorize the internal auditor to follow-up and resolve observations;
- Review the Company's Capital Market Authority's inspection report and recommend mitigating its observations;
- Review internal auditing reports prepared in FY 2017 for all Company's departments and related observations, authorizing the Company's internal auditor and compliance officer to follow-up on mitigating them.

Risk Committee

This committee was formed on September 25th, 2016 and it's duration is related to the mandate of the current Board of Directors. It's members are Dr. Anwar Ali Al-Naqi, (Chairman), Mishaal Ahmed Al Jareki (Vice Chairman) and Abdul Razzaq Zaid Al Dhubayan. It held 4 meetings.

Tasks and achievements of the Committee during 2017

- Prepare and follow-up risk management strategies and policies. Additionally, evaluate systems and mechanisms for identification and measurement of different types of risks;
- Assist the Board of Directors in identifying and assessing key risks facing the Company to ensure it manages risks efficiently and effectively;
- Review and approve risk reports sent to the Capital Markets Authority prepared by the Risk Management Officer;
- Review the results of Capital Markets Authority's inspection of the Company and the procedures taken to correct the report observations. Moreover, to authorize

the Risk Management Officer to follow-up and resolve imbalances in various Company departments;

- Review imposed violations by the Capital Market Authority during the year, and identify the procedures for resolving the issue by delegating the Risk Management Officer and the Compliance Officer to follow-up.

Remuneration and Nominations Committee

This committee was formed on September 25th, 2016 and it's duration is related to the mandate of the current Board of Directors. It's members are Abdullah Hamad AlTerkait (Chairman), Abdul Razzaq Zaid Al Dhubayan (Vice Chairman) and Naser Bader Al Sharhan. It held 2 meetings.

Tasks and achievements of the Committee in 2017

- Prepare a clear remuneration policy for the Board of Directors and Executive Management;
- Identify skill requirements for Board membership and review of them annually;
- Review and approve the remuneration report to be handed to the Board of Directors and Executive Management during the year;
- Study and match requirements for independent Board Members;
- Nominate a Financial Manager of the Company in succession to the previous financial manager and complete registration procedures with the Capital Markets Authority before appointment.

Appropriations Committee

This committee was formed on September 25th, 2016 and it's duration is based on the decision of the current Board of Directors. It's members are Abdullah Abdul Razzaq Zaid Al Dhubayan (Chairman), Hassan Mahmoud Qaqish (Vice Chairman) and Ahmed Aref Afouf. It held 2 meetings.

Tasks and achievements of the Committee during 2017

- Recognize and approve appropriations to back standing receivable accounts and doubtful debts;
- Approve additional provision for legal action.

Executive Committee

This committee was formed on September 25th, 2016 and it's duration is based on the decision of the current Board of Directors. It's members are Fahad Abdul Rahman Al Mukhaizim (Chairman), Abdullah Hamad AlTerkait (Vice Chairman), Naser Bader Al Sharhan and Mishaal Ahmed Al Jareki. It did not hold any meetings.

Credit Committee

The Credit Committee is currently inactive due to Safat Investment Company does not practice financing. However, it was established to comply with Central Bank of Kuwait regulations, as the Company has this activity.

Summary of application requirements to enable Board Members to obtain accurate and timely information and data

The Company's Board of Directors has adopted the procedure guide to enable that members to obtain information in a timely and accurate manner in accordance with the relevant laws and regulations. The guide defines the mechanism for requesting and presenting information to the Board of Directors. It also has the procedures and obligations of Members to ensure that they maintain the confidentiality of the information that they obtain by virtue of their work.

Rule 3: Choosing qualified and competent individuals for the Board of Directors and Executive Management.

Brief about the application and requirements of forming Remuneration and Nomination Committee

The nomination mechanism inside the Company guarantees the continuity of choosing and attracting qualified individuals to join either the nomination to the Board of Directors or the Executive Management. The Board has formed this committee in compliance to Corporate Governance rules, where it has to include an independent member. The Board also approved a committee charter that stipulates the tasks and responsibilities of the committee which includes:

- Recommend the nomination and re-nominate Board Members and Executive Managers;
- Set clear policies for the Board and Executive Management's remunerations;

- Attract interested applicants for executive positions on-need basis, additionally study and review these applications;
- Determine various levels of bonuses for employees;
- Outline the Board's executive, non-executive and independent members job description;
- Endorse and re-nominate members for elections for the General Assembly and ensure impartiality of independent Board Members;
- Specify evaluation mechanisms for the Board of Directors as a whole, individual Board Members and Executive Management;
- Setup indicators for evaluating the boards performance and revisiting those indicators annually;
- Review and suggest training programs and workshops for Board members;
- Review salaries and the Company's corporate hierarchy periodically;
- Prepare a detailed annual report about the remunerations given to Board Members and Executive Managers, whether it's monetary, benefits or otherwise, to be submitted to the General Assembly for approval.

Report about remunerations given to all boards of directors and executive managers

A detailed report has been made regarding remunerations and benefits awarded to the Board of Directors and Executive Management of Safat Investment Company and its associated companies during the year 2017.

Rule 4: Ensuring the Integrity of Financial Statements

Signed undertaking from each Board of Directors and Executive Management to ensure the adequacy and integrity of prepared financial statements.

Brief about the Audit Committees application and requirements

The Audit committee's main objective is to supervise all audit related issues and to make sure of the integrity and adequacy of financial statements and internal control systems. The audit committee carries out the following tasks (Not inclusive):

- Review all interim and annual financial reports before presentation and submit

recommendations to the Board;

- Recommend External Auditors to the Board;
- Study and review observations on the financial statements and request Executive Management to revise them if needed;
- Recommend Internal Auditors to the Board, and review and approve internal auditing schemes;
- Review internal auditing results and improvise to resolve issues;
- Review regulatory authorities' inspection results and take action to resolve issues;
- Review issues related to nominating External Auditors and submit recommendations to the Board;
- Recommend an Independent Auditor to evaluate and review internal auditing mechanisms and prepare an Internal Control Report.

During FY 2017 there were no conflicts between the Audit Committee and the Board's resolutions.

External Auditor's Independence and neutrality

The Ordinary General Assembly that took place on August 14th, 2017 agreed to hire External Auditors for FY 2018 which are Mr. Khaled Hassan Ibrahim Al-Ahmed of Al-Soor Certified Public Accountants, and Mr. Faisal Sager Abdul Karim Al-Sager BDO Al Nisf & Partners.

The Company's External Auditors are registered with the Capital Markets Authority and they are independent from corporate structure and its Board of Directors. The External Auditors are invited to attend the Ordinary General Assembly, where their report is orated to the shareholders. They're also allowed to discuss their opinion with the Audit Committee before submission of the interim and annual financial reports to the Board to take a decision on it's regard.

Rule 5: Establishing sound Risk Management and Control Systems

Requirements for establishing independent administration for risk management

The Company established a risk management department that works to protect the company from different possible risks and identifying acceptable risk trends and

classes. It does that utilizing an array of internal control systems that are adequate for the Company and the nature of its activities. The individual in-charge of the department is experienced and approved by the Capital Markets Department and has structural independence in that he answers to the Board of Directors based on the established corporate hierarchy.

Requirements for forming the Risk Management Committee

The main role of the aforementioned committee is to supervise issues relating to risk management, and to contribute in creating policies and regulations for managing risk in sync with the Company's acceptable risk level. All that, and the committee must adhere to the following:

- Review the Company's risk related policies and procedures and advise the Board of Directors in that regard;
- Evaluate mechanisms and systems for identifying and measuring types of risk facing the Company;
- Ensure the independence of the risk management department's employees, and that they fully understand the risks facing the Company;
- Review risk related reports that are sent to the Capital Markets Authority regularly, and work towards providing crisis solutions and follow-up with the Risk Management Department to mitigate risk in these reports;
- Follow-up on the issues raised by the Audit Committee in relation to risk.

Control and monitoring mechanisms

Safat Investment Company created control mechanisms, procedures and effective tools to manage risk and monitoring, covering all Company activities. Also, the Company constantly develops reporting systems in the Company's department to mitigate risk through implementing the principle of double monitoring to ensure clear separation of authority and responsibilities, and dealing with conflict of interest. Moreover, the Company has a Monitoring and Internal Audit Department which the Board of Directors ensures their active role, supporting them to achieve the highest level of internal monitoring.

Additionally, the Company has a Compliance Department that has talented professionals to ensure compliance with all laws and regulations, as this department is considered one of the most important tools in control and internal monitoring with the

Company, working in cooperation with the Audit and Risk Management Departments to implement procedures for checking and double monitoring, while the Board of Directors actively supports it.

Requirements for establishing an Independent Internal Audit Department

Safat Investment Company established an independent internal audit committee that is completely technical by making it under the Audit Committee in the corporate hierarchy which in turn was established by the Board of Directors. The Internal Audit Department has many objectives such as monitoring, reviewing the performance of different departments and making sure correct utilization of mechanisms, procedures and internal policies, in addition to the ensuring the competence of internal monitoring mechanisms for each of the company's department and preparing a related report and presenting it to the Audit Committee. It also works on checking the observations of External Auditors regarding internal monitoring systems and ensures they're implemented.

Rule 6: Strengthening professional behavior and ethical values

Standards and determinants of professional conduct and ethical values

The Company's Board of Directors has set standards and determinants that establish ethical concepts and values in the Company in accordance with the requirements of all official bodies. The Executive Management seeks to implement the Company's objectives, standards and determinants and to include them in all business operations. In addition, a policy for reporting illegal practices has been prepared in case any illicit or unsafe behavior were observed. The policy also addressed other important aspects such as the relationship with shareholders, the information security policy, where all Board of Directors, Executive Management and staff must adhere to in all their tasks and business operations.

Policies and mechanisms for reducing conflict of interests

The Board of Directors approved a special policy for conflict of interests, with the aim of implementing suitable policies to find any crucial conflict of interests and dealing with them in an effective manner, and to confirm that the Board of Directors is dealing with these possible conflicts and that all decisions are taken based on what is beneficial for the Company. This policy is a crucial part of the Company's commitment to integrity and fairness in dealing with stakeholders. The policy also explains the different

ways of dealing with cases of conflict of interest, and understanding of the topic, and the different parties who may have conflicts with the interest of the company. Also, the policy explains in detail the role of the Board of Directors, Executive Management, executive manner, Compliance Department, Internal auditing and General Assembly in terms of conflict of interest, along with the disclosure mechanism.

Rule 7: Accurate disclosure and transparency in a timely manner

Accurate and transparent disclosure mechanisms that define the different parties, aspects and characteristics of disclosure

The Company is characterized with openness, honesty and cooperation. In accordance with its established principles and in application of best practices of good governance and compliance with all legal requirements, the Board of Directors adopted a policy of disclosure and transparency, including definitions of certain important legal terms. In addition, the policy explains all the different general disclosure policies, rules, mechanisms and were added to the Company's website. The aim of this policy is to create general guidelines for operations to be more efficient and effective. The company has also prepared a special document which explains all reports and periodic reports of regulatory bodies.

Board of Directors and Executive Management's disclosure requirements

The Company has prepared a special record with all the disclosures of the Board of Directors, Executive Management and insiders, and disclosures regarding the group's ownership of shares listed on the Kuwait Stock Exchange. It also ensures the application of disclosure rules regarding interests and insiders.

Investor Relations Unit formation requirement

The Board of Directors of Safat Investment Company established a unit on March 29th, 2017 to regulate investor relations in compliance with provisions of corporate governance rules, as well as preparation of policies and procedures for the work of the unit. The aim of this unit is to regulate the mechanisms of dealing with investors and be responsible for providing the required data and information for investors and shareholders via usual disclosure channels.

Information technology infrastructure development

Safat Investment Company uses information technology to enhance disclosure procedures, where it has improved its website lately to comply with the rules of governance and disclosure. The company is currently working on posting all its disclosure

information on that website as soon as they are issued for all interested parties to view them. The Compliance Department also relies on the electronic system to determine interests and their changes.

Rule 8: Preserving shareholders' equity

Requirements for identifying and preserving shareholders' equity

Safat Investment Company guarantees the equity of shareholders in accordance with commercial law issued by the Ministry of Commerce and Industry, the rules of governance issued by the Capital Markets Authority and all related resolutions and instructions. The Company has also prepared and adopted a policy to protect shareholders' rights vis-à-vis the Board of Directors in order for shareholders to have the following rights:

- Record contributed ownership amount in the Company's records;
- Managing shares via ownership registration and/or transfer;
- Receive allocated share dividend;
- Obtain share of asset value in case of liquidation;
- Access data and information about the Company's activities and investment strategies regularly and easily;
- Participate in General Assembly meetings and vote on its decisions;
- Elect Board Members;
- Monitor the company's performance generally, and the Board of Directors in particular;
- Question the Board of Directors and Executive Management and take legal recourse if failed to perform their assigned functions.

Creation of a registrar at the clearing house

A shareholders' registrar at Kuwait Clearing Company is created with their information and ownership as per Corporate Governance requirement. The Investor Relations Officer maintains and updates a copy of the registrar and makes it available to all shareholders in adequate time and in accordance with the law, without any fee requirements.

Encourage stakeholders to participate and vote in private meetings of the Company's Assemblies

The Company encourages proactive participation of its shareholders in the meetings of the General Assembly and discuss the topics listed on the Assembly's Agenda. The shareholders also have the right to vote on the decisions of the General Assembly on behalf in person or on their behalf, and provides information related to the voting rights to all shareholders and potential investors

The Company has invited the shareholders in 2017 to attend the Ordinary General Assembly meeting and included the Business Agenda. There were two daily announcements in the daily newspapers of the State of Kuwait.

Rule 9: Recognizing the role of stakeholders

Rules and policies that guarantee the protection and recognition the rights of stakeholders

The Company continuously strives to respect and preserve the rights of stakeholders in its internal and external operations, utilizing an adequate approach that protects their rights by following the laws and regulations regarding that issue. It also honors its contractual obligations with other parties and commits to its obligations and duties that stem from these contracts and agreements.

Being aware of the stakeholders' interests, the Company has put in place a suitable mechanism to facilitate the communication of wrongful practices they are subjected to, through the preparation and adoption of a policy to protect the rights of stakeholders.

Encourage stakeholder participation in various Company activities

The Company provides stakeholders with access to information and data relevant to their activities through the Investor Relations Unit, Customer Service Department and Complaints Unit, as well as through the Company's website and ongoing disclosures, and through the development of performance methods and services for stakeholders. It has also developed appropriate policies to enable stakeholders to report to the Board of Directors any improper practices they are exposed to by the Company, and to provide appropriate protection to reporting parties.

Rule 10: Strengthening and improving performance

Mechanisms that enable Members of the Board of Directors and Executive Management to receive training sessions and programs on a regular basis

Safat Investment Company has continuously worked on preparing and improving a plan to conduct training sessions and programs for the Board of Directors and Executive Management to ensure that they gain a proper understanding of the Company's different activities and policies, along with their responsibilities. The plan also includes financial and operational aspects of the company's activities, legal and regulatory obligations, duties and powers, ways of combating money laundering and terrorist financing, the Company's strategy and plan of action, the role of different Board of Directors committees and the laws regulating activities of the Company and its regulatory bodies.

Assessing the performance of the Board of Directors, and the performance of individual Board Members and Executive Management

Policies and systems were developed by the Company to measure and evaluate the performance of each member of the Board of Directors and Executive Management on a regular basis and has developed a set of performance measurement indicators in relation to the achievement of the company's strategic objectives, risk management quality and adequacy of internal control systems. This also includes assessing weaknesses and introducing proposal to deal with them in accordance with the company's interest.

Board of Directors' efforts to create corporate values for the Company's employees

The Board of Directors of Safat Investment Company have worked to create values on the short, medium and long run by devising the mechanisms and procedures that work towards achieving the Company's strategic objectives and improving performance rates. This took place in addition to developing the integrated reporting systems to create such corporate values for the it's employees.

Rule 11: Focusing on the importance of social responsibility

A policy that ensures a balance between the company's and societal goals

A policy was developed by the Company to manage its social responsibility, which enables the company to successfully achieve its objectives by acting ethically and

contributing to the sustainable development of society in general and its company's employees particularly. This ultimately helps in improving the living conditions of the workforce and their families, society, and reduces levels of unemployment in society, optimizing the use of available resources, providing them with jobs, and supporting and encouraging national labor.

Programs and Mechanisms to highlight the Company's efforts in the social work field

Safat Investment Company has prepared policies to ensure the disclosure of its social responsibility objectives to its employees. Awareness and education programs are regularly conducted to guarantee that they are aware of the social responsibility objectives of the Company and continuously contribute in improving related standards and elevate its corporate level. Employees contribute to the social responsibility program by participating in various community activities conducted by the Company.

Chairman of the Board of Directors
Abdullah Hamad AlTerkait

