

ALAFCO Aviation Lease and Finance Company K.S.C.P

Annual Report on Corporate Governance to be read in the General Assembly Meeting of Shareholders

30 September 2019

This report aims to lay out the status of ALAFCO Aviation Lease and Finance Company K.S.C.P (ALAFCO) against the principles of Corporate Governance as mentioned in Book 15 of the Executive Regulations issued by the Capital Markets Authority Kuwait (CMA). The structure of this report is based on the guidelines issued by the CMA.

Rule 1 – Construct a balanced board composition

a. Board of Directors

The board, including the Chairman, comprises of the following seven members:

Name	Classification of member	Educational qualification and practical experience	Date of election
Ahmad Abdullah Alzabin (Chairman)	Chair Man	<ul style="list-style-type: none"> ▪ Over 40 years of experience in the aviation industry including 27 years in Kuwait Airways. ▪ Ranked as “top business leader” of the Arab World in 2012 by Forbes ▪ Aeronautical engineering from AST Scotland. 	2 January 2019
Barrak Abdulmohsen Barrak Al-Sabeeh (Vice Chairman)	Independent director	<ul style="list-style-type: none"> ▪ Over 30 years of experience in aviation, Telecom and industrial activities. ▪ Experience in leadership roles in both the private and public sector. ▪ Board member / Chairman in various reputed organizations. ▪ Bachelor’s in industrial engineering North Carolina A&T State University, USA. 	2 January 2019
Paul Quigley	Independent director	<ul style="list-style-type: none"> ▪ Over 40 years of experience in Finance, Internal Control, Taxation and Risk Management. ▪ PhD from university of Birmingham, UK. ▪ Masters in finance, treasury and investments from Dublin City University, Ireland. 	2 January 2019
Muhammad Al-lamadani (Representing KFH)	Non-executive director	<ul style="list-style-type: none"> ▪ 40 years of experience in the Aviation industry. ▪ 30 years of experience with GE Aviation and 10 years of experience with GE corporate. ▪ Achieved +\$200 billion of sales as recognized by GE’s Chairman. 	2 January 2019
Abdulwahab Essa Alroshood (Representing KFH)	Non-executive director	<ul style="list-style-type: none"> ▪ Over 27 years of experience in conventional and Islamic banks ▪ Board member / Chairman in various reputed organizations ▪ Bachelors in mathematics and computer science from Western Oregon State College, USA. 	2 January 2019
Fahad Abdul Razzaq Al Nisf (Representing General Trading and Contracting Company)	Non-executive director	<ul style="list-style-type: none"> ▪ 11 years of experience in the investment sector ▪ Board member in various reputed organizations. ▪ Master’s Degree in Business Administration from Denver University, USA. 	2 January 2019
Meshari Mustafa AlJudaimi (Representing Gulf Investment Corporation)	Non-executive director	<ul style="list-style-type: none"> ▪ 16 years of experience in the investment sector ▪ Board member in various reputed organizations. ▪ Master’s Degree in Business Administration from Emory University, USA ▪ Certified Financial Analyst (CFA) 	2 January 2019
Sulaiman Al-Mudaf	Board Secretary	<ul style="list-style-type: none"> ▪ Over 5 years of experience in the investment sector. ▪ Over 4 years of experience in the aviation market. ▪ Bachelor degree in Accounting from Portland State University, USA. ▪ Served as the Management Direct Investment Secretary in Kuwait Finance House for more than 2 years. 	2 January 2019

Member name	Meeting No. 16 held on 26 Jun 2019*	Meeting No. 17 held on 26 Jun 2019*	Meeting No. 18 held on 1 Aug 2019	Meeting No. 19 held on 23 Sep 2019
Ahmad Abdullah Alzabin	[✓]	[✓]	[✗]	[✓]
Barrak Abdulmohsen Barrak Al-Sabeeh	[✓]	[✓]	[✓]	[✗]
Paul Quigley	[✓]	[✓]	[✓]	[✓]
Muhammad Al-lamadani	[✓]	[✓]	[✓]	[✓]
Abdulwahab Essa Alroshood	[✓]	[✓]	[✓]	[✓]
Fahad Abdul Razzaq Al Nisf	[✓]	[✓]	[✓]	[✓]
Meshari Mustafa AlJudaimi	[✓]	[✓]	[✓]	[✓]

*Meeting by circulation

c. Conveying board meetings and preparation of minutes of board meetings

The board has appointed a board secretary from within the ALAFCO employees and defined his responsibilities in accordance with regulatory requirements and best practice.

An agenda for a Board meeting is prepared and circulated to all members at least 3 working days before the meeting, along with appropriate supporting documents. The Board adopts the agenda when the meeting is convened and in the event of any objection from any member on the agenda, the same is documented in the minutes of meeting.

The minutes of the meetings are well documented, including all discussions, deliberations and the voting process. Any board member objecting to any of the resolutions passed by the Board can request to register his objection in the minutes.

The minutes are circulated to the entire Board and are signed by all attending board members along with the board secretary in the next board meeting. Also, each page of the board minute is initialed by every attending board member along with the board secretary.

Minutes can also be approved by circulation wherever necessary, which shall be ratified in the next meeting. The minutes of meetings are adequately safeguarded.

Rule 2 – Establish appropriate roles and responsibilities

a. Authority and responsibility of the board and executive management

The authority and responsibility of the board and executive management have been well defined within the control framework and processes of ALAFCO. There is in place a board approved authority matrix and department policies and procedures. Also, terms of reference of the board, board committees and management committees are formally documented.

b. Achievements of the board of directors and management during the year

Following are some of the key business achievements during the year:

- i. 6 A320 Neo delivered to Air India on a lease term of 12 years. As of 30 June 2019, all 14 A320 Neo aircraft have been delivered to Air India as per lease agreement signed in 2016.
- ii. 1 A350 aircraft delivered to Hong Kong airlines on a lease term of 12 years. As of 30 June 2019.
- iii. 2 A320 Neo delivered to Salam Air on a lease term of 12 years as part of the total 5 A320 Neo aircraft under the lease agreement signed in 2018.
- iv. 1 A320 Neo delivered to Sky Airlines on a lease term of 12 years as part of total 11 A320 Neo aircraft under the lease agreement signed in 2018 and 2019.
- v. Lease agreement with Sky Airlines to lease 4 A320 Neo aircraft in addition to previously agreed 7 aircraft, for a lease term of 12 years to be delivered in 2019 and 2020.
- vi. Re-lease 1 A320-200 Aircraft delivered from Saudi Airlines (SVA) to Jazeera Airways for a lease term of 1 year.
- vii. Re-lease 2 B737-800 aircraft delivered from Okay Airways to Biman Bangladesh Airlines for a lease term of 6 years.
- viii. Re-lease 3 A320-200 Aircraft delivered from Saudi Airlines (SVA) to Kuwait Airways for a lease term of 1 year.

- ix. Term sheet with Ukraine Airlines (UIA) to lease 2 B737 Max aircraft for a lease term of 12 years to be delivered in current year.
- x. Re-lease two B737-800 aircraft to Air Vistara for a lease term of 42 months.

c. Board Committees

ALAFCO has formed board level committees and formally defined their responsibilities, duration and authorities.

The following board level committees have been formed:

Committee Name	Date of Formation	Composition	Key Responsibilities	Number of meetings during the year
Audit Committee	2 January 2019	<ul style="list-style-type: none"> ▪ Paul Quigley- Chairman; ▪ Abdulwahab Essa Alroshood – Vice Chairman; ▪ Meshari Mustafa Al Judaimi – Member. 	Oversight of board responsibilities relating to the integrity of financial statements, appropriateness of policies and procedures, performance of the external auditors and internal auditor and other internal control related activities.	6
Risk, Governance and Compliance Committee	2 January 2019	<ul style="list-style-type: none"> ▪ Paul Quigley- Chairman; ▪ Abdulwahab Essa Alroshood – Vice Chairman; ▪ Meshari Mustafa Al Judaimi – Member. 	Oversight of Risk Management, Compliance and Corporate Governance related matters.	5
Nomination and Remuneration Committee	2 January 2019	<ul style="list-style-type: none"> ▪ Ahmad Abdullah Alzabin - Chairman; ▪ Barrak Abdulmohsen Barrak Al-Sabeeh – Vice Chairman; ▪ Abdulwahab Essa Alroshood - member; ▪ Fahad Abdul Razzaq Al Nisf - member. 	Formulate a process and make recommendations to the board on nominations, appointment and removal of directors. Implement remuneration policies for board members and executive management.	5
Executive Committee	2 January 2019	<ul style="list-style-type: none"> ▪ Barrak Abdulmohsen Barrak Al-Sabeeh – Member. ▪ Ahmad Abdullah Alzabin – Member. ▪ Abdulwahab Essa Alroshood – Member; ▪ Meshari Mustafa Al Judaimi – Member. ▪ Fahad Abdul Razzaq Al Nisf – Member. 	Supporting the board in review and approval of aircraft leasing, aircraft acquisition, Sale and Lease Back transactions and its related administrative tasks up to a board defined threshold.	-

d. Information provided to board members

It is ensured that the board members and the members of board committees have full access to all information on a timely basis. Prior to board meetings and meetings of board committees, all relevant supporting documentation is shared with the board members on a timely basis. Also, the Board Secretary and the Head of Risk and Compliance are mandated to assist the board in obtaining any information they require.

Rule 3 – Recruit highly qualified candidates for board of directors and executive management

a. Nomination and Remuneration Committee

There is a board approved policy on nomination, remuneration and incentives. Also, there are in place controls and processes to ensure appropriate disclosures are made in this regard.

ALAFCO has formulated a Nomination and Remuneration Committee in line with the requirements of the Capital Markets Authority. The Committee consists of three members and the Chairman is an independent non-executive director.

The Nomination and Remuneration Committee is comprised of the following members:

Name	Description	Notes
Ahmad Abdullah Alzabin	Committee Chairman	-
Barrak Abdulmohsen Barrak Al-Sabeeh	Committee Vice Chairman	-
Abdulwahab Essa Alroshood	Committee member	-
Fahad Abdul Razzaq Al Nisf	Committee member	-

Annual report on overall Remuneration

ALAFCO follows a structured and transparent process for incentives and remunerations. Principles of remuneration for the board and management are based on regulatory requirements and a board approved remuneration policy and performance management system.

In line with the requirements of Rule 3 of Book 15 of Executive Regulations on Corporate Governance, the following table includes details of remuneration granted to board members and executive management:

Board Members

Position	Remunerations, salaries, incentives and other financial benefits (Through parent company and subsidiaries)	Total remunerations, salaries, incentives and other financial benefits (Kuwaiti Dinar)
Board of Directors		
1) Chairman of the Board of Directors	Variable remunerations (annual remunerations, committees' remunerations), fixed benefits (health insurance).	82,300
2) Vice-Chairman of the Board of Directors	Variable remunerations (annual remunerations, committees' remunerations), fixed benefits (health insurance).	25,000
3) Members of Board of Directors (Paul Quigley)	Variable remunerations (annual remunerations, committees' remunerations), fixed benefits (health insurance).	24,000
4) Members of Board of Directors (Muhammad Al-Lamadani)	Variable remunerations (annual remunerations, committees' remunerations), fixed benefits (health insurance).	25,000
5) Members of Board of Directors (Abdulwahab Essa Al-Roshood)	Variable remunerations (annual remunerations, committees' remunerations), fixed benefits (health insurance).	22,000
6) Members of Board of Directors (Fahad Abdul Razzaq Al-Nisf)	Variable remunerations (annual remunerations, committees' remunerations), fixed benefits (health insurance).	19,000
7) Members of Board of Directors (Mustafa Al-Judaimi)	Variable remunerations (annual remunerations, committees' remunerations), fixed benefits (health insurance).	21,000
Executive Management		
1) Executive Management (Incl. CEO)	Remuneration and fixed benefits (salary, health insurance), variable remuneration (annual remuneration).	589,205

Rule 4 – Safeguard the integrity of financial reporting

In line with the requirements of Book 15 – Corporate Governance of the Executive Regulations issued by the CMA, the following paragraphs include the undertakings of the Board and Executive Management:

a. Chief Executive Officer (CEO) and Financial Controller Certification

As stipulated under Chapter 5 of book 15 of the Executive Regulations on Corporate Governance, we, as executive management hereby certify that:

- 1) We have prepared the financial statements and the cash flow statement for the year ended 30 September 2019 and that to the best of our knowledge and belief:
 - (a) These do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
 - (b) These statements together present a true and fair view of the Company's affairs and are in compliance with International Accounting Standards as approved by the CMA, and applicable laws and regulations.
- 2) There are, to the best of our knowledge and belief, no transactions entered into by the Company during the year ended 30 September 2019 which are fraudulent, illegal or are in violation of the Company's code of conduct.
- 3) We accept responsibility for establishing and maintaining internal controls for financial reporting and that we have evaluated the effectiveness of the internal control systems of the Company pertaining to financial reporting and we have disclosed to the Auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which we are aware and the steps we have taken or propose to take to rectify these deficiencies.
- 4) We have indicated to the Auditors and the Audit Committee:
 - (a) Significant changes, if any, in internal control over financial reporting during the year;
 - (b) Significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and
 - (c) Instances of significant frauds of which we have become aware and the involvement therein, if any, of the management or an employee having a significant role in the Company's internal control system over financial reporting.

Chief Executive Officer

Financial Controller

b. Board of Directors Undertaking on Soundness of the Financial Statements

As stipulated under Chapter 5 of book 15 of the Executive Regulations on Corporate Governance, we the Board of Directors collectively hereby state that:

- 1) The financial statements and the cash flow statement for the year ended 30 September 2019, to the best of our knowledge and belief prepared and provided to you:
 - (a) do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
 - (b) together present a true and fair view of the Company's affairs and are in compliance with International Accounting Standards as approved by the CMA, and applicable laws and regulations.

- 2) We have indicated to the Auditors:
- (a) significant changes, if any, in internal control over financial reporting during the year;
 - (b) significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements. and
 - (c) instances of significant frauds, if any, of which we have become aware and the involvement therein, if any, of the management or an employee having a significant role in the Company's internal control system over financial reporting.

Board of Directors

c. Formation of Audit Committee

In line with the requirements of the CMA as mentioned in Book 15 of the Executive Regulations on Corporate Governance, the board of directors of ALAFCO have formed an Audit Committee (AC). The AC assists the board in performing their duties as prescribed in Book 15 of the Executive Regulations.

The AC members have comprehensive experience in the fields of accounting, finance and internal controls and it works on:

- a. Strengthening the culture of commitment within the company through ensuring the soundness and integrity of the financial statements;
- b. Ensuring adequacy and effectiveness of the internal control systems that are implemented in the company; and
- c. Ensuring that policies and procedures of the company are appropriate, monitoring performance of external auditor and monitoring performance of internal auditor.

Authorities and responsibilities of the AC have been formally documented in their terms of reference. Moreover, the AC is provided with all information and explanations that assist them in performing their tasks.

The AC is comprised of the following members:

Name	Description	Notes
Paul Quigley	Committee Chairman	-
Abdulwahab Essa Alroshood	Committee Vice Chairman	-
Meshari Mustafa Al Judaimi	Committee member	-

There have not been any instances where the resolutions of the board of directors contradict with the recommendations of the AC. Also, the external auditor of ALAFCO is neutral and independent.

Rule 5 – Apply sound systems of Risk Management and Internal Control

The board acknowledges its overall responsibility for ALAFCO's system of internal controls and Risk Management, while the role of executive management is to implement board approved policies on the same.

Consequently, ALAFCO has implemented internal control and risk management systems designed to facilitate effective and efficient operations of ALAFCO. These systems are aimed at enabling ALAFCO to respond appropriately to significant risks that may arise during the course of its business activities.

The board of directors of ALAFCO have formed a Risk, Governance and Compliance Committee (RGCC). The RGCC assists the board in performing their duties relating to Risk Management, Corporate Governance and Compliance.

The RGCC is comprised of the following members:

Name	Description	Notes
Paul Quigley	Committee Chairman	-
Abdulwahab Essa Alroshood	Committee Vice Chairman	-
Meshari Mustafa Al Judaimi	Committee member	-

An independent Risk Management & Compliance Department (RCD) has been formed that reports directly to the RGCC and has unrestricted access to the Chairman of the RGCC along with all RGCC members. RCD is responsible for assisting the board and RGCC in implementation of the risk management framework within ALAFCO.

The Risk Management Framework of ALAFCO is governed under a three lines of defense model, where the mandate of Risk Management is documented in a formal Risk Policy. Moreover, ALAFCO has also developed a Risk Appetite Statement (RAS) that is approved by the board of directors.

ALAFCO has outsourced its internal audit to a reputed external office (KPMG). The internal controls and overall control framework of the company are regularly reviewed by internal audit and its internal audit reports are submitted to the AC. The Internal Auditor reports directly to the AC.

Rule 6 – Promote professional conduct and ethical standards

a. Code of Conduct

ALAFCO is committed to establish a framework for professional conduct, fairness, honesty and developing ethical values inside the Company. The aim is to enhance the investor's trust in the integrity of the company and its financial soundness. As a part of this commitment the Board has laid down a code of ethics and professional conduct for the board and executive management for promoting sound corporate practices and ethical conduct to protect long term interest of stakeholders.

The code of ethics and professional conduct is intended as a practical guide designed to assist the members of board and executive management of the company in carrying out their work. The principles and values found in the code are an integral part of the rigorous commitment the company strives to make, to sustain its corporate image and public trust.

b. Conflict of interest

Conflict of interest is the conflict between the private interests and official responsibilities of an individual or an institution in a position of trust, which may compromise impartiality or integrity or lead to unfair competitive advantage. A conflict of interest exists when an Employee's duty to give undivided business loyalty to the company can be prejudiced by actual or potential personal benefit from another source.

In addition to the code of ethics and professional conduct, the board has also formulated a conflict of interest policy. The conflict of interest policy lays out policy statements, procedures and best practices to manage conflict of interest situations.

c. Related party transaction framework

The company has in place a related party transaction framework. Also, the company has adopted the recent changes prescribed by CMA in relation to related party transactions via its amendments in CMA regulations.

Rule 7 – Ensure timely and high-quality disclosures

a. Disclosure and Transparency

There is in place a policy to ensure that timely and accurate disclosure is made on all material matters regarding the company, including the financial situation, performance and governance of the company to the stakeholders that will enable them to understand its governance, strategy, policies, activities, practices and facilitate evaluation of its performance.

The disclosure and transparency policy along with various processes within ALAFCO ensure that all relevant information is disclosed in a transparent manner to all stakeholders. There is in place a mechanism by which all relevant information of board members and the executive management is identified and disclosed.

For the purpose of effective and timely disclosure, the company adopts various mechanisms, including use of ALAFCO website, direct disclosure to the regulatory authorities and the use of Investors Affairs unit.

b. Investor Affairs

ALAFCO has established an investors affairs unit (IAU) which is responsible for making available all relevant information and reports to existing and prospective investors. The IAU is reasonably independent and strives to provide timely and accurate information on various platforms (including the company's website) to its desired users in an unbiased manner.

c. Use of IT infrastructure

ALAFCO understands and appreciates the importance of the use of IT infrastructure in the compilation and disclosure of critical information. Consequently, there are multiple automated systems in place to record and present financial and non-financial information.

The website of the company is also utilized for sharing relevant financial and non-financial information with all stakeholders.

Rule 8 – Respecting shareholder rights

ALAFCO strives to ensure fair and equitable treatment of all of its shareholders and making sure that all relevant information is shared in a timely and equitable manner.

For the purpose, the board has formulated a shareholder policy that outlines its policy statements and processes to ensure timely access to information about the company, including its financial performance, strategic goals and plans, material developments, corporate governance and risk profile, in order to enable Shareholders to exercise their rights in an informed manner, and to allow the Shareholders and the investment community at large to engage actively with the company. Also, shareholders are encouraged to actively participate in shareholder meetings.

Shareholders' rights include (but not limited to) the following:

- Right to receive dividend distribution.

- Right to receive part of company's assets in case of liquidation in accordance with the provisions of Company law.
- Right to receive approved information and/or data related to the company's activities and its operational and investment strategies on a timely basis.
- Right to participate in the general assembly meetings of the shareholders and to vote in accordance with applicable rights, laws and regulations.
- Right to vote during the election of membership to the Board of Directors.
- Right to monitor the company's performance in general and the Board of Directors specifically.
- Right to hold the Board members and the Executive management of the Company accountable within the stated parameters of Company law.
- Right to record the value of shares owned.
- Right to register, move or transfer the ownership of shares
- Right to review the Shareholders Register and verify that data is maintained according to highest degrees of protection.

The investor affairs unit maintains a Shareholder Register (through the Kuwait Clearing Company) that includes all available information on ALAFCO shareholders.

Rule 9 – Recognize the role of the stakeholders

Stakeholders are individuals or groups that have interests in an organization. Stakeholders can affect or be affected by the organization's actions, objectives and policies. The primary stakeholders in a typical corporation are its investors, employees, customers, financiers and suppliers. The expectations of the stakeholders are sometimes divergent and at times in conflict with each other and it's the responsibility of the Company to strike a balance between the interests of its stakeholders and its self-interests.

ALAFCO is committed to the highest ethical standards and it desires its stakeholders to have strong faith and commitment towards it. For the purpose, there is in place a comprehensive stakeholder policy and stakeholder management framework.

Stakeholders are encouraged to actively engage with ALAFCO at all applicable platforms. For instance, ALAFCO customers, financiers, regulators, employees interact with each other on a regular basis by way of electronic channels and conferences to make sure their interests are aligned, and any grievances are identified and duly remedied.

Rule 10 – Encourage and enhance performance

a. Orientations, trainings and continued professional development

The continuous training and professional development for members of the board of directors and executive management is one of the cornerstones of sound corporate governance.

For the purpose, the board of directors are provided with orientation and board packs that include substantial information about the company and its activities. Also, there is in place a mechanism for on-going development of board members.

Similarly, there are processes in place to ensure that sufficient resources are utilized on the training and professional development of executive management.

b. Performance evaluation of the board and executive management

The board has defined job descriptions and key performance indicators (KPI's) for the board, individual board members and the executive management. There are processes in place to ensure that on an annual basis, their performance is evaluated against a structured and well-defined criterion.

c. Value creation

The board and executive management strive to create and enhance value of ALAFCO shareholders and stakeholders.

Progress of the key performance indicators is regularly monitored by management and thoroughly discussed internally.

Rule 11 – Focus on importance of corporate social responsibility

The concept of social responsibility is the continuous commitment of the Company through ethical behavior, to achieve sustainable development for society in general and its employees in particular.

This is achieved by initiatives to improve the living conditions of the workforce, their families and the community, by making contributions to decrease unemployment in society as well as minimizing exploitation of available environmental resources.

ALAFCO has in place a comprehensive corporate social responsibility policy (CSR) that includes matters related to having in place a strong CSR framework.

Some instances where ALAFCO has created value for the society in general include:

ALAFCO has reached out to local education institutions to ascertain areas where ALAFCO can provide support. The objective is to ensure that ALAFCO continues to engage with the society as a responsible corporate citizen.”

Appendix 1: ALAFCO updated organization chart

