



Al-Mal Investment Company K.S.C.

Corporate Governance Report for 2010

May 2011

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Introduction

Overview

The purpose of this document is to report on the Corporate Governance practices and facts that took place at Al-Mal Investment Company K.S.C. ("Al-Mal" or the "Company") during the year 2010, in accordance with the Corporate Governance requirements highlighted by CBK in its circular including Guidelines Manual for the Internal Control Systems of Investment Companies stipulated by CBK in February 15, 1998 in chapter one: Supervisory and Regulatory Instructions and Controls which highlights the Corporate Governance practices that should take place in investment companies.

This report includes a discussion of the following:

- 1- Corporate governance practices – the principles of the Company's corporate governance framework and the approach the Company takes to the implementation of these principles;
- 2- Board of Directors (the "Board") – the role of the Board in connection with the Company's corporate governance framework, the structure and composition of the Board, the terms of membership of the Directors and the means of setting their remuneration;
- 3- Board committees – a description of the functions and responsibilities of the two Board Committees; and
- 4- Internal Control System – a description of the Company's internal control system, and the Company's approach to complying with that system.

1. Corporate Governance Practices

- **Corporate Governance Rules**

The Company is committed to strong corporate governance principles, including the following:

- An effectively functioning and well informed Board;
- Clearly defined roles and responsibilities of the Board, its members, its Committees, and key company officers and executives;
- Effective communication with shareholders through the Annual General Assembly, Corporate Governance reports, periodic and annual financial reporting, and regular dialogue;
- Complying with the continuous disclosure rules of CBK and KSE;
- Ensuring that the Company's performance and financial reporting are properly directed and controlled through an effective internal control system; and
- Adopting high ethical standards and practices by the Company, its officers, and employees.

- **Corporate Governance Structure**

As per the Company's organization structure, the Board plays a key role in the Company's corporate governance requirements. It is ultimately responsible for the Company's compliance with its legal and regulatory obligations, the Company's Memorandum and Articles of Association, and its duties to shareholders. The Board is assisted in this process by various Board Committees (particularly the Audit and Risk Committee and the Executive Committee), external and internal auditors, and Company officers and employees (including the Chief Executive Officer, the Chief Financial Officer, the Compliance Officer, and other members of Management).

The new organizational structure, the Audit and Risk Committee and the Executive Committee charters were all approved by the BOD in its meeting dated in December 27, 2010.

Audit and Risk Committee

This Committee is an independent committee established by the Board to review the adequacy of internal control systems in the Company. The Committee is responsible for the appointment of external auditors and choose the Head of Internal Audit and the adoption of audit fees for any particular task and review annual reports on internal control systems and any matters relating to audit such as a letter prepared by external auditors and internal audit reports and inspection reports prepared for the Central Bank of Kuwait. In addition, the Committee is responsible for the discussion of any significant restrictions or modifies any disclosures or accounting those relating to results of the audit and proposed by the external auditors. The Committee does not have a secretary nominated formally who is supposed to document and keep the minutes of meetings and prepares meeting agendas for the committee as well as the Board of Directors, as per the CBK circular pertaining to (Guidelines Manual for the Internal Control Systems of Investment Companies stipulated by CBK in February 15, 1998 in chapter one: Supervisory and Regulatory Instructions and Controls) which states the following:

"The Board's Secretary shall be responsible for the Audit and Risk Committee secretary and shall take minutes of its meetings. These minutes, together with the minutes of the Board's meetings, shall be part of the institution's records."

The Committee is comprise of the following members:

- Dr. Sulaiman T. Al Abduljader – Chairman of the Audit and Risk Committee
- Mr. Dherar M. Al-Nisf - Member
- Mr. Khalid A.H. Al-Nughaimish - Member

The Audit and Risk Committee held four meetings during 2010.

Executive Committee

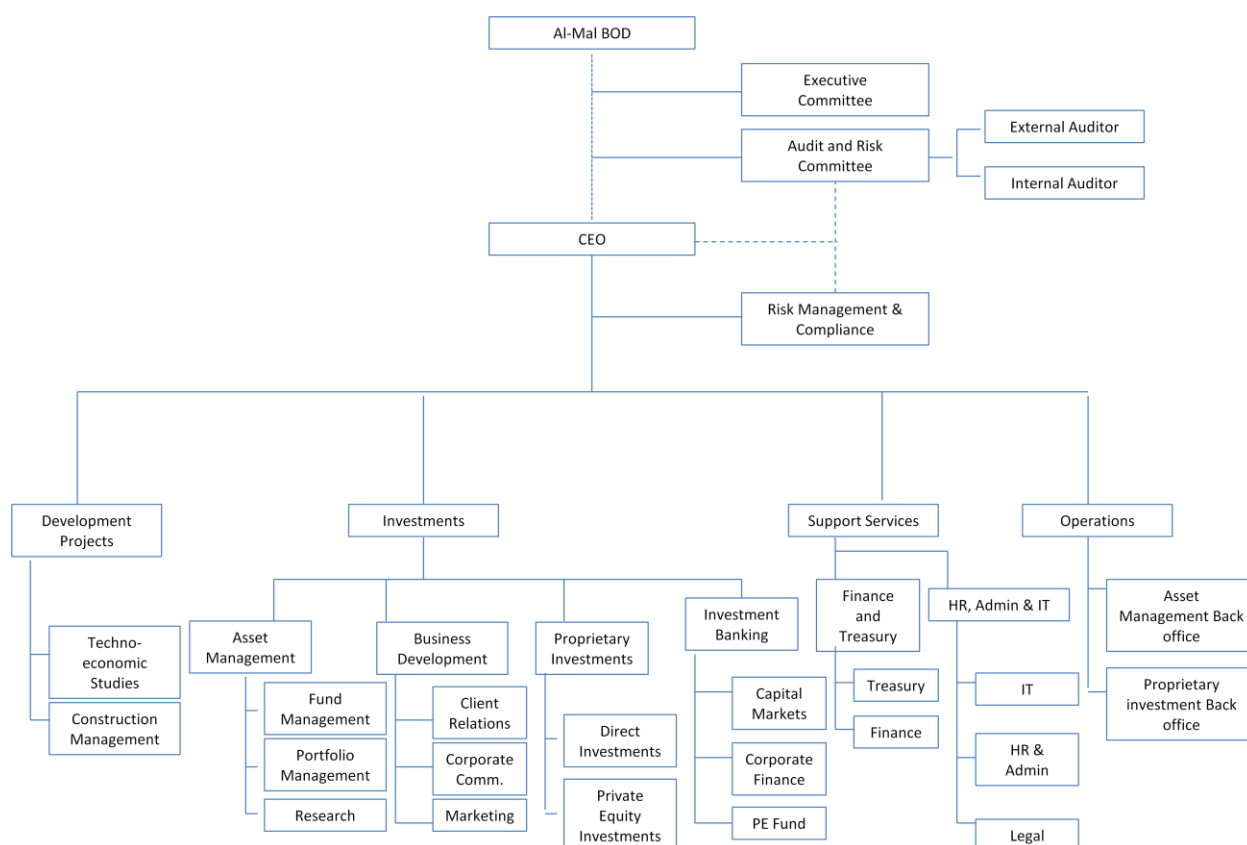
The purpose of the Board Executive Committee of the Board of Directors is to assist the Board in fulfilling its oversight responsibilities relating to:

- The execution of the Company strategy and its performance with regards to targets set.
- The Periodic review of the Company's financial position, capital structure, and other matters relating to the Company's financial condition.
- Financial commitments and the execution of the investment plans of the Company.
- The Company's financing plan, including funding and liquidity.
- Monitoring the execution of key managerial and administrative Board resolutions.
- Apprising the Board of key business related issues and their implications on the Company in a way to facilitate decision making process.
- The Company's compensation programs and plans including the compensation of the Company's executives.

The committee did not convene during 2010 as it was established in April 6, 2011 by the BOD in its meeting number 1/2011. However there was an Investment Committee handling the Executive Committee's roles in 2010 where it has been met eight (8) meetings .

- **Al-Mal Organization Structure**

The following illustrates the organizational structure at Al-Mal:



- **Disclosure Practices**

The Company is committed to complying with all of its disclosure obligations, including to CBK, the KSE and to shareholders. In 2010, the Company made regular disclosures to CBK and KSE.

- **Delegation of Authority Policy**

The BOD has approved the authority matrix in its meeting dated December 27, 2010.

- **Code of Conduct**

The BOD has approved the code of conduct in its meeting dated in December 27, 2010. Company's officers and employees are required to comply with this Code in performing their duties.

2. Board of Directors

a. Role of the Board

The primary purpose of the Board of Directors is to protect the shareholders' interests and ensure that shareholders' returns are maximized. The Board, on behalf of Al-Mal and its shareholders, oversees and provides general direction to the management of the Company.

b. Composition of the Board

A BOD charter was approved by the BOD in its meeting in December 27, 2010. The Board is comprised of the following members:

- Mr. Loay Jassim Mohamed Al-Kharafi – Chairman and Managing Director
- Mr. Abdul Karim Abdullah Ibrahim Al-Mutawa – Vice Chairman
- Mr. Salah Abdullah Ali Dashti - Member
- Dr. Sulaiman T. Al Abduljader - Member
- Mr. Dherar M. Al-Nisf - Member
- Mr. Khalid A.H. Al-Nughaimish - Member

c. Directors' Qualifications and Experience

The Directors have academic and professional qualifications along with practical experience in corporations inside and outside state of Kuwait.

d. Board of Directors Meetings

The Board of Directors held thirteen (13) meetings during 2010 on the following dates:

- March 24, 2010
- May 11, 2010
- May 25, 2010
- June 09, 2010
- June 21, 2010
- June 29, 2010
- July 04, 2010
- August 18, 2010
- August 26, 2010
- November 02, 2010
- November 08, 2010
- December 20, 2010
- December 27, 2010

The minutes of each meeting were duly approved. The majority of directors attended at least twelve (12) of these Board meetings.

e. Directors' Remuneration

No BOD remuneration/benefits were paid to directors in 2010.

3. Board Committees

The following Board Committees have been established, and comprise of non-executive Board members:

Name of Board Committee	Committee Members
Audit and Risk Committee	<ul style="list-style-type: none">• Dr. Sulaiman T. Al Abdaljader – Chairman of the committee• Mr. Dherar M. Al-Nisf• Mr. Khalid A.H. Al-Nughaimish

The Company adopts formal Terms of Reference (charters) for each of the above Board Committees, addressing the composition, duties, and responsibilities of each Committee, amongst other things.

4. Internal Control System

a. Independent Assessment of the Internal Control System

During the year 2010, the Company was subject to the following independent assessments of its internal control system:

- Annual external audit and interim reviews of Al-Mal consolidated financial statements through external audit firm appointed by the Shareholders' resolution at the Company's 2010 Annual General Assembly held on May 12, 2010, including assessment of internal controls over financial reporting..
- As per the CBK requirements, an independent assessment of the internal control environment is carried out by an external party.
- Al-Mal outsourced its internal audit function to an external provider which carries out its reviews , according to an annual Internal Audit Plan approved by the Audit and Risk Committee.

The internal audit procedures are designed on the assumption that the responsibility for a sound system of internal controls rests with management and work performed by internal audit might not lead to identifying all strengths and weaknesses that may exist, but so that any material irregularity has a reasonable probability of discovery. The internal audit procedures focus on areas as identified by Management as being of greatest risk and significance, and the internal audit plan therein is subject to the approval of the Audit and Risk Committee.

The internal audit function (independent internal auditors) reports directly to the Audit and Risk Committee.

b. Company's Internal Control Practices

The Company's internal control/supervisory system is established to ensure that the Board and Management are able to achieve their business objectives in a prudent manner, safeguarding the interests of the Company's shareholders and other stakeholders, whilst at the same time minimizing key risks such as fraud, unauthorized business activity, misleading financial statements, uninformed risk-taking, or breach of legal or contractual obligations.

c. Compliance Function

In its meeting dated December 27, 2010, the Board approved the appointment of a Compliance Officer.