



الدار الوطنية للعقارات (أ.د.ن.ع.)
Al Dar National Real Estate (ADNC)

Corporate Governance Report

From 1st January, 2015 to
1st September, 2016

تقرير الحوكمة للمشركة

من 01 يناير 2015

إلى 01 سبتمبر 2016

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Chairman

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I. COMPANY'S GOVERNANCE PRACTICES:-

Al Dar National Real Estate Company (ADNREC) is committed to the highest level of corporate governance, and has derived its values from a system which integrates ethics, corporate integrity and leading compliant practices. Transparency, fairness, disclosure and accountability have been central to the working ethos of the company, its management and Board of Directors.

Corporate Governance is the policies and regulation which arrange the relationship between the Board of Directors of the company and its shareholders and other stakeholders. It also provides structure through which the objectives of the company and the means of achieving them are placed and identifies the parties to monitor performance , and that is according to the definition of "the Organization for Economic Cooperation and Development" OECD.

This report describes ADNREC approach to corporate governance and illustrates key elements of corporate governance. It includes the information required by the Capital Markets Authority (CMA).

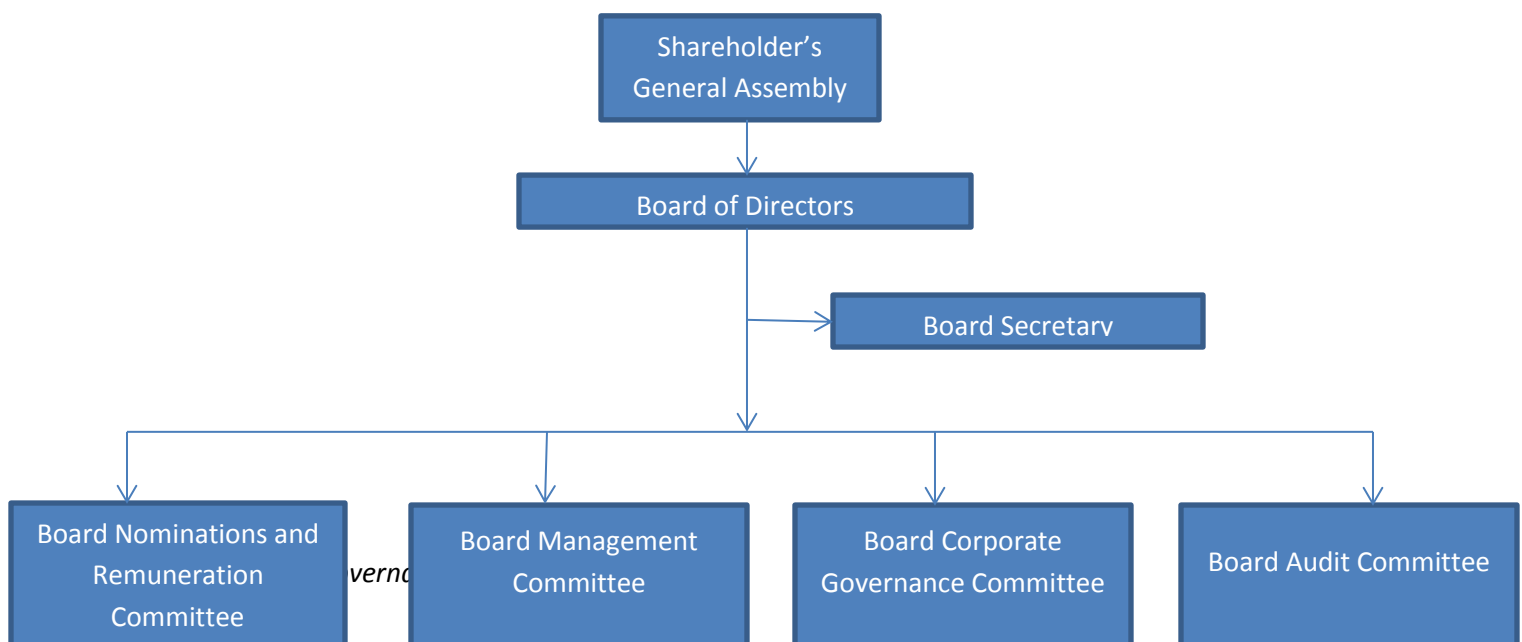
Depicted below is the governance structure devised and in practice at ADNREC which aims to enhance the good governance practices in the Board and the executive management of the company.

The objective of Corporate Governance:-

- Strengthen the confidence and credibility of the company and its management.
- Achieving efficiency in reaching desired goals.
- Preservation of the rights of shareholders and stakeholders of the company.

Governance Structure for ADNREC:-

The following diagram summarizes the governance structure of the Group, which is characterized by transparency and efficiency. In addition to the initiated committees from the Board of Directors:-



II. BOARD OF DIRECTORS:-

In practicing their duties, the Board of Directors are fully aware of, and clearly understand all applicable laws, rules, and regulations in order that they can comply with them under all circumstances. Therefore, the Directors fulfill their responsibilities diligently and in accordance with the principles of integrity, fairness, and in conformity to the professional standards.

The Board is responsible for setting the strategic objectives of the Company and its Risk Appetite, Corporate Governance framework, active contribution in the organization, bearing responsibility related to the safeguarding the interest of shareholders and stakeholders, focusing on risk management and governance, enhancing internal control systems and internal & external audits

Board of Directors Functions and Responsibilities:-

- The Board of Directors carries all the work required to manage the company, according to its purposes and limits of this power are provided by law or the articles of association of the company or the decisions of the General Assembly, as it can distribute the work among its members, according to the nature of the company's business.

- Approval of the company's general strategies, plans & policies To minimally include:
 1. The company's overall strategy and major action plans & its review.
 2. The optimal capital structure of the company and its financial goals.
 3. A clear policy for the distribution of the profits of different types (cash / kind) in the interests of shareholders and the company.
 4. Performance goals and monitor the implementation and the overall performance of the company.
 5. Organizational and functional structures of the company and its periodic review.
 6. Approval of annual budgets and approving the interim and annual financial statements.
 7. Supervision of major capital expenditure for the company, and acquisition of the assets and its disposal.
 8. Ensuring the company's commitment to policies and procedures that ensure the company is following its internal regulations in force.
 9. Ensure the accuracy and integrity of the data and information to be disclosed, according to the policies and systems of disclosure and transparency work force.
 10. Disclosure and advertising periodically (with a minimum of a semi-annual) on the progress of the company's activity and all the developments that have taken place affecting its business.
 11. Establish effective communication channels to enable the company's shareholders informed continuously and periodically on the various aspects of its activities and significant developments.
 12. Setting a system of governance and its supervision and control over its the effectiveness and modify it as needed.

- Ensure that the organizational structure of the company is characterized by transparency and clarity, allowing decision-making process and to achieve the principles of good governance, separation of powers and authorities in between each of the Board of Directors and Executive Management,

- Ensure that the executive management operates according to policies and regulations approved by the board of directors.
- Hold periodical meetings with executive management to discuss what course of action is marred by obstacles and problems, as well as review and discuss important information related to company activities.
- To set performance indicators for executive management in consistent with the objectives and strategy of company.
- Develop a policy governing the relationship with stakeholders in order to save their rights.
- Develop a mechanism to regulate transactions with related parties so as to reduce conflicts of interest.
- Ensure on a regular basis the adequacy and effectiveness of internal control systems in place in the company and its subsidiaries, including:
- Ensure the safety of the financial and accounting systems, including systems related to the preparation of financial reports.
- Ensure the application of control systems suitable for measuring and managing risk through defining the scope of the risks may face the company and create an environment familiar with the culture of risk reduction at the level of the company and put it transparently with stakeholders and related parties.
- Recommend the appointment of independent auditors.
- Approval of the rules of conduct and business ethics & policies and procedures in the company.

Composition of Board of Directors:-



Ali Yousef Al-Ghaith
Chairman



Hesham Abdulwahab Al-Jassim
Vice Chairman



Ayad Abdulhameed Al-Hmoud
Board Member



Khalid Mohammad Al-Obaidli
Board Member



Omar Khaleel Al-Hawalli
Board Member

Name	Particulars (Executive/ Non-Executive)	Committee Membership	Board/ Committee Chairmanships
Mr. Al Yousef Al Gaith	Non-Executive	Nomination & Remuneration Committee / Corporate Governance Committee / Audit Committee	Nomination & Remuneration Committee
Mr. Hesham Abdulwahab Al-Jassim	Non-Executive	Nomination & Remuneration Committee / Audit Committee	Audit Committee
Mr. Ayad Abdulhameed Al-Hmoud	Executive / CEO	Nomination & Remuneration Committee/ Corporate Governance Committee / Audit Committee	Corporate Governance Committee
Mr. Khalid Mohammed Al-Obaidli	Non-Executive	Corporate Governance Committee	-
Mr. Omar Khaleel Al-Hawalli	Non-Executive / Independent Director	-	-

III. BOARD NOMINATION AND REMUNERATION COMMITTEE:-

The Remuneration Committee aims to assist the Board of Directors to carry out its supervisory responsibilities and duties to ensure the safety and health of remuneration policy and provisions adopted by the company for members of the Board of Directors and executive management and the verification of the fact that remuneration policy followed by the company is fair and contributing to the polarization of the human cadres with professional efficiency and high technical capabilities, as well as establishing the principle of loyalty to the company.

Functions:-

- Define clear policies on compensation and insurance risks related to professional responsibility to the Board Members to identify policies and standards related to performance measurement to implement it.
- Prepare and develop the policies of the Directors' remuneration in accordance with the laws adopted and recommendation submitted by the Board of Directors and subject to the approval of the Ordinary General Assembly.
- Prepare and develop the committees members remuneration policy.
- Supervise the preparation of policy for granting bonuses, promotions, increases, benefits, incentives, and salaries of the executive management and staff.
- Ensure that bonuses are awarded according to the company's policies, as well as review these policies periodically (annually) and evaluate their effectiveness in achieving the desired objectives, represented in attracting human cadres and maintaining the qualified staff.
- Prepare a detailed annual report about all bonuses granted to the members of the Board and executive management to be presented to the General Assembly for approval.
- Carry out any other responsibilities delegated to the Committee by the Board of Directors in accordance with the approved Authority Matrix.

The Nominations Committee aims to assist the Board of Directors to carry out its supervisory responsibilities and duties to ensure the nomination of the competencies required for membership of the Board of Directors and the executive and administrative positions in the company, and ensuring that its being guided by the institutional framework characterized by efficiency and full transparency and mainly in the favor of the company and then to achieve the objectives of the shareholders.

Functions:-

- An initial approval of the manpower plan according to the needs of the company and executive management recommendations to submit it to the Board of Directors for final approval.
- An initial approval of the succession plan for the executive positions to be submitted to the Board for final approval.
- Provide recommendations to the Board of Directors to appoint members of the executive management and leadership positions vacant according to the adopted policies and standards.
- Ensure the election of the most efficient, experience, ability, and skill to exercise the functions entrusted to any vacancy according to the best standards.
- Supervising the preparation of the training plan for all the company's employees & supervising its implementation.
- Approval of the structure of the job levels & salaries of the company.

- Carry out any other responsibilities delegated to the Committee by the Board of Directors in accordance with the approved Authority Matrix.
- Develop job descriptions for executive directors and non-executive and independent members.
- The Nomination and the re-nomination of independent members for election by the General Assembly, and ensuring not to lack the independence Recipe of Independent Board Member.

Board Meetings convened during the year 2015-16:-

<u>Name</u>	<u>Meeting 23 Mar 2015</u>	<u>Meeting 13 May 2015</u>	<u>Meeting 30 Jul 2015</u>	<u>Meeting 02 Aug 2015</u>	<u>Meeting 12 Nov 2015</u>
Mr. Al Yousef Al Gaith	Attended	Attended	Attended	Attended	Attended
Mr. Hesham Abdulwahab Al-Jassim	Attended	Attended	Attended	Attended	Attended
Mr. Ayad Abdulha,eed Al-Hmoud	Attended	Attended	Attended	Attended	Attended
Mr. Khalid Mohammed Al-Obadii	Attended	Attended	Attended	Attended	Attended
Mr. Omar Khaleel Al-Hawalli	Apologized	Apologized	Apologized	Apologized	Apologized

<u>Name</u>	<u>Meeting 22 Nov 2015</u>	<u>Meeting 01 Dec 2015</u>	<u>Meeting 29 Dec 2015</u>	<u>Meeting 07 Jan 2016</u>	<u>Meeting 29 Feb 2016</u>
Mr. Al Yousef Al Gaith	Attended	Attended	Attended	Attended	Attended
Mr. Hesham Abdulwahab Al-Jassim	Attended	Attended	Attended	Attended	Attended
Mr. Ayad Abdulha,eed Al-Hmoud	Attended	Attended	Attended	Attended	Attended
Mr. Khalid Mohammed Al-Obadii	Attended	Attended	Attended	Attended	Attended
Mr. Omar Khaleel Al-Hawalli	Apologized	Apologized	Not Applicable	Not Applicable	Not Applicable

<u>Name</u>	<u>Meeting 31 Mar 2016</u>	<u>Meeting 21 Apr 2016</u>	<u>Meeting 11 May 2016</u>	<u>Meeting 27 Jun 2016</u>	<u>Meeting 13 Jul 2016</u>
Mr. Al Yousef Al Gaith	Attended	Attended	Attended	Attended	Attended
Mr. Hesham Abdulwahab Al-Jassim	Attended	Attended	Attended	Attended	Attended
Mr. Ayad Abdulha,eed Al-Hmoud	Attended	Attended	Attended	Attended	Attended
Mr. Khalid Mohammed Al-Obadii	Attended	Attended	Attended	Attended	Attended
Mr. Omar Khaleel Al-Hawalli	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable

IV. BOARD MANAGEMENT COMMITTEE:-

The Chief Executive Officer, Mr. Ayad Abdulhameed Al-Hmoud, manages the Company's business and undertakes day-to-day management of the Company. The Board also delegates authorities to the Company's CEO to perform certain specific administrative affairs, which are documented in Board decisions, e.g. signing on financial statements and restructuring subsidiaries and establishing new companies.

V. BOARD OF CORPORATE GOVERNANCE COMMITTEE:-

Corporate Governance Committee specialized in corporate governance applications & its primary role setting a Corporate Governance framework and guideline and supervise its implementation and amend it, when necessary.

The Board Of Directors form a Corporate Governance Committee consisting of three members: one of them is an independent member of the audit committee & the chairman of the committee is the chairman of the Board Of Directors.

Duties and Responsibilities:-

- Ensuring that the corporate governance standards and implementations are approved by the Board of Directors and are consistent.
- Supervising the preparation and implementation of the corporate governance manual and reviewing and updating the same when necessary.
- Coordinating with the audit committee to ensure compliance with the corporate governance manual.
- Monitor the performance of the members of the Board of Directors and executive management based on the key performance indicators.
- Monitor any subjects relating to corporate governance and providing the Board of Directors (annually at least) with the reports and recommendations based on the committee's results.
- Prepare an annual report that includes the procedures and requirements regarding completion of the corporate governance rules and the extent of compliance with the same and this report is to be included in the annual report of the Company's activity.

VI. BOARD AUDIT COMMITTEE:-

The Board Audit Committee (BAC) is responsible for overseeing the Company's internal control framework. BAC shall perform an assessment of the effectiveness of the internal control framework on a periodic basis through the evaluations carried out by the Company's management. Also, BAC shall report to the Board the results of the assessment on the adequacy of existing controls and processes. The Committee is also responsible for the recruitment, dismissal, performance evaluation and remuneration recommendation of the top management. In conducting its role the Committee coordinates closely with the Board Management Committee and the Board Nomination & Remuneration Committee.

Responsibilities of the Audit Committee:

- Develop and apply the policy for contracting with external auditors and issue a report to the board of directors to set forth the issues in respect of which an action shall be adopted together with recommendations on necessary steps to be adopted;
- Follow -up and oversee the independence and objectivity of the external auditor and hold discussions with the external auditor on the nature, scope and efficiency of auditing pursuant to approved audit standards;
- Oversee the integrity of and review the Company's financial statements and annual, semiannual and quarterly reports in the course of its operations during the year and shall, in particular, focus on:
 - any changes of accounting policies and practices;
 - highlighting matters that are subject to the management's judgment;
 - material amendments emerging out of auditing;
 - assumption of the Company's going concern;
 - adherence to the accounting criteria set by the Authority; and
 - adherence to listing and disclosure rules as well as other financial reporting legal requirements;
- Coordinate with the board iv. Coordinate with the board of directors, the executive management and the financial manager or the manager assuming the same duties in the company in order to duly fulfil its duties. The Committee shall hold a meeting with the company's external auditor at least once per annum;
- Consider any outstanding unconventional issues that are or have to be reflected in these reports and accounts and shall pay necessary attention to any issues raised by the financial manager of the Company, the manager assuming the same duties, the compliance officer or the external auditor;
- Review the Company's financial control, internal control and risk management systems;
- Discuss the internal control system with management and make sure that it fulfils its duty to develop an effective internal control system;
- Consider findings of main investigations into internal control issues to be assigned thereto by the board of directors or at the initiative of the Committee upon the approval of the board of directors;
- Ensure coordination between internal and external auditors, ensure availability of necessary resources for internal audit body, review and control the efficiency of this body;
- Review the Company's financial and accounting policies and procedures;
- Review the mission and action plan of the external auditor and any material inquiries raised by the auditor to the management in respect of accounting records, financial accounts or control systems, respond thereto and approve the same;
- Ensure that the board of directors responds on a timely basis to inquiries and material issues raised in the external auditor's mission;

- Develop rules that enable the employees of the Company to secretly report any potential violations in financial reports, internal control or other issues and adequate steps to conduct independent, fair investigations into these violations;
- Oversee the scope of the Company's compliance with its code of conduct;
- Ensure application of rules of operation in connection with their duties and powers assigned thereto by the board of directors.
- Issue a report to the board of directors; and
- Consider any other issues as the board of directors may determine.

VII. INTERNAL CONTROL:-

The Board of Directors' acknowledgment of its responsibility for the application, review and efficiency of the Internal Control System:-

The Board of Directors acknowledges its responsibility towards the application, review and efficiency of the Company's internal control system by maintaining an effective and robust Internal Control mechanism. The Board has obligated upon itself to promote and deploy the best risk management practices, sound application of governance rules, verification of compliance by the Company and its employees with applicable laws, regulations and resolutions that govern its operations, as well as internal procedures and policies and review of financial information that is forwarded to the Company's senior management, investors and all stakeholders at large.

The Internal Control Management performs its duties according to the governance requirements and corporate discipline standards detailed in the Internal Control Department charter and manual, including ensuring the operating effectiveness of the company's risk management structure, compliance standards and internal Control system. The internal control department reports to the board and its employees are sufficiently independent to perform their duties and obligations.

The Internal Control Management reports all material violations or non-compliances to the Board through the audit committee.

Internal Control Department refers all unresolved control gaps posing major risks to the internally formulated ADNREC governance committee seeking resolution. In case the issue remains unresolved, the matter is elevated to the attention of Audit Committee and finally to the Board of directors.

VIII. CORPORATE VALUES:-

The Company is achieving high standards of corporate values. These are followed and embedded through a number of well-established pillars. These pillars are formulated through a robust set of policies and procedures covering:

- Code of Conduct
- Related parties transactions
- Conflict of interest
- Confidentiality
- Whistle Blowing

Code of conduct

The Board takes the lead in setting professional standards and corporate values which promote integrity for the entire body, Executive Management and other employees. The Company Code of Conduct outlines the ethical standards expected of various stakeholders in the conduct of its business. This specifically covers the Board, Group employees and other stakeholders.

Related Parties Transactions

The Company's Related-Party Transactions Policy outlines the guiding principles on dealing with and managing transactions with relevant parties, whether between the Company and its Board Members, their companies or their related parties, Executive Management, and employees including syndicated financing and trading activities. The policy is in compliance with regulatory and IFRS standards.

Conflict of Interest

The Board monitors and manages the potential conflict of interest of the Company including the abuse of the Company's resources and any misuse of powers. The Conflict of Interest Policy provides guidelines for the identification, reporting, disclosure, prevention, and strict limitation of potential conflict of interest, including rules concerning connected party transactions and potential conflicts of interest.

Confidentiality

The Board, Executive Management and employees are committed to preserve the confidentiality of information and data on the Company's customers, as per the rules of the laws and instructions issued by the regulatory bodies in this respect. This has been well governed by confidentiality and information-security rules adopted and implemented within the Group.

Whistle Blowing

The Group promotes a transparent and collaborative working environment for all employees. The Whistle Blowing practices determine the guiding principles and procedures which enable the Company's employees to escalate to the Chairman any significant disputes, their concerns regarding any potential violations, malpractice, and "reportable" conduct, and to allow independent investigation and monitoring of these concerns.

IX. STAKEHOLDERS RIGHTS:-

Stakeholders are a group of individuals, groups and institutions that affect and are affected by actions and decisions taken by the company.

The stakeholders are represented in all relevant parties of the company such as board members, managers, staff and employees, suppliers, customers, banks and auditors of the company. It should be noted that these parties have interests that sometimes may be conflicting and different. Creditors, for example, the creditor are interested in the company's ability to pay, while workers and staff are interested in the company's ability to continue.

The company is committed to the standards of applying governance stipulated by the Organization for Economic Cooperation and Development "OECD", which included the role of stakeholders or parties associated with the company; where it recommended respecting their legal rights and compensating for any violation of those rights, as well as mechanisms for their active involvement in the follow-up of the company.

Mechanisms to ensure stakeholders' rights

- Providing information and access opportunities for stakeholders periodically and in a timely manner through periodic financial statements and ongoing disclosures to follow a policy of transparency.
- Develop mechanisms for the participation of employees in improving performance by following an open-door policy, ongoing performance assessments and continuous improvement.
- Allowing stakeholders of individuals (and other bodies who represent them) to communicate freely with the board of directors or executive management to express their concerns towards any actions that are illegal or contradictory to the ethics of the profession, so as not to compromise their rights if they did.
- Develop specific mechanisms to protect the rights of stakeholders, according to the clauses of the contracts and operating policies of the company.

Stakeholders

The stakeholders (for example, but not limited to):

- Employees
- Suppliers
- Clients
- Banks
- Members of the board of directors
- Auditors

X. SOCIAL RESPONSIBILITY POLICY:-

The company works to contribute to the social responsibility initiatives to implement its strategic objectives, as it launches programs and social activities constantly and continuously. The company's interest in social responsibility has been growing in recent years until it became one of the performance standards essential to the company, especially since the company believes that social responsibility is no longer an option but a must to help the community, it has become essential to the success of the company over the long term through various activities (charitable, cultural, scientific, health, environmental and social) on the basis of the principle of commitment and dealing according to the teachings of Islamic Shariah which urges to deal according to the highest standards and in the frameworks of social solidarity.

Standards of social responsibility

- Respect and responsibility, meaning respect for the company's internal environment (staff), and the external environment (members of the society).
- Supporting the community.
- Protecting the environment through the initiative to present what serves the environment and improves the environmental conditions in the community and to address various types of environmental problems (such as health and education), in line with the projects and activities practiced by the company.

Principles:-

- Shared responsibility
- Openness and accountability
- Continuous Improvement
- Commitment
- Environment
- Staff care
- Safety and Security

Responsibility

- The Board of Directors is responsible for the adoption of the company's policy and plans that are associated with its responsibilities towards the society in line with the general strategy of the company.
- The Board of Directors approves a specific budget to perform the company's role in the area of social responsibility in line with the company's strategy.
- The Board of Directors provides the necessary resources for the implementation of the annual social responsibility plan.
- The Board of Directors authorizes who it deems appropriate from the executive management to follow up on the application and implementation of policies and the company's plans for social responsibility.
- The top management of the company are responsible for the monitoring and controlling the commitment and effectiveness of the measures to corporate social responsibility as part of the ongoing daily routine.

XI. CORRUPTION:-

We have a zero-tolerance policy when it comes to corruption, where internal management is responsible for assisting in the deterrence of fraud by examining and evaluating the adequacy and effectiveness of controls commensurate with the extent of potential exposure/risk in the various activities of ADNREC. Internal management carries out these responsibilities by the following techniques

- Assessment actions designed specifically to provide a review of the control environment to pick out any inherent potential for fraud. Such assessment risk analyses and assessment selection is based on the degree of change and pressure in operating units.
- Compliance inspection and reviews which evaluate preventative controls and related compliance under the applicable laws, regulations, rules and contracts.

In doing so, we promote a fair and equal ground when it comes to all matters related to ADNREC.

XII. DISCLOSURE & TRANSPARENCY

- The corporate governance manual states the need to comply to accurate and orderly disclose regarding all financial matters related to the company through appropriate internal and external communication, including the statement of financial position, performance, ownership and matters relating to control. Such transparency would create an atmosphere of trust and confidence internally and externally, and formulate a clear division of responsibilities between the authorities.
- Transparency also ensures clear and cognitive means of communication between shareholders, the board of directors and operations management. Creating an effective climate of transparency in the work environment is the responsibility of all parties in order to achieve:
 1. Disclosure of the risks of concentration of shares in the hands of a small group of major shareholders.
 2. Disclosure of transactions with stakeholders, including major shareholders.
 3. The right to obtain information about the exceptional operations that affect the company, to provision the requirements of disclosure of the significant events.

XIII. SHARIAH RULES AND PRINCIPLES:-

As a Shariah compliant company, ADNREC takes on the broader responsibility of considering societal goals in line with Islamic laws that govern finance, adding a holistic approach that encompasses wealth acquisition, preservation and distribution. Going beyond earthly concerns, ADNREC allows for ethical lifelong actions. Social responsibility and accountability are thus naturally embedded in Shariah company, since requirements and goals must balance that of Islamic teachings, creating an additional perspective in the realm of finance.

- The Company shall ensure Shariah compliance of any contract before and after execution of financial transactions and performance of obligations under these contracts.

- Shariah supervisory Board ('SSB') shall review operations of ADNREC including all the policies, disposals, compliant income, review, etc.
- SSB is responsible for managing Shariah communication protocols.
- SSB is authorized to validate the company structure for Shariah compliance if it deems appropriate.
- Preparation of an annual report for CMA other applicable regulatory and shareholders annual meeting, confirming the compliance of the Company's operations with Shariah's principles and guidelines.

Composition of Shariah Board :-



Dr. Khaled Al-Mathkour
CHAIRMAN



Dr. Ajeel Al-Nashmi
Member



Dr. Esam Al-Enizi
Member

XIV. MAJOR EVENTS:-

- Legal case for capital tower land lost against Gulf Bank in last appeal on 13th July, 2016.
- Capital reduction action – Pending with CMA for approval to extinguish the previous year's accumulated losses to the extent resulting from above legal case.