المركز

MARKAZ

Asset Management | Investment Banking

Annual Report 2021

Sheikh Jaber Al-Ahmad Cultural Center – Kuwait City

H.H. Sheikh
Nawaf Al-Ahmad Al-Jaber
Al-Sabah
Amir of the State of Kuwait

H.H. Sheikh
Meshal Al-Ahmad Al-Jaber
Al-Sabah
Crown Prince of the State of Kuwait

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About Markaz

Established in 1974, Kuwait Financial Centre 'Markaz' is one of the leading asset management and investment banking institutions in the MENA region. Markaz was listed on the Boursa Kuwait in 1997. Since inception, Markaz has attracted and retained a client base of high net worth individuals, governments, quasi-government institutions, and corporations. The Company caters to its client base through the following products and services:

Asset Management
- Equity Mutual Funds
- Fixed Income Mutual Funds
- Real Estate Mutual Funds
- Private Equity Funds
- Portfolio Management
- Market Maker

Investment Banking
- Mergers and Acquisitions
- Advisory
- Listings
- Equity and debt issuances
- Credit rating advisory
- Restructuring

Real Estate
- Middle East and North Africa
- International

Research
- Economic and Policy Research
- Consulting Services

Vision

Your partner in wealth creation.

Mission

Offer best-in-class investment opportunities and tailored solutions.

Our Offerings

1. Asset Management Business

Asset Management services include diverse proprietary as well as customized investment solutions across mutual funds and specific portfolio management. We leverage our exceptional track record, clear investment guidelines and a long term investment approach to achieve our key objective of client returns and satisfaction. The Markaz investment process focuses on stock selection and is backed by quantitative and qualitative analysis undertaken by a professional team of experts. It provides unbiased opinions that are critical to a successful investment strategy. Markaz Assets Under Management (AUM) as of (31 December 2021) was KD 1.04 Billion.

Service Offerings

Mutual Funds - Equity

MIDAF

Markaz Fund for Investment & Development (MIDAF)

MUMTAZ

Markaz Fund for Excellent Yields (Mumtaz)

FORSA

Forsa Financial Fund

صندوق المركز العربي
Markaz Arabian Fund

Markaz Arabian Fund*

ISLAMIC

Markaz Islamic Fund

Mutual Funds - Fixed Income

MFI
Markaz Fixed Income Fund

Markaz Fixed Income Fund*

Mutual Funds - Real Estate

المركز العقاري
REAL ESTATE
MARKAZ

Markaz Real Estate Fund

المركز للعقار الخليجي
MARKAZ
GULF REAL ESTATE

Markaz Gulf Real Estate*

Portfolio Management

1. Equities Portfolios
2. Fixed Income Portfolios
3. Real Estate Portfolios

2. Real Estate Investments

Markaz offers various real estate investment opportunities across MENA, the US and Europe to its institutional and high net worth clients. The real estate team sources opportunities, conducts due diligence, arranges debt financing to acquire real estate assets across residential, commercial and industrial segments. The portfolio is primarily focused on income generating assets and selectively development opportunities.

MENA Real Estate

In 1998, Markaz established a dedicated Real Estate division. Markaz MENA Real Estate has a team of 27 professionals and currently manages KD 287 million in assets in Kuwait, UAE, KSA and Levant. Additionally, the division operates though regional offices in Riyadh, Khobar, Dubai and Abu Dhabi.

Markaz is managing the National Real Estate Portfolio, owned by Kuwait Investment Authority, with a value up to KD 250 million. In addition, Markaz Real Estate Fund has an AUM of KD 65 million across 17 properties and Markaz Gulf Real Estate Fund is a private placement.

* Private Placement funds.

Our Offerings (continued)

International Real Estate

Since 1988, Markaz has been conducting real estate transactions in the US through Mar-Gulf Management located in Los Angeles, California. Over the past three decades, Markaz and Mar-Gulf have been involved in the ownership and development of almost 123 properties for a total development and acquisition cost of over USD 1.8 billion. This includes approximately 10,300,000 sq. ft. of industrial warehouse space, 3,500,000 sq. ft. of retail, 1,350,000 sq. ft. of office and almost 3,400 apartment units. Markaz currently manages approximately USD 484 million of real estate assets across multiple funds. In addition to its investment in the USA, Markaz has been an active investor in Europe over the past few years.

3. Investment Banking

Markaz has successfully executed investment banking transactions of over USD 5.64 billion (as of 31st December 2021), spanning across equity capital markets, debt capital markets, IPOs, Listings, capital structure advisory, restructuring, disposition services and mergers and acquisitions advisory. Each client has a unique requirement, for which a consultative approach is adopted to formulate and advise optimal solutions.

Our success stems from our experience across both our technical execution capabilities and in depth industry knowledge. The investment banking team consists of dedicated professionals with proven expertise across a wide spectrum of different industries such as financial services, real estate, light and medium manufacturing, retail, oil & gas, and logistics.

Recent Flagship Assignments

Capital Markets

Jazeera Airways Company K.S.C.P.
Rights Issue
KWD 10 Million
Lead Manager & Subscription Agent 2021

Al Ahli Bank of Kuwait
Bond Issue
KWD 50 Million
Joint Lead Manager 2021

Gulf Bank
Bond Issue
KWD 50 Million
Joint Lead Manager 2021

National Industries Group
Bond Issue
KWD 30 Million
Joint Lead Manager 2020

Advisory and M&A

MHI Holding – Sufon Holding
Sell Side Advisor
2021

Silver Share Real Estate Company W.L.L.
Acquisition Manager
2021

Arab Life and Accident Insurance Company ("Arab Insurance")
Sell Side Advisor
2021

Kuwait Aluminum Extrusion Company
Valuation Advisory
2020

Gulf Bank
Transaction Advisory - Sell Side Advisor
2020

Private Equity & Venture Capital

Markaz has invested in over 54 funds across different strategies including Buyouts, Venture Capital, Fund of Funds, and Mezzanine, among others, with a geographic focus in the U.S. Total commitments for private equity have reached US$ 150 million.

In 2018, Markaz restarted the program with a strategy to allocate funds to private equity funds as well as direct investment opportunities with a focus on the GCC region.

4. Research

Research is the bedrock behind our performance and is a philosophy that we aggressively embrace. Our research expands even further into the realms of investment strategy and creative ideas thus positioning us as a thought leader in the region. Our clients can always trust us to provide reliable and objective analysis that helps them make an informed decision or stay in the loop of the latest developments.

Marmore, the research focused subsidiary of Markaz, has been publishing research reports and providing consulting services for over a decade. It has a long track record of research that has enabled Markaz to develop a substantial database on regional businesses and of efficiently delivering insightful projects for clients.

Research

Marmore has partnered with several thought leaders and leading institutions to generate Research studies. Such studies are focused on implications for businesses in the MENA region.

- Industry Research
- Economic Research
- Infrastructure Research
- Capital markets Research
- Policy Research
- Periodic Research
- Regulatory Research

Consulting Services

Marmore provides customized consulting services based on the specific requirements of clients. Its bespoke consulting services combine the challenges of cost, time, scope and data availability to generate actionable outcomes that are specific to client needs.

- Industry Market Assessment
- White Label Reports
- Databases Access
- Company Valuation
- Due Diligence/ Business Evaluation
- Feasibility Studies
- Business Plans
- C-Suite support at CXO level
- Directors Intelligence Support

Published Research

Marmore publishes quality research to meet client needs by offering tailored solutions. In 2021, Marmore published over 40+ reports on its research web portal and executed 15+ bespoke engagements with entities across the GCC region, ranging from large government and semi government institutions to corporations. Some of the popular research published during the year:

- Financial Analysis of Saudi Arabian Oil company (Saudi Aramco)
- GCC Banks - Making Them Digital Ready
- Kuwait Luxury Retail
- GCC Food & Beverage Sector
- Discretionary Portfolio management and Private Investment Funds in Saudi Arabia

Blogs

Marmore Blogs provide a succinct view on the latest developments in the region spanning from economy to capital markets. Below is a list of our recent popular blogs.

- Economic Impact of Dubai Expo 2020
- Importance of SMEs in GCC: Challenges amid COVID and way forward
- GCC Asset Management and its Challenges
- Saudi Arabia eases regulation to support SMEs and Entrepreneurs
- Filling the gap in ESG framework: Saudi Arabia
- ETFs in GCC: How far they have come?
- Impact of oil price volatility on GCC economies, markets and businesses
- COVID-19 a catalyst for EdTech in GCC region
- Deluge of bond issues by Gulf banks provide capital boost

Board of Directors

Mr. Diraar Yusuf Alghanim
Chairman

Mr. Alghanim is Chairman of the Board Steering Committee and the Board Nomination and Remuneration Committee at Markaz. He has been a member of the Board of Directors of Kuwait Chamber of Commerce & Industry (KCCI) since 2001. He has over 40 years of experience in financial services, asset management, insurance, contracting, and general trading, in the region as well as internationally. He was also the Founding Chairman of the Union of Investment Companies (UIC) from 2004-2009 and is an active member of various NGOs in Kuwait and abroad.

Mr. Faisal AbdulAziz Al-Jallal
Vice Chairman

Mr. Al-Jallal is the Chairman of Markaz's Board Audit Committee and a member of the Board Nomination and Remuneration Committee. He is the Managing Director of Al-Baseet Trading Co. and Partner in Al-Jallal Real Estate Co. He holds a University Degree from Alexandria University.

Mr. Ayman Abdullatif Alshaya
Board Member

Mr. Alshaya is a member of the Board Steering Committee and the Board Nomination & Remuneration Committee at Markaz. He is board member of the Alshaya group of businesses, a family company founded in Kuwait in 1890. He has been CEO of Trading Division in Alshaya Group since 1989 and is Chairman of Al Ahleia Insurance Company. Mr. Alshaya holds a Bachelor's Degree in Mechanical Engineering from Kuwait University.

Mr. Fahad Yaqoub Al-Jouan
Board Member

Mr. Al-Jouan is Chairman of the Board Risk Management Committee and a member of the Board Steering Committee and the Board Audit Committee. He is also the Managing Partner of Kuwait Projects Group and Board Member of the Kuwait Chamber of Commerce and Industry (KCCI) and National Petroleum Services Co. (NAPESCO). He serves as Vice–Chairman of Al-Dorra Petroleum Services. Mr. Al-Jouan holds a Bachelor's Degree in Business Administration from Eastern Washington University.

Audit Committee · Board Steering Committee · Nominations & Remunerations Committee · Risk Management Committee

Mr. Adel Mohammed Alghannam
Board Member

Mr. Alghannam is a member of the Board Risk Management Committee and the Board Nomination & Remuneration Committee at Markaz. He has been a Board Member and the Executive Manager of Kapico Group Holding Co. since 2003 and holds managerial positions in several of its subsidiaries such as Royale Hayat Hospital, Kuwait Auto Parts Imports Co, The National Spare Parts Co, AG Melco Elevator Co., and many others. He is also a Board Member of the Al Ahleia Insurance Company. Mr. Alghannam holds a Bachelor's Degree in Business Administration from the U.S.A.

Mr. Omran Habib Hayat
Board Member

Mr. Hayat is a member of the Board Risk Management Committee at Markaz. He is the founder and Managing Partner of Al-Mehan Holding Company WLL and has been the Chairman of National Petroleum Services Co. (NAPESCO) since 2006. He is currently a board member of the Kuwait Chamber of Commerce and the Industry and the Public Authority for Applied Education and Training and is a member of the Board of Trustees of Loyac, the Industrial Advisory Board to the Australian College of Kuwait, the Real Estate Academic Initiative (REAI) at Harvard University and the Kuwait Society of Engineers. Mr. Hayat has served as the Managing Director of the United Real Estate Company and Deputy Managing Director of the National Real Estate Company. He holds a Bachelor's Degree in Architectural Engineering from the University of Miami and a Master's Degree in Project Management and Finance from Northeastern University, Boston. He has also completed the Advanced Management Development Program in Real Estate - Office of Executive Education from Harvard University.

Mr. Fahad Sulaiman Aldalali
Board Member

Mr. Aldalali is a member of the Board Audit Committee at Markaz and a Partner in Cornerstone Consulting. He has served in several positions at Halliburton Overseas Limited, Kuwait, since 2003. He also served as a Vice President of Moelis & Company at the Dubai International Financial Center and is a board member of Al Mulla International Finance. He has over 15 years of experience in the financial, advisory and oil sectors. He holds a Bachelor's Degree in Electrical Engineering from Michigan State University and a Master's Degree in Finance and Accounting from the University of Pennsylvania.

Maha Abdulsalam Imad
Board Secretary

Ms. Imad joined Markaz in 1997, and currently manages "Corporate Affairs Department". Before joining Markaz, she worked for seven years in the Credit Department at Bank Med in Lebanon. Holder of Bachelor of Science in Business Management from Lebanese American University - Beirut.

Audit Committee · Board Steering Committee · Nominations & Remunerations Committee · Risk Management Committee

Board of Directors' Report

Dear Shareholders,

2021 has been gratifying from a financial and operational standpoint. Despite the COVID-19 pandemic, we remained resilient and focused on achieving our long-term organizational goals. We are grateful for the efforts of the Board of Directors, the dedication of our management team, and the support of our stakeholders who were with us throughout this journey and steering our Company in a challenging business environment.

Navigating through the pandemic

The performance of the global economy has exceeded expectations in 2021, with the recovery driven by fiscal support, accommodative monetary policy of the OECD countries, and effective vaccination. Despite significant challenges posed by the delta variant of COVID-19 and supply chain shocks, the global economy continued to march forward during the year; according to International Monetary Fund (IMF) data, the global economy grew by 5.9% in 2021, rebounding from the -3.1% real GDP growth witnessed in 2020.

The recovery in oil prices aided the rebound of GCC economies, reducing the pressure on the government finances and supporting economic activity. Brent Crude surpassed the USD 80 per barrel mark during the year, its highest level since 2014.

Global and regional equity markets registered double-digit returns, supported by a recovering global economy and strong liquidity. Inflation marked its return to the developed world, after remaining low for decades. Moving into 2022, it remains one of the key risks for the markets. Mutations of COVID-19 remain another key risk that could derail market performance. However, as things stand, the underlying theme moving into 2022 could again be the recovery that played out during this year.

Regulatory support has been a crucial element that has enabled the industry to recover and move ahead. The measures imposed by Central Bank of Kuwait since April 2020 have ensured the stability of the financial system and allowed the financial services industry to navigate through the pandemic. During the year, the central bank had launched initiatives such as Diraya Financial Awareness Campaign and the Kafa'a initiative, which focused on imparting financial knowledge and improving the financial awareness among citizens. These initiatives will have positive implications for the future, as the role of financial literacy in national development and the growth of financial services cannot be overstated. The efforts of the Capital Markets Authority over the years have also played a crucial role in the improvement of Kuwait's capital markets to international standards. Owing to the increased adoption of corporate sustainability and the growing interest in sustainable investing in recent years, Boursa Kuwait launched the ESG reporting guide to help companies identify and adopt best practices in ESG implementation and reporting.

Our focus at Markaz has always been on delivering sustainable returns to our clients and maximizing value for our shareholders. We were able to achieve that in 2021, registering one of the strongest financial performances in recent years. We have revised our practices to improve our agility and efficiency without compromising on our guiding principles. Our employees have adapted to the new normal, demonstrating dedication and commitment to serving our customers and the financial community.

Financials

Markaz delivered a solid performance for the year 2021 with total revenues of KD 30.6 million, as compared to KD 13.2 million for last year. Net Profit attributable to shareholders of Markaz was KD 14.9 million, as compared to a loss of KD 1.7 million in 2020, and Earnings per Share was 31 Fills as of 31 December 2021. Markaz Assets under Management (AUM) increased for the fifth consecutive quarter and reached KD 1.04 Billion as of 31 December 2021.

The Board of Directors have recommended a cash dividend of 10% or 10 Fils per share, amounting to a total of KD 4,782,017/-, and bonus shares for 5% of the paid capital by issuing 24,040,087 shares to shareholders registered as of the record date, pro-rata their ownerships (i.e. 5 shares for every 100 shares), for a total of KD 2,404,009/- (all subject to Annual General Meeting's approval)*.

The Board of Directors confirm integrity and fairness of all financial data as well as reports related with the Company's activities.

* The Annual General Meeting of the shareholders' assembly, held on 27 March 2022, has approved the Board of Directors' recommendation to distribute a cash dividend of 10% or 10 Fils per share, amounting to a total of KD 4,782,017/-, and bonus shares for 5% of the paid capital by issuing 24,040,087 shares to shareholders registered as of the record date, pro-rata their ownerships (i.e. 5 shares for every 100 shares), for a total of KD 2,404,009/-

> *Our focus at Markaz has always been on delivering sustainable returns to our clients and maximizing value for our shareholders. We were able to achieve that in 2021*

Business Strategy

The market dynamics are fast evolving and several key trends are emerging which are critical and reshaping the landscape we operate in. Companies that adapt to the changing requirements and rethink their strategies are likely to emerge strong winners. In the context of the above, strategic planning and formulation at Markaz follows a structured and dynamic approach to ensure sustainable positioning.

We are entering 2022 with a comprehensive corporate strategy with the aim to build on the strong momentum and results achieved during 2021 by strengthening our leading position within the asset management and investment banking industry in Kuwait and regionally, digitizing our processes, establishing a stronger footprint outside Kuwait, and creating an agile operating model. Moving ahead, we are aware that digitization will play a key role in the transformation of financial services and are working proactively to stay ahead of our competitors in that regard. The goal is to build upon our existing track record of creating shareholder value, achieving sustainable long-term growth, conducting business in highest degree of integrity and launching innovative products and services.

Outlook

The GCC economy is expected to rebound in 2022, supported by the recovery in global demand leading to higher oil prices, and serious reform initiatives by the GCC governments to stimulate economic growth. As per IMF data, Kuwait's real GDP growth recovered from -8.9% in 2020 to 0.9% in 2021, and is projected to grow by 4.3% in 2022. Global economic growth is expected to continue its recovery into 2022, with the global real GDP set to expand by 4.9%.

As the world emerges from the effects of the pandemic, the upcoming year will see a meaningful economic and financial transition and a normalized monetary policy. The year 2021 has been rewarding for investors, with the equity markets supported by an accommodative monetary policy. In contrast, the performance in 2022 is expected to be driven primarily by earnings growth. Although mutations of COVID-19 strains remain a key risk, we at Markaz remain cautiously optimistic, underpinned by our strong and sustainable business model that has proven to be resilient and evolve under challenging circumstances.

Our diversified business model, broad geographic investment presence, financial discipline and prudent capital structure have positioned us well to pursue our growth plans in the coming years. Our performance in 2021 is a testimony to our ability to deliver tangible value to our customers and grow our business even during uncertain operating circumstances. We will continue to scout the markets for investment opportunities that could maximize value for our clients. Our focus will remain to strengthen our core investment competencies while looking to leverage technology to deliver better service to our clients.

We would like to thank all regulatory authorities, including the Central Bank of Kuwait, the Capital Markets Authority and the Ministry of Commerce and Industry who have provided guidance and support during these times of uncertainty, and helped the market emerge out of these testing circumstances as a more resilient and efficient capital market.

We also wish to express our sincere gratitude to the members of the Board of Directors and our Staff for their tireless efforts to steer the Company to deliver exceptional results, setting us on a profitable and sustainable path for the future. Last but not least, we would like to thank our clients, business partners and shareholders for their unwavering support.

Diraar Yusuf Alghanim
Chairman

16 February 2022

Executive Management

Ali Hassan Khalil
Chief Executive Officer

Bassam N. Al-Othman
Managing Director
MENA Real Estate

Amani I. Al-Omani
Managing Director
MENA Equities

Abdullatif W. Al-Nusif
Managing Director
Wealth Management and
Business Development

Raja Farrukh Abrar
Senior Vice President and
Acting Chief Financial Officer

Awards and Recognitions in 2021

Best Investment Bank in Kuwait

Best Asset Manager in Kuwait
Best Investment Bank in Kuwait
Sustainability Award in the Middle East

MENA Real Estate Asset Manager of the Year

Other Executives

Rasha A. Othman
Executive Vice President
Investment Banking (Capital Markets and Fixed Income)

Hussein A. Zeineddin
Executive Vice President
Management Information Systems, Operations

Maha A. Imad
Executive Vice President
Corporate Affairs

Peter Kelly
Executive Vice President
Human Resources

Sadon A. Al-Sabt
Senior Vice President
International Real Estate

Alex W. Salamoun
Senior Vice President
Strategic Planning

Deena Y. Al-Refai
Senior Vice President
Investor Relations

Executive Management's Report

Dear Shareholders,

Over the past four decades, Markaz has earned the reputation of being one of the most trustworthy investment institutions in Kuwait with its consistent financial performance, by offering a broad range of investment products and delivering high-quality advice and services to clients. Markaz thrives on this distinguished track record and its ongoing success in developing innovative products to satisfy the investment strategies of today.

The last 12 months was an outstanding year for stock markets across the world, with renewed corporate confidence and visibility driving global M&As and IPOs to an all-time high. With this market backdrop, I am delighted to share that Markaz has also continued its strategic growth trajectory whilst improving profitability along the way. This reflects the underlying strength of our research and analytical driven culture in financial decision-making, anticipating industry trends and structuring attractive investment products for all client risk profiles.

As a testament to our achievements, Markaz was named the 'Best Investment Bank in Kuwait', 'Best Asset Manager in Kuwait' for the ninth consecutive year and the winner of the 'Sustainability Award in the Middle East' from EMEA Finance, as well as the 'MENA Real Estate Asset Manager of the Year' title by Global Investor and 'Best Investment Bank in Kuwait' from Global Finance.

Strategic Initiatives

Notwithstanding some of the economic and geopolitical uncertainties during the year, we stayed focused on our growth objectives and revitalizing our strategy. Markaz teams continued to innovate high quality investment products, provide sound investment banking advice supported by our own capital in selected transactions, strengthen our wealth management international capabilities and enhance efficiencies through digitization across the firm.

We aim to grow revenues over the following years by increasing both our conventional and alternative assets under management, primarily by attracting fresh client capital, by generating sustainable returns in excess of market benchmarks. This will involve continuing to source attractive investment opportunities, establishing creative transaction structures and making them accessible to our clients in Kuwait and the GCC region. Towards that, we have put in place over the years a network of close relationships and alliances in the USA, Europe and the GCC that provide us with a proprietary pipeline of investment opportunities.

Over the years, our existing and target client base has evolved, requiring that we remain dynamic and innovative to cater to their changing outlook and risk return requirements. As part of that responsiveness, our processes and systems have evolved to be highly flexible and give us the competitive capability required to manage multiple asset classes efficiently across international jurisdictions.

2021 Performance Overview

Equities

The robust stock market performance in 2021 was underpinned by an economic recovery based on higher vaccination rates, accommodative central bank policies, pent up consumer demand and strong corporate earnings. However, multiple factors such as rising inflation, supply chain disruptions, labor shortages and resurgent pandemic fears continued to be the source of uncertainty and low visibility.

The rally in oil prices has provided a positive environment for GCC stock markets with Kuwait's equity markets also managing to generate double-digit growth in 2021. Kuwait's successful vaccination drive enabled it to ease COVID-19 related restrictions in October, leading to a close to normalization of the business environment.

During the year, Markaz proactively addressed the changing trends in regional and global markets and benefited from the post-pandemic recovery impact across asset management strategies.

Markaz Investment & Development Fund (MIDAF), Markaz Forsa Financial Fund (Forsa) and Markaz Fund for Excellent Yields (MUMTAZ) recorded yearly returns of 28.3%, 27.6% and 26.2% respectively. Markaz Islamic Fund (MIF), a Sharia compliant fund, also recorded solid returns of 24.8%.

Fixed Income

The debt markets were, in contrast, relatively subdued in 2021 and the global bond issuance outlook remains under pressure given the expectation of a series of rate hikes by major central banks. The increase in oil prices provided greater funding for the GCC government budgets, thereby reducing the need to access the debt capital markets in 2021. However, future debt issuance from GCC countries is expected to arise from refinancing needs, although Kuwait may access debt markets given its previous major issue was in 2017.

MENA Real Estate

The real estate sector in key GCC markets recovered in 2021, with Kuwait's real estate market also bouncing back from the pandemic lows of 2020. Occupancy levels at Markaz's real estate properties in Saudi Arabia and the UAE have surpassed the pre-COVID-19 levels to deliver strong rental income growth during the year. The markets are experiencing increasing liquidity which we are witnessing across our assets. Sale efforts across key residential properties within our portfolio in the UAE continued with strong and growing momentum during 2021. The exits achieved are in line with the respective strategies of the investments.

Our flagship Markaz Real Estate Fund delivered relatively high occupancy and collection levels through a proactive and aggressive approach to daily property and asset management, notwithstanding the impact

We aim to grow revenues over the following years by increasing both our conventional and alternative assets under management, primarily by attracting fresh client capital

of the pandemic, and despite the pressure on the residential, retail, and professional workspace.

International Real Estate

International real estate sales started gaining pace from the last quarter of 2020 with prices increasing due to low interest rates, government incentives and pent-up investor demand. We were well poised to benefit from our large number of industrial properties under development across Europe and the USA at a time the market was short of logistics space.

Over the course of 2021, we have successfully executed key transactions that contributed to the growth of our portfolio. These investments were mainly within the logistics sector across existing and new markets in the USA and Europe, as well as residential investments in the US. In addition, we achieved timely exits, which further strengthened our impressive track record across these markets. The key transactions included the sale of a portfolio of AMAZON leased projects in Germany, an industrial property in Poland and a self-storage property in the US.

Investment Banking

Looking back at 2021, M&A deals, IPOs and other capital market transactions reached record highs. With a strong deal flow pipeline, this trend is expected to continue well into 2022. GCC market activity was also partly driven by pent-up transactions that had been delayed or postponed due to the COVID-19 crisis. In addition, companies refined their strategies to match the economic recovery and raised equity and debt capital to fund expansion plans.

GCC governments especially in Dubai, Abu Dhabi and Saudi Arabia have announced wide ranging reforms to deepen their capital markets and encourage listings. MENA companies have also recently shown interest in Special Purpose Acquisition Companies (SPACs) and the overall visibility on the 2022 IPO pipeline projects a positive outlook.

In 2021, Markaz successfully completed four capital markets transactions, including two Subordinated Tier II bonds issues for banks, and two equity Rights Issue for two corporate clients. In addition, Markaz executed several advisory mandates in the food and beverage, insurance, construction, and technology venture sectors.

With environmental, social, and governance (ESG) becoming an integrated part of corporate strategy, companies and institutions are actively reorienting their strategies towards sustainability. Boursa Kuwait has also introduced an ESG reporting framework for companies to encourage corporate sustainability activities. Rising regulatory and political pressures, increasing investor requirements and attractive cost of capital for issuing companies have been driving the demand for ESG linked debt products such as green Sukuk and sustainability-linked loans.

Our People and CSR

In challenging times, we were heavily engaged in keeping everyone well-informed, safe, and healthy. We were vigilant in implementing a high standard of care to protect all of our staff, with not a single case of Covid transmission within our offices.

We believe that everyone at Markaz should have an 'individual development plan'; this will sharpen staff focus on benchmark levels of knowledge, skills and positive behaviors relevant for our people's future career growth.

We will be resuming our Graduate Development Program in 2022, which aims to nurture future Kuwaiti leaders by thoroughly involving in our business. We are proud that we have participated in training 42 graduates and hired 38% of the participants who proved their capabilities and professional skills.

Outlook

Going into 2022, investors will closely track early signs of inflation, the pace of western central banks' tapering programs, the emergence of new strains of the virus and their collective potential impact on economic activity. Kuwait has seen its FY 2020-21 budget deficit increase by 175%, which was the highest in the country's history. However, the expected implementation of comprehensive fiscal reforms and a recovery in oil prices should alleviate some of the downside pressures going forward.

Investment themes such as ESG, digitalization and the ongoing emergence of relatively new asset classes will continue to impact investment decisions well into 2022. As the demography of the investment community changes, Gen Z and Millennial clients will prioritize factors such as ESG and demand innovative products to match their requirements. Asset managers must be responsive and agile in order to cater to these rapidly changing dynamics. We at Markaz are committed to building on our track record of innovation and offering creative investment solutions to remain a preferred partner of choice in wealth creation.

On a final note, during 2021, we have not only delivered value to all our stakeholders but have also contributed to the communities we operate in. We, the Executive Management, are proud of the meaningful progress Markaz made in 2021 and remain optimistic that we will continue to reap the benefits of our hard work and innovation into the foreseeable future.

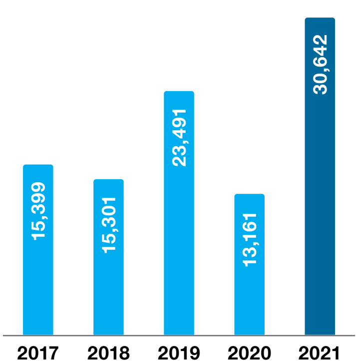
Ali H. Khalil
Chief Executive Officer

A Year of Achievements

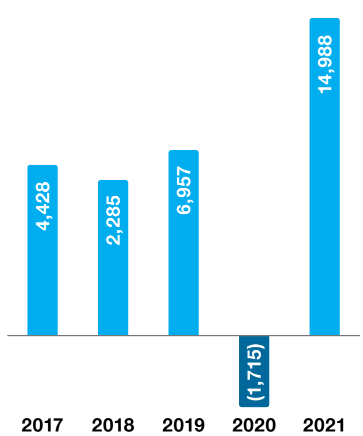
Financial Highlights

Consistently delivering shareholder value underpinned by attractive dividend payouts

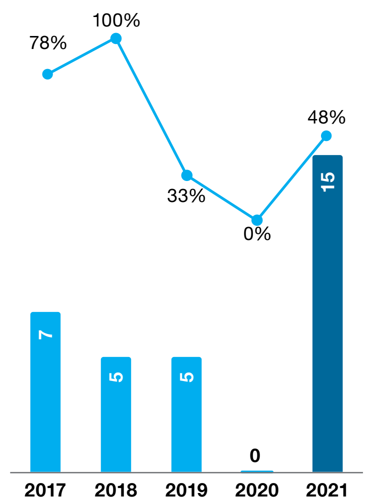
Revenue (KD thousands)



Net Profit (KD thousand) & Margin (%)

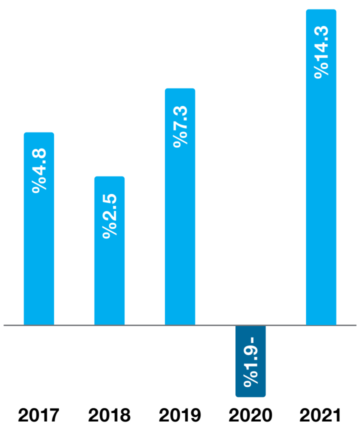


Dividend [1] (Fils) & Pay-out (%)

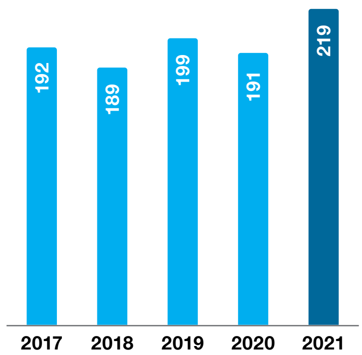


[1] The Annual General Meeting of the shareholders' assembly, held on 27 March 2022, has approved the Board of Directors' recommendation to distribute a cash dividend of 10% or 10 Fils per share, and bonus shares for 5% of the paid capital.

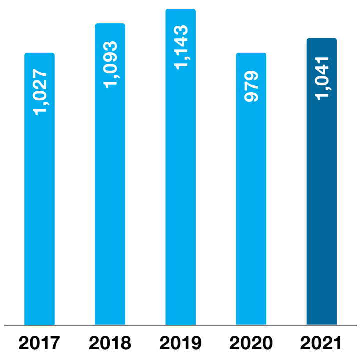
Return on Equity (%)



Book value per share (fils)



Assets Under Management (KD millions)



Business Review

Asset Management

MENA Equity Funds

The GCC markets delivered strong returns to investors for most part of the year, with decline in November due to concerns arising from the outspread of Omicron virus. The S&P GCC index closed the year with a record high gain of 35.2%, one of the best years in the last decade. The UAE was the best performing constituent of the GCC benchmark, registering gain of 48.9%, followed by Saudi Arabia and Kuwait, which registered gains of 38% and 30.7%, respectively. The overall recovery was underpinned by multiple factors such as: strong rebound of 67% in the oil prices, quicker rollout of vaccinations and elimination of lockdown restrictions, which collectively led to improved business sentiments and pick-up in economic activity across the GCC region.

During the year, Markaz remained focused on closely tracking the emerging market trends and identifying right opportunities to maximize returns with lower risks. The asset management team continues to adopt digital tools to ensure uninterrupted coordination within teams, while taking appropriate steps to optimally position portfolios and capitalize on the growing market opportunities. Markaz's managed funds have recorded high double digit returns in line with the benchmark indices. Markaz Investment & Development Fund (MIDAF), Forsa Financial Fund and Markaz Fund for Excellent Yields (MUMTAZ) recorded yearly returns of 28.3%, 27.6% and 26.2% respectively. Markaz Islamic Fund (MIF), a Sharia compliant fund, also recorded strong returns of 24.8%.

The year 2022 started on a cautious note with concerns arising from the subsequent waves of Coronavirus, inflationary pressure, and rising interest rate environment. However, the positive momentum is expected to continue during 2022, primarily driven by higher oil prices, contained Covid-19 situation, higher vaccination rollout and positive business sentiments. Markaz's asset management team remains fully committed to capitalize on the ongoing upward trend in the equity markets with value stock picking being at the center of the strategy and generating higher returns for investors.

Fixed Income Fund

Primary debt issuances in the GCC region continued to grow during 2021, on the backdrop of historically low interest rate environment supported by accommodative monetary policies. GCC primary Bonds and Sukuks markets saw primary issuances worth USD 143 billion in 2021, registering an increase of 8.0% year-on-year. This growth was relatively subdued compared to last year due to concern surrounding series of rate hikes by central governments.

The Markaz Fixed Income fund (MFIF), a privately placed fund, continues to deliver positive returns. The performance is underpinned by a balanced allocation across MENA geographies and sectors. The Markaz fixed income team continues to publish research on regional fixed income markets, and regular market updates. In addition, Markaz also offers high-net-worth clients portfolio advisory services through discretionary and non-discretionary portfolios.

Portfolio Management

Markaz has a longstanding track record of advising clients and customizing their investment portfolios with a clear objective to meet their return expectations, contained within set risk tolerance levels. A disciplined and systematic investment process is initially established and then implemented to deliver attractive returns.

Markaz provides portfolio management services, including discretionary, non-discretionary and advisory services to high net worth individuals (HNIs) across the GCC region. The team of highly experienced professionals offers customizable investment solutions to investors, allowing them to best meet their investment objectives.

Real Estate Funds

The Markaz Real Estate Fund (MREF) is an open-ended fund launched in 2003 with the purpose of investing in income-generating assets in Kuwait. As of 31st December 2021, the fund had AUM of KD 65 million across 17 properties. Despite the challenging market conditions, MREF continues to distribute a monthly cash dividend and generated total returns of 4.5 % in 2021.

In addition to the MREF, Markaz manages Markaz Gulf Real Estate Fund (MGREF), which is an open-ended privately placed fund launched in 2014 that invests in income-generating assets across the GCC. The fund has invested in real estate assets across Kuwait, KSA and the UAE. The portfolio of assets includes a mix of commercial, residential and industrial income-generating assets.

Real Estate

MENA Real Estate

In 2021, real estate market in the GCC region experienced some early signs of recovery despite the continuing impact of the subsequent waves of coronavirus. The strong demand for residential units was evident in Saudi Arabia which led to improvement in rental. Similarly, in Dubai, the rental rates started picking up substantially in the second half of the year backed by recovery in demand. In addition, the transaction volumes were at record high levels. While in Kuwait, the real estate sector showed signs of stabilization, and recovery is expected in the near term. The transaction values surpassed the levels of 2020 and 2019, however a major shift in investors' preferences was visible within the real estate sectors. Private residential sector constituted 73% of all transactions value which is almost double compared to 2020 and 2019. Demand for office segment remained strong with lower vacancies and supporting rental rates; while demand for residential apartments stabilized with improvement in occupancy levels leading to a revival in rental yields.

Over the years, Markaz has built a resilient portfolio of real estate assets across Kuwait, KSA and the UAE, which continues to generate stable rental income for Markaz and its investors. Rental rates and collections recovered from the lows of last year in some properties whereas in other properties, collections are expected to increase gradually going forward. The occupancy levels have surpassed the pre-COVID levels in KSA and UAE properties. However, occupancy levels remain lower in Kuwait but are expected to recover in the near term. The Markaz real estate team continues to focus on improving occupancy levels at its properties by offering supportive rental rates, regular follow up meetings with tenants and active review of assets allocations.

Markaz real estate management team is also managing part of The National Real Estate Portfolio, which was established in 2012 and owned by the Kuwait Investment Authority, with a value of around KD 250 million. The objective of the portfolio is to invest in freehold real estate assets across Kuwait.

The real estate team is focused on selling units in its Abu Dhabi development, after its debt financing has been repaid in full and Markaz has initiated the process of returning equity to its investors. In Dubai development, the sale of units started in the first quarter of 2021 and Markaz's aim is to sell these developments by end of 2022.

International Real Estate

International real estate witnessed traction across all its property classes and the all-property index increased by 21% in 2021. The recovery was attributed to pent-up demand, higher liquidity and lower fixed income yields. Industrial segment continues to benefit from robust demand whereas the Office segment demand and rentals are gradually improving. The global office leasing volumes are still 25% lower than the pre COVID levels, due to continued adoption of work from home. The logistics sector has performed well during the year and an upward trend of 4.5% increase in rental is expected globally. The retail markets are recovering at varying rates, depending on each country's ability to manage COVID situation and economic growth. Leasing activity continues to pick up in many major retail markets, with high vaccination rates and relaxed containment measures.

Markaz has successfully exited from five projects during the year, generating significant risk adjusted returns for investors. The key transactions included the sale of a portfolio of three amazon leased projects in Germany, an industrial property in Poland and a self-storage property in the US, generating strong returns with IRR of 39%, 18% and 14%, respectively. Markaz's international real estate team continues to build on its remarkable track record with successful and timely exits during the year. In addition, the team was focused on ten development projects across the US and Europe with a total capital commitment of USD 119 million. Markaz has been very selective, investing in projects with strong fundamentals and development projects with an inherent competitive advantage.

The international real estate team continues to seek new development opportunities arising from the favorable industry dynamics. The team remains selective while evaluating investment opportunities and conducts a detailed commercial and financial due diligence to ensure higher returns are being generated for investors. Markaz will continue to expand its investment program designed to capitalize on the value-add opportunities in the United States and select European markets.

Investment Banking

Capital Markets

Markaz's capital markets team successfully completed four transactions during the year. Markaz was Joint Lead Manager and Subscription Agent and raised KD 50 million each through Subordinated Tier II bonds for Gulf Bank and Al Ahli Bank of Kuwait. Markaz team was Lead Manager and Subscription Agent for KD 10 million Rights Issue for Jazeera Airways Company. Markaz also acted as a Joint Lead Manager and Underwriter for KD 71.25 million Rights Issue for Burgan Bank.

Markaz team has a long experience and proven track record in capital markets transactions and capital structure advisory including IPO advisory in addition to DCM and ECM.

Business Review (continued)

Advisory

The Kuwaiti M&A market witnessed strong transactions activity during the year compared to previous year in which M&A activity was impacted due to COVID-19 pandemic. A total of 57 transactions were announced during the year, compared to 31 transactions in 2020. The most notable transaction during the year was of Agility Public Warehousing Company, selling its Global Integrated Logistics business to DSV Panalpina for a total value of USD 4.67 billion.

Our investment banking team has in-depth understanding of Kuwait market, strong domain expertise and long-standing relationships with clients that have helped in building strong deals pipeline. The team continues to leverage Markaz's intellectual capital and relationships, to offer customized solutions to its clients. During the year, the team has evaluated various proposals and advised on key transactions such as facilitating client's partial exit from leading companies, advising on merger of two construction companies, independent valuation of building material and contracting company and fund-raising for two online retail companies.

Markaz expects more transactions in the coming year, such as companies that may look to restructure post pandemic, or new-age technology companies looking for strategic investors to partner with to help them grow their business, and other similar opportunities. Markaz's experienced team is well placed to engage with clients, devising and executing suitable growth strategies from ideation all the way until deal execution and closure.

Private Equity and Venture Capital

Markaz continues to actively manage private equity investments and evaluate new opportunities. Over the years, the firm has invested in over 54 funds across different investment strategies including buyouts, venture capital, fund of funds and mezzanine with a geographic focus on the US. The total commitment to private equity reached US$ 150 million. At the end of 2020, Markaz also initiated a program with a strategy to allocate funds to direct investments within the GCC region. The department's assets under management amounted to US$ 10 million as of 31 December 2021.

Wealth Management & Business Development

Wealth Management & Business Development (WMBD) is responsible for building and maintaining long-term relationships with all Markaz's clients. It also focuses on nurturing client relationship to further enhance transparency and build trust between Markaz and its clients. In the highly competitive and dynamic market conditions, WMBD team further integrates technology with market insights and creates customized portfolios designed to deliver higher returns to investors. WMBD team proactively collects feedback from clients and continues to adopt different investment strategies that fit clients' investment policies and objectives. WMBD is also responsible for the institutional and banking relationships and continues to promote Markaz in the region.

During 2021, WMBD continued to engage with reputable local and regional institutions as well as reaching out to new clients through its dedicated team of Relationship Managers. In addition, the department concentrated on initiating new collaborations to meet the demands of their clients, with the aim of further developing its distribution channels to provide innovative products and solutions both locally and internationally. As part of a new initiative, WMBD is now providing clients with investment opportunities in select international markets through its International Investments Advisory team.

International Investments Advisory

Markaz's International Investments Advisory Department (IAD) invests capital on behalf of the firm and clients across multiple international markets and asset classes. The IAD team actively manages asset allocations to match clients' risk profiles, and tracks performance against benchmark indices with the aim to deliver attractive returns.

In 2021, public equity markets delivered strong performance on the back of the sustained market recovery that started in the later part of 2020. The market momentum continued with higher vaccinations rollout, accommodative monetary policy despite rising concerns over Delta and Omicron virus. In these market conditions, IAD remained committed to manage client portfolios and to ensure that its performance is in line with the mandates. The private equity investments are still at nascent stage of their development. However, we continue to see an increase in the valuations. IAD team will continue to focus on private equity investments for the next 5 years while limiting exposure to public equity.

Published Research

Markaz's Published Research Department maintained its pace of growth in 2021 through its research subsidiary, Marmore MENA Intelligence. Marmore continued to deliver high quality research that is well received by clients and analysts. It has published over 40 reports this year on its web portal, providing timely and comprehensive coverage on topics of interest and importance in the GCC region.

Some of the prominent reports published in 2021 include 'ESG in GCC: Practical Issues to Think About', 'GCC Banks - Making Them Digital Ready', 'Discretionary Portfolio management and Private Investment Funds in Saudi Arabia', 'Kuwait Healthcare', and 'GCC Asset Management'. Published research for the year also included proprietary capital allocation efficiency scoring for companies, company profiles of blue-chip companies in the GCC and an analysis of real estate markets in the GCC in coordination with Markaz Real Estate Department. Marmore has also published several articles, analyzing topics of relevance in GCC.

Marmore also actively engages through bespoke client assignments for banks, government, semi-government organizations and corporations. Marmore collaborated with the Kuwait Foundation for the Advancement of Sciences (KFAS) in creating a study titled: "Harnessing Value through Procurement Transformation". The key findings were presented in a webinar organized by KFAS. The comprehensive report examined the current procurement system in Kuwait, suggested operational strategies to enhance the system and quantified the benefits of implementation of such strategies. The report was well-received by KFAS and other stakeholders. With rich research offerings supported by an active social media presence and well-delivered client assignments, Marmore is well placed to maintain its market position as a thought leader in the GCC.

Media & Communications

Proactive communication, both internal and external, became imperative part for businesses around the world in 2021. The Media and Communications Department (MCD) continued to endorse the Markaz brand at local and regional levels throughout the year. MCD team was cognizant of its responsibility to inform stakeholders with respect to business continuity and new initiatives undertaken to address pandemic related challenges and actions taken to minimize impact of COVID-19 on overall business operations.

MCD uses both conventional and digital media with a higher focus on innovative tools; hence technology played a crucial role in implementing the Company's communication strategies. MCD launched Markaz's new website in 2021 to provide an enhanced customer experience, in accordance with the highest international standards. An easy-to-use interface with advanced interactive features and engaging content ensures users can access dynamic information about investment products and services.

MCD, in collaboration with all Markaz departments, implemented a comprehensive communication content plan to represent the company's professional experts across all media channels. Furthermore, it has also organized a webinar titled 'Markaz House Views 2021: Opportunities and Outlook' as part of the plan, with the goal of assisting investors in capitalizing on new and emerging opportunities in 2021 amid the COVID-19 disruption. MCD team continued to publish the Markaz quarterly newsletter "Engage", covering department success stories and including informative articles written by Markaz employees, sharing their knowledge and experience. The magazine represents Markaz's professionals' proficiency, expertise and competence and enjoys a wide readership, both internally and externally.

Markaz's corporate, social, and economic responsibility (CSER) strategy is founded on three pillars: developing human capabilities, aligning the business environment with sustainable development principles, and supporting good corporate governance. The department continued to promote the firm's objectives and to work with various civil organizations in the disciplines of health, education, culture, youth welfare, and economic sustainability, to best represent the company and enhance engagement with all stakeholders.

In 2022, MCD will continue to strengthen Markaz's internal and external communication, with an emphasis on digital media, and translate the brand value into business opportunities. This will be enforced through collaboration and partnership with the industry experts.

Support Functions

Treasury

Markaz Treasury Department is a key support function and ensures success of Company's financial strategy. The department maintains strong focus on liquidity along with a well-capitalized balance sheet to enable the Company to timely honor its financial obligations. It seeks to minimize the effects of various financial risks by using financial instruments, diversification of investments and credit limit exposures. The department is responsible for extending reliable banking services including the arrangement of credit facilities, fund transfers, money market access and foreign exchange to all other departments and subsidiaries.

During the year, Treasury repaid Markaz's KD 25 million bond issuance that matured during December 2021, as part of fulfilling its outstanding obligations. The department's focus remains on continuously building new and strengthening existing relationships with regional and international banks to implement Markaz's financial strategy. It focuses on enhancing operational efficiency

Business Review (continued)

through optimized use of financial resources and exploring avenues of automation by adopting latest technologies.

Corporate Affairs

The Corporate Affairs Department comprises of an in-house Legal Team and a Corporate Services team. The Legal Team advises on corporate matters, in addition to providing advice to the asset management and investment banking teams on the various types of transactions. The Team monitors litigations with legal counsel. The Corporate Services team handles the establishment, administrative and corporate affairs of all investment funds and companies established by Markaz and its affiliates for use in asset management and investment banking transactions.

During 2021, the department was active in contributing to CMA surveys and consultations, especially with respect to collective investment schemes and investment advisor regulations, in addition to being pro-active in representing Markaz at the Union of Investment Companies, in addressing the issues affecting the investment community, including but not limited to margin lending rules. Moreover, in addition to lending support to the business units in the day-to-day requirements, the department has reconciled the status of the entities established by the company in accordance with the laws issued from time to time, especially in the KSA and the UAE, with the latest amendments to applicable laws and regulations. Internally, we continue to focus on process improvements and efficiency, moving towards more agile work processes.

Strategic Planning

The department is responsible for driving Markaz's strategic objectives, ensuring optimal implementation and execution of all new initiatives. Within Markaz, strategy development and assessment are a dynamic process to ensure sustainable growth and value creation for all stakeholders in rapidly changing market dynamics.

During 2021, with the objective to better position our product offerings and optimize capital, the department executed a comprehensive internal product review exercise which was also reviewed and validated by external subject matter experts. With a revitalized strategy and renewed focus on growth, going forward, the department will focus on enhancing team capabilities and driving innovation across the company.

Post-Acquisition

The department collaborates with relevant revenue departments within Markaz to ensure that our investment products deliver optimal performance and value. The Post-Acquisition Department (PAD) extensively leverages cutting edge technologies and digital platforms in order to improve investment value, by providing in-depth portfolio monitoring, real-time reporting, and effective preventative and mitigation strategies. At the end of 2021, AUM consists of approximately KD 325 million in real estate assets across the MENA region, United States, and Europe.

During the year, the department's key focus was to enhance its digital capabilities and provide a fully automated experience to internal and external stakeholders. Markaz has successfully implemented new tools, upgraded existing modules and fully integrated key external stakeholders into our platform. This has allowed us to continuously strengthen our oversight mechanisms and provide a more holistic view to our investments.

In 2022, the team will continue to further enhance our digital footprint and ensure the department's capabilities and systems are aligned with the global best practices. With this, Markaz is well positioned to make informed decisions and grow its AUMs in a profitable, structured and efficient manner.

Custody Services

The department provides a variety of services to its clients, including custodial services for financial securities and real estate assets, acting as a security agent over pledged assets, and acting as an escrow agent in assets sale transactions.

In 2021, the department supported a bank with a debt restructuring transaction by acting as a custodian and security agent through a special purpose vehicle. During the year, the department received and completed several escrow accounts mandates.

Compliance

Markaz has a comprehensive framework in place to ensure that all applicable rules and corporate policies are diligently followed at all levels in an organization. The Compliance Department is responsible to ensure overall regulatory compliance including implementation of adequate controls, evaluation and efficacy of internal systems, implementation of governance frameworks through policies and procedures and adoption of a Compliance Monitoring system to track regulatory compliance. The department conducts frequent testing and monitoring activities to ensure that processes and controls are effective.

The department is also in charge of ensuring overall compliance with AML legislation by establishing suitable policies and procedures, as well as dealing with client complaints. Markaz has implemented an automated transaction monitoring system for AML related alert management, as part of our ambitious plan to further strengthen compliance processes through automation while continuing to assure the ongoing effectiveness of existing internal control systems and processes.

Risk Management

The Risk Management department independently reports to the Board Risk Management Committee and the department is primarily responsible for identifying, measuring, monitoring and mitigating enterprise-wide risks arising from external and internal factors. Markaz has a comprehensive risk management framework in place to ensure that Markaz's risks are governed with appropriate risk management systems and controls.

A systematic approach has been adopted in which all the business units, risk management department and the internal audit unit are considered as key pillars for the effectiveness of risk management. The Risk Management department evaluates the critical risks through the defined Key Risk Indicators, monitors the adherence to the risk tolerance set by the Board of Directors and reports quarterly to the Board Risk Management Committee and semi-annually to the Board of Directors. Potential risks are reviewed on an ongoing basis. The department also carries out periodic risk control and monitoring activities, and sets the appropriate internal policies, procedures and control mechanisms. The department is continuously enhancing its risk monitoring abilities through appropriate system automation.

Internal Audit

The Internal Audit unit independently reports to the Board Audit Committee. The internal audits are performed by an outsourced audit firm according to the internal audit plan approved by the Board Audit Committee. Its comprehensive reports are then submitted by the internal auditor directly to the Board Audit Committee.

An independent audit firm performs an internal control review (ICR) on Markaz's entire control environment on a yearly basis, as required by the Capital Markets Authority. Apart from the ICR review, Markaz engages an independent auditor on a regular basis to conduct a review in compliance with the International Standards on Assurance Engagements (ISAE 3402) and provide an opinion on the description, design, and operation of controls implemented in Markaz.

Systems & Operational Controls

Digital transformation has been an ongoing initiative for Markaz for last many years. The team is committed to explore new possibilities of digitization to enhance its offerings, optimize efficiency, and improve the client interface and journey, especially in the post pandemic era. At the core of Markaz's strategy is the capability to adapt to evolving market conditions and this is one of our core pillars of strength.

During 2021, Markaz remained at the forefront of the adoption of digital technologies in all aspects of its operations to improve efficiency and enhance the clients' experience. The Markaz technology road map was focused on ensuring end-to-end, client-centric processes with a reduction of operational tasks, and enhancing client reporting through automation to the greatest possible extent.

In February 2020, we had launched an interactive digital platform called "iMarkaz" that allows investors to build their investment portfolios and connects them to Markaz relationship managers for further advice on how best to achieve their financial objectives. In August 2021, we have launched an enhanced version of iMarkaz, which contains digital client onboarding features and Markaz e-Catalogue model that allows investors to view our latest products and services. For our real estate properties, Markaz has implemented an Online Resident Services portal, bringing a new level of convenience and comfort to our tenants. All our rental properties are connected to our system, enabling us to monitor live the performance of our properties across the world.

Information Technology

The Information Technology (IT) Department is committed to deploy best-in-class IT systems, resilient infrastructure, and processes, which play an important role in enhancing productivity, hence reducing turnaround time across our operations, customer service, dealing, research, risk management and other support functions. With the growing importance of technological advancement, the IT team ensures that the best industry practices are being implemented across its infrastructure and at all levels of the organization.

Furthermore, the IT team has been focused on ensuring cyber security controls and best practices are embedded into the business processes to ensure quick and effective response to any external threats. This involves enhancing the network and security infrastructure by installing and upgrading new devices such as firewalls, intrusion prevention systems and anti-ransomware, implementing

Business Review (continued)

effective and successive storage units and deploying multiple data backup solutions. Employing proven and suitable cloud platforms was one of the major challenges undertaken by the department in 2021. The IT Department has also successfully migrated email, SharePoint and the collaboration platform (MS Teams) to a cloud platform.

In addition to that, Multiple data recovery (DR) plans were developed and effective test runs against those plans have successfully been executed to ensure data and service availability.

The IT Department has also focused on enhancing active monitoring solutions and platforms to assist management in proactively tracking issues. The team has deployed market leading backup solutions to protect business data, withstand extreme circumstances including a countrywide disaster. Coordinating with the Risk Department, the IT team has successfully restored designated data from various backup repositories. The IT Department has also employed independent external professional firms to validate compliance and assess security, followed by deployment of any recommendations.

The department continues to strengthen its IT infrastructure to meet the increasing demands of a remote working environment. The department is fully capable of extending an online support and the Company continues to invest in additional IT assets as required from time to time.

Transaction Processing & Reporting

The Transaction Processing & Reporting (TPR) department supports Markaz's asset management business and plays a vital role across core functions including servicing securities, processing cash and securities transactions, maintaining internal controls, record keeping, custody, reconciliation and reporting. TPR's processes and systems provide timely and detailed account information to management, customers and regulatory agencies. As part of effective risk management, TPR has implemented comprehensive operational controls to ensure that Markaz provides effective and secure support for the administration of client accounts. In the year ahead, TPR will continue to monitor and revise policies and procedures to ensure the efficient flow of work and assigning responsibility to the personnel involved in processing transactions, reconciliation and reporting.

Financial Management

The Financial Management Department (FMD) plays a pivotal role in providing accurate and timely financial information to business departments for measuring their actual performance compared to the budget at periodical intervals. It further provides support to business departments and help them in forecasting and mapping the current strategy with Markaz's medium term objectives.

During the year, FMD continued to extend support to Markaz in its new initiatives such as market-making, whereby FMD assisted the mid-office in setting up adequate systems and controls. In addition, FMD setup comprehensive accounting parameters for market-making activity to comply with requirements of CMA Laws and IFRS.

FMD implemented SAP Consolidation system during 2021, which is currently going through a parallel run with legacy consolidation. In addition, FMD is working on implementing SAP business planning and analytics, which are expected to be completed by end of H1 2022.

Furthermore, FMD fiduciary responsibility is to safeguard clients' assets and therefore the team continuous to find most effective ways to ensure full compliance with applicable laws, rules and regulations of the Capital Markets Authority, Central Bank of Kuwait, Ministry of Commerce and Industry and Ministry of Finance. The department also exercises strong budget controls and closely monitors actual performance against budgets and forecasts.

Human Resources

The Human Resource function plays a crucial role in shaping the capability of the company to achieve its future objectives. Markaz has always placed strong emphasis on employees as the cornerstone of sustainable success. With this deep value on people, Markaz aims to create an employee-centric working environment that is conducive to both professional and personal growth. We thrive by ensuring a diverse and collaborative workplace, recruiting and retaining top talent in an inclusive culture that gives every individual equal opportunity to progress in their career path. We consistently focus on learning and development programs that will empower our staff and our business.

The year 2021 was marked with continued pandemic uncertainty and our priority was the wellbeing and safety of employees. We successfully adapted and managed a hybrid work environment, relying on flexible timings and alternating schedules to ensure the safety and well-being of our people, even after 100% office attendance was permitted from August 2021. We managed a perfect 'duty of care' score – with not a single case of COVID transmission within our offices in our endeavor to protect staff, their families, and the business. We managed the crisis with zero job cuts and no reductions in salaries or benefits, essential to keeping our business teams at high efficiency - and they excelled, winning mandates and clients, a direct outcome of maintaining an empowered, engaged and diligent workforce.

To optimize our infrastructure, giving special attention to digital transformation, we upgraded and enhanced our HR systems and processes. We have also started preparatory work to ensure core competencies framework remains comprehensive, and fully in line with changing market priorities. We will work on installing a learning management system, a knowledge bank that employees can access to drive their own careers and reach their full potential. Our immediate goal is to have an 'individual development plan', for every person in Markaz by early 2022, allowing us to benchmark against market-leading levels of know-how. Markaz is also delighted to be restarting its much-admired Graduate Development Program, after a one-year hiatus owing to the enforced restrictions of the pandemic.

In the year ahead, Human Resources will play an integral role in helping Markaz achieve its strategic business objectives. Our Key Themes for 2022 will be 'Professional Excellence', 'Fit to Lead' and 'Communicating with Clients, Partners & Peers'. We will support strategy by developing critical future skills, and by rapidly supplying and enhancing the talent that is key for continuity, sustainability and long-term growth.

Corporate Governance Report

Rule 1: Building a Balanced Board Composition

Composition of the Board of Directors:

The Board is composed of seven members elected by the Company's General Assembly for three years.

Director	Capacity: Executive / Non-Executive / Independent/ Secretary	Qualifications / Experience	Date of Election/ appointing Secretary
Diraar Yusuf Alghanim	Chairman	Over 40 years in the financial sector. Professional Accountancy from Glasgow University.	28/04/2020
Faisal AbdulAziz Al-Jallal	Vice Chairman	Over 40 years of experience in the real estate and financial sectors. University Degree from Alexandria University.	28/04/2020
Ayman Abdullatif Alshaya	Non-Executive member	Over 30 years of experience in general trade, insurance and financial sector. Bachelor's Degree in Mechanical Engineering from Kuwait University.	28/04/2020
Fahad Yaqoub Al-Jouan	Non-Executive member	Over 30 years of experience in the general trading, industrial and financial sectors. Bachelor's Degree in Business Administration from Eastern Washington University.	28/04/2020
Adel Mohammed Alghannam	Independent member	Over 30 years of experience in the general trading, insurance and financial sectors. Bachelor's Degree in Business Administration.	28/04/2020
Omran Habib Hayat	Independent member	Over 20 years in the real estate and oil sectors. Bachelors' Degree in Architecture from Miami University and Masters in Project Management & Finance from North Eastern University.	28/04/2020
Fahad Sulaiman Aldalali	Independent member	Over 15 years in the financial, advisory and oil sectors. Bachelor's Degree in Electrical Engineering from Michigan State University; and Master's Degree in Finance and Accounting from the University of Pennsylvania.	28/04/2020
Maha Abdul Salam Imad	Board Secretary	Bachelors of Science in Business Management from the Lebanese American University.	28/04/2020
Fedaa Jamal Kittaneh	Assistant Board Secretary	University Degree in Business Administration.	28/04/2020

Summary of the Company's Board's Meetings as following:

Summary of the Board's Meetings in 2021

Attended • Absent x

Director	Meeting 1 on 10/2/21	Meeting 2 on 4/5/21	Meeting 3 on 10/8/21	Meeting 4 held on 17/8/21	Meeting 5 on 9/11/21	Meeting 6 on 22/12/21	Number of meetings
Diraar Yusuf Alghanim (Chairman)	•	•	•	•	•	•	6
Faisal AbdulAziz Al-Jallal (Vice Chairman)	•	•	x	x	•	•	4
Ayman Abdullatif Alshaya (Member)*	•	•	x	x	x	•	3
Fahad Yaqoub Al-Jouan (Member)	•	•	•	•	•	•	6
Adel Mohammed AlGhannam (Independent Member)	•	•	•	•	•	•	6
Omran Habib Hayat (Independent Member)	•	•	•	x	•	•	5
Fahad Sulaiman Aldalali (Independent Member)	•	•	•	•	x	•	5

* In its 6th meeting, the Board approved the reasons for non-attendance for 3 consecutive meetings.

Summary on registering and coordinating requirements as well as keeping minutes of the Board meetings.

The Board Secretariat team follows clearly defined procedures in preparing, signing and keeping minutes of Board meetings, which comprise the following:

- A draft of the minutes is prepared by the Board Secretary and presented to the Chief Executive Officer for review.
- The approved draft is then submitted to the Chairman for review. The draft is revised as directed by the Chairman.
- The minutes are then delivered in their final form to the Assistant Board Secretary to follow up on the signature of the Chairman and members present during the meeting.
- After signing, the Assistant Board Secretary scans a copy of the minutes and saves it in a file specific to the meetings, while the original draft is kept in the file dedicated to the meeting in question.

Confirmation of the Independent Directors of their compliance to the independence criteria. Attach signed confirmations to the report.

- The Board includes three independent directors, according to the controls set by the CMA Law Executive Bylaws and the criteria set by the Board of Directors upon its election on 28 April 2020.
- The Board Nominations & Remunerations Committee (BNRC), in its second meeting held on 14 November 2021, confirmed the independence criteria and its applicability to the three independent directors.
- Enclosed are the signed written confirmations of the 3 independent directors.

Corporate Governance Report (continued)

Rule 2: Establishing Appropriate Roles and Responsibilities

Summary of how the roles and responsibilities of the Board of Directors and the Executive Management have been defined, as well as the authorities and powers delegated to the Executive Management:

- The "Board of Directors Policy" is prepared by the Compliance Department and the Board's Secretariat in accordance with the requirements of the Companies Law, the Capital Markets Authority Law, their Executive Bylaws and corporate governance requirements. The Policy, presented to the Board of Directors for approval, defines the roles and responsibilities of the Board, the Chairman, members, Board Committees and procedures to form them. It also outlines the procedures to hold meetings of the Board, its Committees and the Annual General Meeting (AGM), in addition to the procedures for submitting periodic and annual financial statements to the regulatory bodies and ways to disclose them.
- The "Delegation of Powers Policy" and the List of Authorized Signatories are prepared and / or amended by the Compliance and Risk Management Department according to the requirements of the Company's activities and the Law. The Policy defines the role, responsibilities and powers (including financial) delegated to the Management Committees and the Executive Management. The Policy and list are submitted to the Executive Management for review. The final versions are presented to the Board of Directors for discussion and approval. Following the approval, the Compliance and Risk Management Departments circulate them to other departments. The Treasury Department also circulates the List of Authorized Signatories to the banks. The Policy and List are updated through recommendations submitted by the Executive Management to the Board in an aim to facilitate the functions of departments and the Company as a whole.
- The "Delegation of Powers- Management Committees" policy is prepared, amended and/or reviewed by the Compliance and Risk Management Department with respect to the composition of the committees, their roles and responsibilities, and the voting mechanism for each. After the approval of the Board, the Compliance and Risk Management Departments circulate the Policy to all departments. The Policy is updated through recommendations submitted by the Executive Management to the Board in order to add new members to the committees based on their position and functions, an /or to amend the roles and responsibilities of a committee.

Board of Directors 2021 Achievements:

a. Approving the statements of "Vision", "Mission" and "Values" as part of the company's Brand.
b. Approving the action plan to follow on the internal review of investment products.
c. Forming the ad-hoc committee "The Strategy Committee" and approving appointment of an external consultant on strategy to review and update the company's strategy.
d. Appointing "Tharwa Investment Company" as marker maker on the company's stock.
e. Semi-annual review of the 2021 budget and five-year business plan.
f. Approving the 2022 budget and the business plan for the next five years.
g. Discussing and approving the company's interim and annual financial statements.
h. Cancelling the Board Steering Committee (BSC) as it has exhausted its mandate.
i. Approving the establishment of an investment management company in the Cayman Islands.
j. Holding training program on regulatory instructions regarding anti-money laundering and combatting the financing of terrorism; and other sessions on Trends in Investment Banking & Asset Management and Asset Management in the Digitization Age.
k. Approving the amendments to internal policies and procedures manuals and issuing new policies.
l. Approving the periodic and annual reports including the Corporate Governance report; report of internal audit on internal control systems (ICR), the BAC report to AGM on internal controls; the annual compliance officer report on AML; the semi-annual Risk Management reports; the external auditors' reports on "Client Assets and Client Funds " and " AML Compliance"; the auditors' report on systems of the Custody Services; the periodic and annual reports on customer and shareholders Complaints; the annual report on whistleblowing and conflicts of interest and the auditors' report on performance assessment of the internal audit unit (every 3 years).
m. Approving the related-parties transactions.
n. Inviting and convening the annual General Meeting to vote on the recommendations approved by the Board on dividends, remuneration of Directors, Remuneration Register, appointment or reappointment of auditors, among other matters.

Summary of compliance to the requirements mandated to form independent committees, ensuring that the following information is mentioned for each committee:

1. Board Audit Committee (BAC):

a. Role and achievements of the Audit Committee in 2021:
   i. Reviewed the annual and interim financial statements with the external auditors before presenting them to the Board of Directors.
   ii. Approved the annual internal audit plan and discussed the reports of the internal auditor on the departments and recommended corrective measures.
   iii. Reviewed the CMA inspection results report.
   iv. Recommended the appointment or reappointment of the external auditors.
   v. Recommended appointment or reappointment of the Internal Auditor.
   vi. Approved the appointment of independent auditor for Capital Adequacy.
   vii. Approved the appointment of the I.A. Officer and his registration with the CMA.
   viii. Approved the appointment of an auditor to assess and review the internal control systems (ICR).
   ix. Reviewed the periodic reports on Client Complaints and Loans.

b. The Committee was formed on April 28, 2020 for a period of three years.

c. Chairman: Faisal AbdulAziz Al-Jallal- Members: Fahad Yaqoub Al-Jouan, Fahad Sulaiman Aldalali.

d. In 2021, the Committee held six meetings.

2. Board Steering Committee (BSC):

The Steering Committee did not meet during the year 2021, and the Board resolved to unwind it in December 2021.

3. Board Risk Management Committee (BRMC):

a. Roles and achievements of the Risk Management Committee in 2021:
   i. Following up the implementation of the risk management framework and the results of the stress testing.
   ii. Approved the amendments to Risk Management Policy.
   iii. Reviewed the periodic Risk Management reports including AUM reports, results of CMA inspection and the disciplinary board decision.
   iv. Reviewed the Risks Matrix and the tracker on raised matters.
   v. Reviewed the periodic reports on Anti Money Laundering compliance and reports on staff resignations and their reasons, new recruitments and their necessity, as well as legal cases filed by or against the Company.

b. The Committee was formed on April 28, 2020 for a period of three years.

c. Chairman: Fahad Yaqoub Al-Jouan - Members: Adel Mohammed Al Ghannam, Omran Habib Hayat.

d. In 2021, the Committee held four meetings.

4. Board Nominations and Remunerations Committee (BNRC):

a. Roles and achievements of the Nominations and Remuneration Committee in 2021:
   i. Reviewed the performance evaluation of Board and Executive Management and recommended them to the Board.
   ii. Reviewed reports from Human Resources Department on the department's activities, succession planning, performance evaluation, and compensation and incentives procedures.

b. The Committee was formed on April 28, 2020 for a period of three years.

c. Chairman: Diraar Yusuf Alghanim - Members: Faisal Abdulaziz Al-Jallal, Ayman Abdullatif Alshaya and Adel Mohammed Alghannam.

d. In 2021, the Committee held two meetings.

Summary of how the requirements to allow Board members to obtain accurate and timely information and data were implemented:

- The Board Secretary and Assistant Board Secretary provide the Board members with sufficient information about the items that will be discussed at least three working days prior to the meeting. The Secretary and Assistant Board Secretary also record all discussions of Board members during each meeting as well as the decisions taken on the agenda items of the minutes. A copy of the previous records is provided in each meeting for approval, in addition to a copy of the record of decisions taken as of date of each meeting.
- The Board Secretary and Assistant Board Secretary prepare Board and committees meetings register that tracks date and time of meetings as well as the attending and absent members. They also conduct a record of taken decisions by Board and committees to summarize these decisions for each meeting held during the year. These records are prepared annually for Board and committees separately.
- The Company has adopted the Teams platform to conduct the Board and Committees meetings, while giving the directors the choice of physical or remote attendance; board packs are sent by email

Corporate Governance Report (continued)

and on Teams. The Company provides the Board, its Committees and Executive Management with complete reports on the work strategy, budgets, performance and financial statements. We have consolidated the reports presented to the Board, its Committees and the Executive Management and its Committees, whereby they receive reports prepared from data generated by our systems. We are also working on integrating our systems to help us better deliver full-fledged performance and financial position reports.

Rule 3: Recruiting Highly Qualified Candidates for the Board of Directors and Executive Management

Summary on the implementation of the requirements for the formation of the Nominations and Remuneration Committee.

- The formation and responsibilities of the Committee have been identified within the "Board of Directors Policies". The Committee was formed during the first meeting of new Board held on April 28, 2020.
- The new Board confirmed the formation of the Board, its Committees and the independent members during its first meeting held on April 28, 2020.

Report on the remuneration granted to members of the Board, the Executive Management team and managers.

1. Summary of the policy on compensation and incentives

The Board of Directors

The Board compensation is a function of the performance of the Company, dividend distribution, attendance, and KPIs that are a function of the corporate governance requirements. Except for the independent board members, the members of the board of directors' compensation shall not exceed 10% of the net profits of the company (after depreciation, reserves and payment of dividends to shareholders not less than 5% of the company's capital or any higher percentage, as provided in the Articles of Association of the company).

The recommendation was to disburse a Board remuneration of KD 175,000 for 2021. The members of the Board Audit Committee's proposed compensation shall be KD15,000 in total, i.e. KD5,000 each for the year 2021.

All above remuneration and compensation shall be proposed to the General Assembly, and subject to their approval*.

The Executive Management

The Executive Management compensation is composed of a fixed compensation and a variable compensation. The Company periodically compares its compensation plan with what is prevalent in the asset management and investment banking industry, and accordingly, revises the compensation packages to remain in line with the industry.

The variable Compensation may be expensed in one year, or deferred to future years for disbursement to ensure sustainability of performance.

1. The fixed compensation is a function of the responsibilities and financial impact on the company. In addition, employees are awarded other benefits that are customary in the marketplace.
2. The variable compensation specific to the executive management role is a function of the following:
   a. Profitability of the Company
   b. Contribution to the financial performance of the Company.
   c. Key performance indicators related to the following:
      i. Organization
      ii. Corporate Governance
      iii. Strategic Enhancement
      iv. Risk and Sustainability
      v. Stakeholders relations
      vi. Branding

2. Schedule of Compensation and Incentives

The Board of Directors for 2021, the Board of Directors remuneration is recommended to be as per the below schedule, subject to AGM approval*:

* The Annual General Meeting of the shareholders' assembly, held on ٢٧ March ٢٠٢٢, has approved the Board remuneration as mentioned above.

Remunerations & benefits for Board of Directors

Total # of Directors	Remunerations & Benefits through Parent Company			Remunerations & benefits through Subsidiaries			
	Fixed	Variable		Fixed		Variable	
	Health Insurance	Annual remuneration	Committees	Health Insurance	Monthly salary	Annual BOD	Committees
7	NA	175000	15000	Not Applicable			

The Executive Management: Statement of compensation and benefits to the executive management for 2021:

Total Remuneration & Benefits granted to 5 executives who received the highest pay, added to them the CEO and CFO or their deputies, if they were not among the top 5

Remuneration & Benefits through parent company

Total # of E.M.	Fixed						Variable
	Monthly salary (total for year)	Health insurance	Annual tickets	Housing allowance	Transport allowance	Children's education allowance	Annual bonus
6	484,300	27,319	34,503	0	2,400	0	660,300

Remuneration & benefits through subsidiaries

Fixed						Variable
Monthly salary (total for year)	Health insurance	Annual tickets	Housing allowance	Transport allowance	Children's education allowance	Annual bonus
Not Applicable						

3. Any substantial deviation from the Remunerations Policy approved by the Board of Directors:

During 2021, there has not been any instances of substantial deviation from the remuneration policy approved by the board of directors.

Rule 4: Safeguarding the Integrity of Financial Reporting

Written undertakings from the Board of Directors and Executive Management on the soundness and integrity of the financial reports.

The following written undertakings were presented in the first Board meeting for the year 2022, held on February 16, 2022, and discussing the financial statements for the year ended December 31, 2021:

- A memo issued by the Executive Management confirming the soundness and integrity of the financial statements for the year ended December 31, 2021.
- A memo issued by the Financial Management Department regarding the annual review of the capital structure for the year ended December 31, 2021.
- A memo issued by the Financial Management Department regarding the assets and capital expenditures for the year ended December 31, 2021.
- A memo issued by the Financial Management Department regarding the compliance to the delegation of powers by the Executive Management for financial transactions during the year ended December 31, 2021.
- The Board of Directors has included an undertaking in the annual report confirming the soundness and integrity of the financial statements for the year ended December 31, 2021.

Corporate Governance Report (continued)

Statement on the implementation of the requirements to form the Audit Committee.

- The Audit Committee was formed with its present members on April 28, 2020, following the election of the members of the Board during the AGM on April 28, 2020.
- The role and responsibilities of the Audit Committee has been established through the "Board of Directors Policies" while the mechanism and procedures of the Committee's work have been defined in the "Board Secretariat Procedures".
- The Audit Committee is composed of three members, one of them is independent, and excludes the Chairman. Members of the Committee have practical and financial experience and qualifications in accounting.

In the event of a conflict between the recommendations of the Audit Committee and the decisions of the Board of Directors, a note is attached detailing and clarifying the recommendations and the reason(s) behind the Board of Directors' decision not to comply with them.

- There was no conflict between the recommendations of the Committee and the decisions of the Board of Directors during the year 2021.

Ensure the independence and impartiality of the external auditor.

- The Audit Committee met and recommended the reappointment of the external auditors registered in CMA's register and met all requirement set forth in the auditors' registration.
- The external auditors are independent from the Company and Board.
- The external auditors do not perform any other work for the company that are not part of review and audit and could affect impartiality or independence.
- The external auditors do not carry out auditing work for any funds managed by the Company.
- The external auditors do not perform any other work for the Company that is not part of the review and audit work.
- The signing Partners in the audit firms are rotated every 4 years.

Rule 5: Applying Sound Systems for Risk Management and Internal Controls

Brief summary on the implementation of requirements for the formation of an independent department / office / unit for risk management.

- The Risk Management Department is fully independent, reports to the Board Risk Management Committee and presents its periodical risk reports to the Committee and the Board.
- The Risk Officer registered with the CMA was changed on 4 January 2021, and the current registered officer holds the position of HoD- Vice President of Risk Management Department. The Risk Management Department employs qualified individuals who have the technical and professional experience in the field.

Brief summary on the implementation of requirements for the formation of the Risk Management Committee.

- The Risk Management Committee was formed by the new Board during its first meeting held on April 28, 2020.
- The roles and responsibilities of the Risk Management Committee have been defined in the "Board of Directors Policies" while the mechanism and procedures of the Committee's work have been defined in the "Board Secretariat Procedures".
- The Committee is composed of independent and non-independent members, and excludes the Chairman. The membership term is 3 years according to the committee's charter.

Summary detailing the internal control systems.

The internal control systems is composed of a number of elements:

- Set an organizational structure that aligns Markaz's business strategy and activities and define departmental reporting, a detailed job description for jobs, responsibilities and powers.
- Conduct annual review of the internal control systems (ICR), by and independent audit firm other than the company's external auditors, to ensure the adequacy of the internal control systems. The annual report issued by the independent Auditor is submitted to the BAC, BOD and to CMA.

- Assess the performance of internal audit unit by an independent auditor every three years.
- Perform Risk Controls Self-Assessment (RCSA) for departments, by the Risk Management Department, as per the approved plan.
- Identify and establish internal policies, regulations and procedures that define the authorities and mechanisms for implementing the work;
- Delegate authorities under a clear policy approved by the Board of Directors;
- Ensure segregation of roles and responsibilities between decision makers and executors of decisions to achieve double control and principle of segregation of responsibilities to avoid conflicts of duties.
- Establish internal controls to ensure the soundness of assets and containment of responsibilities and claims within the approved limits;
- Provide an accounting system for financial transactions, and issue financial reports and statements in accordance with the principles of accounting;
- Establish controls and systems to detect, evaluate and manage risk factors that affect the various activities of the Company.

Brief summary on the implementation of requirements to establish an independent department/office/unit for internal audit.

- The Company has outsourced the internal audit responsibilities to an independent audit office, whereas the internal audit unit acts as the coordinator of internal audit work between the Company and the audit office.
- The Internal Audit Officer registered with the Capital Markets Authority was changed on January 4, 2021; he has the position of Assistant Manager.
- The Internal Audit Officer is responsible for the following:
  - Coordinate the development of the annual internal audit plan for submission to the Audit Committee for approval;
  - Coordinate the completion of internal audit works (field visits, meetings with relevant departments, review of draft reports, reporting observations and responses of departments to issued reports);
  - Coordinate with the Internal Auditor to attend Audit Committee meetings and submit the audit results reports.
  - Coordinate the appointment of auditor and preparing periodical reports on the adequacy of internal control systems “ICR”.
  - Coordinate the appointment of auditor and preparing reports on the performance of internal audit unit every 3 years.

Rule 6: Promoting Code of Conduct and Ethical Standards

Charter of business, which includes standards, professional conduct and ethical values.

The "Code of Conduct" and "Standards of Professional Conduct" represent the core set of principles, which we follow in our business ethics. These principles are in line with the best practice standards in the financial market and ensure a professional conduct in asset management and investment banking investments. These standards also include specific regulations to eliminate insider information and ensure commitment to the integrity of financial markets, the privacy of client information, confidentiality and other requirements. The "Code of Conduct" and "Standards of Professional Conduct" are made available to relevant stakeholders, and are applicable to all employees, members of the Board, subsidiaries and managed funds.

Limiting Conflict of Interest Policy.

- The Company adopted the “Conflict of Interest policy and procedures’ to set out the guidelines for fair and honest business practices, and behavior that the Company expects from its Directors and employees; and the procedures to be followed for such cases.
- The Company adopted the “Policy on related parties’ transactions” to set guidelines to ensure fairness in dealings and transactions with related parties as well as to disclose these types of transactions.
- The term "related parties" and disclosure obligations have been defined in the Kuwaiti Companies Law, International Accounting Standards (IAS) 24 on Disclosures of related parties’ transactions, and the Executive Bylaws of the CMA law issued in November 2015, and its amendments.
- The Company classifies persons or parties in the category of "related parties" when they meet at least one criteria stated in the definition of “related parties”, in order to comply with accounting standards and applicable regulations.

Corporate Governance Report (continued)

- The Compliance department maintains a list of names of related parties, which is reviewed and updated periodically by the Compliance, Risk Management, and Financial Management Departments and the Board Secretary.
- All transactions with related parties are subject to approved terms and conditions in the Company's fair and sound business practices as determined by the Board of Directors.
- All transactions with stakeholders are handled impartially and based on fair market value. Appropriate safeguards are provided if necessary, without imposing preferential conditions beyond the appropriate limits.
- All transactions with related parties must comply with applicable accounting standards and regulations.
- Risk Management reviews transactions with related parties and makes recommendations to the Board.
- The approval of the Board of Directors and AGM is required to conduct transactions with related parties.
- All transactions with related parties are disclosed in the Annual Report presented in the AGM. Disclosure obligations relating to such transactions are also complied with.
- The Head of the Financial Management Department confirms:
  - If the other party concerned is a related party and is among the list of related parties.
  - If the transaction was completed based on the required approvals, and whether it is registered and disclosed as required.
- Should the Management of the Company decide to deal with related parties, they should inform the Head of the Financial Management Department and the Board Secretary immediately. The relevant department is responsible to seek approval from the Board.
- The Executive Management should participate in the negotiation and initial verification process by receiving necessary information in a timely manner and may request further information to present to the Board.
- The Board of Directors may request assistance from one or more independent experts at the Company's expense. There is no set limit for spending on the fees of independent experts appointed by the Company to verify material transactions with related parties.

Rule 7: Ensuring Timely and High-Quality Disclosure and Transparency

Summary on applying processes for transparent and accurate disclosures that determine disclosure areas, fields and characteristics.

The Company is committed to the highest degree of accuracy and transparency towards stakeholders when disclosing information in line with regulatory requirements and Company policy.

Markaz adopted the “Disclosure and Transparency Policy” and “Procedures of Disclosure and Transparency” which details disclosure requirements, guidelines and responsibilities (including financial, non-financial and regulatory disclosures). The Policy also requires the application of disclosure practices to ensure the disclosure of Company information and material in a fair and professional manner and to provide accurate information in a timely manner for the benefit of internal and external stakeholders in compliance with CMA regulations:

1. The Company established an Investor Relations Unit responsible for providing information to shareholders.
2. The Company maintains a record of disclosures related to the members of the Board and Executive Management. Shareholders can review the register through the Investor Relations Unit or at the AGM.
3. The Company dedicated a section on corporate governance on its website as well as for news and events, disclosures, financial statements and contact information of the Investor Relations Unit.
4. The Company ensures that important information, financial results and events are immediately posted on the Company's website.
5. The Company ensures that important events such as the AGM, financial performance and other significant announcements are disclosed as well in newspapers, the Company’s website and social media accounts.

Summary on applying disclosures register requirements for members of the Board, Executive Management and managers.

- The Company established an Investor Relations Unit responsible for providing information to shareholders.
- The Company maintains a record of disclosures related to the members of the Board, Executive Management and managers. Shareholders can review the register through the Investor Relations Unit or at the AGM.

Brief on applying the requirements for establishing an Investor Relations Unit.

- The Investor Relations Unit was established, and an officer was appointed in 2014.
- The Investor Relations Unit was announced, and a section was added to the Company's website, which also contains the contact information for the Investor Relations Unit.
- Markaz appointed a global consulting firm based in London to assist in preparing, issuing and distributing quarterly performance reports on the company's activities and results. The Investor Relations Unit coordinates with the consultant to prepare these reports and distribute them to interested parties while the consulting company distributes them to international institutional investors and sell-side research analysts abroad.

Summary on the development of the information technology infrastructure and its reliability in the disclosure process.

A section has been allocated on the Company's website for Investor Relations, which includes the following sections:

- Financial results;
- Annual reports;
- Company documents;
- Corporate governance;
- Stock performance;
- News and events;
- Disclosures, including:
  - Major shareholders and ownership stakes;
  - Auditors and regulators;
  - Material information.
- Means of communication with the Investor Relations Unit;
- Means of submitting investor complaints.

Rule 8: Respecting the Rights of Shareholders

Summary on the implementation of requirements to identify and protect shareholders' rights, ensuring equality among all shareholders.

- In 2019, The Board viewed and updated "Shareholders' Rights Policy" which was adopted in December 2021.
- A summary of the policy and its principles is published on the Company's website, presenting the following:
  - Right to be treated on par with other shareholders.
  - Right to trade or dispose of the shares owned by the shareholder and to subscribe to rights issues and bonds or sukuks.
  - Right to ownership of shares as kept with and independent registrar.
  - Right to receive their share of dividend distribution and bonus shares
  - Right to receive their share of Company's assets, in case of liquidation.
  - Right to participate in the General Assembly meetings of shareholders and voting on resolutions.
  - Right to elect members to the Board of Directors.
  - Right to monitor the Company's performance in general and the Board of Directors in particular.
  - Right to view the Company's Articles and Memorandum of Association, General Assembly minutes, and the shareholder and bondholder registers at the Investor Relations Unit of the Company.
  - Preferential treatment is prohibited, and transactions with related parties are subject to scrutiny and specific procedures to ensure fairness and non-conflict.
  - Complaints from shareholders are responded to by the Investor Relations Unit and the Board Secretariat Department.

Summary on creating a register at the Clearing Company as part of the requirements to update shareholders' information.

- The Kuwait Clearing Company maintains the register of shareholders.
- The Investor Relations Unit of the Company maintains a copy of the Shareholders' Register and Bondholders' Register, making it available to shareholders.
- The Investor Relations Unit provided, on the Company website, the contact information of the officer in charge of responding to shareholders' queries.

Summary on how to encourage shareholders to participate and vote in AGMs.

- The invitation to the AGM is published in local newspapers, the Boursa Kuwait's website, and the Company's website.
- Folders containing the agenda, Board report and financial statements are prepared.
- The Investor Relations Unit and the Board Secretariat follow up with the Clearing Company and shareholders to ensure that they receive their proxy and will be present at the AGM.
- The Chairman discusses the items on the agenda during the AGM and requests attending shareholders to vote thereon.

Corporate Governance Report (continued)

Rule 9: Recognizing the Roles of Stakeholders

Summary on the systems and policies to protect and recognize the rights of stakeholders.

- The Board has approved the "Stakeholders' Rights Policy" in December 2014, and was reviewed and amended in 2020, which identifies the following principles:
  - Stakeholders are, without limitation: shareholders, employees, clients, business partners, suppliers, competitors, creditors, associations and professional bodies, regulators, media and the public.
  - Each interested party has the right to access information that is important to them without delay. The Company ensures that the information is provided without delay by providing it on the website, direct correspondence, meetings and other means as the case requires.
  - Preferential treatment is forbidden in dealing. Transactions with related parties are subject to set procedures to ensure that interests do not conflict and are dealt with fairly.
  - Complaints by stakeholders are handled through the independent Risk Management Department.

Summary on encouraging stakeholders to participate in the Company's activities.

- The Company publishes all announcements on its website.
- The Company publishes press releases of important events and information on a regular basis and when needed.

Rule 10: Improve and Enhance Performance

Summary on the mechanisms developed to provide member of the Board and Executive Management continued access to training programs.

- The Board approved the "Training Policy for Board Members and Executive Management" on May 9, 2016. It was revised and updated in February 2021.
- The Board shall undergo training and educational courses in accordance with a training plan approved by the Board annually on the following topics:
  - Anti-money laundering on an annual basis.
  - Disclosure obligations.
  - Legal developments: Issuing laws, amending laws, issuing instructions from the regulatory authorities (Capital Markets Authority – Boursa Kuwait) and other matters relating to the legal environment in general and the work of the company in particular.
  - Developments in financial sector, globally and locally.

Summary on the assessment of the performance of the Board, each member of the Board, and members of the Executive Management.

- The Board has approved the "Performance Evaluation Policy for Board Members and Executive Management" on October 31, 2016. It was revised and updated in February 2021.
- At its meeting held on March 8, 2017, the Nominations and Remuneration Committee recommended to the Board the adoption of KPIs for members of the Board and Executive Management and recommended to give the Chairman authority to evaluate the performance of members of the Board and Executive Management as well as identify their remuneration and annual bonuses.
- At its meeting on March 8, 2017, the Board adopted KPIs for members of the Board and Executive Management.
- The performance evaluation of the Board and the Executive Management is done annually.

Summary of the Board's efforts to nurture the corporate values (Value Creation) within employees by achieving the strategic objectives and improving performance.

1. Value Creation and Strategy

Accomplishments of the Strategic Planning Department in 2021

Internal Product Assessment

The strategic planning department launched a comprehensive internal exercise to evaluate the entire portfolio of products. The goal was to provide management and relevant departments with an objective classification of existing products to ensure the appropriate going-forward strategy is devised. All the products within Markaz's portfolio where placed on a four quadrant matrix based on the score they achieved against predefined quantitative and qualitative criteria.

Given the results and position of each product on the matrix, cross department micro teams were created around each product to develop going forward strategies and ensure optimal allocation of resources.

Strategy Development and Review

Strategy development and review within Markaz is a dynamic exercise and adopts a structured approach to ensure sustainable positioning in the context of changing market dynamics. The process is driven by a clearly defined road map that takes into account internal and external key triggers. We have identified several fast moving and critical trends that are shaping the markets we operate in which require a comprehensive review of our corporate strategy. To ensure that the revised corporate strategy is in line with the latest trends and positions Markaz for sustainable growth we have provisioned the services of a leading strategy consultant.

2. Corporate Values

During 2021, the Board Nominations & Remunerations Committee (BNRC) has reviewed the activities of the Human Resources Department and its initiatives, as these were directed by the Chair of the Committee, the CEO and Head of HRD.

Being an essential part of the Company's overall Business Continuity Planning, the Board has reviewed and approved the succession planning reviewed previously by the BNRC.

Accomplishments of the Human Resources Department in 2021

Hybrid Working, High Care for our People

We entered 2021 with continuing pandemic uncertainty. We very successfully adapted to and managed the hybrid environment of remote working combined with strictly limited office attendance. By continuing to use flexible timings and alternating schedules, even when 100% office capacity opened in August 2021, we kept a perfect 'duty of care' score – with not a single case of COVID transmission within our offices. Throughout the year, our very deliberate decisions to protect staff, their families, and the business, with no job cuts and no reductions in salaries or benefits, began to pay off. Our business teams continued to function at high efficiency, and then excelled, winning mandates and clients, and optimizing market opportunities. 2021 proved that every cloud can have a silver lining if you stand by your principles, do the right things for your people, and look for the upside.

Strengthening Confidence

It was a difficult year, of course, to make a definitive strategic impact with HR; firstly, we were heavily engaged in keeping everyone well-informed, safe, and healthy; in parallel, the entire energy of the business was focused on navigating difficult conditions, and there really was no capacity amongst our employees for much beyond immediate and critical work up until August, when government restrictions eased. Nevertheless, we took up the challenge of strengthening our organization, making key hires to bolster business continuity, and aggressively delivering pre-launch recruitment for a startup business venture that will come to market in 2022. We also worked to leverage business confidence and future skills through virtual delivery a of high-impact negotiation learning event and an extended program on innovation behaviors – 'Markaz Edge'. When we could at last gather physically, we arranged a full Masterclass in 'effective communication for high-performing teams', with a renowned business consultant and author. In the background, we continuously retuned and refined HR frameworks and plans, updating key HR market intelligence in readiness for the developments we eagerly anticipate in 2022, when Markaz's refreshed business strategy launches.

Strengthening Fundamentals

To optimize our infrastructure towards full digitization, we upgraded our HR system to the fullest extent possible, with a view to identifying a better platform over 2022/23 .We have also been putting in preparatory work to ensure our competencies framework remains comprehensive and up to date with organization changes and market priorities, and to complete the process of ensuring that everyone in Markaz has an 'individual development plan' by early 2022; this will sharpen staff focus on benchmark levels of knowledge, skills and positive behaviors relative to their current jobs, and to reach for their own future career growth.

Corporate Governance Report (continued)

This has been to ensure we have a solid foundation for Markaz continuity and sustainability, and once our new strategy is in place, for rapid realignment to our business goals and challenges.

Key Themes for 2022

We enter 2022 excited to learn where and how HR will best leverage delivery of Markaz's strategic business objectives. We will look to implement a 'learning management system' that will ensure we can deliver increased individual and organizational abilities through a 'push and pull model' – our people will be directed to key learnings and will also be able to get ahead of the curve through self-study. We also expect to have a high focus on leadership development, which will be particularly directed towards our younger and mid-level high potential staff. The new strategy's emphasis on change will prompt us to map and start to deliver on critical future skills, and to target needed high-value recruitments, and we will be restarting our Graduate Development Program in February 2022, after a one-year hiatus owing to the enforced restrictions of the pandemic. Our Key Themes for 2022 will be 'Professional Excellence', 'Fit to Lead' and 'communicating with Clients, Partners & Peers'.

Rule 11: Focusing on Corporate Social Responsibility

Summary on the policy to ensure a balance between Company's objectives and social goals.

In its continued endeavors to actively take part in the community and positively contribute in building a strong and sustainable economy in Kuwait, Markaz adopted a social and economic responsibility strategy aimed at fulfilling the Company's responsibilities towards the society and national economy.

The strategy was developed based on three pillars:

1. Building human capacity

Improving individual skills and capabilities in different fields; culture, sports, health education and economy through supporting active organizations and authorities to achieve sustainable development in Kuwait.

2. Aligning the business environment with the principles of sustainable development

Focusing on policy research, studies and events related to the management of public and private sectors in order to develop the best practical solutions to improve the overall business environment.

3. Promoting sound governance in the business environment

Promoting a sustainable business environment through sustainable governance principles based on democratic participation, citizen needs, efficiency, transparency, respect for law, ethics, capacity building, openness and innovation, sustainable development, sound financial management, accountability of officials, respect for human rights and diversity of cultures, both in the public and private sectors.

Summary of programs promoted and supported by the Company for the benefit of the society.

1. Building human capacity

Out of its belief that the sustainable future of Kuwait relies on individuals' skills and capabilities, Markaz is keen to cooperate with reputable non-profit organizations and contribute to human capacity building programs, to empower individuals and enable them to actively participate in sustainable development. Among these organizations are LOYAC, Kuwait Red Crescent Society, Kuwait Association for the Care of Children in Hospitals (KACCH), Children Cancer Center – Lebanon (CCCL), AC Milan soccer academy in Kuwait, UNHCR, 'Fikra' program for developing the skills of Kuwaiti entrepreneurs, (CODED) program for coding training, the Indian English Academy School, Kuwait Association of Accountants and Auditors, Maker-fair exhibition, among others.

In 2021, and post COVID-19 pandemic that impacted the whole world socially and economically, Markaz has committed to its CSER strategy through supporting different initiatives, including "Al-Jawhar" program organized by Loyac, to grow the youths skills in communication remotely with online workshops presented by reputable, famous media leaders. In addition, Markaz supported INNOVA International English School's (IIES) efforts to facilitate the participation of students in the Harvard National Model United Nations (HNMUN) 2022 conference. Furthermore, Markaz supported the Kuwaiti Jet Ski Champion Yousef Al-Abdulrazzaq in the Aquabike World Championship 2021, which contributed to his winning of the Grand Prix of Kuwait.

2. Aligning our working environment with the best standards of corporate governance

As part of its economic responsibility to align its working environment with the best standards of corporate governance, Markaz was the first to publish research deepening the knowledge base of the financial sector, where Marmore MENA Intelligence, Markaz research arm, publishes periodical reports and practical policies that are applicable to Kuwait and region, addressing several important topics such as energy, manpower, economic structuring and administrative reform in public sector institutions. Markaz continues to encourage such research, with the intent to distribute to and discuss solutions with decision-makers in Kuwait and reach for improved practical solutions for the advancement of the business working environment, in partnership with unions and civil institutions.

In 2021, Markaz participated as a speaker at the 'Kuwait Banking and Finance' virtual roundtable, organized by the Global Finance magazine on 23 March 2021. The roundtable gathered several prominent speakers and experts from the banking sector including Dr. Mohammad Y. Al-Hashel, the governor of the Central Bank of Kuwait and leading Kuwait banks' Chief Executive Officers to discuss the impact of the pandemic on Kuwait's economy, the transformation of digital banking services, and the country's economic development plan. Markaz participated as the only non-banking financial institution in the roundtable. In addition, Markaz organized a webinar titled 'Markaz House Views 2021: Opportunities and Outlook', which aimed to help investors capitalize on new and emerging opportunities in 2021 amid the COVID-19 disruption. Following the webinar, Markaz published a report presenting its house views on emerging investment opportunities in 2021 regarding the various asset classes that Markaz manages. The report addressed five key areas; namely GCC equities, GCC fixed income, GCC real estate, international real estate and international investments. The Markaz report also shared a recap on the 2020 performance, and challenges, and the 2021 outlook and opportunities to come for each of the five key areas of focus, based on Markaz's market study and evaluations.

3. Promoting good governance in the business environment

The public sector plays a vital role in the allocation and use of economic resources in Kuwait, given the importance of the government's role in economic development. Therefore, concerted efforts must be made in order to promote the performance of the public sector in driving economic development.

Within this context, Marmore, the research arm of Markaz, participated in the talk organized by Kuwait Foundation for the Advancement of Sciences on "Harnessing Value through Procurement Transformation", held in November 2021.

Corporate Governance Report (continued)

إقرار عضو مجلس الإدارة المستقل

أقر أنا الموقع أدناه/ عادل محمد الغنام، وأحمل بطاقة مدنية رقم 268031700015، بـأنني أستوفي كافة ضوابط الاستقلالية المنصوص عليها في قانون الشركات و الفصل الثاني من الكتاب الخامس عشر (15) من اللائحة التنفيذية لقانون هيئة أسواق المال بشأن شغلى منصب عضو مجلس إدارة مستقل بشركة المركز المالي الكويتي ش.م.ك.ع.، وأقر على وجه الخصوص باستيفائي للشروط التالية:

1. أني لا أمتلك ما نسبته خمسة فى المائة (5%) أو أكثر من أسهم شركة المركز المالي.
2. أنه ليس هناك صلة قرابة من الدرجة الأولى لي مع أي من أعضاء مجلس إدارة الشركة أو الإدارة التنفيذية فى الشركة أو فى أي شركة فى مجموعتها ، أو الأطراف الرئيسية ذات العلاقة.
3. أنني لست عضو مجلس إدارة فى أي شركة من مجموعتها.
4. أنني لست موظفاً بالشركة أو بأي شركة من مجموعتها أو لدى أي من أصحاب المصالح.
5. أنني لست موظفاً لدى الأشخاص الاعتباريين الذين يملكون حصص سيطرة فى الشركة.
6. أنه يتوافر لدي المؤهلات والخبرات والمهارات الفنية التى تتناسب مع نشاط الشركة.

الاسم: عادل محمد الغنام

الصفة: عضو مجلس إدارة مستقل

الشركة: شركة المركز المالي الكويتي ش.م.ك.ع.

التوقيع:________________

التاريخ: ١٣/١/٢٠٢٢

إقرار عضو مجلس الإدارة المستقل

أقر أنا الموقع أدناه/ فهد سليمان الدلالي، وأحمل بطاقة مدنية رقم 281010900428، بـأنني أستوفي كافة ضوابط الاستقلالية المنصوص عليها في قانون الشركات و الفصل الثاني من الكتاب الخامس عشر (15) من اللائحة التنفيذية لقانون هيئة أسواق المال بشأن شغلي منصب عضو مجلس إدارة مستقل بشركة المركز المالي الكويتي ش.م.ك.ع.، وأقر على وجه الخصوص باستيفائي للشروط التالية:

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6. أنه يتوافر لدي المؤهلات والخبرات والمهارات الفنية التى تتناسب مع نشاط الشركة.

الاسم: فهد سليمان الدلالي

الصفة: عضو مجلس إدارة مستقل

الشركة: شركة المركز المالي الكويتي ش.م.ك.ع.

التوقيع:

التاريخ: ١٩/٠١/٢٠٢٢

Corporate Governance Report (continued)

إقرار عضو مجلس الإدارة المستقل

أقر أنا الموقع أدناه/ عمران حبيب حيات، وأحمل بطاقة مدنية رقم 267100701253، بأنني أستوفي كافة ضوابط الاستقلالية المنصوص عليها في قانون الشركات و الفصل الثاني من الكتاب الخامس عشر (15) من اللائحة التنفيذية لقانون هيئة أسواق المال بشأن شغلى منصب عضو مجلس إدارة مستقل بشركة المركز المالي الكويتي ش.م.ك.ع.، وأقر على وجه الخصوص باستيفائي للشروط التالية:

1. أني لا أمتلك ما نسبته خمسة فى المائة (5%) أو أكثر من أسهم شركة المركز المالي.
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4. أنني لست موظفاً بالشركة أو بأي شركة من مجموعتها أو لدى أي من أصحاب المصالح.
5. أنني لست موظفاً لدى الأشخاص الاعتباريين الذين يملكون حصص سيطرة فى الشركة.
6. أنه يتوافر لدي المؤهلات والخبرات والمهارات الفنية التى تتناسب مع نشاط الشركة.

الاسم: عمران حبيب حيات

الصفة: عضو مجلس إدارة مستقل

الشركة: شركة المركز المالي الكويتي ش.م.ك.ع.

التوقيع:

التاريخ: 24.1.2022

Consolidated Financial Statements

Index

Independent Auditors' Report

To the Shareholders of Kuwait Financial Centre - KPSC Kuwait

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Kuwait Financial Centre - Kuwaiti Public Shareholding Company (the "Parent Company") and Subsidiaries, (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted for use by the State of Kuwait.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matter described below as the key audit matter.

Management fees and commission income

The Group manages various funds and portfolios on a fiduciary basis for its customers. In addition, the Group provides corporate advisory and other financial services to clients in debt and capital markets. The Group recognized management fees and commission income arising from these services of KD9,812 thousand (31 December 2020: KD8,131 thousand) for the year ended 31 December 2021 as disclosed in the consolidated statement of profit or loss. The recognition of management fees and commission income is dependent on the terms of the underlying management contracts and corporate advisory mandates agreed between the Group and its clients and/or the funds it manages. Management fees are calculated as a percentage of net asset value of the Assets Under Management as contractually agreed with its customers and varies across different funds and products. Due to the inherent risk of fraud associated with revenue recognition and the complexities in the revenue recognition process as described above, we have considered this as a key audit matter. The Group's policy on revenue recognition is disclosed in note 5.3 to the consolidated financial statements.

Our audit procedures included, among others, evaluating the design and implementation of controls management has put in place over valuing underlying fiduciary assets. We have also selected samples of portfolios/funds under management and verified if the underlying assets in those portfolios are fair valued based on market quotes as of the year-end date. We have also re-computed the related management fee on the selected sample of Portfolios/ funds by applying the contractually agreed management fee with the customers on the net asset value of those portfolios. We assessed the disclosures included in the consolidated financial statements relating to this matter against the requirements of IFRSs.

Impairment of Investment properties

The Group's investment properties, with a carrying amount of KD75,092 thousand (31 December 2020: KD75,401 thousand) represent 35.5% (31 December 2020: 37.3%) of the total assets as at 31 December 2021 and consist of land, buildings and projects under development held for rental located in State of Kuwait, Kingdom of Saudi Arabia, United Arab Emirates and United States of America. The investment properties are accounted for using the cost model whereby these investment properties are stated at cost less accumulated depreciation and accumulated impairment losses, if any, as detailed in notes 5.9 and 6.2.4. Management of the Group determined the fair value of the investment properties, for disclosure and impairment testing purposes, at the reporting date and uses independent valuers to assist in the preparation of these valuations. These valuations are based on a number of assumptions, including estimated rental revenues, capitalization yields, historical transactions, market knowledge, occupancy rates and cost of construction. Given the fact that the fair value of the investment properties represents a significant judgment area and the valuations are highly dependent on estimates we determined this to be a key audit matter.

Our audit procedures included, among others, assessing the design and implementation of controls over the process of the determining the value of the investment properties and assessing management's process for reviewing and assessing the work of the external valuers and their valuations. We assessed the qualifications, reputation, competence and skills of management's external valuers. We assessed the scope of the engagement between the external valuers and the Group to determine if it was sufficient for audit purposes including management's consideration of competence and independence of the external valuers. We reviewed the valuation reports from the external valuers and agreed them to the fair values of the properties. We assessed the valuation methodologies used in assessing the fair value of the investment properties including discussions with the management on the estimates, assumptions and valuation methodology used in assessing the fair value of investment properties. We also reperformed the mathematical accuracy of the valuations on a sample basis. We have also assessed the disclosures included in the consolidated financial statements relating to this matter against the requirements of IFRSs.

Other Information included in the Group's 2021 annual report

Management is responsible for the other information. Other information consists of the information included in the Annual Report of the Group for the year ended 31 December 2021, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Group's Annual Report for the year ended 31 December 2021 after the date of our auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted for use by the State of Kuwait, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditors' Report (continued)

To the Shareholders of Kuwait Financial Centre - KPSC Kuwait

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No 1 of 2016 and its Executive Regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law, the Executive Regulations, or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2021 that might have had a material effect on the business or financial position of the Parent Company.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations, or of the provisions of Law No. 7 of 2010, concerning the Capital Markets Authority and its related regulations during the year ended 31 December 2021 that might have had a material effect on the business or on its financial position of the Parent Company.

Abdullatif M. Al-Aiban (CPA)
(Licence No. 94-A)
of Grant Thornton - Al-Qatami, Al-Aiban & Partners

Talal Yousef Al-Muzaini
(Licence No. 209-A)
of Deloitte & Touche – Al-Wazzan & Co.

Kuwait
16 Febraury 2022

Consolidated Statement of Profit or Loss

	Note	Year ended 31 Dec. 2021 KD '000	Year ended 31 Dec. 2020 KD '000
Revenue			
Interest income	8	477	552
Dividend income		1,216	1,002
Management fees and commission income	9	9,812	8,131
Gain/(loss) from financial assets at fair value through profit or loss	10	15,497	(2,077)
Gain from financial liabilities at fair value through profit or loss		4	-
Gain on redemption of financial assets at fair value through other comprehensive income		218	20
Share of results of associate and joint venture	19	11	(93)
Gain on sale of assets held for sale	20	138	1,066
Gain on sale of investment properties	20	334	192
Net rental income	20	3,479	2,428
Foreign currency exchange (loss)/gain		(768)	846
Other income		224	1,094
		30,642	13,161
Expenses and other charges			
General and administrative expenses	11	(11,430)	(10,057)
Finance costs	12	(2,655)	(2,658)
Other expenses		(669)	(765)
Reversal of impairment/(impairment) of investment properties (net)	20	1,722	(2,072)
		(13,032)	(15,552)
Profit/(loss) before provisions for contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST), Zakat and Directors' remuneration		17,610	(2,391)
Provision for contribution to KFAS		(143)	-
Provision for NLST		(402)	-
Provision for Zakat		(161)	-
Provision for Directors' remuneration	29	(175)	-
Profit/(loss) for the year		16,729	(2,391)
Profit/(loss) for the year attributable to:			
Owners of the Parent Company		14,988	(1,715)
Non-controlling interests		1,741	(676)
Profit/(loss) for the year		16,729	(2,391)
Basic and diluted earnings/(loss) per share attributable to the owners of the Parent Company	13	31 Fils	(4) Fils

The notes set out on pages 54 to 98 form an integral part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and other Comprehensive Income

	Year ended 31 Dec. 2021 KD '000	Year ended 31 Dec. 2020 KD '000
Profit/(loss) profit for the year	**16,729**	(2,391)
Other comprehensive (loss)/income:		
Items that will be reclassified subsequently to statement of profit or loss:		
Financial assets at fair value through other comprehensive income:		
- Net change in fair value arising during the year	**-**	407
- Transferred to consolidated statement of profit or loss on redemption	**(132)**	(20)
Foreign currency translation:		
- Exchange differences arising on translation of foreign operations	**(237)**	39
Share of other comprehensive loss of associate and joint venture	**(551)**	(124)
Total other comprehensive (loss)/income	**(920)**	302
Total comprehensive income/(loss) for the year	**15,809**	(2,089)
Total comprehensive income/(loss) for the year attributable to:		
Owners of the Parent Company	**14,083**	(1,566)
Non-controlling interests	**1,726**	(523)
	15,809	(2,089)

The notes set out on pages 54 to 98 form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

	Note	31 Dec. 2021 KD '000	31 Dec. 2020 KD '000
Assets			
Cash and bank balances	14	**10,497**	9,951
Time deposits	14	**106**	9,483
Accounts receivable and other assets	15	**6,753**	6,663
Loans to customers	16	**625**	505
Financial assets at fair value through profit or loss	17	**111,618**	90,101
Financial assets at fair value through other comprehensive income		**-**	410
Financial assets at amortised cost	18	**2,167**	4,988
Investment in associate and joint venture	19	**2,875**	3,415
Investment properties	20	**75,092**	75,401
Right-of-use assets		**1,104**	328
Equipment		**729**	928
Total assets		**211,566**	202,173
Liabilities and equity			
Liabilities			
Due to banks	14	**457**	649
Accounts payable and other liabilities	21	**15,077**	10,299
Bank borrowings	22	**25,280**	21,081
Bonds issued	23	**35,000**	44,350
Total liabilities		**75,814**	76,379
Equity			
Share capital	24	**48,080**	48,080
Share premium	24	**7,902**	7,902
Treasury shares	25	**(260)**	(260)
Statutory reserve	26	**18,339**	16,752
Voluntary reserve	26	**16,694**	15,107
Other components of equity	27	**(559)**	346
Retained earnings		**14,327**	3,299
Equity attributable to the owners of the Parent Company		**104,523**	91,226
Non-controlling interests	7.2	**31,229**	34,568
Total equity		**135,752**	125,794
Total liabilities and equity		**211,566**	202,173

Diraar Yusuf Alghanim
Chairman

Ali Hassan Khalil
Chief Executive Officer

The notes set out on pages 54 to 98 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	Year ended 31 Dec. 2021 KD '000	Year ended 31 Dec. 2020 KD '000
OPERATING ACTIVITIES			
Profit/(loss) for the year		16,729	(2,391)
Adjustments for:			
Interest income		(477)	(552)
Depreciation and amortisation		1,922	1,628
Share of results of associate and joint venture		(11)	93
Gain on redemption of investments at fair value through OCI		(218)	(20)
Gain on sale of assets held for sale		(138)	(1,066)
Gain on sale of investment properties		(334)	(192)
Provision for credit losses etc.		278	-
(Reversal)/Impairment of investment properties (net)		(1,722)	2,072
Finance costs		2,655	2,658
		18,684	2,230
Changes in operating assets and liabilities:			
Financial assets at fair value through profit or loss		(21,517)	6,946
Accounts receivable and other assets		(357)	1,788
Loans to customers		(118)	(100)
Accounts payable and other liabilities		4,026	(5,512)
Net cash from operating activities		718	5,352
INVESTING ACTIVITIES			
Change in time deposits maturing after three months		(39)	(43)
Purchase of equipment		(162)	(267)
Proceeds from financial assets at amortised cost	18	4,852	316
Purchase of financial assets at amortised cost	18	(2,032)	(310)
Proceeds from redemption of financials assets at fair value through OCI		628	-
Additions to investment properties	20	(8,351)	(258)
Proceeds from sale of investment properties	20	7,183	1,114
Proceeds from sale of assets held for sale		2,228	10,960
Increase in investment in joint venture	19	-	(38)
Interest income received		464	943
Net cash from consolidation of subsidiaries		-	483
Net cash from investing activities		4,771	12,900
FINANCING ACTIVITIES			
Dividend paid		(47)	(2,330)
Dividend paid to non-controlling interests shareholders		(883)	(177)
Proceeds from bank borrowings	22	15,823	5,919
Repayment of bank borrowings	22	(11,600)	(26,480)
Proceeds from bonds issued	23	-	35,000
Repayment of bond issued	23	(9,350)	(15,650)
Payment of lease liability		(277)	(271)
Net change in non-controlling interests		(4,968)	969
Finance costs paid		(2,662)	(2,731)
Net cash used in financing activities		(13,964)	(5,751)
(Decrease)/increase in cash and cash equivalents		(8,475)	12,501
Foreign currency adjustments		(203)	(28)
Cash and cash equivalents at beginning of the year	14	18,725	6,252
Cash and cash equivalents at end of the year	14	10,047	18,725

The notes set out on pages 54 to 98 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes In Equity

	Equity attributable to the owners of the Parent Company			
	Share capital KD '000	**Share premium KD '000**	**Treasury shares KD'000**	**Statutory reserve KD '000**
Balance at 1 January 2021	**48,080**	**7,902**	**(260)**	**16,752**
Net change in non-controlling interests (refer note 7)	-	-	-	-
Effect of change in ownership percentage of subsidiaries (refer note 7.1)	-	-	-	-
Payment of cash dividend to non-controlling interests' shareholders (refer note 7.2)	-	-	-	-
Transactions with owners	-	-	-	-
Profit for the year	-	-	-	-
Total other comprehensive loss	-	-	-	-
Total comprehensive (loss)/income for the year	-	-	-	-
Transfer to reserves	-	-	-	1,587
Balance at 31 December 2021	**48,080**	**7,902**	**(260)**	**18,339**

	Equity attributable to the owners of the Parent Company			
	Share capital KD '000	**Share premium KD '000**	**Treasury shares KD'000**	**Statutory reserve KD '000**
Balance at 1 January 2020	48,080	7,902	(260)	16,752
Effect of change in non-controlling interests due to consolidation	-	-	-	-
Net change in non-controlling interests (refer note 7)	-	-	-	-
Effect of change in ownership percentage of subsidiaries (refer note 7.1)	-	-	-	-
Payment of cash dividend	-	-	-	-
Payment of cash dividend to non-controlling interests' shareholders (refer note 7.2)	-	-	-	-
Transactions with owners	-	-	-	-
Loss for the year	-	-	-	-
Total other comprehensive income	-	-	-	-
Total comprehensive income/(loss) for the year	-	-	-	-
Balance at 31 December 2020	48,080	7,902	(260)	16,752

The notes set out on pages 54 to 98 form an integral part of these consolidated financial statements.

	Voluntary reserve KD '000	Other components of equity (note 27) KD '000	Retained earnings KD '000	Sub Total KD '000	Non-controlling interests KD '000	Total KD '000
	15,107	**346**	**3,299**	**91,226**	**34,568**	**125,794**
	-	**-**	**-**	**-**	**(4,968)**	**(4,968)**
	-	**-**	**(786)**	**(786)**	**786**	**-**
	-	**-**	**-**	**-**	**(883)**	**(883)**
	-	**-**	**(786)**	**(786)**	**(5,065)**	**(5,851)**
	-	**-**	**14,988**	**14,988**	**1,741**	**16,729**
	-	**(905)**	**-**	**(905)**	**(15)**	**(920)**
	-	**(905)**	**14,988**	**14,083**	**1,726**	**15,809**
	1,587	**-**	**(3,174)**	**-**	**-**	**-**
	16,694	**(559)**	**14,327**	**104,523**	**31,229**	**135,752**

	Voluntary reserve KD '000	Other components of equity (note 27) KD '000	Retained earnings KD '000	Sub Total KD '000	Non-controlling interests KD '000	Total KD '000
	15,107	197	7,417	95,195	23,803	118,998
	-	-	-	-	11,528	11,528
	-	-	-	-	(75)	(75)
	-	-	(12)	(12)	12	-
	-	-	(2,391)	(2,391)	-	(2,391)
	-	-	-	-	(177)	(177)
	-	-	(2,403)	(2,403)	11,288	8,885
	-	-	(1,715)	(1,715)	(676)	(2,391)
	-	149	-	149	153	302
	-	149	(1,715)	(1,566)	(523)	(2,089)
	15,107	346	3,299	91,226	34,568	125,794

Notes to the Consolidated Financial Statements

1. Incorporation and activities

Kuwait Financial Centre - KPSC ("the Parent Company") was incorporated in 1974 in accordance with the Commercial Companies Law in the State of Kuwait. The Parent Company along with its subsidiaries are jointly referred to as "the Group". The Parent Company is listed on the Boursa Kuwait and is governed under the directives of the Central Bank of Kuwait and Capital Markets Authority of Kuwait.

The principal activities of the Parent Company are as follows:

- Funding import and export operations, whether by direct credit or accepting drafts drawn on the company for short terms, as well as brokerage in securing the banking facilities for clients in Kuwait and abroad.
- Undertake the job of broker between borrowers and lenders, undertake approved agency works for the payment processes arising from issuing medium and long term securities, in addition to keeping securities on behalf of the clients.
- Dealing and trading in the foreign currencies and the precious metal markets inside and outside Kuwait.
- Undertake all the services which assist to extend and support the money and capital market capacity in Kuwait and fulfil its needs within the limits of the law and the procedures or instructions issued by the Central Bank of Kuwait. The company may have an interest or participate in any manner with the bodies practicing business similar to its business or which may assist it to achieve its objectives inside or outside Kuwait and it may acquire such bodies or append them to itself.
- Offering personal, commercial and consumer loans, undertake finance operations on the basis of margin related to investment operations in the local and international markets, trading currencies, as well as the finance operations related to pledging investment portfolios and securities, and undertaking finance and brokerage in international and local commercial operations.
- Investment in the various economic sectors such as the industrial, real estate, agricultural, services and other sectors, whether directly or by contribution through existing companies or incorporating these companies related to the said activity or acquire projects which fulfil such objective.
- Undertake the functions of investment trustees and investment portfolio management for the account of third parties with the required loaning and borrowing operations.
- Unregistered securities broker in the stock exchange.
- Investment portfolio manager.
- Collective investment scheme manager.
- Investment advisor.
- Placement agent.
- Custodian.

The address of the Parent Company's registered office is PO Box 23444, Safat 13095, State of Kuwait.

The Parent Company's Board of Directors approved these consolidated financial statements for issue on 16 Febraury 2022 and are subject to the approval of the General Assembly of the shareholders of the Parent Company.

2. Basis of preparation

The consolidated financial statements of the Group have been prepared under historical cost convention except for financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, financial liabilities at fair value through profit or loss and derivative financial instruments that have been measured at fair value.

The consolidated financial statements are presented in Kuwaiti Dinars ("KD") which is the functional and presentation currency of the Parent Company and all values are rounded to the nearest thousand (KD '000), except when otherwise indicated.

The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

3. Statement of compliance

The consolidated financial statements have been prepared in accordance with the regulations for financial services institutions as issued by the Central Bank of Kuwait ("CBK") in the State of Kuwait. These regulations including the recently issued CBK circulars on regulatory measures in response to COVID 19 and related CBK communication, require financial services institutions regulated by CBK to adopt the International Financial Reporting Standards with the following amendment:

Expected credit loss ("ECL") on credit facilities to be measured at the higher of the ECL computed under IFRS 9 in accordance to the CBK guidelines or the provisions as required by CBK instruction along with its consequent impact on related disclosures.

The above framework is hereinafter referred to as "IFRS as adopted by CBK for use by the State of Kuwait".

4. Changes in accounting policies

4.1 New and amended standards adopted by the Group

The Group has applied the following new and revised IFRS Standards that have been issued and effective:

Amendment to IFRS 16 - COVID-19-Related Rent Concessions beyond 30 June 2021

The IFRS 16 Leases amendment relate to Covid19 Rent Related Concessions that has been extended until 30 June 2022. The practical expedient allows lessees to elect to not carry out an assessment to decide whether a COVID-19-related rent concession received is a lease modification. The lessee is permitted to account for the rent concession as if the change is not a lease modification.

The application of the amendments did not have a significant impact on the Group's consolidated financial statements.

Impact of the initial application of Interest Rate Benchmark Reform

In the current year, the Group adopted the Phase 2 amendments Interest Rate Benchmark Reform amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. Adopting these amendments enables the Group to reflect the effects of transitioning from interbank offered rates (IBOR) to alternative benchmark interest rates (also referred to as 'risk free rates' or RFRs) without giving rise to accounting impacts that would not provide useful information to users of financial statements.

As a result of the Phase 2 amendments:

- When the contractual terms of the Group's bank borrowings are amended as a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the basis immediately preceding the change, the Group changes the basis for determining the contractual cash flows prospectively by revising the effective interest rate. If additional changes are made, which are not directly related to the reform, the applicable requirements of IFRS 9 are applied to the other changes.
- When a lease is modified as a direct consequence of the interest rate benchmark reform and the new basis for determining the lease payments is economically equivalent to the previous basis, the Group remeasures the lease liability to reflect the revised lease payments discounted using a revised discount rate that reflects the change in the basis for determining the contractual cash flows.

The Group has exposure to contracts referencing IBORs, such as LIBOR, extending beyond year 2021, when these IBORs will cease being published. The majority of LIBOR are to be discontinued after 31 December 2021 and replaced with certain Alternative Benchmark Rates, with the exception of certain USD LIBOR rates where cessation is delayed until 30 June 2023. As on 31 Dec 2021, Group has USD LIBOR based liabilities amounting to KD5,322 thousand which are yet to be transitioned.

The Group is managing the transition activities and continues to engage with lenders to support an orderly transition and to mitigate the risks resulting from the transition.

4.2 IASB Standards issued but not yet effective

At the date of authorisation of this consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Group.

Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncements. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to be relevant and/or have a material impact on the Group's consolidated financial statements.

Standard or Interpretation	Effective for annual periods beginning
IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments	No stated date
IFRS 3 Amendment - Reference to the conceptual framework	1 January 2022
IAS 1 Amendments - Classification of current and non-current	1 January 2023
IAS 1 Amendments - Disclosure of accounting policies	1 January 2023
IAS 8 Amendments - Definition of accounting estimates	1 January 2023
IAS 16 - Amendments - Proceeds before intended use	1 January 2022
IAS 37 - Amendments - Onerous contracts - Cost of fulfilling a contract	1 January 2022
Annual Improvements 2018-2020 Cycle	1 January 2022

Notes to the Consolidated Financial Statements (continued)

4. Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments

The Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows:

- require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations)
- require the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognised only to the extent of the unrelated investors' interests in that associate or joint venture.

These requirements apply regardless of the legal form of the transaction, e.g. whether the sale or contribution of assets occurs by an investor transferring shares in a subsidiary that holds the assets (resulting in loss of control of the subsidiary), or by the direct sale of the assets themselves.

IASB has postponed the effective date indefinitely until other projects are completed. However, early implementation is allowed. Management anticipates that the application of these amendments may have an impact on the Group's consolidated financial statements in future should such transactions arise.

IFRS 3 - Reference to the conceptual framework

The amendments add a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The amendments also add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

Management does not anticipate that the adoption of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

IAS 1 Amendments - Classification of current or non-current

The amendments to IAS 1 clarify the classification of a liability as either current or non-current is based on the entity's rights at the end of the reporting period. Stating management expectations around whether they will defer settlement or not does not impact the classification of the liability. It has added guidance about lending conditions and how these can impact classification and has included requirements for liabilities that can be settled using an entity's own instruments.

Management does not anticipate that the adoption of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

IAS 1 Amendments - Disclosure of accounting policies

The amendments to IAS 1 require entities to disclose material accounting policies instead of significant accounting policies. The amendments clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial.

Management does not anticipate that the adoption of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

IAS 8 Amendments - Definition of accounting estimates

The amendments to IAS 8 provide an exemption from the initial recognition exemption provided in IAS 12.15(b) and IAS 12.24. Accordingly, the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. This is also explained in the newly inserted paragraph IAS 12.22A.

Management does not anticipate that the adoption of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

IAS 16 Amendments - Proceeds before intended use

The amendment prohibits an entity from deducting from the cost of property, plant and equipment amounts received from selling items produced while the entity is preparing the asset for its intended use. Instead, an entity will recognise such sales proceeds and related cost in profit or loss.

Management does not anticipate that the adoption of the amendment in the future will have a significant impact on the Group's consolidated financial statements.

Annual Improvements 2018-2020 Cycle

Amendment to IAS 1 simplifies the application of IFRS 1 by a subsidiary that becomes a first-time adopter after its parent in relation to the measurement of cumulative translation differences. Subsidiary that is a first-time adopter later than its parent might have been required to keep two parallel sets of accounting records for cumulative translation differences based on different dates of transition to IFRSs. However, the amendment extends the exemption to cumulative translation differences to reduce costs for first-time adopters.

Amendment to IFRS 9 relates to the '10 per cent' Test for Derecognition of Financial Liabilities – In determining whether to derecognise a financial liability that has been modified or exchanged, an entity assesses whether the terms are substantially different. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

Amendment to IFRS 16 avoids the potential for confusion in applying IFRS 16 Leases because of how Illustrative Example 13 accompanying IFRS 16 had illustrated the requirements for lease incentives. Before the amendment, Illustrative Example 13 had included as part of the fact pattern a reimbursement relating to leasehold improvements; the example had not explained clearly enough the conclusion as to whether the reimbursement would meet the definition of a lease incentive in IFRS 16. The IASB decided to remove the potential for confusion by deleting from Illustrative Example 13 the reimbursement relating to leasehold improvements.

Amendment to IAS 41 removes the requirement in IAS 41.22 to exclude taxation cash flows when measuring fair value. This amendment aligns the requirements in IAS 41 on fair value measurement with those in other IFRS Standards.

Management does not anticipate that the adoption of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

5. Summary of significant accounting policies

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below.

5.1 Basis of consolidation

The Group financial statements consolidate those of the Parent Company and all of its subsidiaries. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and they are deconsolidated from the date that control ceases. The financial statements of the subsidiaries are prepared for reporting dates which are typically not more than three months from that of the Parent Company, using consistent accounting policies. Adjustments are made for the effect of any significant transactions or events that occur between that date and the reporting date of the Parent Company's financial statements. The details of the significant subsidiaries are set out in Note 7 to the consolidated financial statements.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the date the Group gains control, or until the date the Group ceases to control the subsidiary, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests. Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

Notes to the Consolidated Financial Statements (continued)

5. Summary of significant accounting policies (continued)

5.1 Basis of consolidation (continued)

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary
- derecognizes the carrying amount of any non-controlling interests
- derecognizes the cumulative translation differences, recorded in equity
- recognizes the fair value of the consideration received
- recognizes the fair value of any investment retained
- recognizes any surplus or deficit in profit or loss
- reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group has directly disposed of the related assets or liabilities.

5.2 Business combinations

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated statement of profit or loss.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non-controlling interests in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in the consolidated statement of profit or loss immediately.

5.3 Revenue recognition

Revenue arises from rendering of services, investing activities and real estate activities.

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer. The Group follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied.

The Group recognises revenue from the following major sources:

5.3.1 Rendering of services

The Group earns fees and commission income from diverse range of asset management, investment banking, custody and brokerage services provided to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management fees.

Fee income from providing transaction services

Fees arising for rendering specific advisory services, brokerage services, equity and debt placement transactions for a third party or arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction.

5.3.2 Interest income

Interest income is reported on an accrual basis using the effective interest method.

5.3.3 Dividend income

Dividend income, other than those from investment in associates, are recognised at the time the right to receive payment is established.

5.3.4 Rental income

Rental income arising from investment properties is accounted for on a straight line basis over the lease term.

5.3.5 Revenue from sale of investment properties

Revenue from sale of investment properties is recognised on completion of sale contract.

5.4 Operating expenses

Operating expenses are recognised in consolidated statement of profit or loss upon utilisation of the service or at the date of their origin.

5.5 Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of a qualifying asset are capitalised During the year of time that is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred and reported in finance costs.

5.6 Taxation

5.6.1 Kuwait Foundation for the Advancement of Sciences (KFAS)

The contribution to KFAS is calculated at 1% of taxable profit of the Group attributable to the shareholders of the Parent Company in accordance with the modified calculation based on the Foundation's Board of Directors' resolution, which states that income from Kuwaiti shareholding associates and subsidiaries and transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

5.6.2 National Labour Support Tax (NLST)

NLST is calculated in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit of the Group attributable to the shareholders of the Parent Company after deducting directors' fees for the year. As per law, income from listed associates and cash dividends from listed companies which are subjected to NLST have to be deducted from the profit for the year.

5.6.3 Zakat

Contribution to Zakat is calculated at 1% of the profit of the Group attributable to the shareholders of the Parent Company in accordance with the Ministry of Finance Resolution No. 58/2007 effective from 10 December 2007.

Under the NLST and Zakat regulations, no carry forward of losses to the future years or any carry back to prior years is permitted.

5.6.4 Taxation on overseas subsidiaries

Taxation on overseas subsidiaries is calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the countries where these subsidiaries operate.

5.7 Investment in associate

Associate is an entity over which the Group is able to exert significant influence but which is neither subsidiary nor joint venture. Investment in associate is initially recognised at cost and subsequently accounted for using the equity method. Any goodwill or fair value adjustment attributable to the Group's share in the associate is not recognised separately and is included in the amount recognised as investment in associate.

Under the equity method, the carrying amount of the investment in associate is increased or decreased to recognise the Group's share of the profit or loss and other comprehensive income of the associate, adjusted where necessary to ensure consistency with the accounting policies of the Group.

Unrealised gains and losses on transactions between the Group and its' associate are eliminated to the extent of the Group's interest in the entity. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

Notes to the Consolidated Financial Statements (continued)

5. Summary of significant accounting policies (continued)

5.7 Investment in associate (continued)

The share of results of an associate is shown on the face of the consolidated statements of profit or loss. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate.

The difference in reporting dates of the associate and the Group is not more than three months. Adjustments are made for the effects of significant transactions or events that occur between that date and the date of the Group's consolidated financial statements. The associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount under a separate heading in the consolidated statement of profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any differences between the carrying amount of the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal are recognised in the consolidated statement of profit or loss.

5.8 Investment in joint venture

A joint arrangement is a contractual arrangement that gives two or more parties joint control. Joint control is a contractually agreed sharing of control of an arrangement, which exists only when decision about the relevant activities required unanimous consent of parties sharing control. A joint venture is a joint arrangement which by the parties that have the joint control of the arrangement have rights to the net assets of the arrangement. The Group recognises its interests in joint ventures as an investment and accounts for it using the equity method.

5.9 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Properties under development also include properties that are being constructed or developed for future use as investment properties and are not depreciated.

Investment properties are initially measured at cost, including transaction costs and where applicable borrowing costs. Subsequent to initial recognition, investment properties are accounted for using the cost model whereby these investment properties are stated at cost less accumulated depreciation and impairment losses, if any. The Group depreciates its investment properties except lands and projects under development on the straight-line method over their expected useful lives of 37 - 50 years.

Investment properties are de-recognised when either they have been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated statement of profit or loss in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

5.10 Equipment

Vehicles and other equipment are initially recognised at acquisition cost including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the Group's management.

Vehicles and other equipment are subsequently measured using the cost model, cost less subsequent depreciation and impairment losses. Depreciation is recognised on a straight-line basis to write down the cost less estimated residual value of vehicles and other equipment.

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits arising from items of equipment.

The following useful lives are applied:

• Office equipment and software	3 to 5 years
• Vehicles	3 to 4 years
• Furniture and fixtures	7 to 10 years
• Decorations	7 years

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is recognised in the consolidated statement of profit or loss.

5.11 Financial instruments

Financial assets and financial liabilities are recognised in the Group's consolidated financial position when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets and financial liabilities are measured initially at fair value. On initial recognition, transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

5.11.1 Classification and Measurement of Financial assets

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective and in order to generate contractual cash flows. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on a number of observable factors such as:

- The stated policies and objectives for the financial assets and the operation of those policies in practice;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)

The Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. Interest is defined as consideration for time value of money and for the credit risk associated with the principal and for other basic lending risks and costs as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

The Group classifies its financial assets upon initial recognition into the following categories:

- Financial assets carried at amortised cost
- Financial assets carried at fair value through profit or loss (FVTPL)
- Financial assets carried at fair value through other comprehensive income (FVOCI)

Notes to the Consolidated Financial Statements (continued)

5. Summary of significant accounting policies (continued)

5.11 Financial instruments (continued)

5.11.1 Classification and Measurement of Financial assets (continued)

Financial assets carried at Amortised cost:

A financial asset is carried at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognised in the consolidated statement of profit or loss. Any gain or loss on derecognition is recognised in the consolidated statement of profit or loss.

The Group's financial assets at amortised cost comprise of the followings:

Loans and advances

Loans and advances are financial assets originated by the Group by providing money directly to the borrower that have fixed or determinable payments and are not quoted in an active market.

Accounts receivable and other assets

Receivables are stated at original invoice amount less allowance for any impairment.

Debt instruments

Debt instruments classified at amortized cost represents investment in sukuk and loans given.

Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances, together with time deposits that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Financial asset carried at FVTPL:

Financial assets in this category are those assets which have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management designates an instrument at FVTPL that otherwise meet the requirements to be measured at amortised cost or at FVOCI only if it eliminates, or significantly reduces, an accounting mismatch that would otherwise arise. Financial assets with contractual cash flows not representing solely payment of principal and interest are mandatorily required to be measured at FVTPL.

Financial assets at FVTPL are subsequently measured at fair value. Changes in fair value are recognised in the consolidated statement of profit or loss. Interest income is recognised using the effective interest method. Dividend income from equity investments measured at FVTPL is recognised in the consolidated statement of profit or loss when the rights to receive cash flows has been established.

Equity instruments at FVOCI:

Upon initial recognition, the Group may elect to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on subsequent measurement of these equity instruments are never recycled to consolidated statement of profit or loss. Dividends are recognised in consolidated statement of profit or loss when the rights to receive cash flows has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in other comprehensive income. Equity instruments at FVOCI are not subject to an impairment assessment. Upon derecognition cumulative change in fair value are reclassified from fair value reserve to retained earnings in the consolidated statement of changes in equity.

Debt instruments at FVOCI:

The Group measure debt instruments at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

Debt instruments at FVOCI are subsequently measured at fair value and gains and losses arising due to changes in fair value are recognised in other comprehensive income. Interest income and foreign exchange gains or losses are recognised in the consolidated statement of profit or loss. On derecognition, cumulative gains or losses previously recognised in other comprehensive income is reclassified from equity to the consolidated statement of profit or loss. The management of the Group classifies certain unquoted debt instruments under debt instruments at FVOCI.

Foreign exchange gains and losses on financial assets:

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically;

- for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss;
- for debt instruments measured at FVOCI that are not part of a designated hedging relationship, exchange differences on the amortised cost of the debt instrument are recognised in profit or loss. Other exchange differences are recognised in other comprehensive income in the fair value reserve;
- for financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss; and
- for equity instruments measured at FVOCI, exchange differences are recognised in other comprehensive income in the fair value reserve.

Impairment of Financial Assets:

The Group computes Expected Credit Losses (ECL) on the following financial instruments that are not measured at fair value through profit or loss:

- Loans to customers
- Bank balances and time deposits
- Accounts receivables and other financial assets

Equity investments are not subject to Expected Credit Losses.

Impairment of loans to customers:

Loans to customers granted by the Group consists of loans given to staff. Impairment on loans to customers shall be recognised in the consolidated statement of financial position at an amount equal to the higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK instructions.

Impairment of financial assets other than loans to customers:

The Group recognises ECL on investment in debt instruments measured at amortised cost or FVOCI and on balances and deposits with banks and accounts receivables.

Expected Credit Losses

The Group applies three-stage approach to measuring expected credit losses (ECL) as follows:

Stage 1: 12 months ECL

The Group measures loss allowances at an amount equal to 12-month ECL on financial assets where there has not been significant increase in credit risk since their initial recognition or on exposures that are determined to have a low credit risk at the reporting date. The Group considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade’.

Stage 2: Lifetime ECL - not credit impaired

The Group measures loss allowances at an amount equal to lifetime ECL on financial assets where there has been a significant increase in credit risk since initial recognition but are not credit impaired.

Stage 3: Lifetime ECL - credit impaired

The Group measures loss allowances at an amount equal to lifetime ECL on financial assets that are determined to be credit impaired based on objective evidence of impairment.

Life time ECL is ECL that result from all possible default events over the expected life of a financial instrument. The 12-month ECL is the portion of life time expected credit loss that result from default events that are possible within the 12 months after the reporting date. Both life time ECLs and 12 month ECLs are calculated on either an individual basis or a collective basis depending on the nature of the underlying portfolio of financial instruments.

Determining the stage of impairment

At each reporting date, the Group assesses whether a financial asset or group of financial assets is credit impaired. The Group considers a financial asset to be credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred or when contractual payments are 90 days past due.

Notes to the Consolidated Financial Statements (continued)

5. Summary of significant accounting policies (continued)

5.11 Financial instruments (continued)

5.11.1 Classification and Measurement of Financial assets (continued)

Determining the stage of impairment (continued)

At each reporting date, the Group also assesses whether there has been significant increase in credit risk since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date with the risk of default at the date of initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are 30 days past due are deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk.

Measurement of ECLs

ECLs are probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfall represent the difference between cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive. The key elements in the measurement of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Group estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, forward looking macro-economic scenarios etc.

The Group has applied simplified approach to impairment for trade and other receivables (represented by management fees and other dues from clients) as permitted under the standard. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Provision for credit losses in accordance with CBK instructions

The Group is required to calculate provisions for credit losses on credit facilities (loans to customers) in accordance with the instructions of CBK on the classification of credit facilities and calculation of provisions. Credit facilities are classified as past due when a payment has not been received on its contractual payment date or if the facility is in excess of pre-approved limits.

A credit facility is classified as a bad loan (non-performing loan) when the interest or a principal instalment is past due more than 90 days, unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. In addition to specific provisions, Expected Credit Loss ("ECL") to be measured at the higher of the ECL on credit facilities computed under IFRS 9 according to the CBK guidelines or the provisions as required by CBK instruction which is minimum general provisions of 1% on cash facilities and 0.5% on non-cash facilities are made on all applicable credit facilities (net of certain restricted categories of collateral) which are not subject to specific provisioning. Past due and past due and impaired loans are managed and monitored as irregular facilities.

5.11.2 Classification and Measurement of Financial Liabilities

The Group's financial liabilities include borrowings, accounts payable and other liabilities, bonds and derivatives financial instruments.

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held for trading, or (iii) designated at FVTPL, are measured subsequently at amortised cost using the effective interest method. Accounts payable and other liabilities, borrowings and bonds issued are classified as financial liabilities measured subsequently at amortised cost.

Accounts payable and other liabilities

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Borrowings:

Murabaha facilities

Murabaha facilities represent amount payable on deferred settlement basis for assets purchases under murabaha arrangements. Murabaha facilities are stated at the contractual amount payable, less deferred profit payable. Profit payable is expensed on a time apportionment basis taking account of the profit rate attributable and the balance outstanding.

All other borrowings are subsequently measured at amortised cost using the effective interest rate method.

Gains and losses are recognised in the consolidated statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Bonds

Bonds are carried on the consolidated statement of financial position at their principal amount, net of directly related costs of issuing the bonds to the extent that such costs have not been amortised. These costs are amortised through the consolidated statement of profit or loss over the life of the bonds using the effective interest rate method.

Foreign exchange gains and losses on financial liabilities:

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in profit or loss, for financial liabilities that are not part of a designated hedging relationship. For those which are designated as a hedging instrument for a hedge of foreign currency risk foreign exchange gains and losses are recognised in other comprehensive income and accumulated in a separate component of equity.

Derecognition of financial assets and financial liabilities:

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Derivative financial instruments and hedge accounting:

Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the consolidated financial statements unless the Group has both legal right and intention to offset.

All derivative financial instruments used for hedge accounting are recognised initially at fair value and reported subsequently at fair value in the consolidated statement of financial position. To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in consolidated statement of profit or loss.

At the time the hedged item affects consolidated statement of profit or loss, any gain or loss previously recognised in other comprehensive income is reclassified from equity to consolidated statement of profit or loss and presented as a reclassification adjustment within other comprehensive income. However, if a non-financial asset or liability is recognised as a result of the hedged transaction, the gains and losses previously recognised in other comprehensive income are included in the initial measurement of the hedged item.

All derivative financial instruments are recognised in the consolidated statement of financial position as either assets (positive fair values) or liabilities (negative fair values).

Derivative financial instruments used by the Group include foreign exchange forwards contracts.

Note 35 sets out details of the fair values of the derivative instruments.

5.12 Trade and settlement date accounting

All 'regular way' purchases and sales of financial assets are recognised on the trade date i.e. the date that the entity commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Notes to the Consolidated Financial Statements (continued)

5. Summary of significant accounting policies (continued)

5.13 Amortised cost of financial instruments

This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

5.14 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

5.15 Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 35.

5.16 Impairment testing of non-financial assets

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

5.17 Equity, reserves and dividend payments

Share capital represents the nominal value of shares that have been issued and paid up.

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Statutory and voluntary reserves comprise appropriations of current and prior period profits in accordance with the requirements of the companies' law and the Parent Company's articles of association.

Other components of equity include the following:

- foreign currency translation reserve - comprises foreign currency translation differences arising from the translation of financial statements of the Group's foreign entities into Kuwait Dinars.
- Fair value reserve - comprises gains and losses relating to financial assets which are categorised as financial assets at fair value through other comprehensive income.

Retained earnings include all current and prior period retained profits. All transactions with owners of the Parent Company are recorded separately within equity.

Dividend distributions payable to equity shareholders are included in accounts payable and other liabilities when the dividends have been approved in a meeting of the general assembly.

5.18 Treasury shares

Treasury shares consist of the Parent Company's own issued shares that have been reacquired by the Group. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in equity.

When the treasury shares are reissued, gains are credited to a separate account in equity, (the “treasury shares reserve”), which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to the voluntary reserve and statutory reserve. No cash dividends are paid on these shares. The issue of stock dividend shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

5.19 Provisions, contingent assets and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Contingent assets are not recognised in the consolidated financial statements, but are disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the consolidated statement of financial position, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

5.20 Foreign currency translation

5.20.1 Foreign currency transactions

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in the consolidated statement of profit or loss. Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

5.20.2 Foreign operations

In the Group’s consolidated financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than the KD are translated into KD upon consolidation. The functional currency of the entities in the Group has remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into KD at the closing rate at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into KD at the closing rate. Income and expenses have been translated into KD at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognised in the foreign currency translation reserve in equity. On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to the consolidated statement of profit or loss and are recognised as part of the gain or loss on disposal.

5.21 End of service indemnity

The Group provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees’ final salary and length of service, subject to the completion of a minimum service period in accordance with relevant labour law and the employees’ contracts. The expected costs of these benefits are accrued over the period of employment. This liability, which is unfunded, represents the amount payable to each employee as a result of termination on the reporting date.

In addition to the end of service benefits with respect to its Kuwaiti national employees, the Group also makes contributions to the Public Institution for Social Security calculated as a percentage of the employees’ salaries. The Group’s obligations are limited to these contributions, which are expensed when due.

Notes to the Consolidated Financial Statements (continued)

5. Summary of significant accounting policies (continued)

5.22 Fiduciary assets

Assets and related deposits held in trust or in a fiduciary capacity are not treated as assets or liabilities of the Group and accordingly are not included in these consolidated financial statements.

5.23 Segment reporting

The Group has two operating segments: the asset management and investment banking. In identifying these operating segments, management generally follows the Group's service lines representing its main services. Each of these operating segments is managed separately as each requires different approaches and other resources.

For management purposes, the Group uses the same measurement policies as those used in its financial statements. In addition, assets or liabilities which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

5.24 Non-current assets and liabilities classified as held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Any profit or loss arising from the sale of a non-current assets held for sale or its remeasurement to fair value less costs to sell is presented as part of a single line item in profit or loss.

5.25 Leased assets

The Group as a lessee

For any new contracts entered into on or after 1 January 2021, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'.

To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet measured as follows:

Right-of-use asset

The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

Subsequent to initial measurement, the Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

Lease liability

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability is reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

5.26 Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss (FVTPL) when the financial liability is held for trading or it is designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The transaction cost is recognised in profit or loss.

The Group classifies short sale liabilities as financial liabilities at FVTPL as these are held for trading purpose. Short sale liabilities arise when borrowed securities are sold in an anticipation of a decline in the market value of that securities.

6. Significant management judgements and estimation uncertainty

The preparation of the Group's consolidated financial statements requires management to make judgments, estimations and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

6.1 Significant management judgments

In the process of applying the Group's accounting policies, management has made the following significant judgments, which have the most significant effect on the amounts recognised in the consolidated financial statements:

6.1.1 Business model assessment

The Group classifies financial assets after performing the business model test (please see accounting policy for financial instruments sections in note 5.11). This test includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured and the risks that affect the performance of the assets. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

6.1.2 Classification of real estate

Management decides on acquisition of a real estate whether it should be classified as trading, property held for development or investment property.

The Group classifies properties under development as Investment properties if it acquired with the intention of holding it to earn rental income or capital appreciation upon completion of the development.

The Group classifies property as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use.

6.1.3 Control assessment

When determining control, management considers whether the Group has the practical ability to direct the relevant activities of an investee on its own to generate returns for itself. The assessment of relevant activities and ability to use its power to affect variable return requires considerable judgement.

6.1.4 Structured entities

The Group uses judgement in determining which entities are structured entities. If the voting or similar rights are not the dominant factor in deciding who controls the entity and such voting rights relate to the administrative tasks only and the relevant activities are directed by means of contractual arrangements, the Group identifies such entities as structured entities. After determining whether an entity is a structured entity, the Group determines whether it needs to consolidate this entity based on the consolidation principles of IFRS 10.

Notes to the Consolidated Financial Statements (continued)

6. Significant management judgements and estimation uncertainty (continued)

6.2 Estimates uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

6.2.1 Impairment of associate and joint venture

After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss on the Group's investment in its associated company and joint venture, at each reporting date based on existence of any objective evidence that the investment in the associate and joint venture is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and joint venture and its carrying value and recognises the amount in the consolidated statement of profit or loss.

6.2.2 Impairment of financial assets

Measurement of estimated credit losses involves estimates of loss given default and probability of default. Loss given default is an estimate of the loss arising in case of default by customer. Probability of default is an estimate of the likelihood of default in the future. The Group based these estimates using reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

6.2.3 Provision for credit losses

The Group reviews its loans to customers on a regular basis to assess whether a provision for credit losses should be recorded in the consolidated statement of profit or loss. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessary based on assumptions about several factors involving varying degrees of judgement and uncertainty, and actual results may differ resulting in future changes to such provisions.

6.2.4 Impairment of investment properties

The Group reviews the carrying amounts of its investment properties to determine whether there is any indication that those assets have suffered an impairment loss or indication that an impairment loss previously recognised may no longer exist in accordance with accounting policies stated in note 5.9 & note 5.16. The recoverable amount of an asset is determined based on higher of fair value and value in use.

6.2.5 Depreciation of investment properties and equipment

The Group's management determines the useful lives and related depreciation charges. The depreciation charge for the year will change significantly if actual life is different from the estimated useful life of the asset.

6.2.6 Fair value of financial instruments

Management apply valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (refer note 35).

7. Subsidiary companies

7.1 Details of the Group's consolidated subsidiaries at the end of the reporting period are as follows:

Name of the subsidiary	Country of incorporation	Ownership percentage 31 Dec. 2021 %	Ownership percentage 31 Dec. 2020 %	Principal activity
Mar-Gulf Management Inc.	USA	**100.00**	100.00	Assets management
Markaz First Management and Economic Consultancy Company - KSCC	Kuwait	**94.94**	95.00	Economic consultancy
Markaz Arabian Fund (note 7.1)	Bahrain	**94.89**	69.40	Investment Fund
Markaz Fixed Income Fund	Kuwait	**80.65**	80.65	Investment Fund
MDI Management Limited	Cayman Islands	**66.66**	66.66	Property management
MDI Ventures Ltd	Cayman Islands	**50.00**	50.00	Property management
Markaz Offshore I Ltd.	Cayman Islands	**100.00**	100.00	Investment
Marmore Mena Intelligence Private Limited	India	**98.73**	98.73	Consultancy
Aradi Development Limited	Cayman Islands	**96.89**	96.89	Real Estate
Markaz Real Estate Investment Co. WLL	KSA	**100.00**	100.00	Real Estate
Rimal Venture Co. WLL	Bahrain	**100.00**	100.00	Assets management
Arab Gulf Real Estate Development Co. WLL	Kuwait	**99.85**	99.85	Real Estate
Bay View Real Estate Co. WLL	Kuwait	**99.85**	99.85	Real Estate
Boardwalk International Real Estate Co. WLL	Kuwait	**99.85**	99.85	Real Estate
Al Rihab Real Estate Development Co. WLL	Kuwait	**99.85**	99.85	Real Estate
Al Bandriya Real Estate Co. WLL	Kuwait	**99.85**	99.85	Real Estate
Azzuri Real Estate Co. WLL	Kuwait	**100.00**	100.00	Real Estate
Real Estate Options Co. LLC	UAE	**100.00**	100.00	Real Estate
Markaz European Development 1 SARL	Luxembourg	**68.37**	68.37	Real Estate
Markaz Development 3	Cayman Islands	**62.64**	62.64	Real Estate
Markaz Gulf Real Estate Fund (note 7.1)	Kuwait	**50.38**	48.45	Real Estate Fund

7.1.1 The ownership of Markaz Arabian Fund increased by 25.49% (31 December 2020: increased by 0.09%) and Markaz Gulf Real Estate Fund increased by 1.93% due to changes in units owned by non-controlling interests holders as a result of subscription and redemption of the fund's units. These changes in the ownership resulted in a net loss of KD786 thousand (31 December 2020: net loss of KD 12 thousand) which was included in the consolidated statement of changes in equity.

7.1.2 Consolidation of a fund

During the last year, the Group obtained the control in one of its real estate funds (Markaz Gulf Real Estate Fund) which was previously recognised as financial assets at FVTPL. Accordingly, during the year, the Group has consolidated financial statements of this fund in the consolidated financial statements of the Group, as of 31 December 2020.

Notes to the Consolidated Financial Statements (continued)

7. Subsidiary companies (continued)

7.1.2 Consolidation of a fund (continued)

Summarised financial information of the above newly consolidated subsidiary is as follows:

	KD '000
Fair value of the existing investments	9,599
Value of non-controlling interests	10,213
	19,812
Less: recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	195
Investment properties	19,994
Accounts receivables and other assets	112
Accounts payable and other liabilities	(489)
Total identifiable net assets	19,812
Gain/(bargain purchase) on acquisition of subsidiary	-

For the purpose of the consolidated statement of cash flows, the net cash inflow on acquisition of these subsidiaries is KD 483 thousand. No impact to the consolidated statement of profit or loss from the above newly consolidated subsidiary since it's consolidated as of 31 December 2020.

The initial accounting for the business combination was completed during the last year based on acquisition-date fair values of the assets acquired and the liabilities assumed.

Markaz Gulf Real Estate Fund didn't recognised any revenue or expenses during the last year since it's consolidated as of 31 December 2020. If the acquisition had taken place on 1 January 2020, the Group revenue for the period would have been higher by KD 1,049 thousand and loss would have been lower by KD 1,404 thousand.

7.2 Subsidiaries with material non-controlling interests

The Group includes four subsidiaries, with material non-controlling interests (NCI):

Name	Proportion of ownership interests and voting rights held by the NCI		Profit/(loss) allocated to NCI		Accumulated NCI	
	31 Dec. 2021 %	31 Dec. 2020 %	**31 Dec. 2021 KD '000**	31 Dec. 2020 KD '000	**31 Dec. 2021 KD '000**	31 Dec. 2020 KD '000
Arab Gulf Real Estate Development Co. WLL	**0.15**	0.15	**700**	165	**5,327**	4,514
Bay View Real Estate Co. WLL	**0.15**	0.15	**385**	(877)	**5,210**	4,638
Al Rihab Real Estate Development Co. WLL	**0.15**	0.15	**185**	102	**4,017**	4,274
Markaz Arabian Fund	**5.11**	30.60	**150**	(91)	**557**	3,643
Markaz Gulf Real Estate Fund	**49.62**	51.55	**315**	-	**9,243**	10,214
Individually immaterial subsidiaries with non-controlling interests			**6**	25	**6,875**	7,285
			1,741	(676)	**31,229**	34,568

KD 883 thousand was paid as dividend to the NCI during the year (31 December 2020: KD 177 thousand).

Summarised financial information for the above subsidiaries, before intragroup eliminations, is set out below:

	31 Dec. 2021					31 Dec. 2020				
	Arab Gulf Real Estate KD '000	Bay View Real Estate KD '000	Al Rihab Real Estate KD '000	Markaz Arabian Fund KD '000	Markaz Gulf Real Estate Fund KD '000	Arab Gulf Real Estate KD '000	Bay View Real Estate KD '000	Al Rihab Real Estate KD '000	Markaz Arabian Fund KD '000	Markaz Gulf Real Estate Fund KD '000
Non-current assets	10,207	15,199	9,436	-	18,463	14,394	15,559	9,620	-	19,994
Current assets	1,165	620	338	11,113	1,135	1,483	478	728	11,966	957
Total assets	11,372	15,819	9,774	11,113	19,598	15,877	16,037	10,348	11,966	20,951
Liabilities	(440)	(8,362)	(396)	(210)	(971)	(6,361)	(8,411)	(260)	(61)	(1,138)
Total liabilities	(440)	(8,362)	(396)	(210)	(971)	(6,361)	(8,411)	(260)	(61)	(1,138)
Equity attributable to the owners of the Parent Company	5,605	2,247	5,361	10,346	9,384	5,002	2,988	5,814	8,262	9,599
Non-controlling interests (including shareholder loans)	5,327	5,210	4,017	557	9,243	4,514	4,638	4,274	3,643	10,214
Total equity	10,932	7,457	9,378	10,903	18,627	9,516	7,626	10,088	11,905	19,813

Notes to the Consolidated Financial Statements (continued)

7. Subsidiary companies (continued)

7.2 Subsidiaries with material non-controlling interests (continued)

Summarised financial information for the above subsidiaries, before intragroup eliminations, is set out below:

	31 Dec. 2021					31 Dec. 2020			
	Arab Gulf Real Estate KD '000	Bay View Real Estate KD '000	Al Rihab Real Estate KD '000	Markaz Arabian Fund KD '000	Markaz Gulf Real Estate Fund KD '000	Arab Gulf Real Estate KD '000	Bay View Real Estate KD '000	Al Rihab Real Estate KD '000	Markaz Arabian Fund KD '000
Revenue	1,014	414	684	3,409	1,341	1,811	611	518	(54)
Profit/(loss) for the year attributable to the owners of the Parent Company	736	166	244	2,780	321	175	(388)	137	(205)
Profit/(loss) for the year attributable to NCI	700	385	185	150	315	165	(877)	102	(91)
Profit/(loss) for the year	1,436	551	429	2,930	636	340	(1,265)	239	(296)
Total other comprehensive (loss)/income	(19)	(6)	(27)	9	(25)	3	5	9	3
Total comprehensive income/ (loss) for the year	1,417	545	402	2,939	611	343	(1,260)	248	(293)
Total comprehensive income/ (loss) for the year attributable to the owners of the Parent Company	726	164	229	2,789	308	177	(387)	142	(203)
Total comprehensive income/ (loss) for the year attributable to NCI	691	381	173	150	303	166	(873)	106	(90)
Total comprehensive income/ (loss) for the year	1,417	545	402	2,939	611	343	(1,260)	248	(293)

	31 Dec. 2021					31 Dec. 2020			
	Arab Gulf Real Estate KD '000	Bay View Real Estate KD '000	Al Rihab Real Estate KD '000	Markaz Arabian Fund KD '000	Markaz Gulf Real Estate Fund KD '000	Arab Gulf Real Estate KD '000	Bay View Real Estate KD '000	Al Rihab Real Estate KD '000	Markaz Arabian Fund KD '000
Net cash from/(used in) operating activities	113	(153)	604	3,727	(5,313)	407	(183)	452	(778)
Net cash from/(used in) investing activities	5,211	1,144	-	-	7,183	978	(116)	(6)	-
Net cash (used in)/from financing activities	(5,596)	(864)	(1,012)	(3,911)	(1,634)	(390)	313	(76)	(14)
Net cash (outflow)/inflow	(272)	127	(408)	(184)	236	995	14	370	(792)

8. Interest income

	Year ended 31 Dec. 2021 KD '000	Year ended 31 Dec. 2020 KD '000
On financial assets at amortised cost:		
- Time deposits	40	20
- Loans to customers	10	12
- Investments carried at amortised cost	174	217
On financial assets at fair value through profit or loss	228	266
On investments at fair value through OCI	25	37
	477	552

9. Management fees and commission income

Management fees and commission relate to income arising from the Group's management of portfolios, funds, custody and similar trust, fiduciary activities and advisory services.

10. Gain/(loss) from financial assets at fair value through profit or loss

	Year ended 31 Dec. 2021 KD '000	Year ended 31 Dec. 2020 KD '000
Change in fair value of financial assets at fair value through profit or loss	13,370	(1,820)
Gain/(loss) on sale of financial assets at fair value through profit or loss	2,127	(257)
	15,497	(2,077)

11. General and administrative expenses

	Year ended 31 Dec. 2021 KD '000	Year ended 31 Dec. 2020 KD '000
Staff costs	6,128	4,788
Depreciation and amortisation	1,922	1,628
Other expenses	3,380	3,641
	11,430	10,057

12. Finance costs

	Year ended 31 Dec. 2021 KD '000	Year ended 31 Dec. 2020 KD '000
On financial liabilities at amortised cost:		
- Bonds issued	2,072	1,172
- Bank borrowings	558	1,449
- Related party borrowing	-	8
- Lease Liabilities	25	29
	2,655	2,658

Notes to the Consolidated Financial Statements (continued)

13. Basic and diluted earnings/(loss) per share attributable to the owners of the Parent Company

Basic and diluted earnings/(loss) per share attributable to the owners of the Parent Company is calculated by dividing the profit/(loss) for the year attributable to the owners of the Parent Company by the weighted average number of shares outstanding and in issue during the year (excluding treasury shares).

	Year ended 31 Dec. 2021	Year ended 31 Dec. 2020
Profit/(loss) for the year attributable to the owners of the Parent Company (KD '000)	**14,988**	(1,715)
Weighted average number of shares outstanding and in issue during the year (excluding treasury shares)	**478,201,747**	478,201,747
Basic and diluted earnings/(loss) per share attributable to the owners of the Parent Company	**31 Fils**	(4) Fils

14. Cash and cash equivalents

Cash and cash equivalents included in the consolidated statement of cash flows comprise of the following accounts:

	31 Dec. 2021 KD '000	31 Dec. 2020 KD '000
Cash and bank balances	**10,497**	9,951
Time deposits	**106**	9,483
	10,603	19,434
Due to banks	**(457)**	(649)
Less: Time deposits maturing after three months	**(99)**	(60)
Cash and cash equivalent for the purpose of consolidated statement of cash flows	**10,047**	18,725

The Group's time deposits carry an average effective interest rate of 0.84% (31 December 2020: 1.14%) per annum.

The total unsecured overdraft facilities available to the Group from local commercial banks which carries interest rate at 1.50% to 2.25% above Central Bank of Kuwait discount rate were KD 5,000 thousand (31 December 2020: KD 5,500 thousand) out of which the Group has drawn an amount of KD 457 thousand as at 31 December 2021 (31 December 2020: KD 649 thousand).

15. Accounts receivable and other assets

	31 Dec. 2021 KD '000	31 Dec. 2020 KD '000
Management fees and commission receivable	**3,093**	2,306
Prepayments and advances	**695**	583
Interest receivable	**120**	107
Insurance claim receivable (note 38)	**1,345**	1,980
Other receivables	**1,500**	1,687
	6,753	6,663

The average credit period on management fees and commission receivable is 30-90 days. No interest is charged on outstanding receivables. Receivables are written off (i.e. derecognised) when there is no reasonable expectation of recovery.

Management fees and commission receivable comprise of:

	31 Dec. 2021 KD '000	31 Dec. 2020 KD '000
Neither past due nor impaired	2,269	1,403
Past due but not impaired	824	903
	3,093	2,306

Aging of past due but not impaired balances:

	31 Dec. 2021 KD '000	31 Dec. 2020 KD '000
0 to 90 days	265	370
90 to 180 days	51	89
Above 180 days	508	444
	824	903

The Group has determined that the ECL allowance for management fees and commission receivable from clients and other receivables that are financial assets is not material.

16. Loans to customers

	31 Dec. 2021 KD '000	31 Dec. 2020 KD '000
Personal loans*	1,115	994
Provision for credit losses	(490)	(489)
	625	505

*The interest rate on personal loans ranged from 1.50% to 10.00% (31 December 2020: 1.50% to 10.00%) per annum. All loans are denominated in KD or US Dollars.

The maturity profile of loans to customers is as follows:

	31 Dec. 2021 KD '000	31 Dec. 2020 KD '000
Between one month and six months	-	3
Between six months and one year	13	10
Over one year	618	497
Non-performing loans	484	484
	1,115	994

Provision for credit losses is made in accordance with Central Bank of Kuwait requirements. The total non-performing loans which have been fully provided amounts to KD484 thousand (31 December 2020: KD484 thousand). The remaining loans to customers of KD631thousand are performing and are to staff where their indemnity balances exceed the loans balances outstanding.

Notes to the Consolidated Financial Statements (continued)

17. Financial assets at fair value through profit or loss

	31 Dec. 2021 KD '000	31 Dec. 2020 KD '000
Local quoted securities	**2,627**	3,844
Foreign quoted securities	**21,575**	18,958
Local managed funds	**48,150**	38,645
Foreign managed funds	**13,540**	13,528
Fixed income securities	**5,328**	5,066
Equity participation	**20,398**	10,060
	111,618	90,101

The interest rates on fixed income securities range from 2.625% to 7.625% (31 December 2020: 2.375% to 7.625%) per annum.

18. Financial assets at amortised cost

This represent foreign debt instruments amounting to KD2,167 thousand (31 December 2020: KD136 thousand) carrying interest rate ranged from 8% to 13% per annum (31 December 2020: 13% per annum). During the year, an investment in sukuk, a debt instrument carrying profit rate of 2% above Central Bank of Kuwait discount rate was fully redeemed (31 December 2020: KD4,852 thousand).

19. Investment in associate and joint venture

	31 Dec. 2021 KD '000	31 Dec. 2020 KD '000
Investment in associate	**1,764**	1,610
Investment in joint venture	**1,111**	1,805
	2,875	3,415

19.1 The details of the Group's investment in associate and joint venture are as follows:

Company name	Investment classification	Principal Activities	Place of incorporation	31 Dec. 2021 %	31 Dec. 2020 %
First Equilease for Equipment and Transportation Company - KSCC (Unquoted)	Investment in associate	Transportation and Renting	Kuwait	**17.24**	17.24
MZES Gayrimenkul Alim Satim Company (Unquoted)	Investment in joint venture	Real Estate	Turkey	**50**	50

19.2 The movement of investment in associate and joint venture during the year are as follows:

	First Equilease		MZES	
	31 Dec. 2021 KD '000	31 Dec. 2020 KD '000	**31 Dec. 2021 KD '000**	31 Dec. 2020 KD '000
Carrying value at the beginning of the year	**1,610**	1,704	**1,805**	1,890
Additions during the year	**-**	-	**-**	38
Share of results of associate/joint venture	**156**	(94)	**(145)**	1
Share of other comprehensive loss	**(2)**	-	**(549)**	(124)
	1,764	1,610	**1,111**	1,805
Non-current assets	**873**	818	**2,062**	3,362
Current assets	**9,828**	8,958	**168**	251
Non-current liabilities	**(75)**	(78)	**-**	-
Current liabilities	**(112)**	(81)	**(8)**	(3)
Non-controlling interests	**(281)**	(277)	**-**	-
Equity attributable to the owners of the Parent Company	**10,233**	9,340	**2,222**	3,610
Revenue	**1,897**	764	**-**	-
Profit/(loss) for the year	**906**	(545)	**(290)**	2
Other comprehensive loss for the year	**(7)**	-	**(1,098)**	(248)

Reconciliation of the above summarised financial information of the associate and joint venture with the carrying amount in the consolidated statement of financial position is given below:

	First Equilease		MZES	
	31 Dec. 2021 KD '000	31 Dec. 2020 KD '000	**31 Dec. 2021 KD '000**	31 Dec. 2020 KD '000
Net assets of the associate and joint venture	**10,233**	9,340	**2,222**	3,610
Group's ownership interest	**17.24%**	17.24%	**50%**	50%
Group's share of net assets	**1,764**	1,610	**1,111**	1,805
Carrying amount	**1,764**	1,610	**1,111**	1,805

The Group has accounted for its share of results of associate and joint venture using unaudited management accounts as at 31 December 2021.

The above associate and joint venture are private companies therefore quoted market prices are not available.

Notes to the Consolidated Financial Statements (continued)

20. Investment properties

The movement in investment properties is as follows:

31 December 2021	Free hold lands KD '000	Projects under development KD '000	Lands & buildings KD '000	Total KD '000
Cost				
At 1 January 2021	4,081	3,812	69,554	77,447
Additions	-	8,216	135	8,351
Disposals	-	-	(7,086)	(7,086)
Transfer to assets held for sale	(2,090)	-	-	(2,090)
(Impairment)/reversal charged (net)	(237)	-	1,959	1,722
Foreign currency adjustment	(21)	(9)	(166)	(196)
At 31 December 2021	1,733	12,019	64,396	78,148
Accumulated depreciation				
At 1 January 2021	-	-	(2,046)	(2,046)
Charge for the year	-	-	(1,254)	(1,254)
Relating to disposals	-	-	237	237
Foreign currency adjustment	-	-	7	7
At 31 December 2021	-	-	(3,056)	(3,056)
Net book value				
At 31 December 2021	1,733	12,019	61,340	75,092

31 December 2020	Free hold lands KD '000	Projects under development KD '000	Lands & buildings KD '000	Total KD '000
Cost				
At 1 January 2020	3,996	1,810	50,598	56,404
Additions	-	258	-	258
Result of consolidation of SPV	-	3,812	-	3,812
Result of consolidation of fund (refer note 7.1.2)	-	-	19,994	19,994
Transfers	-	(2,068)	2,068	-
Disposals	-	-	(1,025)	(1,025)
Impairment	(11)	-	(2,061)	(2,072)
Foreign currency adjustment	96	-	(20)	76
At 31 December 2020	4,081	3,812	69,554	77,447
Accumulated depreciation				
At 1 January 2020	-	-	(1,148)	(1,148)
Charge for the year	-	-	(933)	(933)
Relating to disposals	-	-	35	35
At 31 December 2020	-	-	(2,046)	(2,046)
Net book value				
At 31 December 2020	4,081	3,812	67,508	75,401

At 31 December 2021, the fair value of the investment properties is KD92,727 thousand (31 December 2020: KD82,455 thousand). Investment properties were revalued by independent evaluators using number of assumptions, including estimated rental revenues, capitalization yields, historical transactions, market knowledge, occupancy rates and cost of construction. The fair value is classified under level 2. In estimating the fair value of investment properties, the highest and best use as their current use. There has been no change to the valuation technique during the year.

During the year, the Group recognised a net reversal of impairment losses of KD1,722 thousand (31 December 2020: impairment loss KD2,072 thousand) in respect of certain investment properties.

During the year, the Group sold certain investment properties in GCC for aggregate sale consideration of KD7,183 thousand and realised a gain of KD334 thousand.

During the year, the Group has transferred one of its investment properties with a carrying value of KD2,090 thousand to assets held for sale category, upon meeting the criteria for recognition as non-current assets held for sale. The Group recognised an impairment losses of KD237 thousand in respect of this investment property when transferred to assets held for sale. Subsequently the Group sold this property for sale consideration of KD2,228 thousand and realised a gain of KD138 thousand.

The rental income earned from the investment properties amounts to KD4,600 thousand (31 December 2020: KD3,300 thousand) and related direct operating expenses incurred amounts to KD1,121 thousand (31 December 2020: KD872 thousand).

Investment properties with a carrying value of KD31,125 thousand (31 December 2020: KD23,158 thousand) are secured against bank borrowings (note 22).

The Groups investment properties are located as below:

	31 Dec. 2021 KD '000	31 Dec. 2020 KD '000
North America	**12,019**	3,812
GCC	**63,073**	71,589
	75,092	75,401

21. Accounts payable and other liabilities

	31 Dec. 2021 KD '000	31 Dec. 2020 KD '000
Accrued expenses	**4,913**	2,776
Post-employment benefits	**3,718**	3,495
Dividend payable	**399**	446
Payable to contractors	**1,303**	606
Lease liability	**1,159**	353
Other liabilities	**3,585**	2,623
	15,077	10,299

Notes to the Consolidated Financial Statements (continued)

22. Bank borrowings

This represents following bank borrowings:

a. Unsecured loans facilities amounting to KD15,000 thousand obtained from local commercial banks carry an interest rate of 2% above Central Bank of Kuwait discount rate (31 December 2020: KD14,000 thousand). Outsatnding balance of these facilities as of 31 December 2021 amounted to KD9,000 thousand (31 December 2020: Nil).

b. Two unsecured Murabaha facilities amounting to KD10,000 thousand obtained from local Islamic banks with a profit rate of 1.75% to 2% above Central Bank of Kuwait discount rate. Outstanding balance of these facilities as at 31 December 2021 amounted to KD1,500 thousand (31 December 2020: Nil). Also, one unsecured Murabaha facility of USD20,000 thousand equivalents to KD6,050 thousand was obtained from a local Islamic bank with a profit rate of 2% above 6 months LIBOR. No facility availed as of 31 December 2021 (31 December 2020: Nil).

c. Two secured loan facilities amounting to AED142,350 thousand equivalents to KD11,725 thousand obtained from a foreign commercial bank which carry an interest rate of 2.75% above 3 month EIBOR. Outstanding balance of these loan facilities as at 31 December 2021 amounted to AED114,819 thousand equivalents to KD9,458 thousand (31 December 2020: AED126,448 thousand equivalents to KD10,442 thousand). These facilities are secured by certain foreign investment properties.

d. An unsecured loan facility amounting to USD18,500 thousand equivalents to KD5,596 thousand obtained from a local commercial bank carrying interest rate of 2.75% above 3 months LIBOR was settled during the year and the facility was closed (31 December 2020: USD18,500 thousand equivalent KD5,610 thousand).

e. A revolving credit facility amounting to USD10 million equivalents to KD3,025 thousand was approved from a foreign commercial bank which carries an interest rate of 1.52% per annum. Outstanding balance of this loan facility as at 31 December 2021 amounted to US120 thousand equivalents to KD36 thousand (31 December 2020: Nil).

f. A secured loan facility amounting to USD37,161 thousand equivalents to KD11,241 thousand obtained by a foreign subsidiary from a foreign commercial bank for awhich carry an interest rate of 2.38% above 1 month LIBOR. Outstanding balance of this loan facility as at 31 December 2021 amounted to USD17,476 thousand equivalents to KD5,286 thousand (31 December 2020: Nil). This facility is secured by certain foreign investment properties.

g. An unsecured loan facility of USD16,585 thousand equivalents to KD5,017 thousand obtained from a local commercial bank carrying an interest rate of 2.75% above 3 months LIBOR repayable on every 9 months was settled during the year and the facility was closed (31 December 2020: USD16,585 thousand equivalents to KD5,029 thousand).

Reconciliation of liabilities arising from financing activities

	31 Dec. 2021 KD '000	31 Dec. 2020 KD '000
Opening balance	**21,081**	41,632
Proceeds from bank borrowings	**15,823**	5,919
Repayment of bank borrowings	**(11,600)**	(26,480)
Effect of change in foreign exchange rates	**(24)**	10
Closing balance	**25,280**	21,081

23. Bonds issued

a. On 26 December 2016, the Parent Company issued unsecured debenture bonds in the principle amount of KD25,000 thousand as follows:
- KD13,550 thousand with a fixed rate of 5% payable quarterly in arrears maturing on 26 December 2021. On 20 December 2020 the Parent Company repurchased an amount of KD4,750 thousand out of these bonds. On 26 December 2021 the Parent Company repaid the outstanding balance of KD8,800 thousand upon maturity (31 December 2020: KD13,350 thousand).
- KD11,450 thousand with variable rate of 2.25%, above Central Bank of Kuwait Discount rate, which is payable quarterly in arrears maturing on 26 December 2021. On 20 December 2020 the parent Company repurchased an amount of KD10,900 thousand out of these bonds. On 26 December 2021 the parent Company repaid KD550 thousand upon maturity (31 December 2020: KD11,450 thousand).

b. On 20 December 2020, the Parent Company issued unsecured debenture bonds in the principle amount of KD35,000 thousand as follows:
- KD17,500 thousand with a fixed rate of 4.75% payable quarterly in arrears maturing on 20 December 2025.
- KD17,500 thousand with variable rate of 3%, above Central Bank of Kuwait Discount rate, capped at 5.5%, which is payable quarterly in arrears maturing on 20 December 2025.

24. Share capital and share premium

a. Share capital

	31 Dec. 2021 KD '000	31 Dec. 2020 KD '000
Authorised: 480,801,747 shares of 100 Kuwaiti Fils each	**48,080**	48,080
Issued and fully paid: 480,801,747 shares of 100 Kuwaiti Fils each	**48,080**	48,080

b. Share premium

Share premium is not available for distribution.

25. Treasury shares

	31 Dec. 2021	31 Dec. 2020
Number of shares	**2,600,000**	2,600,000
Percentage of issued shares	**0.54%**	0.54%
Market value (KD '000)	**471**	213
Cost (KD'000)	**260**	260

Reserves of the Parent Company equivalent to the cost of the treasury shares have been earmarked as non-distributable.

26. Reserves

The Companies Law and the Parent Company's Articles of Association require 10% of the profit for the year attributable to the owners of the Parent Company before KFAS, NLST, Zakat and Directors' remuneration is transferred to the statutory reserve. The shareholders of the Parent Company may resolve to discontinue such annual transfer when the reserve totals 50% of the paid-up share capital.

Distribution of statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in years when retained earnings are not sufficient for the payment of a dividend of that amount.

Notes to the Consolidated Financial Statements (continued)

26. Reserves (continued)

According to the Parent Company's Articles of Association and the Companies Law, 10% of the profit for the year attributable to the owners of the Parent Company before KFAS, NLST, Zakat and Directors' remuneration is transferred to the voluntary reserve.

No transfer to reserves is required in a year in which the Group has incurred a loss or where cumulative losses exist.

27. Other components of equity

	Fair value reserve KD '000	Foreign currency translation reserve KD '000	Total KD '000
Balance at 1 January 2021	**88**	**258**	**346**
Financial assets at fair value through other comprehensive income:			
- Net change in fair value arising during the year	**(88)**	**-**	**(88)**
Exchange differences arising on translation of foreign operations	**-**	**(266)**	**(266)**
Share of other comprehensive loss of associate and joint venture	**-**	**(551)**	**(551)**
Total other comprehensive loss	**(88)**	**(817)**	**(905)**
Balance at 31 December 2021	**-**	**(559)**	**(559)**
Balance at 1 January 2020	(174)	371	197
Financial assets at fair value through other comprehensive income:			
- Net change in fair value arising during the year	262	-	262
Exchange differences arising on translation of foreign operations	-	11	11
Share of other comprehensive loss of associate and joint venture	-	(124)	(124)
Total other comprehensive income/(loss)	262	(113)	149
Balance at 31 December 2020	88	258	346

28. Proposed dividends and Annual General Assembly

The Board of Directors of the Parent Company has proposed a cash dividend of 10 Fils per share amounting to KD4,782 thousand and bonus shares of 5% (5 shares for every 100 shares) for the year ended 31 December 2021. The proposed dividend and bonus shares are subject to the approval of shareholders at the Parent Company's Annual General Assembly.

The shareholders of the Parent Company at the Annual General Assembly held on 22 March 2021 approved the consolidated financial statements of the Group for the year ended 31 December 2020 and approved the Board of Directors proposal of not to distribute any divided for the year ended 31 December 2020.

Also, refer note 29 about the key management compensation.

29. Related party transactions

Related parties represent associate, major shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management. Details of transactions between the Group and other related parties are disclosed below.

During the year, the Group entered into the following transactions with related parties.

	Year ended 31 Dec. 2021 KD '000	Year ended 31 Dec. 2020 KD '000
Transactions included in the consolidated statement of profit or loss:		
Interest income on loans to customers	**2**	4
Interest income on financial assets at amortised cost	**70**	23
Management fees and commission	**6,543**	5,547
Finance costs	**-**	(8)

	Year ended 31 Dec. 2021 KD '000	Year ended 31 Dec. 2020 KD '000
Key management compensation:		
Salaries and other short-term benefits (note 29 c)	**1,159**	801
End of service benefits	**93**	141
Audit committee fees	**15**	15
Board of Directors' remuneration (note 29 b)	**175**	-
	1,442	957

a. Pursuant to decision issued by the Capital Markets Authority of Kuwait Disciplinary Board, the Parent Company collected back 2019 bonus paid in 2020 from all key management personnel except those who had retired prior to the decision. Thereafter, the Annual General Assembly held on 22 March 2021 approved 2019 bonus amounting to KD482 thousand to the key management personnel. Accordingly, the Parent Company has paid the approved bonus to the key management personnel during the year. Consequently, there is no impact on the audited consolidated financial statement for the year ended 31 December 2021.

b. Subject to the requisite consent of the relevant authorities and approval from the general assembly, the Parent Company's Board of Directors propose a total amount of KD175 thousand as remuneration to the Parent Company's Board of Directors for the year ended 31 December 2021.

c. Salaries and other short-term benefits include provision for variable compensation which may slightly vary from the amounts included above between the date of issuance of these financial statements and the date of 2021 Annual General Meeting date. The amount of variation is not expected to be material.

	31 Dec. 2021 KD '000	31 Dec. 2020 KD '000
Balances included in the consolidated statement of financial position:		
Loans to customers	**81**	127
Financial assets at amortised cost	**2,167**	136
Accounts receivable and other assets	**2,478**	1,717
Accounts payable and other liabilities	**1,464**	1,596

Related party contingent liabilities KD 24 thousand.

Notes to the Consolidated Financial Statements (continued)

30. Segmental information

Operating segments are identified based on internal management reporting information that is regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance, and is reconciled to Group's profit or loss.

The Group's business segments are summarised into Asset Management and Investment Banking.

Asset Management segment includes GCC and MENA investments, International investments, Private equity and Real Estate.

Investment Banking segment includes Corporate finance & advisory, Oil and gas, Treasury, Loans and structured finance and derivatives.

The revenues and profits generated from, and assets and liabilities allocated to, Group's business segments are as follows:

	Asset Management		Investment Banking		Total	
	31 Dec. 2021 KD '000	31 Dec. 2020 KD '000	**31 Dec. 2021 KD '000**	31 Dec. 2020 KD '000	**31 Dec. 2021 KD '000**	31 Dec. 2020 KD '000
Segment revenue	**28,555**	10,525	**2,087**	2,636	**30,642**	13,161
Segment result	**17,352**	(3,043)	**258**	652	**17,610**	(2,391)
Provisions for KFAS, NLST, Zakat and Board of Directors' remuneration	**(696)**	-	**(185)**	-	**(881)**	-
Profit/(loss) for the year	**16,656**	(3,043)	**73**	652	**16,729**	(2,391)
Total assets	**194,193**	173,115	**17,373**	29,058	**211,566**	202,173
Total liabilities	**66,281**	64,576	**9,533**	11,803	**75,814**	76,379
Interest income	**136**	104	**341**	448	**477**	552
Finance costs	**(2,501)**	(2,270)	**(154)**	(388)	**(2,655)**	(2,658)
Depreciation and amortisation	**(1,442)**	(1,211)	**(480)**	(417)	**(1,922)**	(1,628)
Reversal/(impairment) of investment properties (net)	**1,722**	(2,072)	**-**	-	**1,722**	(2,072)
Purchase of equipment	**(46)**	(57)	**(116)**	(210)	**(162)**	(267)
Addition to investment properties	**(8,351)**	(258)	**-**	-	**(8,351)**	(258)

Segment income above represents income generated from external customers. There was no inter-segment income during the year and previous year.

For the purposes of monitoring segment performance and allocating resources between segments:
- There are no assets used jointly by any reportable segment.
- There are no liabilities for which any segment is jointly liable

31. Fiduciary accounts

The Group manages portfolios on behalf of others, mutual funds and maintains cash balances and securities in fiduciary accounts, which are not reflected in the consolidated statement of financial position. Assets under management at 31 December 2021 amounted to KD1,041,187 thousand (31 December 2020: KD978,666 thousand) which includes related party assets under management at 31 December 2021 amounted to KD457,330 thousand (31 December 2020: KD388,034 thousand). The Group earned management fee of KD8,789 thousand (31 December 2020: KD7,519 thousand) from the asset management activities.

32. Commitments

	31 Dec. 2021 KD '000	31 Dec. 2020 KD '000
Commitments for purchase of investments	**1,686**	2,073
Commitments for investment properties	**6,681**	14,600
Unsold borrowed equity securities	**2,260**	-
Commitments to related party	**24**	-
	10,651	16,673

33. Forward foreign exchange contracts

The contractual amounts of out-standing derivative instruments together with the fair value are as follows:

	31 Dec.2021		31 Dec.2020	
	Contractual amounts KD'000	Assets/ (liabilities) KD'000	Contractual amounts KD'000	Assets/ (liabilities) KD'000
Forward foreign exchange contracts	**10,617**	**(31)**	10,665	101

34. Risk management objectives and policies

The Group's activities expose it to variety of financial risks: market risks (including foreign currency risk, interest and profit rate risk, and equity price risk), credit risk and liquidity risk.

The Board of Directors of the Parent Company is ultimately responsible for setting out risk strategies and objectives and policies for their management. The Group's risk management is carried out by the central risk management function and focuses on actively securing the Group's short to medium term cash flows by minimizing the potential adverse effects on the Group's financial performance through internal risk reports which analyse exposures by degree and magnitude of risks. Long term financial investments are managed to generate lasting returns.

The most significant financial risks to which the Group is exposed to are described below:

34.1 Market risk

a. Foreign currency

The Group mainly operates in the GCC, USA and other Middle Eastern countries and is exposed to foreign currency risk arising from various foreign currency exposures, primarily with respect to US Dollar, Saudi Riyals, Euro and others. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

To mitigate the Group's exposure to foreign currency risk, non-Kuwaiti Dinar cash flows are monitored and forward exchanged contracts are entered into in accordance with the Group's risk management policies. Generally, the Group's risk management procedures distinguish short-term foreign currency cash flows (due within twelve months) from longer-term cash flows. Where the amounts to be paid and received in specific currency are expected to largely offset one another, no further hedging activity is undertaken. Forward foreign contracts are mainly entered into for significant long-term foreign currency exposures that are not expected to be offset by other currency transactions.

Notes to the Consolidated Financial Statements (continued)

34. Risk management objectives and policies (continued)

34.1 Market risk (continued)

a. Foreign currency (continued)

The Group had the following significant exposures denominated in foreign currencies, translated into Kuwaiti Dinar at the closing rate at year end:

	31 Dec. 2021 KD'000	31 Dec. 2020 KD '000
US Dollar	**49,756**	40,855
Saudi Riyals	**4,902**	4,811
Euro	**13,604**	5,172
Others	**2,109**	1,904

Foreign currency sensitivity is determined based on 2% (31 December 2020: 2%) increase or decrease in exchange rate. These has been no change during the year in the methods and assumptions used in preparing the sensitivity analysis.

If the Kuwaiti Dinar had strengthened/weakened against the foreign currencies assuming the sensitivity given in the table below, then this would have the following impact on the profit/(loss) for the year:

	31 Dec. 2021		31 Dec. 2020	
	+ 2% KD '000	**- 2% KD '000**	+ 2% KD '000	- 2% KD '000
Profit/(loss) for the year	**(1,397)**	**1,397**	(1,045)	1,045

Exposures to foreign exchange rates vary during the year depending on the volume and nature of the transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to foreign currency risk.

b. Interest and profit rate risk

Interest and profit rate risk arise from the possibility that changes in interest and profit rates will affect future profitability or the fair values of financial instruments. The Group is exposed to interest and profit rate risk principally on its deposits, investments, bonds and bank borrowings which carry interest and profit at commercial rates. The Board has established levels of interest and profit rate risk by setting limits on the interest and profit rate gaps for stipulated periods.

Interest and profit rate sensitivity is determined based on 1% (31 December 2020: 1%) increase or decrease in interest and profit rate. These has been no change during the year in the methods and assumptions used in preparing the sensitivity analysis.

If Interest and profit rate had increased/decreased assuming the sensitivity given in the table below, then this would have the following impact on the profit/(loss) for the year:

	31 Dec. 2021		31 Dec. 2020	
	+ 1% KD '000	**- 1% KD '000**	+ 1% KD'000	-1% KD'000
Profit/(loss) for the year	**(305)**	**305**	(495)	495

Provisions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

c. Equity price risk

This is a risk that the value of financial instruments will fluctuate as a result of changes in market prices, whether these changes are caused by factors specific to individual instrument or its issuer or factors affecting all instruments, traded in the market. The Group is exposed to equity price risk with respect to its listed equity investments which are primarily located in Kuwait, USA, and GCC. Equity investments are classified as “financial assets at fair value through profit or loss”.

To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits determined by the Group. There has been no change during the year in the methods and assumptions used in preparing the sensitivity analysis.

The equity price risk sensitivity is determined on the exposure to equity price risks at the reporting date. If equity prices had been 2% higher/lower, the effect on the profit/(loss) for the year would have been as follows:

	Profit/(loss) for the year	
	31 Dec. 2021 KD ‘000	31 Dec. 2020 KD ‘000
Financials assets at fair value through profit or loss	**±484**	±456

The Group’s sensitivity to equity price risk in regards to its unquoted investments cannot be reliably determined due to numerous uncertainties and non-available of reliable information to determine future price of such investments.

34.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group credit policy and exposure to credit risk is monitored on an ongoing basis. The Group seeks to avoid undue concentrations of risks with individuals or Groups of customers in specific locations or business through diversification of its activities. It also obtains security when appropriate.

The Group’s exposure to credit risk is limited to the carrying amounts of financial assets recognised at the date of the consolidated statement of financial position, as summarized below:

	31 Dec. 2021 KD ‘000	31 Dec. 2020 KD ‘000
Bank balances	**10,496**	9,949
Time deposits	**106**	9,483
Accounts receivable and other assets (excluding prepayment and advance payments)	**6,058**	6,080
Loans to customers	**625**	505
Financial assets at fair value through other comprehensive income	**-**	410
Financial assets at amortised cost	**2,167**	4,988
	19,452	31,415

Except for certain receivables and loans to customers referred to in note 15 and 16, none of the above financial assets are past due or impaired. The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group’s policy is to deal only with creditworthy counterparties. The Group’s management considers that all the above financial assets that are neither past due nor impaired for each of the reporting dates under review are of good credit quality.

Notes to the Consolidated Financial Statements (continued)

34. Risk management objectives and policies (continued)
34.2 Credit risk (continued)
In respect of receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty. Further details in relation to credit risk of receivables and loans to customers are disclosed in note 15 and 16 respectively. The Group's financial assets measured at amortised cost comprised of mortgaged note receivables and sukuk which are considered to be low credit risk investments. It is the Group's policy to measure such instruments on a 12-month ECL basis. However, the ECL provision on these balances are not material to the Group's consolidated financial statements. The credit risk for bank balances and time deposits is considered negligible, since the counterparties are reputable financial institutions with high credit quality and no history of default. Based on management assessment, the expected credit loss impact arising from such financial assets are insignificant to the Group as the risk of default has not increased significantly.

Information on other significant geographical concentrations of credit risk is set out in note 34.3.

34.3 Concentration of assets
The Group operates in different geographical areas. The distribution of financial assets which is exposed to credit risk by geographic region is as follows:

	31 Dec. 2021 KD '000	31 Dec. 2020 KD '000
Kuwait	**10,406**	21,907
North America	**5,050**	3,517
GCC	**3,057**	4,822
Europe	**806**	1,082
Others	**133**	87
	19,452	31,415

34.4 Liquidity risk
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The table below analyses the Group's financial liabilities based on the remaining period at the financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

31 December 2021	Upto 1 month KD '000	Upto 1-3 months KD '000	3-12 months KD '000	Above 1 year KD '000	Total KD '000	Weighted average effective interest/profit rate %
Financial liabilities						
Due to banks	457	-	-	-	457	
Accounts payable and other liabilities	3,010	5,188	2,240	921	11,359	
Bank borrowings	6,598	4,137	373	16,313	27,421	1.52% to 3.5%
Bonds issued	-	405	1,214	39,856	41,475	4.5% to 4.75%
	10,065	9,730	3,827	57,090	80,712	

31 December 2020	Upto 1 month KD '000	Upto 1-3 months KD '000	3-12 months KD '000	Above 1 year KD '000	Total KD '000	Weighted average effective interest/profit rate %
Financial liabilities						
Due to banks	649	-	-	-	649	
Accounts payable and other liabilities	2,472	2,085	2,181	66	6,804	
Bank borrowings	205	218	1,056	22,733	24,212	2.98% to 3.2%
Bonds issued	-	521	10,911	41,475	52,907	4.25% to 5%
	3,326	2,824	14,148	64,274	84,572	

Maturity profile of assets and liabilities at 31 December 2021:

	Within 1 year KD '000	Over 1 year KD '000	Total KD '000
Assets			
Cash and bank balances	10,497	-	10,497
Time deposits	23	83	106
Accounts receivable and other assets	6,225	528	6,753
Loans to customers	13	612	625
Financial assets at fair value through profit or loss	111,618	-	111,618
Financial assets at amortised cost	-	2,167	2,167
Investment in associate and joint venture	-	2,875	2,875
Investment properties	-	75,092	75,092
Right of use assets	-	1,104	1,104
Equipment	-	729	729
	128,376	83,190	211,566
Liabilities			
Due to banks	457	-	457
Accounts payable and other liabilities	10,438	4,639	15,077
Bank borrowings	10,649	14,631	25,280
Bonds issued	-	35,000	35,000
	21,544	54,270	75,814

Notes to the Consolidated Financial Statements (continued)

34. Risk management objectives and policies (continued)

34.4 Liquidity risk (continued)

Maturity profile of assets and liabilities at 31 December 2020:

	Within 1 year KD '000	Over 1 year KD '000	Total KD '000
Assets			
Cash and bank balances	9,951	-	9,951
Time deposits	9,483	-	9,483
Accounts receivable and other assets	6,636	27	6,663
Loans to customers	13	492	505
Financial assets at fair value through profit or loss	90,101	-	90,101
Financial assets at fair value through other comprehensive income	-	410	410
Financial assets at amortised cost	-	4,988	4,988
Investment in associate and joint venture	-	3,415	3,415
Investment properties	-	75,401	75,401
Right of use assets	-	328	328
Equipment	-	928	928
	116,184	85,989	202,173
Liabilities			
Due to banks	649	-	649
Accounts payable and other liabilities	6,739	3,560	10,299
Bank borrowings	850	20,231	21,081
Bonds issued	9,350	35,000	44,350
	17,588	58,791	76,379

34.5 Structured entities (Special Purpose Vehicle)

The Group has created certain Special Purpose Vehicles (SPVs) for the Group's asset management activities. These SPVs are used to raise funds from the Group's clients on the basis of product offering documents with eventual objectives of investments in specified asset classes as defined in the offering documents of the SPVs. These SPVs are managed on a fiduciary basis by the Group's asset management teams and as the Group does not control these SPVs as at the reporting date in accordance with the definition of control in IFRS 10, these SPVs are not consolidated into the Group's consolidated financial statements.

The Group's investments in SPV are subject to the terms and conditions of the respective SPV's offering documentation and, are susceptible to market price risk arising from uncertainties about future values of SPV's underlying assets.

The exposure to investments in SPVs at fair value, by strategy employed, is disclosed in the following table.

These investments are included in financial assets at fair value through profit or loss in the statement of consolidated financial position.

Funding Strategy	Type of activities	Number of SPVs	Fair value of Group's investment in SPVs KD '000	% of Net asset attributable to Group
Equity	Investment in real estate	**16** (31 December 2020: 11)	**15,688** (31 December 2020: 6,217)	**24.33%** (31 December 2020: 14.93%)

35. Fair value measurement and summary of financial assets & liabilities by category

35.1 Categories of financial assets and liabilities

The carrying amounts of the Group's financial assets and liabilities as stated in the consolidated statement of financial position are as follows:

	31 Dec. 2021 KD '000	31 Dec. 2020 KD '000
Financial assets:		
Financial assets at amortised cost:		
- Cash and bank balances	10,497	9,951
- Time deposits	106	9,483
- Accounts receivable and other assets (excluding prepayment and advance payments)	6,058	5,979
- Loans to customers	625	505
- Financial assets carried at amortised cost	2,167	4,988
Financial assets at fair value through profit or loss	111,618	90,101
Financial assets at fair value through other comprehensive income	-	410
Forward foreign exchange contracts		
- At fair value (included under accounts receivables and other assets)	-	101
Total financial assets	131,071	121,518
Financial liabilities:		
Financial liabilities at amortised cost:		
- Due to banks	457	649
- Accounts payable and other liabilities	11,328	6,804
- Bank borrowings	25,280	21,081
- Bonds issued	35,000	44,350
Forward foreign exchange contracts		
- At fair value (include under accounts payable and other liabilities)	31	-
Total financial liabilities	72,096	72,884

Management considers that the carrying amounts of financial assets and financial liabilities, which are stated at amortised cost, approximate their fair values.

35.2 Fair value hierarchy

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial assets and financial liabilities measured at fair value in the consolidated statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

Level 1: Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Fair value measurements are those derived from inputs other than quoted prices that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Fair value measurements are those derived from valuation techniques that include inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

Notes to the Consolidated Financial Statements (continued)

35. Fair value measurement and summary of financial assets & liabilities by category (continued)

35.2 Fair value hierarchy (continued)

The financial assets and liabilities measured at fair value on a recurring basis in the consolidated statement of financial position are grouped into the fair value hierarchy as follows:

	KD '000			
31 December 2021	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss				
Quoted securities	**24,202**	**-**	**-**	**24,202**
Managed funds	**-**	**61,690**	**-**	**61,690**
Equity participations	**-**	**-**	**20,398**	**20,398**
Fixed income securities	**4,828**	**-**	**500**	**5,328**
	29,030	**61,690**	**20,898**	**111,618**
Derivative				
Forward foreign currency contracts held for trading	**-**	**(31)**	**-**	**(31)**
	29,030	**61,659**	**20,898**	**111,587**

	KD '000			
31 December 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss				
Quoted securities	22,802	-	-	22,802
Managed funds	-	52,173	-	52,173
Equity participations	-	-	10,060	10,060
Fixed income securities	4,266	-	800	5,066
	27,068	52,173	10,860	90,101
Derivative				
Forward foreign currency contracts held for trading	-	101	-	101
Financial assets at fair value through OCI				
Debt instruments	-	-	410	410
	27,068	52,274	11,270	90,612

There have been no significant transfers between levels 1 and 2 during the reporting date.

Measurement at fair value

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting date.

a. Quoted securities

All the listed equity securities are publicly traded in stock exchanges. Fair values have been determined by reference to their quoted bid prices at the reporting date.

b. Unquoted securities

The consolidated financial statements include holdings in unlisted securities which are measured at fair value. Fair value is estimated using other valuation techniques which include some assumptions that are not supportable by observable market prices or rates.

c. Investments in managed funds

Investment funds managed by other mainly comprise of unquoted units and the fair value of these units has been determined based on net assets values reported by the fund managers as of the reporting date.

The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation techniques(s) and inputs used).

Financial assets	Fair value as at 31 Dec. 2021 KD '000	Fair value as at 31 Dec. 2020 KD '000	Fair value hierarchy	Valuation technique(s) and key input (s)	Significant unobservable input (s)	Relationship of unobservable inputs to fair value
Financial assets at FVTPL:						
Quoted securities	**24,202**	22,802	1	Quoted bid prices	N/A	N/A
Managed funds	**61,690**	52,173	2	NAV Basis	Net Assets Value	Net Assets Value
Fixed income securities	**4,828**	4,266	1	Quoted bid prices	N/A	N/A
Fixed income securities	**500**	800	3	Discounted cash flows	Cash flow estimate and discount rate	Higher estimated cash flows and lower discount rate, results in higher fair value
Equity participations	**20,398**	10,060	3	Adjusted NAV Basis	Discount for lack of marketability	Lower discount rate, results in higher fair value
Financial assets at FVOCI:						
Debt instruments	**-**	410	3	Discounted cash flows	Cash flow estimate and discount rate	Higher estimated cash flows and lower discount rate, results in higher fair value
Derivative:						
Forward foreign currency contracts held for trading	**(31)**	101	2	Foreign exchange rate/ DCF method	N/A	N/A

The impact on consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income would be immaterial if the relevant risk variables used to fair value the level 3 investments were changed by 5%.

Notes to the Consolidated Financial Statements (continued)

35. Fair value measurement and summary of financial assets & liabilities by category (continued)

35.2 Fair value hierarchy (continued)

Level 3 fair value measurements

The Group's financial assets and liabilities classified in level 3 uses valuation techniques based on significant inputs that are not based on observable market data. The financial instruments within this level can be reconciled from beginning to ending balances as follows:

	31 Dec. 2021 KD '000	31 Dec. 2020 KD '000
Opening balance	**11,270**	17,470
Net purchase/(redemption)	**9,525**	(7,109)
Net change in fair value	**103**	909
Closing balance	**20,898**	11,270

36. Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, human error, system failure or from external events. The Group has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk. The management ensures compliance with policies and procedures and monitors operational risk as part of the overall risk management.

37. Capital management objectives

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide adequate return to its shareholders through the optimization of the capital structure.

The Group manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group's risk management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

The capital structure of the Group consists of the following:

	31 Dec. 2021 KD '000	31 Dec. 2020 KD '000
Bank borrowings and bonds issued	**60,280**	65,431
Less: Cash and cash equivalents	**(10,047)**	(18,725)
Net debt	**50,233**	46,706
Total equity	**135,752**	125,794

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio.

This ratio is calculated as net debt divided by the total equity as follows:

	31 Dec. 2021 %	31 Dec. 2020 %
Net debt to equity ratio	**37.0**	37.1

Notes to the Consolidated Financial Statements (continued)

38. Fire incident

During the previous year, one of the structured entities reported a fire incident at a development project in the USA which has damaged substantial part of the project buildings. The project is covered by an insurance policy against damage due to fire. The loss due to fire incident has been fully assessed and the Group's management believes that the insurance claim will cover for the losses incurred on this project as the insurer has already accepted the claim and paid substantial part of the insurance claim for the reconstruction of the damaged site. Accordingly, this incident will not materially impact the Group's consolidated financial statements (refer note 15).

39. Effect of COVID-19

The outbreak of Coronavirus ("COVID-19") pandemic and related global responses have caused material disruptions to businesses around the world, leading to an economic slowdown. Global and local equity markets have experienced significant volatility and weakness. While governments and central banks have reacted with various financial packages and reliefs designed to stabilise economic conditions, the duration and extent of the impact of the COVID-19 outbreak, remains unclear at this time. Management of the Group is actively monitoring the effects COVID-19 may have on its business operations.

In light of COVID-19, the Group has considered whether any adjustments and changes in judgments, estimates and risk management are required to be considered and reported in the consolidated financial statements.

Further, management is aware that a continued and persistent disruption could negatively impact the consolidated financial position, performance and cash flows of the Group in the future. Management continues to closely monitor the market trends, its industry reports and cash flows to minimise any negative impact on the Group.

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