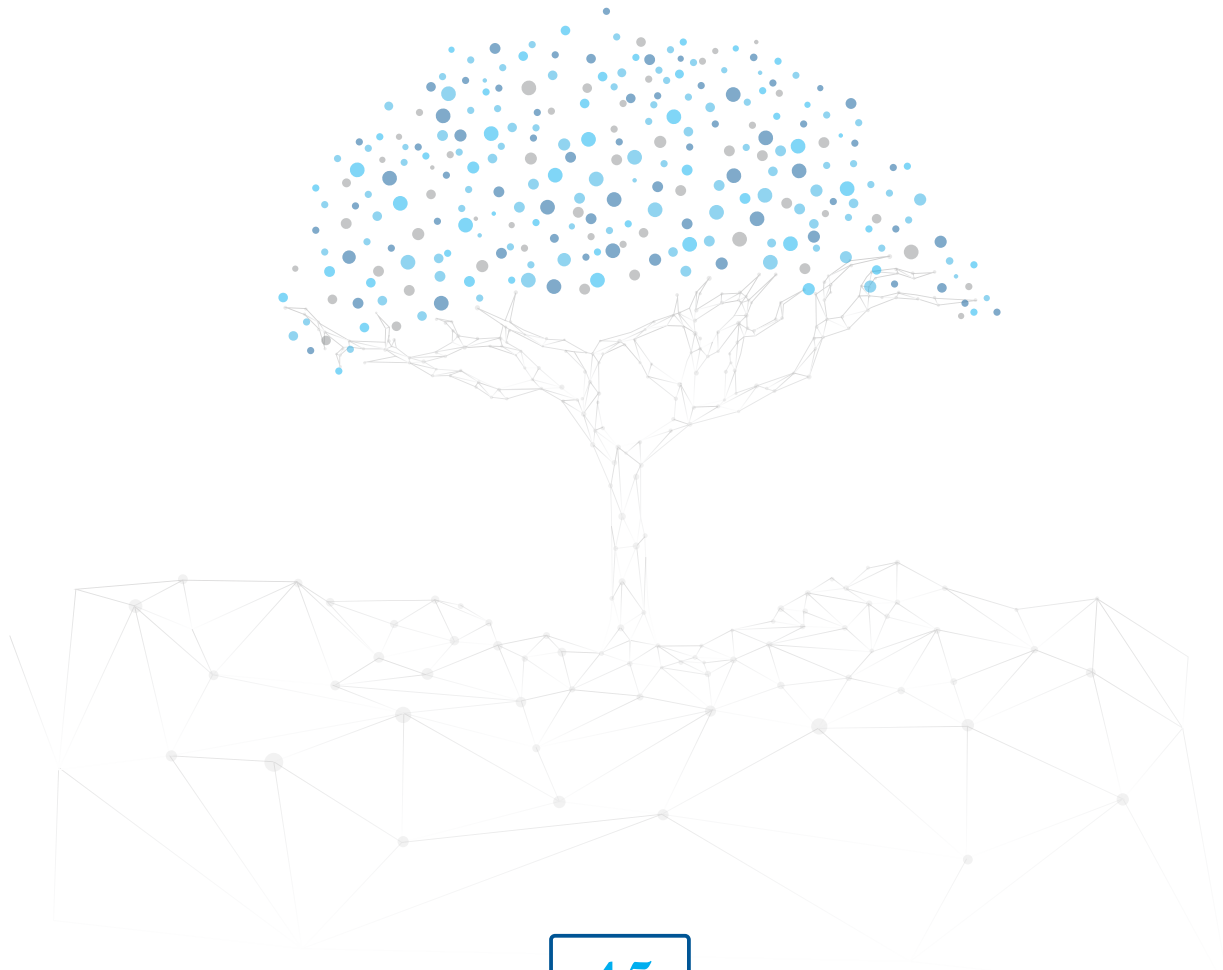


Annual Report 2019



45
years

of wealth creation

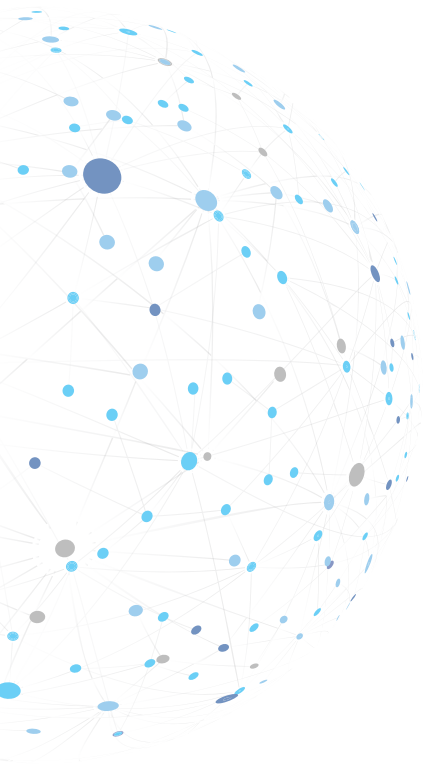
المرکز
MARKAZ



H.H. Sheikh Sabah Al-Ahmad
Al-Jaber Al-Sabah
[Amir of the State of Kuwait](#)



H.H. Sheikh Nawaf 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



Investment Banking:

- Mergers and Acquisitions
- Advisory
- Equity and Debt Capital Markets
- Listings



Real Estate:

- Middle East and North Africa
- International



Research:

- Economic and Policy Research
- Consulting Services



Vision

*The choice for
wealth creation*



Mission

*We build sustainable
wealth for our clients and
partners through prudent
and innovative solutions*

Principles

It's about the client, not us

We are in the business of meeting client objectives. We will never stop adding value to our clients by providing services of the highest quality and ethics, advising them on proper asset allocation and offering them the products that best meet their needs.

Return-generating innovation

In our business, innovation is about opening new investment channels that otherwise would not be available. Over the last few years, we have consistently brought to the market new investment channels.

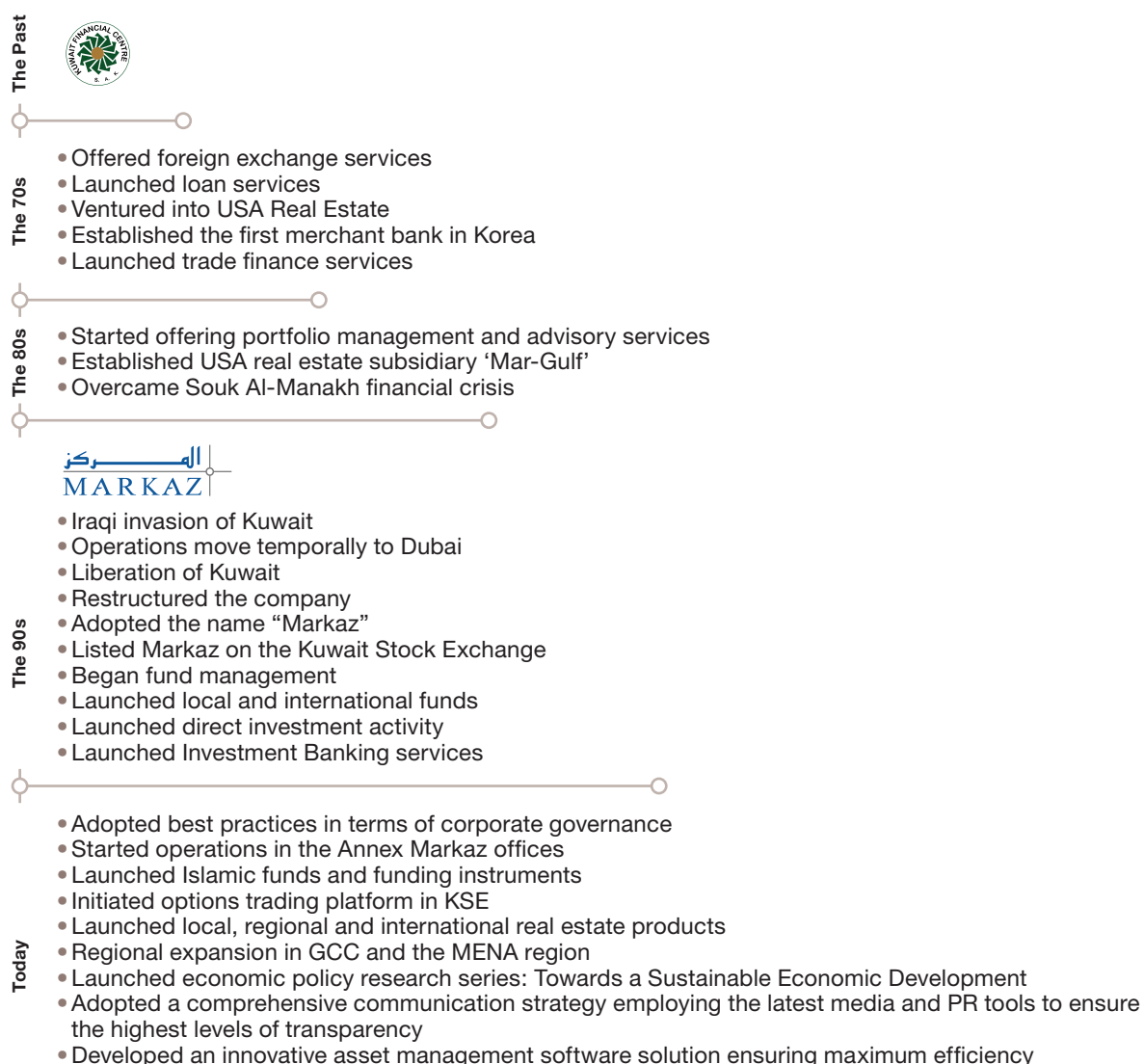
Our reputation is key

At Markaz, our reputation is our biggest asset. We have been voluntarily operating under strict guidelines long before corporate governance was the norm. We instill our values of ethical dealings and objective reporting into our teams.

Our Journey

Markaz emerged from the global financial crisis in a relatively reasonable financial position as a result of sound investment policies, formal corporate governance standards and a commitment to transparent reporting. In this current dynamic landscape, Markaz is also well positioned to withstand the most challenging of times. The Company has the liquidity, professional talent and ability to capitalize on future market opportunities. During 2019, Markaz celebrated the 45th anniversary of the foundation of the company in 1974.

Markaz over the years



Board of Directors



Mr. Diraar Yusuf Alghanim
Chairman

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



Faisal AbdulAziz Al-Jallal
Vice Chairman

Mr. Al-Jallal is the Chairman of the Board Audit Committee and Risk Management Committee. He is the Managing Director of Al-Baseet Trading Co. and Partner in Al-Jallal Real Estate Co. Mr. Al-Jallal holds a University Degree from Alexandria University.



The Late Sheikh Humoud Sabah Al-Sabah¹
Former Vice Chairman

Sheikh Al-Sabah was the Chairman of Northern Gulf Trading – NGT Hyundai Co. for over 20 years, the owner of Al-Jazira and Quraini Transportation Co. Petroleum Field and the Vice President of Al Masar Leasing and Investment Co.



Mr. Ayman Abdulatif Alshaya
Board Member

Mr. Alshaya is a 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.



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

¹ Sheikh Humoud Sabah Al-Sabah passed away in November 2019 and Mr. Faisal AbdulAziz Al-Jallal was elected by the Board of Directors as the Vice Chairman on 18 December 2019.



Mr. Fahad Yaqoub Al-Jouan
Board Member

Mr. Al-Jouan is the Deputy Director General of the Al-Jouan General Trading and Contracting Company as well as a Board member in the Chamber of Commerce and Industry of Kuwait, National Petroleum Services Co. (NAPESCO) and Vice-Chairman of the Public Authority for Industry (PAI) and Al-Dorra Petroleum Services. Mr. Al-Jouan holds a Bachelor's Degree in Business Administration from Eastern Washington University.



Mr. Adel Mohammed Alghannam
Board Member

Mr. Alghannam is the Board Member and Executive Manager for Kapico Group Holding Co. since 2003, and holds managerial positions in several of its subsidiaries like Royale Hayat Hospital, Al- Ghannam Tires, AG Melco Elevator Co. and many others; he is also Board Member of Al Ahleia Insurance Company. Mr. Alghannam holds Bachelor's degree in Business Administration, USA.



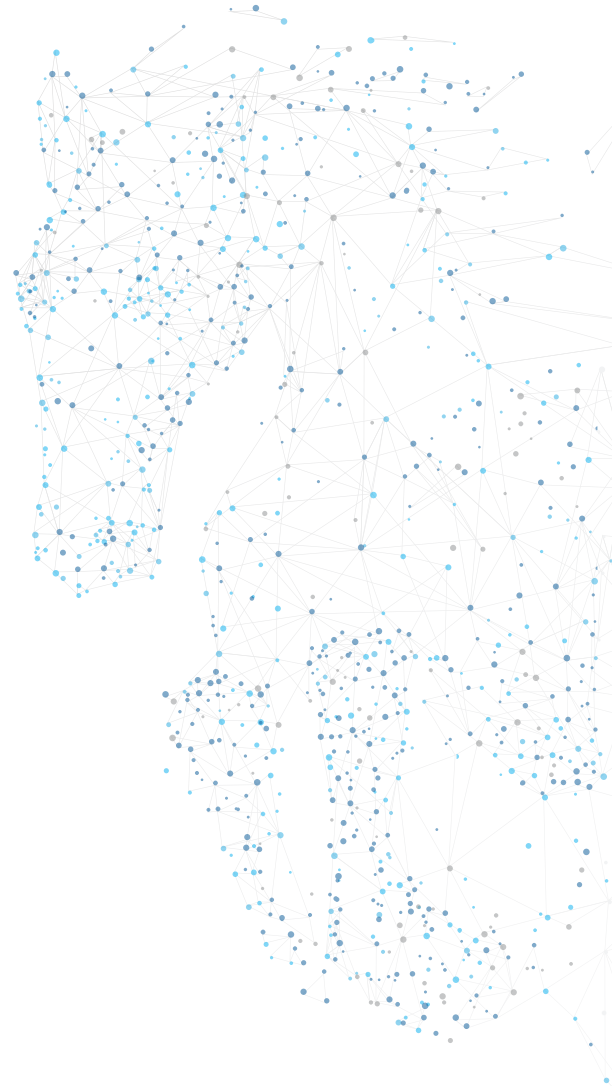
Mr. Fouzi Ebrahim Al-Mukaimi
Board Member

Mr. Al-Mukaimi is Finance Manager at Kuwait Petroleum International since 2004. He previously held the position of Finance Director at KPIAC in UK, KP Italy and KP Thailand. Mr. Al-Mukaimi holds a Master of Professional Accounting from University of Miami, US and a Bachelor's Degree in Accounting from Kuwait University.



Maha Abdulsalam Imad
Board Secretary

Ms. Imad joined Markaz in 1997, and currently manages "Corporate Affairs and Fund Administration 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.



Chairman's Letter

Dear Shareholders,

Last year delivered remarkable returns to public market investors as most major global equity indices performed strongly. However, the global economic growth decelerated to 2.4% in 2019 from 3.0% in 2018 as a result of heightened geopolitical tensions and overall weaker demand, global trade and investments. The subdued economic performance triggered further widespread monetary policy easing by major central banks, with the Federal Reserve cutting rates three times in the year and interest rates reaching unprecedented lows. In the United States growth decelerated to 2.3% from 2.9% in 2018 due to the US-China trade war, slowing investment and exports. The European economy continues to deteriorate, in particular the German manufacturing sector, was impacted due to falling demand from Asia and disruption in the Auto sector. Brexit uncertainty continued to put further pressure on the European economy in 2019 and it will be interesting to see now how both Europe and UK emerge post the final Brexit decision. Emerging markets, which showed resilience last year, also experienced weakness in industrial production, lower trading and cautious investment plan. The price of most commodities fell in 2019 due to the overall slowdown in demand with oil prices declining by 10% from the end of 2018. At the end of 2019, the global economy saw some relief with a pause in additional tariffs between US and China, stability in the UK post Brexit and continued supportive monetary policies across the world.

The growth in the MENA region decelerated for a third consecutive year to 0.1% in 2019. The decline was primarily due to weakening oil demand caused by the global economic slowdown and lower commodity prices impacting the region's oil sector growth. In order to maintain a demand and supply balance, OPEC decided to cut oil production, which was further supported by output constraints in Iran and Venezuela due to geopolitical and domestic factors. Public sector spending and tourism remained robust however these positives were insufficient to offset lower activity in the oil sector. Monetary policies remained supportive in the region and primary issuances of GCC Bonds and Sukuk recorded all-time highs in 2019.

Kuwait is among the most resilient economies in the region with its fundamental asset base, lower debt levels and strong banking sector. However, due to the pressure of lower oil prices, Kuwait's gross domestic product (GDP) slowed to 0.7% in 2019 from 1.2% in 2018. During the year, inflation levels reached 1.1%, reflecting higher food and transport prices and stability in housing rents. The Kuwaiti Government is undertaking various reforms to strengthen the economy and improve the business climate, introduce capital market reforms, reduce the role of the state in the economy, and foster the development of small and medium enterprises. Unlike oil sector growth, non-oil GDP grew by 3.0% in 2019 as compared to 2.7% in 2018. The Kuwaiti banking sector remained strong with stable profitability and improved asset quality. During the

year, credit growth in the country increased substantially, supported by favorable monetary reforms along with the Central Bank of Kuwait's (CBK) decision in late 2018 to increase ceilings on personal loans and maintain the capital adequacy ratio with strong liquidity. Net interest income declined due to a narrowing spread between bank lending rates and the cost of funds. Going forward, with capital projects coming on stream, the demand for credit is expected to pick up and be supported by ample bank liquidity.

Despite many headwinds, global equity markets remained buoyant during the year. The MSCI World index recorded an increase of 25.2% in 2019 as central banks continued to cut rates across the world and a US-China interim trade deal emerged. Following suit, the S&P GCC index also registered yearly gains of 8.3%, while Kuwait's All Share Index gained 23.7%. The outperformance of the Kuwait equity market was mainly driven by portfolio inflows after the inclusion of Kuwaiti equities in the FTSE Russel in and proposed inclusion in MSCI emerging markets index. Going forward, the MSCI inclusion is expected to bring in about US\$ 3.5 billion inflows, of which US\$ 2.6 billion would be passive inflows.

Markaz delivered an excellent performance during 2019, driven by active management of its funds, equity private portfolios and real estate investments on behalf of clients along with our proprietary investments. The asset management team remained prudent while managing mutual funds and at the same time made allocation decisions to align its portfolio to benefit from the positive equity market sentiment. We continue to carefully monitor our real estate portfolio, and during the year, exited from two properties in the US at the opportune time to deliver maximum returns to our co-investors. In volatile market conditions, it becomes imperative to work closely with clients and carefully understand their exact investment requirements. Our Wealth Management team evaluates and customizes investment products to allow clients to make the right investment decisions and achieve their financial goals. At Markaz, we truly believe in transparent communication with clients and stakeholders and maintaining the highest professional standards at all times.

During the year, Markaz was presented with prestigious awards including "Best Investment Bank in Kuwait 2019" by Global Finance, "Kuwait Asset Manager of the Year" by Global Investor Magazine and one of our fund MIDAF was named the "Best Equity Fund in Kuwait" by MENA Fund Manager. These awards are a testament of Markaz's excellence, innovation and expertise to deliver the highest quality financial products and advisory services to its clients.

Financial Results for the year 2019

Markaz delivered an outstanding topline performance with Total Revenues of KD 23.49 million during 2019 compared to KD 15.30 million in 2018. This was primarily driven by the Asset Management division, which delivered

“Markaz delivered an excellent performance during 2019, driven by active management of its funds, equity private portfolios and real estate investments on behalf of clients”

growth of 12.6% year on year to generate fees of KD 8.11 million. Net Rental Income more than double to KD 1.33 million and Gain from

Investments at Fair Value through P&L contributed KD 9.9 million to our revenues as compared to KD 3.5 million in 2018. Net Profit attributable to shareholders of Markaz was KD 6.96 million (EPS 15 fils per share) for 2019, with a margin of 30.1%. Assets Under Management (AUM) as of 31 December 2019 increased by 4.6% to KD 1.14 billion from KD 1.09 billion in 2018.

As for compliance with Central Bank of Kuwait's (CBK) stipulated ratios, Markaz's financial leverage ratio stood at 0.69:1, in comparison to the CBK imposed ratio of 2:1, which reflects Markaz's conservative approach to its capital structure. The Quick Ratio was 10% in line the CBK mandate of a minimum of 10%. These ratios clearly demonstrates Markaz's ability to maintain a liquid and flexible balance sheet.

The Board of Directors have recommended a cash dividend of 10% or 10 fils² per share (subject to Annual General Meeting's approval), amounting to a total of KD 4.78 million. The Board of Directors confirms the integrity and fairness of all financial data as well as reports related with the Company's activities.

Outlook

As we go forward into the new year, economic indicators have been positive with US-China signing the “Phase One” trade agreement in January 2020. Easing trade tensions between the two nations is expected to have a positive impact on international trade, manufacturing activity, consumer demand and overall investor sentiment. However, country specific challenges with regards geopolitics and weak economic activity will weigh on overall global GDP growth and set a cautious economic outlook.

Overall the GDP growth of Kuwait is estimated at 1.8% in 2020 and 3.1% in 2021. Economic activity is expected to be driven by strong infrastructure spending and growth in non-oil sectors such as construction, real estate, manufacturing and trade. Credit is expected to accelerate with accommodative fiscal policy and Kuwait's inclusion in the MSCI index will bring foreign inflows. Kuwait has jumped in the 2020 Ease of Doing Business ranking and further plans have been undertaken to expedite the grant of business and import licenses and remove regulatory barriers to FDI, which will further strengthen investor confidence. The increased role of the private sector with public private partnerships will drive economic efficiency, competitiveness and provide much needed diversification and boost to the SME sector. However, subdued oil prices and delays in fiscal reforms may contain the expected growth rate.

Markaz is continuously developing its asset management strategy of introducing innovative investment products, adopting advanced

technology tools and advising clients in appropriately achieving their investment objectives. As Merger and Acquisitions activity increases in 2020, our experienced investment banking team with its strong execution capabilities is fully equipped to advise corporates on high profile transactions. Markaz's strategy coupled with its relentless client focus is well positioned to tap into growing market opportunities.

Our people are an integrated part of the company and the driving force behind our business strategies. Markaz notably invested this year in providing a positive work environment, adopt best in class people practices, actively engage with employees and build technical capabilities. Performance aligned compensation along with a professional work culture at Markaz, make us one of the most preferred places to work at. This then enables us to attract and retain some of the finest talent in the industry to serve our clients. During the year, we have taken various initiatives in terms of learning and development. We believe our employees are an inseparable part of our success and continue to invest in technology and FinTech applications, that allow involving versatile clients' segments in Markaz services, and adopt fair human resource practices in creating an environment geared for success.

At Markaz, our focus has always been on delivering superior returns and maximizing value for our shareholders. On this note, I would like to thank all of our dedicated employees, longstanding clients, business partners and shareholders for their unwavering support. We cannot but pay tribute to the late Sheikh Humoud Sabah Al Sabah, who passed away in November 2019. He started his journey with Markaz in 2002 as a member of the Board of Directors, and through his proactive participation, has reached the position of Vice Chairman that he had maintained until his passing in 2019.

During 2019, all regulatory authorities, represented by Central Bank of Kuwait, the Capital Markets Authority, Boursa Kuwait and the Ministry of Commerce and Industry have continued to provide us with professional guidance and support for which we are grateful.

It is with great honour we are celebrating the 45th anniversary of the foundation of the firm in 1974. Markaz's relentless and professional commitment to all clients is, and always will remain, our highest priority.



Diraar Yusuf Alghanim

Chairman

16 February 2020

² The General Assembly, held on 28 April 2020, unanimously approved the reduction of cash dividends for shareholders for the year 2019 from 10% (10 fils per share) to 5% (5 fils per share), amounting to a total of KD 2.39 million, based on a proposal submitted by a representative of shareholders who own (16.63%) of the company's share capital..

Executive Management



Manaf A. Alhajeri
Chief Executive Officer



Ali H. Khalil
Chief Operating Officer



Khaled A. Chowdhury
Chief Financial Officer



Amani I. Al-Omani
Executive Vice President
MENA Equities



Bassam N. Al-Othman
Executive Vice President
MENA Real Estate



M. R. Raghu
Executive Vice President
Published Research



Peter Kelly
Executive Vice President
Human Resources



Abdullatif W. Al-Nusif
Executive Vice President
Wealth Management & Business
Development



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



Maha A. Imad
Executive Vice President
Corporate Affairs and Fund
Administration, Custody Services



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



Hana A. Al-Zeraie
Senior Vice President
Human Resources -
Administration and Government
Affairs



Ms. Deena Y. Al-Refai
Senior Vice President
Investor Relations



CEO's Message

Dear Shareholders,

The global equity markets delivered outstanding returns during 2019 and in many cases indices continued to set record highs across international exchanges. However, the asset management industry has become increasingly challenging due to volatile macroeconomic indicators, geopolitical uncertainties and the move of funds from active to passive products. While proactive management in these market conditions is imperative, this alone will not be sufficient to generate long term sustainable value for stakeholders. Anticipating the future shape of the industry, understanding client investment needs and offering comprehensive solutions are all important business aspects. The success of Markaz is driven by its ability to develop innovative financial products and provide insightful advisory services to its clients. Markaz has always followed fundamental investment processes in pursuit of consistent long-term performance and as a result, we have delivered attractive equity returns during the year.

2019 Performance Overview

Markaz GCC equities AUM reached KD 612 million in 2019 from KD 642 million in 2018. Our funds Forsa Financial Fund, Markaz Fund for Excellent Yields (MUMTAZ), Markaz Islamic Fund and Markaz Investment and Development Fund (MIDAF) recorded their highest annual returns in last 5 years with returns of 27.2%, 22.6%, 21.7% and 21.5% respectively. Our asset management team made allocation decisions to align their equity portfolios to benefit from the positive equity market sentiment and as a result, most of our active equity funds ended the year outperforming peer groups. During the year, we successfully launched two new products, the opportunistic portfolio and the dividend-yield portfolio. The opportunistic portfolio aims to achieve capital returns through investing in a limited number of high conviction positions. While the dividend yielding portfolio invests solely in high quality corporates that consistently distribute high dividends. Both of these new products have been extremely well received by our clients.

During 2019, GCC Bonds and Sukuk markets posted a record year growth of 24% with total value of US\$ 114 billion raised through primary issuances. All time high issuances clearly demonstrate the growing importance of debt capital markets within the region. The Markaz Fixed Income fund (MFIF) is a privately placed fund with investments in GCC fixed income instruments. In 2019, MFIF continued its focus on GCC and certain MENA issuers during the year, however; the team is currently exploring opportunities in other markets as well.

After three continuous year of decline in real estate values, the GCC real estate market started to show modest signs of recovery in 2019. While rents and property prices have softened in the last five years, the rental yield across the GCC remained strong as compared to global peers. Kuwait real estate remained stable, as compared to other GCC regions, mainly due to the slow development expansion plans from 2013 to 2016, which has now resulted in relatively constrained supply.

During the year, Markaz was able to maintain high occupancy levels of 95% across its portfolio of income generating assets. In context of the subdued real estate environment, our flagship fund, Markaz Real Estate Fund (MREF), delivered stable returns of 3.4% to investors in 2019. MREF AUM was KD 79 million and distributed a cash return of 5.0% at the end of December 2019. In addition, we continue to successfully manage half of the National Real Estate Portfolio for the Kuwait Investment Authority. Furthermore, Markaz took control over the property management of its four completed development projects; one in Dubai, one in Kuwait and two in Abu Dhabi. These properties have started to yield meaningful rental income, which is now expected to increase as occupancy levels improve supported by the modest recovery of the GCC real estate sector. Markaz continues to focus on enhancing its real estate operational efficiencies and improve profitability, particularly through the investment in technology platforms and databases. Overall, we are well positioned to tap into the growing regional opportunities and continue to advise and co-invest with our clients.

International commercial real estate continued its positive trend in 2019 and the lower short-term rates provided strong tailwinds for commercial real estate valuations. Fundamentals have remained robust with supply and demand levels in balance across the different asset classes. During the year, Markaz exited from two properties, Royal 10 office in Dallas, Texas which delivered an IRR of 13.3% and Chandler Shopping Center in Arizona delivering a cash gain of KD 0.82 million respectively. We also fully exited one of our distressed debt assets in Arizona with only one remaining. As a part of our real estate development projects, we started construction of four different developments in 2019, including two industrial projects in Europe, one residential and one industrial project in the US. We continue to evaluate select development properties, in both US and European markets with strong demand and supply dynamics, which give Markaz a competitive advantage.

From an investment banking perspective, during 2019 we evaluated a number of advisory proposals encompassing corporate advisory, M&A, restructuring and equity capital markets. Markaz completed the first listing of the year on Bursa Kuwait for Al-Manar Finance and Leasing Company in February 2019. The team also successfully completed the United Projects Company for Aviation Services rights issue with a total value of KD 18 million. Markaz is currently working as part of a consortium to submit a bid for a PPP project released by the Kuwait Authority for Partnership Projects. Markaz also successfully organized an education sector conference during the year that clearly demonstrated our expertise in the field and connectivity with key companies and experts. Looking forward, we expect higher volumes of corporate transactions as buyer and seller valuation gaps converge and certain sectors start to consolidate. Markaz continues to work closely with various corporates on M&A and debt issuances, resulting in a strong pipeline for the year ahead.

Our asset management and investment banking teams continued to demonstrate their ability to deliver returns and

“Our asset management and investment banking teams continued to demonstrate their ability to deliver returns and execution capabilities during the year”

execution capabilities during the year. As a result, Markaz was presented with various prestigious awards, which clearly recognize our ability, not only to actively manage portfolios but deliver positive returns amidst the volatile market conditions.

Gearing up for the Future

Looking ahead, global macro indicators have started to turn positive with the easing of US-China trade tensions, signs of pick up in manufacturing activity and increasing international trade. However, world GDP is expected to grow at a subdued pace in the coming years as weak economic activity in selected emerging markets may place downward pressure on world growth.

The oil price in the GCC is expected to remain soft in 2020 and we expect moderate improvement in corporate earnings as global economies slowdown and geopolitical tensions remain elevated. Growth in the region is expected to be driven by planned diversification initiatives, longer-term infrastructure programs, more focus on Public Private Partnerships projects and measures to ease foreign investment restrictions.

Kuwait has emerged as one of the most stable markets in the GCC region and has been managed to generate a fiscal surplus, although we see this gap narrowing in 2020. Compulsory transfers to the Future Generation Fund and further subsidies will start to weigh on the country's balance sheet. Furthermore, to strengthen non-oil GDP, the Kuwaiti Government has taken various initiatives to remove business hurdles, improve the operating environment and incentivize the private sector to play a greater role in the economy through PPPs. Market entry barriers in various sectors have been either relaxed or removed to enhance competitiveness.

In addition, the Capital Market Authority and Boursa Kuwait both have taken initiatives to realign its policies to create exchange platform and attract foreign institutional investors. Markaz has been closely observing market trends and has focused on developing new products to meet the changing need of the investors.

Markaz has developed a proprietary online portfolio management tool that will assist clients in financial planning for their futures. This soon to be launched financial advisory platform, iMarkaz application, offers algorithm-based investment management services, including automated portfolio planning, automatic asset allocation, and online risk assessments. As a part of our strategy, we continue to invest in technology as a way to create a competitive edge in the Kuwait financial industry.

Markaz's culture promotes an environment that is transparent, flexible, fulfilling and purposeful. Our workforce continues to be dynamic and diverse and we continue to implement best in class Human Resource practices including linking performance programs with best international practices, talent management,

succession planning and recognition programs. Markaz has committed to the development of its employees with the objective of developing all capabilities and

strengthening knowledge and skills to adapt to fast changing external environment. In addition, Markaz continues to invest in leadership development programs at all levels to sustain the Company's growth in a high-level competitive sector regionally.

In conclusion

Over the past 45 years, we have built specialized teams of talented, experienced and highly successful investment professionals. Our approach has always been conservative and prudent, yet at the same time, we have continuously launched innovative financial products and delivered superior returns. Investors are becoming increasingly sophisticated, attuned to global market conditions and broadening their investment requirements as they seek to diversify risk. In response to this, we at Markaz truly believe it is imperative to offer, not just the most suitable financial products, but also cost-effective solutions.

We are also focused on enhancing our market visibility through various conferences, seminars and events demonstrating our capabilities and developing new channels to attract new clients. Markaz recognizes that not only do we need to offer best in class products, but that we need to build strong relationships across multiple distribution channels. As we enter the new financial year with a well capitalized balance sheet, Markaz is confident that it can adapt to changing investor requirements and remain competitive in a dynamic industry. We remain confident in our ability to identify new opportunities and deliver profitable growth.

In concluding, I would like to sincerely thank our Board of Directors for their valuable guidance and support, and all Markaz team members for their relentless client commitment. Our senior executives will continue to deliver on our strategy with a focus on diversifying our business model and innovative product development. We will, as always, remain operational and risk disciplined as we steer ourselves in today's volatile environment. Our aim is to simply deliver sustainable financial performance in the coming years. At Markaz we are fully committed to maintaining our market position as the leading wealth management and investment banking financial institution in the region.



Manaf A. Alhajeri
Chief Executive Officer

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. With an exceptional track record, clear investment guidelines and a long term approach to investments, client returns and satisfaction are our top objective. 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. The Wealth Management & Business Development team has established relationships with sovereign wealth funds, pension funds, banks, family offices and high net worth individuals providing them with advice and access to the Markaz financial product range. Markaz Assets Under Management (AUM) as of (31 December 2019) is KD 1.14 Billion.

Service Offerings

Mutual Funds - Equity



Midaf Fund



Markaz Fund for Excellent Yields (Mumtaz)



Forsa Financial Fund



Markaz Arabian Fund*



Markaz Islamic Fund

Mutual Funds - Fixed Income



Markaz Fixed Income Fund*

Mutual Funds - Real Estate



Markaz Real Estate Fund



Markaz Gulf Real Estate*

Portfolio Management - Client and Proprietary



1. Private Equity Portfolios
2. Fixed Income Private Portfolios
3. Real Estate Portfolios

2. Real Estate Investments

Markaz offers real estate portfolios 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 23 professionals and currently manages KD 312 million in assets in Kuwait, UAE, KSA and Levant. Additionally, the division operates through regional offices in Riyadh, Khobar, Dubai and Abu Dhabi.

Markaz is managing part of 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 79 million across 17 properties and Markaz Gulf Real Estate Fund is a private placement.

* Private Placement funds.

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 1.68 billion. This includes approximately 9,000,000 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.

3. Investment Banking

Markaz has successfully executed investment banking transactions of over USD 4.3 billion (as of 31st December 2019), spanning across equity issuance, debt issuance, mergers and acquisitions, listings, credit rating advisory, restructuring and other advisory transactions. 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.

Flagship Assignments in 2019

M&A Advisory



Pace Architecture Engineering + Planning
Advisory



The Kuwait Authority for Partnership Projects
Bid Submission for KAPP South Jahra Project
Advisory



Al Ahli Bank of Kuwait
Advisory



Educational projects
Advisory



Real estate projects
Advisory

Capital Markets and Listing



Al Manar Finance and Leasing
Listing Advisor
Only listing of the year on Bursa Kuwait
February 2019



United Projects Company for Aviation Services ("UPAC")
Rights issue KWD 18 million
Lead Manager and Subscription Agent 2019



Debt Restructuring
Structuring Advisor
KWD 50 million



Bridge Loan
Structuring Advisor
KWD 5 million

Our Offerings (continued)

4. Research

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.

Economic & Policy Research

Marmore has partnered with several thought leaders and leading policy research institutions to generate Economic & Policy 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. Published over 60 reports on its research web portal and executed 27 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:

- Saudi Aramco Valuation
- Crowdfunding in the GCC - A New and Faster Source of Funding
- FinTech - Future of Financial Services
- Kuwait Index Inclusion - How will it redefine Kuwait's economic prospects?
- GCC Asset Management - 2019

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.

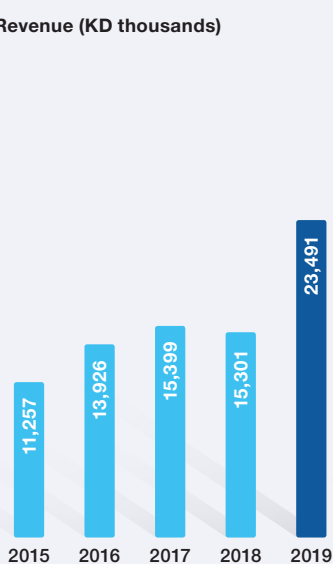
- Regulations governing liquidity risk in Islamic Banking
- Foreign investment in GCC equity markets - Will the inflow levels sustain after index inclusions?
- Saudi Corporate Capital Spending - An Encouraging Boost to Non-Oil GDP
- ETF's in GCC: How far have they come?
- How will trade war, Iran sanctions and OPEC supply cuts shape Oil markets in 2019?
- Saudi Aramco \$12 billion bond issuance: Another big feather
- Saudi Arabia's move towards a cash less economy: More to go for sure
- GCC Stock Markets - Riding on global euphoria!
- Novel liquidity instruments need of the hour for Islamic financial institutions
- Equities off to a flying start in 2019

A Year of Achievements

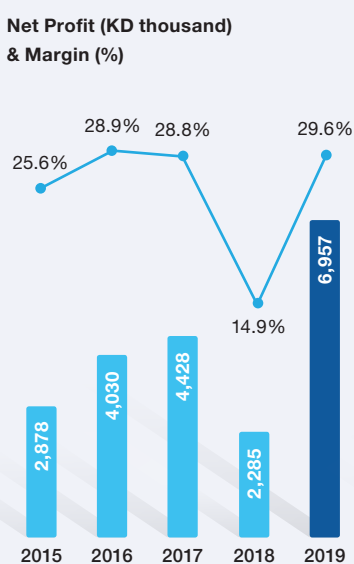
Financial Highlights

Consistently delivering shareholder value underpinned by attractive dividend payouts.

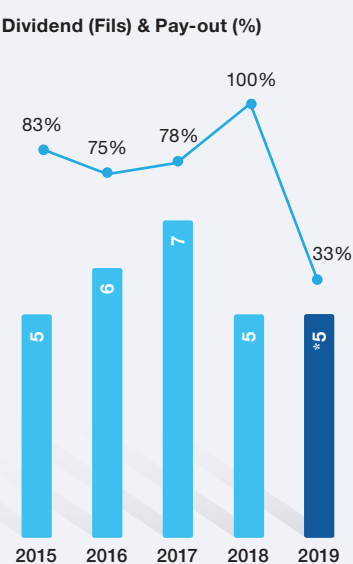
Revenue (KD thousands)



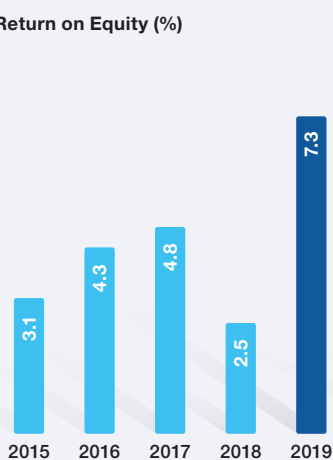
Net Profit (KD thousand) & Margin (%)



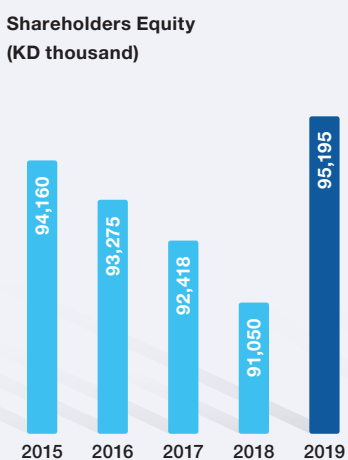
Dividend (Fils) & Pay-out (%)



Return on Equity (%)



Shareholders Equity (KD thousand)



Assets Under Management (KD billion)



* The General Assembly, held on 28 April 2020, unanimously approved the reduction of cash dividends for shareholders for the year 2019 from 10% (10 fils per share) to 5% (5 fils per share), amounting to a total of KD 2.39 million, based on a proposal submitted by a representative of shareholders who own (16.63%) of the company's share capital.

A Year of Achievements (continued)

Thought Leadership

Leading knowledge sharing initiatives at high profile conferences and sponsored events



Future Investment Initiative 2019

Mr. Manaf A. Alhajeri, Markaz CEO, said during his participation at “Future Investment Initiative 2019, held in Riyadh, KSA: “Today, we witness a clear strategy by GCC countries towards enforcing the financial centers in the region as a key destination for foreign investments and towards nurturing domestic companies. Initiatives to remove business uncertainties, better the operating environment and incentivizing the private sector to play a greater role in the economy are undertaken.”



Education Sector: Trends and Opportunities

Markaz has organized a symposium titled “Education Sector: Trends and Opportunities”. It included a number of discussion panels with Markaz experts in the investment banking sector and a number of experts in the education sector regionally and globally, including its main players and different educational service providers in Kuwait. Markaz is keen on holding such enlightening events to exchange expertise and share our business strategies and investment approaches with our clients. Collaborating with the right partners, this symposium brought regional and international experts to Kuwait to highlight the latest trends in the education sector, in order to provide an added value for our clients.



Markaz wins ‘Kuwait Asset Manager of the Year’ Award

In 2019, Markaz won ‘Kuwait Asset Manager of the Year’ Award from Global Investor. Ms. Amani I. Al-Omani, EVP, MENA Equities, stated: “At Markaz, we have always remained keen on delivering competitive returns for investors by combining our prudent investment policies, unmatched industry expertise, and diversified products and services. The ‘Kuwait Asset Manager of the Year’ award at the Global Investor MENA Awards recognizes Markaz’s multiple asset classes, the stable performance of its investment products, and the balance between prudent risk management and achieving the best possible returns for our customers.”



Awards and Recognitions in 2019



Mr. Al-Othman accompanies KCCI delegation

Mr. Bassam N. Al-Othman, EVP, MENA Real estate, represented Markaz in Kuwait Chamber of Commerce and Industry delegation that accompanied The Prime Minister, Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah on an official visit to Cairo, Egypt to promote investment and commercial collaboration between the two countries. The visit, headed by Egypt's Minister of Investment and International Cooperation, reflected the Kuwaiti private sector's responsibility and commitment towards opening new investment channels for investors.



Markaz launches "Souq Al-Manakh and Five Other GCC Crises"

"Markaz" launched, through Marmore MENA Intelligence, the research arm of Markaz, a special publication titled "Souq Al-Manakh and Five Other GCC Crises". The publication discusses at length how each major financial crisis impacted the financial landscape of the GCC, from the beginning of the crisis, analyzing the reasons behind it, through its effects locally in chronological order, describing the outcomes of each crisis and ways to resist under current.



(MENA Fund Manager)

Best Equity Fund in Kuwait - MIDAF



(Global Finance)

Best Investment Bank in Kuwait



(Global Investor)

Kuwait Asset Manager of the Year



(EMEA Finance)

Best Asset Manager in Kuwait
Best Local Investment Bank in Kuwait
Best Equity House in Kuwait

A Year of Achievements (continued)

Commitment to Our Communities

Participating in community service and building a sustainable economy in Kuwait, Markaz adopted a corporate social and economic responsibility strategy aimed at fulfilling Markaz’s responsibilities to society and national economy.

The strategy is founded on three main pillars:

- 1 Building human capacity
- 2 Aligning the business environment with the principles of sustainable development
- 3 Promoting sound governance in the business environment

Initiatives focused on health



In the field of health, Markaz has been a constant supporter of the Kuwait Red Crescent Society and its humanitarian initiatives, supporting the education programs of needy children in Kuwait and children with special needs. Markaz also continued supporting the Kuwait Children’s Care in Hospitals Society (KACCH), the Children’s Cancer Center of Lebanon (CCCL), and the Hope Charity Foundation, supporting these organizations in helping the needy patients in Kuwait and abroad.

Supporting Culture in many aspects



Committed to develop the human capabilities in the region, Markaz renewed its annual partnership with Loyac. The partnership focus on sustainable development of the youth in the Kuwaiti society to ensure they have the necessary skills to contribute to the national economy growth. In addition, Markaz supported Nuqat conference and the workshop of the novelist Najwa Barakat in collaboration with Kuwait Writers Association.

Supporting SMEs and entrepreneurs



Markaz is a proud partner of “Fikra” program, an intensive training program that aims to empower a new generation of Kuwaiti entrepreneurs and provide them with the tools they need to develop their business ideas into successful established businesses. Markaz also collaborated with CODED program to provide customized training workshop to Markaz ‘Graduate Development Program’, covering introductory concepts for financial technology (Fintech) and fundamentals of founding tech startups.

Supporting education in different areas



Markaz undertook a few initiatives in the field of education by sponsoring the students of the College of Engineering and Petroleum, the Indian Public School and Al Bayan Bilingual school. Moreover, Markaz sponsored Bareeq program, organized by Al-Nowair, which aims to spread positive thinking through a variety of simple activities to high school students. Furthermore, Markaz supported CODED gaming boot camp for high school students, teaching them how to program video games. Markaz also continued the vocational 'Graduate Development Program' that was initiated in 2017 to offer training to 10-15 graduates from different majors from Kuwait University and private universities for a year.

Partnerships in the sports field



In the field of sports, Markaz continues its partnership to Loyac AC Milan Soccer Academy, which has trained and developed the skills of hundreds of players during the past seasons. Markaz also supported Kuwait Banking Association (KBA)'s marathon and the Kuwait Tennis Federation.

Markaz held a presentation on "GCC Banking Mergers"



In collaboration with Kuwait Banking Association (KBA), Markaz held a presentation on "GCC Banking Mergers". The presentation was delivered by Mr. M.R. Raghu, EVP & Head of Research at Markaz and Managing Director of Marmore MENA Intelligence. Mr. Raghu highlighted major banking mergers transactions in the GCC. The seminar attracted a number of reputable representatives of local and international banks.

Market Commentary

Global Markets

Global equity markets delivered excellent returns to investors in 2019 after facing significant downward pressure in 2018. The MSCI World Index registered an impressive increase of 25.2% supported by many of the major financial markets. The US was the best-performing equity market with the S&P 500 index and Nasdaq Composite index posting gains of 29% and 35% respectively. The strong performance was underpinned by a low interest rate environment across major economies and the signing of phase one trade deal between the US and China at the end of the year. In contrast to the equity market performance, macroeconomic indicators were a concern during the year. Global GDP growth declined to 2.3% as compared to 2.9% in 2018 due to an overall economic slowdown, weaker trade, subdued investments and heightened geopolitical tensions. In the US, growth decelerated from 2.9% in 2018 to 2.3% in 2019 amid the escalating US-China trade war tensions, slowing investments and shrinking exports. However, monetary policy remains supportive with the Federal Reserve cutting interest rates three times in the year and thus providing further stimulus for growth. The US treasury yield curve steepened in December 2019, with the spread between the two-year and 10-year Treasury yields reaching its highest since November 2018.

European financial markets also delivered strong returns to investors with Greece, Russia, Italy and Germany being the best performers, delivering gains of 43%, 29%, 28%, and 26% respectively. The UK financial market delivered a return of 12.1%, relatively lower compared with its European peers, as the ongoing overall economic slowdown, in addition to concerns over Brexit, impacted regional GDP growth. The manufacturing sector was weak, particularly the German industrial sector, which continued to face significant pressure with falling demand from Asia and auto sector challenges. The MSCI Emerging Market Index lagged other global indices with a modest gain of 18.4%. However, regional fundamentals remained weak with declining industrial production, subdued investments and lower trading levels.

The impact of the economic slowdown has subsequently resulted in a decline in commodity prices. In addition, heightened geopolitical tensions have placed added pressure on oil exporters resulting in a decline in average oil prices by 10% to \$61 per barrel in 2019.

However, oil prices received some support through production cuts by OPEC and lower production of oil in Iran due to geopolitical factors.

GCC and Kuwait Markets

GCC equity markets delivered relatively lower returns as compared to major global equity markets with the S&P GCC index and MSCI GCC index registering a gain of 8.3% and 5.9% respectively. Kuwait was the best performing market with Kuwait's All Share index delivering a gain of 23.7%, mainly driven by the inclusion of Kuwaiti equities in the FTSE Russel Emerging Market Index and the proposed inclusion in the MSCI Emerging Markets Index. Furthermore, the outperformance was driven by the banking and telecom sectors, which delivered gains of 35.7% and 25.8% respectively. Dubai, which was the worst performer among GCC markets in 2018, rebounded in 2019 to post gains of 9.3%. In contrast, Qatar, which was the best performer in the previous year, remained flat with marginal gains of 1.2% in 2019. Despite the announcement of a stimulus package to boost Abu Dhabi's economy in late 2018, its market responded with only a slight uptick of 3.3% in 2019. Meanwhile, Oman's equity market remained weak, falling for the second consecutive year, down by 7.9% in 2019. The Saudi Arabia equity market remained highly volatile and registered gains of only 7.2% despite its MSCI Emerging Markets Index inclusion as investor sentiment was affected by the escalation of geopolitical tensions.

In 2018, Boursa Kuwait announced its plans for market segmentation and since then the Capital Market Authority has taken various initiatives to realign its policies to create a fair and transparent exchange platform to attract foreign institutional investors. These efforts have successfully resulted in increased investor confidence in the Kuwait equity markets. Overall, the recent series of regional MSCI upgrades highlight the GCC as an attractive financial market for global investors.

MENA Real Estate

The GCC real estate market, which remained under pressure over the last few years, started to show signs of stability in 2019 with rents stabilizing across Kuwait, Saudi Arabia and the UAE. Real estate valuations remained stable in Kuwait and Saudi Arabia, while the UAE depreciated at a slower pace than the previous year. The Kuwait real estate sector performed better compared to its

“Global equity markets delivered excellent returns to investors in 2019 after facing significant downward pressure in 2018.”

GCC peer countries, primarily due to a stop in its expansion plans from 2013 and 2016,

leading to better demand and supply dynamics.

Real estate is an attractive investment option for investors as prices have softened in the last five years and rental yields across GCC remained strong as compared to global peers. Regional government initiatives to support the growth of the real estate sector, along with stabilizing oil prices and higher spending on sectors such as public infrastructure, healthcare, education are expected to bring the real estate sector on its path to recovery.

International Real Estate

Commercial real estate continued its positive trend in Q4 2019 with property prices as per CPPI, marginally increasing by approximately 0.1% over the past quarter and 2.5% on a year-to-date basis. The NAREIT index, which is a comprehensive REIT focused index, also increased by 0.5% in Q4 2019 and 28.1% on a year-to-date basis. The US Federal Reserve cut interest rates three times during the year and has resulted in the 10-year Treasury rate decreasing from 2.7% at the beginning of 2019 to 1.9% at the end of Q4 2019. Overall, low short-term rates have provided strong tailwinds for commercial real estate pricing.

Fundamentals have remained strong with supply and demand levels in balance across different real estate asset classes. Multifamily rental rates have been in line with the long-term average but relatively smaller metros have seen strong levels of rent growth in 2019 due to increased investment to their urban cores. The industrial market also registered strong rental growth in 2019 reaching 5.2%, well above the long-term average of 2.3%, due to low vacancy rates and a high number of lease renewals. The office market also experienced strong levels of rental growth reaching 4.4% in 2019. Office rental growth rates were primarily driven by corporate expansion and employment growth across the US where the unemployment rate decreased from 4% in January 2019 to 3.5% in December 2019.

Investment Banking

The mergers and acquisitions market in the region recorded its highest level since 2007 with a total deal value of \$130 billion, a 127% year-on-year increase. Saudi

Aramco contributed significantly to this growth with the \$69 billion acquisition of

a 70% stake in Saudi Basic Industries Corporation from the Public Investment Fund. However, the deal count in 2019 was 107, lower than 2018, as geopolitical uncertainties and the global economic slowdown weighed on corporate decision-makers.

The Kuwait M&A market remained active during the year with Alghanim Trading purchasing Kuwait Investment Authority's (KIA) 16% stake in Gulf Bank for \$504 million. With this additional stake, Alghanim nearly doubled its ownership in the company, making it the bank's largest shareholder. Qurain Petrochemical Industries Company purchased Global Investment House's 60% stake in Jassim Transport and Stevedoring Co. for a total consideration of \$138 million. VIVA acquired 100% of Qualitynet for \$93 million from the National Bank of Kuwait (NBK) and Bahrain Telecommunications Company (BATELCO), in an effort to enhance product offerings for corporate clients. A consortium, led by National Investments Company (NIC) and including Arzan Financial Group, First Investment Company and the Athens Stock Exchange, acquired the strategic investor's stake (44%) in Boursa Kuwait for a total of \$66 million. Some family offices like Al Khair National for Stocks & Real Estate have exited some of their investments in listed companies including Kuwait Foundry Company and Gulf Cable and Electrical Industries Co.

The IPO market in the GCC region remained subdued with only four IPOs taking place in the first three quarters of the year. However, another four IPOs took place in Q4 2019 alone with a total value of \$26 billion led by the Saudi Aramco listing. In Kuwait, the only listing on Boursa Kuwait during 2019 was of Al Manar Financing and Leasing Company, in which Markaz acted as the listing advisor. There were four key capital increases of publicly listed companies in Kuwait, with a total value of KWD 252 million and raised by public subscriptions.

Last year was a record for GCC Bonds and Sukuk markets, where a total value of \$114 billion was raised through primary issuances, representing an increase of 24% year-on-year. The growth clearly reflects the growing importance of debt capital markets within the region. The largest primary issuance market within the GCC in 2019 was the UAE, followed by Saudi Arabia, where a total of \$44 billion and \$40 billion were raised respectively.

Business Review

Asset Management

MENA Equity Funds

Global equity markets delivered attractive returns in 2019 and the GCC equity market continued to deliver growth for the fourth consecutive year with the MSCI GCC index increasing by 5.9%. For Markaz funds in particular, Forsa Financial Fund, Markaz Fund for Excellent Yields (MUMTAZ), Markaz Islamic Fund and Markaz Investment and Development Fund (MIDAF) recorded their highest annual returns in last 5 years with returns of 27.2%, 22.6%, 21.7% and 21.5% respectively. Furthermore, Markaz successfully launched two new products, the opportunistic portfolio and the dividend-yield portfolio. The opportunistic portfolio aims to achieve capital returns through investing in a limited number of high conviction positions. The dividend-yield portfolio invests solely in high quality corporates that consistently distribute high dividends. Going forward, Markaz will continue to focus on active management of funds and launching innovative financial products with an aim to deliver returns to its investors.

Fixed Income Funds

Markaz Fixed Income fund (MFIF), a privately placed fund, invests in diverse sectors across GCC countries including government, financial services, oil and gas, power and utilities, real estate, telecom and transportation. In 2019, MFIF continued its focus on GCC and certain MENA issuers during the year and the team continues to explore other market opportunities as well.

Portfolio Management

Markaz has a longstanding track record of advising clients and customizing their investment portfolios with a clear objective to meet their return and risk expectations. A disciplined and systematic investment process is initially established and then followed closely to deliver returns. Markaz offers portfolio management service to high net worth individuals across the GCC region with a focus on equities and fixed income instruments. In volatile market conditions, investors are seeking customized investment products with lower risk, enhanced liquidity and greater transparency.

The Markaz proprietary portfolio performance remained challenged during the year. Returns were partially offset by the relative underperformance from private debt and credit debt asset classes. Hedged equities outperformed the benchmark by 5.2% and global equities outperformed by 0.5%.

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 2019, the fund had AUM of KD 79 million across 17 properties. MREF continues to distribute monthly cash dividend of 5.0% per annum and generated total returns of 4.19 % in 2019.

In addition, Markaz manages Markaz Gulf Real Estate fund (MGREF), which is a privately placed fund launched in 2014 and invests in income generating assets across the GCC. The fund is currently invested in assets in Kuwait, KSA and UAE. The portfolio of assets includes a mix of commercial, residential and industrial income generating assets.

Wealth Management & Business Development

The Wealth Management & Business Development (WMBD) Department's objective is to build and maintain long-term relationships between Markaz and its clients. WMBD continues to assist in customizing portfolios to adopt different investment strategies that match with clients' investment policies and objectives.

During 2019, the team actively worked to enhance Markaz's collaboration with reputable local and regional institutions through its dedicated team of relationship managers. The department continues to focus on enhancing Markaz market visibility through various conferences, seminars and events demonstrating capabilities and developing new channels to attract new clients. Markaz recognises that not only do we need to offer best in class products but we also need to build strong relationships across multiple distribution channels in Kuwait and abroad. The experienced wealth management team remains proactive in reaching out to clients, offering personalized services in volatile market conditions and maintaining the highest professional standards. WMBD also regularly analyses market intelligence to benchmark Markaz product performance against competitors.

Real Estate

MENA Real Estate

The Markaz MENA real estate team was able to maintain high occupancy levels of 95% in 2019 across its portfolio of income generating assets. During the second half of year, Markaz took over the management activity of the four completed projects, one each in Dubai and Kuwait and two in Abu Dhabi. Markaz started renting out the units and rental income is expected to increase as occupancy levels improve going forward.

During the year, Markaz also launched property management services and took over the property

management activity for all its KSA properties with the intention to also consolidate its UAE portfolios in 2020.

Overall, Markaz continues to focus on enhancing operational efficiency and improving profitability. Markaz is well positioned to capture upcoming opportunities. Markaz is currently evaluating the possibility of launching a REIT in Kuwait.

Kuwait

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

KSA

The Al Rawabi Pearl development is located in Khobar and consists of 86 residential and 2 retail units. The complex was completed and handed over in Q1 2016 and currently is managed as an income generating asset. During 2019, active management of the property continued to mitigate the weak market conditions and ensure higher occupancy levels are maintained.

The Al Rihab Pearl compound development is located in Riyadh and consists of 147 residential and 1 retail units. The property was handed over end and leasing activities commenced in January 2019.

The Aradi development land portfolio is currently under exit and has to date returned circa 85% of capital back to investors.

UAE

Parkside residence Development is located on Al Reem Island in Abu Dhabi and consists of 165 residential units. The complex was completed and handed over in H2 -2019, and the rental activity is progressing at faster than expected.

VeZul Tower residence Development located in Dubai consists of 149 residential and 1 retail units. The complex was completed and handed over in H2-2019 and currently is managed as income generating asset.

The Boardwalk residence project is located on Al Reem Island in Abu Dhabi, UAE and consists of 35 residential units. The property has been able to maintain healthy occupancy levels despite the market conditions given the quality of the building as well as the active management the team in the UAE has adopted.

International Real Estate

During 2019, Markaz successfully exited two development projects, the Royal 10 office development

project in Dallas, Texas which generated a net investor internal rate of return of 13.3% and Chandler Shopping Centre in Arizona delivering a gain of KD 0.82 million. Furthermore, as part of our real estate development projects, Markaz started construction of four different developments in 2019, including two industrial projects in Europe, one residential and one industrial project in the US.

The Markaz real estate team continues to actively restructure its real estate portfolio, with the aim of delivering higher returns to its co-investors, and to evaluate select development properties. In addition, Markaz continues to expand its new investment program designed to capitalize on value-add opportunities in the US as well as in selective European markets.

Investment Banking

The Investment Banking team evaluated a number of advisory proposals during the year encompassing corporate advisory, M&A, restructuring and equity capital markets. Total transaction value executed in 2019 was over \$582 million across the GCC market. Sectors such as education, healthcare, food and beverage continue to attract strong interest from potential buyers. The Markaz Capital Markets team completed the only listing of the year on Bursa Kuwait for Al-Manar Finance and Leasing Company in February 2019. The team also successfully completed the United Projects Company for Aviation Services (UPAC) rights issue with a total value of KD 18 million and acted as structuring and placement agent for a convertible loan for a corporate client. Markaz is currently part of a consortium to submit a bid for a PPP project for the Kuwait Authority for Partnership Projects (KAPP).

During the year, Markaz was granted the prestigious award "Best Investment Bank in Kuwait 2019" by Global Finance. This clearly reflects the capability of Markaz and the experienced investment banking team to successfully execute and advise on high profile transactions.

Looking ahead, Markaz expects a higher number of corporate transactions as the valuation gap between buyers and sellers converge. Defensive sectors such as education, healthcare and food and beverage are expected to be active. The investment banking team continues to engage with various corporates on M&A and debt issuances, resulting in a strong pipeline for the year ahead.

Government Business Relations

Markaz established the Government Business Relations Department in 2019 to act as a central point of contact with the government. The department aims to build on existing, and create new, relationships with Kuwait government

Business Review (continued)

bodies, systematically target government tenders, bid on suitable projects, and build relationships with private sector entities bidding for work on government projects, to act as their financial advisor. In addition, the department works closely with Investment Banking, Wealth Management and Markaz research Arm (Marmore) to optimize and harmonize Markaz's collective efforts in the Public-Private sectors.

Markaz offerings through the Government Business Relations department include advisory services on government's privatization projects and supporting governmental entities in terms of performing business valuations, restructuring and conducting feasibility studies.

In 2020, the Government Business Relations Department will continue to leverage Markaz's strength to build sustainable wealth for our clients and partners through prudent and innovative solutions.

Custody Services Department

The Custody Services Department offers clients a number of services including Custodian services offering Custody of assets of different types (financial securities, real estate), Security Agent over pledged assets in favor of lenders, and Escrow Agent within a sale-purchase transaction.

During 2019, Markaz was Security Agent within the context of debt settlement transactions through debt to asset swaps, using Special Purpose Vehicles. Markaz has also provided Escrow Agent services to clients.

Research

Markaz's Published Research Department continues to attract business with its insightful research studies disseminated through its research subsidiary, Marmore MENA Intelligence. During the year, Marmore strengthened its client's base by offering reliable and objective analysis on differing needs of varied nature. It continued to deliver quality research to meet client needs by offering tailored solutions and published over 60 reports on its research web portal. Marmore executed 27 bespoke engagements with entities across the GCC region, ranging from large government and semi government institutions to corporations. Marmore also published 34 blog articles on issues that pertain directly to regional businesses and economies on a regular basis. Some of the popular research published during the year were "Saudi Aramco Valuation", "Crowdfunding in the GCC - A New and Faster Source of Funding", "Kuwait Index Inclusion - How will it redefine Kuwait's economic prospects?" and "GCC Asset Management - 2019".

Marmore collaborated with the Kuwait Foundation for the Advancement of Sciences (KFAS) in creating

and releasing a study titled 'FinTech: Future of Financial Services'. The key findings of the report were presented in a talk organized by KFAS during the year and outlined the overarching principles that outline a framework that policymakers and regulators can potentially use to deliberate and engage to assess the overall FinTech ecosystem and connected policy objectives. Similarly, industry and civil society stakeholders can use the presented framework to understand how an inclusive financial system can manifest through public private cooperation.

During the year, Marmore launched research subscription services which provide access to a wide variety of research reports that offer timely and actionable intelligence, helping clients stay informed about recent developments in a dynamic market landscape. Marmore is well placed to maintain its market position as a leader in the space of published research in the GCC amidst dynamic business conditions.

Support Functions

Treasury

During the year, Markaz's Treasury Department maintained an adequate liquidity level along with well a capitalized balance sheet which has enabled the firm to timely honour its financial obligations in Kuwait, GCC and internationally. The Treasury Department provides key support to all other departments and subsidiaries by providing reliable banking services including the arrangement of credit facilities, fund transfers, money market and foreign exchange transactions. The department has also acquired competitive business opportunities from local and international banks to better serve all key business units and provide efficient banking services to Markaz, managed funds and subsidiaries. The department retains experienced staff and is equipped with modern communication facilities that include the SWIFT platform in addition to the latest online banking cash management platforms from several banks, to run operations more efficiently. Going forward, the department will continue to establish new and foster existing relationships with banks locally and internationally to continue to service Markaz fund requirements. In addition, it will continue to utilize the latest technologies to enhance its overall operational efficiency.

Post-Acquisition Department

The Post-Acquisition Department (PAD) was established during the course of 2019 with a mandate covering the entire direct investment portfolio of Markaz. As of Q4 2019, the portfolio consisted of circa KWD 380

million worth of real estate assets across the MENA region, USA and Europe. Markaz highly leverages the latest technologies and digital platforms in efforts to enhance investment value by providing in depth portfolio monitoring, live reporting, studied preemptive and mitigation measures.

During the course of 2019, key focus was to enhance reporting tools, strengthen oversight mechanism and develop comprehensive consolidation practices. In addition, significant progress was made towards increasing the departments digital footprint both by implementing value add modules and by integrating internal systems with third-party stakeholders to increase efficiency and control measures.

In 2020, Markaz will continue to develop its capabilities and systems by benchmarking itself to industry and global best practices, to continue taking educated decisions and growing its AUMs in a profitable, structured and efficient manner.

Media & Communications

The Media and Communications Department (MCD) continues to endorse the Markaz brand at local and regional levels in line with a comprehensive communications plan. This covers both conventional and digital media with a particular focus on social media.

In 2019, MCD, in collaboration with the Wealth Management & Business Development, Advisory and Research Departments, organized a series of events for Markaz's broader stakeholders. The events included seminars and conferences in collaboration with associations in the financial sector to exchange views with stakeholders on developments in local, regional and global markets; namely "Education Sector in Kuwait: Trends & Opportunities" and "GCC Banking Mergers" in collaboration with the Kuwait Banking Association (KBA). MCD will continue to collaborate with all Markaz's departments in order to better serve our stakeholders.

The MCD team continued to publish Markaz quarterly newsletter "engage" in collaboration with representatives from different departments within Markaz. The magazine, which has informative articles written by Markaz employees sharing their knowledge and expertise, has achieved great success both internally and externally.

MCD continued to implement the firm's strategy in the domains of corporate, social and economic responsibility (CSER). This is based on three pillars, building human capabilities, aligning business environment with the principles of sustainable development and promoting good governance in the business environment. To accomplish these pillars, Markaz collaborates with

various civil organizations in many fields including health, education, culture, youth welfare and economic sustainability.

In 2020, MCD is planning to improve Markaz's website by adopting the best international practices and providing better user experience with interactive user browsing experience in both Arabic and English. The new website will have state of the art web design technologies. MCD will continue to strengthen Markaz's internal and external communication, with an emphasis on further enhancing its network and translating the brand value into business opportunities.

Compliance

Markaz has a comprehensive compliance framework in place to ensure that its activities are compliant with applicable regulations and internal policies. The Compliance Department is responsible to ensure overall regulatory compliance including implementation of adequate controls and governance frameworks through established policies and procedures. The department carries out periodic testing and monitoring activities to ensure firm wide processes and controls are effective. The department also ensures overall compliance with AML regulations by setting appropriate policy and procedures and is also responsible for responding to client complaints. Furthermore, the Compliance Department aims to strengthen all compliance systems through increased automation whilst continuing to ensure the ongoing effectiveness of existing internal controls and processes.

Risk Management

The Risk Management Department independently reports to the Board Risk Management Committee and is primarily responsible for managing company-wide risks. Markaz adopts a proactive approach in reporting, evaluating and resolving risks associated with the business all of which are key to the sustained operations of the firm. Markaz has implemented a comprehensive risk management framework to ensure that Markaz's risks are governed with appropriate risk management systems and controls. Markaz adopts an integrated approach towards risk management in which all business units, the Risk Management Department and the internal audit unit are considered as key pillars for the effectiveness of overall risk management.

The Risk Management Department identifies, measures, evaluates and reports on all critical risks to which Markaz is exposed, through defined Key Risk Indicators under relevant risk categories. The department monitors the adherence to the risk tolerance set by the Board

Business Review (continued)

of Directors and reports quarterly to the Board Risk Management Committee and semi-annually to the Board of Directors. The department 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 and 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. During 2019, a Quality Assessment review on the internal audit function was performed by an independent professional firm, as a part of the quality assurance and improvement program.

Systems & Operational Controls

The Systems and Operational Controls team has been constantly upgrading its “VESTIO” system, a strategic asset management solution that consolidates Markaz’s diverse wealth management and client accounting systems into one single platform. VESTIO serves a pivotal role in Markaz by serving the full requirements of portfolio and fund managers, trade and settlement operations, client relations, the know-your-customer module with FATCA and CRS Compliance functionalities. During 2019, VESTIO upgraded its wealth management modules with several features such as rebalancing, index pricing, a risk calculator and other compliance monitoring tools. In the coming years, Markaz is keen to launch more client friendly technology based servicing and reporting tools such as automated onboarding of clients, easy access of reporting packages to clients, the iMarkaz application and various other enhancements.

Information Technology

The Information Technology (IT) Department is committed to the creative and innovative use of technology to achieve Markaz’s business objectives. The IT Department maintains best practices and industry standards across IT infrastructure and technologies. Furthermore, the IT team has been focused on responding to emerging threats with adequately resilient systems. This has involved enhancing the network and security infrastructure by installing and upgrading new devices such as firewalls, intrusion prevention systems and anti-ransomware, implementing 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 2019. The IT Department has also successfully migrated email, SharePoint and the collaboration platform (MS Teams) to a cloud platform.

During 2019, the department was pleased to report that there were no security incidents. 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 been successful in eliminating single point of failures. 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 countywide 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.

In 2020, the department will strive to maintain the highest level of IT security by enhancing and deploying existing or tested solutions and benchmarking them against industry standards and best practices. The IT team aims to establish comprehensive DRaaS to allow business units to operate from alternate locations outside of Kuwait, in the event of a countrywide disaster. The department targets to deploy a number of IT operational enhancements with the intention of realizing cost savings. Although the primary goal continues to be Data C-I-A (Confidentiality, Integrity and Availability), as part of long term strategy, the department aims to certify the Markaz Data Center by obtaining industry leading credentials from ISO and similar reputable organizations.

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, 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

2020, TPR will continue monitoring and revising policies and procedures to ensure the efficient flow of work and responsibility allocation of the personnel involved in processing transactions, reconciliation and reporting.

Corporate Affairs & Fund Administration

The Corporate Affairs & Fund Administration Department comprises the in-house Legal team, in addition to the corporate services team that handles the establishment, administrative and corporate affairs of all investment funds and companies established by Markaz for use in asset management and investment banking transactions. The Legal Team advises on corporate matters, in addition to providing advice to the asset management and investment banking teams on the varied types of transactions.

During 2019, the department completed the implementation of the Contract Management system, and the automated corporate database for over 115 entities (funds and companies) in more than 10 jurisdictions, within the proprietary system “Vestio”. Full automation will enable the department to provide such corporate/administrative services to clients.

Financial Management

The Financial Management Department (FMD) started 2019 with a vision of a complete overhaul and digital transformation of its operations and process automation. The department implemented effective internal controls through professional data analytics and the best financial practices and operating policies. FMD ensured full compliance with CMA and CBK regulations and disclosures of material information, leading to the maintenance of an adequate liquidity position.

Markaz adopted IFRS 16 (Leases) which became effective from January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS 17, IFRIC 4, SIC-15 and SIC-27. In context of IFRS 16, Markaz recognized its lease contracts as right-of-use asset and lease liability on the financial position of 2019 using the modified retrospective approach.

Oracle Financial System replaced Flexcube with effect from January 2019 as the backbone accounting system. During the year, all the entities including subsidiaries and SPVs were moved to Oracle. The FMD team is currently testing the integration of Oracle Financials System and Vestio Asset Management System to automate accounting for funds and portfolios. Following the successful testing of integration interface, all the funds and portfolios will be moved to Oracle during 2020.

The department initiated the automation of the consolidation and budgeting process during 2019 by selecting the SAP BPC solution. The configuration of SAP BPC is in progress and is expected to be completed in early 2020. The department also played pivotal role in integrating Oracle Financials System with Yardi Property Management system to automate the accounting for entities with income generating properties. After successful testing, this integration has been rolled out to substantially all income generating entities as of year end 2019.

Human Resources

Human Resource management is an increasingly strategic function within Markaz as the financial services industry competition and consolidation continues to intensify. HR management at Markaz goes beyond the boundaries of compensation and performance reviews and extends to an employee’s life work cycle. This ensures timely interventions that help build a long lasting and successful career. The department endeavors to create a work environment that ensures employees continued well-being and each individuals personal potential is fully aligned with Markaz’s growth strategy.

During the year, Markaz has focused on updating its core HR policies and frameworks and also widening its sources for new talent and speed in hiring. Markaz aims to benefit from experienced talent coming in from the broader market, but the tradition of ‘growing from within’ remains the firms most predictable and reliable pipeline for key people. To ensure Markaz remains competitive in attracting and retaining employees, the firm has undertaken a full market study of pay and benefits, as well as evaluating the ‘employee experience’. In parallel, HR continues to improve the effectiveness of our performance management processes and undertook a comprehensive mapping exercise of all employees. These activities have helped to analytically leverage our existing strengths, identify our key employees and recognize most reliable contributors. The result has generated a ‘blueprint’ from which to reinforce and grow the Markaz talent base.

Learning and development is the top theme going into 2020 and HR will focus on creating and tuning a ‘growth engine’ at Markaz that can deliver strong returns for stakeholders. The HR team intends to chart the career steps needed to continuously improve expertise, leadership and responsiveness, and will put team and individual plans in place. This will be leveraged via technology, with a high emphasis on employees taking ownership of their own learning experiences and creating an environment where employees are given opportunities to explore their talent and capabilities.

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	19/4/2017
Humoud Sabah Al-Sabah ²	Vice Chairman	Over 30 years of experience, in the capacity of Chairman and member of the Board in contracting, telecommunication and financial services companies	19/4/2017
Faisal AbdulAziz Al-Jallal	Independent member	Over 40 years of experience in the real estate and financial sectors. University degree from Alexandria University	19/4/2017
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	19/4/2017
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	19/4/2017
Al-Seef Financial Brokerage Company (KSCC), represented by Fouzi Ebrahim Al-Mukaimi	Non-Executive member	Over 30 years of experience in various sectors. Master of Professional Accounting from University of Miami, USA and a Bachelor's Degree in Accounting from Kuwait University	19/4/2017
Adel Mohammed Alghannam	Independent member	Over 29 years of experience in the general trading and financial sectors. Bachelor's degree in Business Administration	19/4/2017
Maha Abdul Salam Imad	Secretary	Bachelors of Science in Business Management	9/2/2014
Fedaa Jamal Kittaneh	Assistant Secretary	University Degree in Business Administration	9/2/2014

Summary of the Board's Meetings in 2019:

Attended • Absent x

Director	Meeting 1 on 06/02/2019	Meeting 2 on 17/02/2019	Meeting 3 on 08/05/2019	Meeting 4 held on 31/07/2019	Meeting 5 on 27/10/2019	Meeting 6 on 18/12/2019	Number of meetings
Diraar Yusuf Alghanim	•	•	•	•	•	•	6
Humoud Sabah Al-Sabah	•	•	x	•	x	x	3
Faisal AbdulAziz Al-Jallal	•	•	•	x	•	•	5
Ayman Abdullatif Alshaya	x	•	•	•	•	x	4
Fahad Yaqoub Al-Jouan	•	x	x	x	•	•	3
Fouzi Ebrahim Al-Mukaimi	•	•	•	•	x	x	4
Adel Mohammed AlGhannam	x	•	•	•	•	•	5

² Sheikh Humoud Sabah Al-Sabah passed away in November 2019 and Mr. Faisal AbdulAziz Al-Jallal was elected by the Board of Directors as the Vice Chairman on 18 December 2019.

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 Secretary and presented to the Chief Executive Officer and Chief Operating 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.

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 Policies” 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 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 and/or reviewed 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 2019 Achievements:

- A. Appointing new Vice Chairman to complete the current session.
- B. Submitting an application to CMA to obtain the Market Maker license.
- C. Approving the 2020 budget and the business plan for the next three years.
- D. Modifying the organizational structure of the Company due to:
 - i. Establishing new departments:
 1. Governmental Commercial Relations Department: To expand the company’s scope of work with public sector.
 2. Post-Acquisition - Real Estate: To provide operational support services to international and MENA real estate investments departments.
 3. Preparing to establish Market Maker Dept.
 - ii. Amending the Risk Management Department’s reporting from the “Board of Directors” to the “Risk Management Committee”
 - iii. The restructuring of the Human Resources and Administrative Affairs Department, where two departments have been established;
 1. The Human Resources Department and;
 2. The Administrative Affairs Department.
- E. Discussing and approving the company’s interim and annual financial statements.
- F. Approving the plan to purchase treasury shares.
- G. Approval and implementation of the training plan for the Board and Executive Management for the year 2019, and the training plan for the years 2020-2021.
- H. Holding training program on regulatory instructions regarding anti-money laundering and the financing of terrorism.
- I. Approving the amendments to internal policies and procedures manuals and issuing new policies, the most important of which are:
 - i. Amendment to the list of authorized signatories: adding certain financial powers to facilitate workflow.
 - ii. Amendment to: “Policy on Delegation of Powers”; “Complaints Policy and Procedures”; “Loans Policy and Procedures”; “FM Policy and Procedures”;

Corporate Governance Report (continued)

“AML Policy and Procedures”; “Shareholder’ Rights Policy”; “Internal audit Policy and Procedures”; “International investments Management Policy and Procedures”.

iii. Issuing “Customer Onboarding Policy and Procedures”.

J- Approving the periodic and annual reports: Corporate Governance report; report of internal audit on internal control systems (ICR), the mid-year Risk Management report; the external auditors’ reports on “Portfolio management procedures” and “AML Procedures”; 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).

K. Approving the related-parties transactions.

L. Inviting and convening the annual General Meeting to vote on the recommendations approved by the Board on dividends, remuneration of Directors, appointment or reappointment of auditors, among other matters.

M. Inviting and convening the Extraordinary General Assembly meeting to approve amending the articles of association by adding the licensed activity of Market Maker, in addition to Security Agent, Escrow Agent and Payment Agent.

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

1. Audit Committee:

A. Roles and achievements of the Audit Committee in 2019:

- 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. Recommended the reappointment of the external auditors.
- iv. Approved the appointment of an auditor to assess and review the internal control systems (ICR).
- v. Approved the appointment of an auditor to assess the performance of the internal audit unit (every 3 years).
- vi. Approve the appointment of an auditor to assess and review Systems and operations of the Custody Services and discuss the report issued by them.
- vii. Reviewed the periodic reports from the Complaints and Loans units.

B. The Committee was formed on April 20, 2017 for a period of three years.

C. Chairman: Faisal AbdulAziz Al-Jallal- Members: Fouzi Ebrahim Al-Mukaimi, Adel Mohammed AlGhannam.

D. In 2019, the Committee held six meetings.

2. Steering Committee:

A. Roles and achievements of the Executive Committee in 2019:

- i. Reviewed and recommended to the Board the estimated budget for 2020 and the business plan for the years 2020-2022.
- ii. Approved entering into a strategic alliance with a consulting firm for business development.
- iii. Approved the establishment of a number of special purpose companies in the Cayman Islands and Kuwait to serve the Company’s investments and clients’ investments.

B. The Committee was formed on April 20, 2017 for a period of three years.

C. Chairman: Diraar Yusuf Alghanim - Members: Ayman Abdullatif Alshaya, Fahad Yaqoub Al-Jouan.

D. In 2019, the Committee held one meeting.

3. Risk Management Committee:

A. Roles and achievements of the Risk Management Committee in 2019:

- i. Following up the implementation of the risk management framework and the results of the stress tests program.
- ii. Viewing and discussing emerging risks, for example, in the competitive environment and the regional geopolitical risks.
- iii. Reviewed the risk control self-assessment (RCSA) results for some departments.
- iv. Reviewed the periodic Risk Management reports and the mid-year report before sending it to the CMA.
- v. Reviewed the periodic reports from the Anti-money laundering unit and reports on resignations and their reasons, appointments and their necessity, as well as legal cases filed by or against the Company.

B. The Committee was formed on April 20, 2017 for a period of three years.

C. Chairman: Faisal AbdulAziz Al-Jallal - Members: Fouzi Ebrahim Al-Mukaimi, Adel Mohammed Al Ghannam.

D. In 2019, the Committee held four meetings.

4. Nominations and Remunerations Committee:

A. Roles and achievements of the Nominations and Remuneration Committee in 2019:

- i. Reviewed a detailed report on HR activities.
- ii. Recommended the appointment of a new vice Chairman to complete the current session.
- iii. AApproved seeking nominations to the Board of Directors for the next session (2020-2022).

B. The Committee was formed on April 20, 2017 for a period of three years.

C. Chairman: Diraar Yusuf Alghanim - Members: Ayman Abdullatif Alshaya, Fahad Yaqoub Al-Jouan, Faisal AbdulAziz Al-Jallal

D. In 2019, the Committee held one meeting.

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 record 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 infrastructure and technology base are presently being developed to facilitate communication between the Company and its members, enabling them to access information quickly and easily. 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 Board meeting held on April 20, 2017.
- The Board confirmed the formation of the Board, its Committees and the independent members during its third meeting held on April 20, 2017.

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

- At the Annual General Assembly, the Board recommends the remuneration of the Committees and Board.
- The report is made available at the AGM.

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 2020, held on February 16, 2020, and discussing the financial statements for the year ended December 31, 2019:

- A memo issued by the Executive Management confirming the soundness and integrity of the financial statements for the year ended December 31, 2019.
- A memo issued by the Financial Management Department regarding the annual review of the capital structure for the year ended December 31, 2019.
- A memo issued by the Financial Management Department regarding the assets and capital expenditures for the year ended December 31, 2019.
- 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, 2019.
- The Board of Directors included an undertaking in the annual report confirming the soundness and integrity of the financial statements for the year ended December 31, 2019.

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

- The Audit Committee was formed with its present members on April 20, 2017, following the election of the members of the Board during the AGM on April 19, 2017.
- 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 independent, non-independent, non-executive members, 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 2019.

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.

Corporate Governance Report (continued)

- 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.
- Partners in the auditors' 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 Head of Risk Management Department is registered with the Capital Markets Authority since October 2, 2012 (currently holds the position of Executive Vice President). 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 Board during its third meeting held on April 20, 2017.
- 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:

- An organizational structure that aligns Markaz's business strategy and activities and define departmental reporting, a detailed job description for jobs, responsibilities and powers.
- 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. Markaz issues an annual report accordingly and send a copy to CMA.
- An independent auditor assess the performance of internal audit unit every three years.
- Perform Risk Controls Self-Assessment (RCSA) for

all departments.

- 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 procedures and policy have been reviewed and updated in 2019.
- The Internal Audit Officer was registered with the Capital Markets Authority on September 20, 2016.
- The Internal Audit Officer is responsible of 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 control 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 “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.
- The Company maintains a list of names of related parties, which is updated by the Chief Financial Officer (CFO) and reviewed 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.
- 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.
- Risk Management reviews transactions with related parties and makes recommendations to the Board.
- 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 the 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 and Executive Management.

- 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 and Executive Management. Shareholders can review the register through the Investor Relations Unit or at the AGM.

Corporate Governance Report (continued)

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 its clients 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 2014.
- 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 sukuk.
 - 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.

The policy has been updated to allow shareholder voting 3 days prior to the assembly.

- 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 investors are responded to by the Investor Relations Unit and the Compliance 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 provides 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 received 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.

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, 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 Complaints Unit.

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.
- 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 –Bursa 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.
- 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 which are applied every year.

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

During 2019, the management activity focused on recruiting and retaining the quality employees, internal organic growth or the internal recruitment. The followings are the steps that have been taken by Markaz to hire and retain these employees:

- Review recruitment procedures to achieve the required effectiveness and speed.
- Comparing grade and salary scales with market averages by conducting a study on local market.
- Evaluate the overall "employee engagement" in working environment to determine where the improvement is needed, if necessary.
- Assessing the performance and what is related to this activity:
 - Updating the procedures on determining the competencies required for each position and job (Capability Mapping);
 - This led to greater flexibility in identifying training needs and outstanding persons to prepare them for the new stage of their career path.
 - Aligning the strategic goals of the company and the individual goals of each department with the existing talents available while developing, training and motivating them to achieve the goals and strategy of Markaz.
- Restructuring and establishing departments to improve and raise the operational efficiency by hiring specialists in the concerned departments and work teams to make the most of their capabilities:
 - Separating the Human Resources Department from the Administrative and Governmental Affairs Department
 - Creating an independent Post-Acquisition department to support MENA and International real estate departments, to ensure that these departments are devoted to making investments and maximizing performance.
- Establishing a new department within the Investment Banking Division called "Governmental Commercial Relations Department" to expand the company's scope of work with the public sector.

With respect to the on-going activities and programs, they are as follows:

- The Executive Management holds Pivotal Exchange Forums with trainees of the "Professional Training and Employment Program" and employees from different departments to encourage the exchange of ideas while ensuring participating employees are rotated to provide equate opportunities.
- The Communications and Media Department publishes a quarterly magazine titles "Engage" in which employees contribute to writing articles and sharing their professional and personal experiences;
- The Human Resources Department holds the

Corporate Governance Report (continued)

Leadership Program annually to a number of middle management employees from various departments to prepare them for leadership positions in the future, as well as heads of departments, to focus efforts towards developing a career path and setting a training and skills development plan that serves the Company's strategic objectives and sustainable growth plans. The program is provided by consultants Ernst & Young (E&Y).

- In addition to the regular technical training programs selected by the departments for their employees.

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

As part of its social and economic responsibility strategy, Markaz supported a series of programs in cooperation with civil society organizations and authorities. The most important of these focused on the development of human capabilities by supporting

small and medium-sized enterprises through the incubator "Fikra" for Kuwaiti entrepreneurs, as well as supporting Maker Faire International Exhibition organized by Kuwait Investment Company. In a belief in the importance of education, Markaz sponsored the students of the College of Engineering and Petroleum, the Indian Public School and Al Bayan Bilingual school. In addition, Markaz collaborated with CODED program to provide customized training workshop to Markaz 'Graduate Development Program'. The Coded workshop designed for Markaz was a 3-day program targeting beginners and covering introductory concepts for financial technology (Fintech) and fundamentals of founding tech startups.

In addition, Markaz sponsored Kuwait Red Crescent Society to support the organization in helping the needy patients in Kuwait. It also sponsored the education program of the Foundation of Hope to support children who are intellectually challenged in order to provide them with a better quality of life and help them blend in the society. Moreover, it sponsored Bareeq program that aims to spread positive thinking through a variety of simple activities to high school students. Markaz continued to support the cultural activities of Loyac as well as Nuqat conference and the workshop of the novelist Najwa Barakat in collaboration with Kuwait Writers Association. In the field of sports, Markaz sponsored the Kuwait Tennis Federation and the Loyac Football Academy managed in cooperation with AC Milan. In the field of health, The Company is also a constant supporter of the Kuwait Children's Care in Hospitals Society (KACCH), the Children's Cancer Center of Lebanon (CCCL), the Kuwait Red Crescent Society as well as the UNCHR program in Yemen.

In addition, Markaz continued the vocational training and placement program that was initiated in the year 2017 to offer training to 10-15 graduates from different majors from Kuwait University and private universities for a year, during which they learn about the various activities of the departments of "Markaz". The company then directs students to obtain extensive experience in specific departments. During the program, graduates receive direct and online training, engage in other additional activities and gain positive and constructive skills and work experiences inside Markaz.

2. Aligning the business environment with the best corporate governance standards

As part of its economic responsibility which aligns the business environment with the best corporate governance standards, Markaz was the first to publish research to increase knowledge of the financial sector. A special section was devoted to these research

papers, which present practical policies that can be implemented in Kuwait and the region in the areas of energy, workforce, economic structure and the public sector. These research documents are also shared with the wider public and decision makers in Kuwait and concerned parties, to engage discussions on their findings and arrive to practical solutions to improve the business environment and achieve through partnerships with international experts to achieve sustainable development, and partnerships with unions and civil society institutions.

Marmore, a majority owned subsidiary of Markaz established in 2010, offers full-fledged research in asset management and investment banking focused on Middle East and North Africa (MENA) region. Some of the reports issued by Marmore include:

- GCC Market Outlook 2020
- Kuwait Budget 2019-20: 4th year of deficits after 16 years of surplus-needed a national investment policy to spur capital markets.
- GCC Banking Mergers
- Kuwaiti Labour Productivity
- Crowdfunding in the GCC.
- Consulting in GCC: Understanding the Value Add
- 2018 Corporate Earnings in the GCC
- GCC Asset Management 2019
- Financial Analysis of Saudi Arabia Oil Company (Saudi Aramco)
- MSCI upgrades Kuwait to Emerging Markets
- GCC Tourism and Hospitality
- Kuwait Aviation
- GCC Restaurant Tech
- GCC institutional Investors - SWFs
- Kuwait Healthcare

Markaz is keen to continuously collaborate with international financial experts to provide an opportunity to learn about the global thinking on issues of concerns to Kuwait economy. On behalf of the non-banking financial sector, Markaz participated in a panel discussion Organized by Central Bank of Kuwait in cooperation with Global Finance on the present and prospects of Kuwait Economy. Also, it participated in panel discussion on the banking and financial sector, Fintech and Block chain in the Arab British Economic Summit organized by the Arab British Chamber of Commerce. Hosted by PIF, Markaz participated in a panel discussion titled: "Trading Places: What new financial centers are rising up around the world?" in the Future Investment Initiative in Riyadh. In collaboration with the Gulf Bonds and

Sukuk Association (GBSA), Markaz participated in the fourth annual Kuwait Debt Capital Market Conference. In addition, it participated in Middle East Asset Management Forum and Kuwait FinTech Conference and Exhibition.

Markaz organized a symposium titled "Education Sector: Trends and Opportunities". The symposium included a number of discussion panels with Markaz experts in the investment banking sector and a number of experts in the education sector regionally and globally, including its main players and different educational service providers in Kuwait.

As part of its partnership with economic and social authorities in Kuwait, Markaz sponsored 'Kuwait Investment Outreach Roadshow organized by Kuwait Direct Investment Promotion Authority (KDIPA) in London, Silicon Valley and later in Singapore. In collaboration with the Kuwait Banking Association, Markaz presented a seminar on the merger and acquisition developments in the GCC banking sector. Furthermore, Markaz held a presentation titled "The Future of Startups in Kuwait and GCC" in collaboration with Kuwait Economy Society in a symposium titled: "Technology Projects in Kuwait, Challenges and Opportunities". Markaz also participated in Kuwait Industrial Conference and Forum putting forth recommendations to develop the Kuwait economy and effectively utilize the capital markets. In addition, Markaz participated in a seminar titled "Importance of IR from local fund managers' perspective" that organized by Bursa Kuwait and Middle East Investor Relations Association (MEIRA). In collaboration with KFAS, Markaz issued report titled "FinTech: Future of Financial Services".

3. Promoting sound governance in the business environment

The public sector plays a vital role in the allocation and utilization of economic resources in Kuwait, given the importance of public spending and the role government plays in economic development. Thus efforts must be combined to boost public sector performance and enhance economic development. To this effect, Markaz participated in New Kuwait Summit 2019 that discussed a number of key topics such as Diversification of the economy, Natural resources and oil wealth to support industry growth in other areas, What are the new industries and potential?, Public private partnerships and Knowledge economy. Markaz also participated in Kuwait Conference for Contract Drafting, Management and Dispute.

Consolidated Financial Statements

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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 2019, 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 2019, 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 Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (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 KD8.7 million (31 December 2018: KD8.9 million) for the year ended 31 December 2019 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. The Group's policy on revenue recognition is disclosed in note 5.3 to the consolidated financial statements.

Our audit procedures included 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 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 KD 55.3 million represent 27.5% of the total assets as at 31 December 2019 and consist of land, buildings and projects under development held for rental located in the United Arab Emirates and the Kingdom of Saudi Arabia. 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.

Independent Auditors' Report (continued)

To the Shareholders of Kuwait Financial Centre - KPSC Kuwait

Impairment of Investment properties (continued)

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 financial statements relating to this matter against the requirements of IFRSs.

Other Information included in the Group's 2019 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 2019, 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 2019 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

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, related safeguards.

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 2019 that might have had a material effect on the business or financial position of the Parent Company.

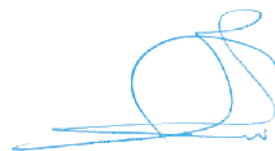
We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations, or of the provisions of Law No. 7 of 2010, concerning the Capital Markets Authority and its related regulations during the year ended 31 December 2019 that might have had a material effect on the business or on its financial position of the Parent Company.



Anwar Y. Al-Qatami, F.C.C.A.

(Licence No. 50-A)

of Grant Thornton - Al-Qatami, Al-Aiban & Partners



Bader A. Al-Wazzan

(Licence No. 62-A)

of Deloitte & Touche - Al-Wazzan & Co.

Kuwait

16 February 2020

Consolidated Statement of Profit or Loss

	Note	31 Dec. 2019 KD '000	31 Dec. 2018 KD '000
Revenue			
Interest income	8	1,022	679
Dividend income		1,595	1,493
Management fees and commission income	9	8,692	8,930
Gain from financial assets at fair value through profit or loss	10	9,934	3,477
Gain on redemption of investments at fair value through other comprehensive income		-	5
Gain on liquidation of subsidiaries	7.1.4	-	334
Share of results of associate and joint venture	21	(141)	(77)
Gain on sale of investment properties	22	967	-
Net rental income		1,329	517
Foreign currency exchange gain/(loss)		61	(83)
Other income		32	26
		23,491	15,301
Expenses and other charges			
General and administrative expenses	11	(12,001)	(9,222)
Finance costs	12	(2,780)	(1,747)
Reversal of provision for credit losses		-	12
Other expenses		(188)	(158)
Impairment of investment properties (net)	22	(1,065)	(2,335)
		(16,034)	(13,450)
Profit before provisions for contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST), Zakat and Directors' remuneration			
		7,457	1,851
Provision for contribution to KFAS		(68)	(22)
Provision for NLST		(194)	(130)
Provision for Zakat		(78)	(52)
Provision for Directors' remuneration	31	(175)	-
Profit for the year		6,942	1,647
Profit/(loss) for the year attributable to:			
Owners of the Parent Company		6,957	2,285
Non-controlling interests		(15)	(638)
Profit for the year		6,942	1,647
Basic and diluted earnings per share attributable to the owners of the Parent Company			
	13	15 Fils	5 Fils

The notes set out on pages 50 to 86 form an integral part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and other Comprehensive Income

	31 Dec. 2019 KD '000	31 Dec. 2018 KD '000
Profit for the year	6,942	1,647
Other comprehensive (loss)/income:		
Items that will be reclassified subsequently to statement of profit or loss:		
Investments at fair value through other comprehensive income:		
Net change in fair value arising during the year	(9)	11
Transferred to consolidated statement of profit or loss on redemption	-	(5)
Foreign currency translation:		
Exchange differences arising on translation of foreign operations	(161)	154
Share of other comprehensive loss of associate and joint venture	(7)	(77)
Total other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods	(177)	83
Items not to be reclassified to profit or loss in subsequent periods:		
Change in fair value of investments in equity instruments designated at FVOCI	(365)	-
Total other comprehensive (loss)/income	(542)	83
Total comprehensive income for the year	6,400	1,730
Total comprehensive income/(loss) for the year attributable to:		
Owners of the Parent Company	6,599	2,352
Non-controlling interests	(199)	(622)
	6,400	1,730


The notes set out on pages 50 to 86 form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

	Note	31 Dec. 2019 KD '000	31 Dec. 2018 KD '000
Assets			
Cash and bank balances	14	4,937	4,691
Time deposits	14	1,332	2,565
Accounts receivable and other assets	15	7,430	3,503
Loans to customers	16	405	304
Financial assets at fair value through profit or loss	17	106,646	92,674
Assets held for sale	18	7,819	-
Investments at fair value through other comprehensive income	19	2,735	427
Investments carried at amortised cost	20	9,099	6,998
Investment in associate and joint venture	21	3,594	3,651
Investment properties	22	55,256	56,830
Right-of-use assets	4.1	600	-
Equipment		1,084	878
Total assets		200,937	172,521
Liabilities and equity			
Liabilities			
Accounts payable and other liabilities	23	15,307	10,904
Bank borrowings	24	41,632	22,565
Bonds issued	25	25,000	25,000
Total liabilities		81,939	58,469
Equity			
Share capital	26	48,080	48,080
Share premium	26	7,902	7,902
Treasury shares	27	(260)	(260)
Statutory reserve	28	16,752	16,005
Voluntary reserve	28	15,107	14,360
Other components of equity	29	197	555
Retained earnings		7,417	4,408
Equity attributable to the owners of the Parent Company		95,195	91,050
Non-controlling interests	7	23,803	23,002
Total equity		118,998	114,052
Total liabilities and equity		200,937	172,521



Diraar Yusuf Alghanim
Chairman



Manaf AbdulAziz Alhajeri
Chief Executive Officer

The notes set out on pages 50 to 86 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	31 Dec. 2019 KD '000	31 Dec. 2018 KD '000
OPERATING ACTIVITIES			
Profit for the year		6,942	1,647
Adjustments for:			
Interest income		(1,022)	(679)
Depreciation and amortisation		1,319	490
Gain on redemption of debt instruments at fair value through OCI		-	(5)
Gain on liquidation of subsidiaries		-	(334)
Share of results of associate and joint venture		141	77
Gain on sale of investment properties		(967)	-
Impairment of investment properties (Net)		1,065	2,335
Reversal of provision for credit losses		-	(12)
Finance costs		2,780	1,747
		10,258	5,266
Changes in operating assets and liabilities:			
Financial assets at fair value through profit or loss		(13,972)	1,588
Accounts receivable and other assets		(3,519)	3,627
Loans to customers		(101)	(20)
Accounts payable and other liabilities		3,607	604
Net cash (used in)/from operating activities		(3,727)	11,065
INVESTING ACTIVITIES			
Change in time deposits maturing after three months		4	805
Purchase of equipment		(578)	(540)
Proceeds from investments carried at amortised cost		2,080	-
Purchase of investments carried at amortised cost		(4,181)	(2,025)
Proceeds from redemption of investments at fair value through OCI		15	23
Purchase of investments at fair value through OCI		(2,697)	-
Additions to investment properties		(9,152)	(12,128)
Proceeds from sale of investment properties		2,443	-
Increase in investment in joint venture		(91)	(574)
Interest income received		615	666
Net cash used in investing activities		(11,542)	(13,773)
FINANCING ACTIVITIES			
Dividend paid		(2,363)	(3,371)
Proceeds from bank borrowings		25,173	16,992
Repayment of bank borrowings		(6,106)	(11,943)
Purchase of treasury shares		-	(260)
Payment of lease liability		(293)	-
Net change in non-controlling interests		1,000	2,666
Finance costs paid		(3,007)	(2,247)
Net cash from financing activities		14,404	1,837
Decrease in cash and cash equivalents		(865)	(871)
Foreign currency adjustments		(118)	(120)
Cash and cash equivalents at the beginning of the year	14	7,235	8,226
Cash and cash equivalents at the end of the year	14	6,252	7,235

The notes set out on pages 50 to 86 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 2019	48,080	7,902	(260)	16,005
Net change in non-controlling interests	-	-	-	-
Effect of change in ownership percentage/ redemption units of subsidiaries (refer note 7.1.1)	-	-	-	-
Payment of cash dividend (refer note 30)	-	-	-	-
Payment of cash dividend to non-controlling interests' shareholders	-	-	-	-
Transactions with owners	-	-	-	-
Profit/(loss) for the year	-	-	-	-
Total other comprehensive loss	-	-	-	-
Total comprehensive (loss)/income for the year	-	-	-	-
Transfer to reserves	-	-	-	747
Balance at 31 December 2019	48,080	7,902	(260)	16,752

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 2018	48,080	7,902	-	15,756
Adjustments arising on adoption of IFRS 9 on 1 January 2018	-	-	-	-
Balance at 1 January 2018 (Restated)	48,080	7,902	-	15,756
Purchase of treasury shares	-	-	(260)	-
Net change in non-controlling interests	-	-	-	-
Effect of change in ownership percentage of subsidiaries (refer note 7.1.1)	-	-	-	-
Payment of cash dividend (refer note 30)	-	-	-	-
Transactions with owners	-	-	(260)	-
Profit/(loss) for the year	-	-	-	-
Total other comprehensive income	-	-	-	-
Total comprehensive income/(loss) for the year	-	-	-	-
Transfer to reserves	-	-	-	249
Balance at 31 December 2018	48,080	7,902	(260)	16,005

The notes set out on pages 50 to 86 form an integral part of these consolidated financial statements.

Voluntary reserve KD '000	Other components of equity (note 29) KD '000	Retained earnings KD '000	Sub Total KD '000	Non- controlling interests KD '000	Total KD '000
14,360	555	4,408	91,050	23,002	114,052
-	-	-	-	1,484	1,484
-	-	(63)	(63)	229	166
-	-	(2,391)	(2,391)	-	(2,391)
-	-	-	-	(713)	(713)
-	-	(2,454)	(2,454)	1,000	(1,454)
-	-	6,957	6,957	(15)	6,942
-	(358)	-	(358)	(184)	(542)
-	(358)	6,957	6,599	(199)	6,400
747	-	(1,494)	-	-	-
15,107	197	7,417	95,195	23,803	118,998

Voluntary reserve KD '000	Other components of equity (note 29) KD '000	Retained earnings KD '000	Sub Total KD '000	Non- controlling interests KD '000	Total KD '000
14,111	2,890	3,679	92,418	20,864	113,282
-	(2,402)	2,402	-	-	-
14,111	488	6,081	92,418	20,864	113,282
-	-	-	(260)	-	(260)
-	-	-	-	2,666	2,666
-	-	(94)	(94)	94	-
-	-	(3,366)	(3,366)	-	(3,366)
-	-	(3,460)	(3,720)	2,760	(960)
-	-	2,285	2,285	(638)	1,647
-	67	-	67	16	83
-	67	2,285	2,352	(622)	1,730
249	-	(498)	-	-	-
14,360	555	4,408	91,050	23,002	114,052

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 Bursa 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 February 2020 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 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 require 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; the consequent impact on related disclosures; and the adoption of all other requirements of International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”) (collectively referred to as IFRS, as adopted for use by the State of Kuwait).

4. Changes in accounting policies

4.1 New and amended standards adopted by the Group

A number of new and revised standards are effective for annual periods beginning on or after 1 January 2019 which have been adopted by the Group. Information on these new standards which are relevant to the Group, is presented below:

Standard or Interpretation	Effective for annual periods beginning
IFRS 16 Leases	1 January 2019
IAS 28 - Amendments	1 January 2019
Annual Improvements to IFRSs 2015-2017 Cycle	1 January 2019

IFRS 16 Leases

The Group has adopted IFRS 16 Leases effective from 1 January 2019. IFRS 16 replaces IAS 17, IFRIC 4, SIC-15

and SIC-27. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The Group, as a lessee, has adopted the following accounting policy in respect of its leases:

At inception of a contract, the Group assesses whether the contract is a lease. A contract is a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. If the contract is identified as a lease, the Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct cost incurred. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term. In addition, the right-of-use asset is periodically reduced by an impairment loss, if any. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate. The lease liability is subsequently measured at amortised cost using the effective interest method.

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated. Lease liabilities and right-of-use assets were both recorded at the present value of future lease payments, thus no impact was recorded on the opening retained earnings.

The Group presents right-of-use assets separately and lease liabilities in "accounts payable and other liabilities" in the consolidated statement of financial position. The carrying value of right-of-use assets and lease liabilities as at 31 December 2019 amounted to KD600 thousand and KD624 thousand respectively.

Depreciation charge for right-of-use assets and amortised cost on lease liabilities for the current year amounted to KD272 thousand and KD43 thousand and are included in "general and administrative expenses" and "finance costs" respectively in the interim condensed consolidated statement of profit or loss.

IAS 28 - Amendments

The amendments to IAS 28 clarify that an entity applies IFRS 9 Financial Instruments, including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. These include long-term interests that, in substance, form part of the Group's net investment in an associate or joint venture.

The adoption of this amendment did not result in any significant impact on the Group's consolidated financial statements.

Annual Improvements to IFRSs 2015-2017 Cycle

Amendments to IFRS 3 and IFRS 11 - Clarify that when an entity obtains control of a business that is a joint operation it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

IAS 12 - The amendments clarify that the requirements in the former paragraph 52B (to recognise the income tax consequences of dividends where the transactions or events that generated distributable profits are recognised) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits.

IAS 23 - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

The adoption of these amendments did not result in any significant impact on the Group's consolidated financial statements.

Several other amendments and interpretations apply for the first time in 2019, but are not relevant and/or do not have a material impact on the consolidated financial statements of the Group.

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 - Amendments	1 January 2020
IAS 1 and IAS 8 - Amendments	1 January 2020

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 - Amendments

The Amendments to IFRS 3 Business Combinations are changes to Appendix A Defined terms, the application guidance, and the illustrative examples of IFRS 3 only with respect to Definition of Business. The amendments:

- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business

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

IAS 1 and IAS 8 – Amendments

The amendments to IAS 1 and IAS 8 clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

Management does not anticipate that the application 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.

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:

- Identifying the contract with a customer
- Identifying the performance obligations
- Determining the transaction price
- Allocating the transaction price to the performance obligations
- 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.

Notes to the Consolidated Financial Statements (continued)

5. Summary of significant accounting policies (continued)

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 period 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.

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.

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)

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

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).

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.

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 shortfalls 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.

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)

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 365 days and if the carrying amount of the facility is greater than its estimated recoverable value, such facility is then fully provided. 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.

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 37.

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.

Notes to the Consolidated Financial Statements (continued)

5. Summary of significant accounting policies (continued)

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.

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 asset 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 2019, 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 assesses 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 ex-

pedients. 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.

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.

Notes to the Consolidated Financial Statements (continued)

6. Significant management judgements and estimation uncertainty (continued)

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.

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 37).

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		Principal activity
		31 Dec. 2019	31 Dec. 2018	
		%	%	
Mar-Gulf Management Inc.	USA	100.00	100.00	Assets management
Markaz First Management and Economic Consultancy Company - KSCC	Kuwait	95.00	95.00	Economic consultancy
Markaz Arabian Fund (note 7.1.1)	Bahrain	69.31	69.75	Investment Fund
Markaz Fixed Income Fund (note 7.1.1)	Kuwait	80.65	76.38	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 Company WLL	KSA	100.00	100.00	Real Estate
Rimal Venture Company WLL	Bahrain	100.00	100.00	Assets management
Arab Gulf Real Estate Development Company WLL	Kuwait	99.85	99.85	Real Estate
Bay View Real Estate Company WLL	Kuwait	99.85	99.85	Real Estate
Boardwalk International Real Estate Company WLL	Kuwait	99.85	99.85	Real Estate
Al Rihab Real Estate Development Company WLL	Kuwait	99.85	99.85	Real Estate
Al Bandriya Real Estate Company WLL	Kuwait	99.85	99.85	Real Estate
Sand Park Real Estate Co. SPC	Kuwait	100.00	100.00	Real Estate
Azzuri Real Estate Co. WLL	Kuwait	100.00	-	Real Estate
Real Estate Options Co. LLC	UAE	100.00	-	Real Estate
Markaz European Development 1 SARL	Luxembourg	68.37	-	Real Estate
Markaz Development 3	Cayman Islands	67.67	-	Real Estate

7.1.1 The ownership of Markaz Arabian Fund and Markaz Fixed Income Fund decreased by 0.44% and increased by 4.27% respectively (31 December 2018: increased by 10.83% and decreased by 1.83% respectively) due to changes in units held by non-controlling interest holders as a result of subscription and redemption of the funds' units. These changes in the ownership resulted in a net loss of KD229 thousand. Further on redemption of units of Markaz Arabian Fund resulted a gain of KD166 thousand which was included in the consolidated statement of changes in equity.

7.1.2 The Parent Company incorporated three new foreign subsidiaries, Markaz European Development 1 SARL, in Luxembourg, Markaz Development 3, in Cayman Islands and Real Estate Options Co. LLC in UAE. During the year upon completion of certain formalities and procedures, the unaudited financial position and results of these subsidiaries as at and for the year ended 31 December 2019 respectively were consolidated with the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements (continued)

7. Subsidiary companies (continued)

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

Summarised financial information of the above newly consolidated foreign subsidiaries before intragroup eliminations, is as follows:

	Markaz Development 1 KD '000	Markaz Development 3 KD '000	Real Estate Options Co. KD '000
Total assets	10,739	6,750	43
Total liabilities	(10,373)	(1)	(43)
Total equity	366	6,749	-
Equity attributable to the owners of the Parent Company	250	4,567	-
Non-controlling interests	116	2,182	-

7.1.3 Further during the year, the Parent Company with the participation of another subsidiary incorporated a new local subsidiary, Azzuri Real Estate Co. WLL.

7.1.4 During the prior year, the Group had liquidated its 100% owned subsidiary fund "Markaz Mena Islamic Fund". The resulting gain of KD334 thousand was recognised in the consolidated statement of profit or loss for the year ended 31 December 2018.

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		(Loss)/profit allocated to NCI		Accumulated NCI	
	31 Dec. 2019 %	31 Dec. 2018 %	31 Dec. 2019 KD '000	31 Dec. 2018 KD '000	31 Dec. 2019 KD '000	31 Dec. 2018 KD '000
	Arab Gulf Real Estate Development Company WLL	0.15	0.15	(972)	(55)	4,350
Bay View Real Estate Company WLL	0.15	0.15	81	(683)	5,508	5,100
Al Rihab Real Estate Development Company WLL	0.15	0.15	(68)	(36)	4,172	4,180
Markaz Arabian Fund	30.69	30.25	467	267	3,746	3,645
Individually immaterial subsidiaries with non-controlling interests			477	(131)	6,027	5,032
			(15)	(638)	23,803	23,002

KD 713 thousand was paid as dividend to the NCI during the year (31 December 2018: Nil).

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

	31 Dec. 2019				31 Dec. 2018			
	Arab Gulf Real Estate KD '000	Bay View Real Estate KD '000	Al Rihab Real Estate KD '000	Markaz Arabian 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
Non-current assets	16,294	16,814	9,792	-	16,969	15,450	9,915	-
Current assets	420	407	355	12,264	203	624	88	12,112
Total assets	16,714	17,221	10,147	12,264	17,172	16,074	10,003	12,112
Liabilities	(7,542)	(8,823)	(378)	(60)	(6,410)	(8,503)	(236)	(63)
Total liabilities	(7,542)	(8,823)	(378)	(60)	(6,410)	(8,503)	(236)	(63)
Equity attributable to the owners of the Parent Company	4,822	2,890	5,597	8,458	5,717	2,471	5,587	8,404
Non-controlling interests (including shareholder loans)	4,350	5,508	4,172	3,746	5,045	5,100	4,180	3,645
Total equity	9,172	8,398	9,769	12,204	10,762	7,571	9,767	12,049

	31 Dec. 2019				31 Dec. 2018			
	Arab Gulf Real Estate KD '000	Bay View Real Estate KD '000	Al Rihab Real Estate KD '000	Markaz Arabian 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	155	74	231	1,796	9	-	7	1,134
(Loss)/profit for the year attributable to the owners of the Parent Company	(1,029)	36	(92)	1,053	(59)	(303)	(49)	615
(Loss)/profit for the year attributable to NCI	(972)	81	(68)	467	(55)	(683)	(36)	267
(Loss)/profit for the year	(2,001)	117	(160)	1,520	(114)	(986)	(85)	882

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 (continued):

	31 December 2019				31 December 2018			
	Arab Gulf Real Estate KD '000	Bay View Real Estate KD '000	Al Rihab Real Estate KD '000	Markaz Arabian 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
Total other comprehensive (loss)/income	(6)	9	(19)	(2)	60	30	33	(83)
Total comprehensive (loss)/income for the year	(2,007)	126	(179)	1,518	(54)	(956)	(52)	799
Total comprehensive (loss)/income for the year attributable to the owners of the Parent Company	(1,032)	39	(103)	1,052	(28)	(293)	(30)	557
Total comprehensive (loss)/income for the year attributable to NCI	(975)	87	(76)	466	(26)	(663)	(22)	242
Total comprehensive (loss)/income for the year	(2,007)	126	(179)	1,518	(54)	(956)	(52)	799
Net (used in)/cash from operating activities	(276)	217	224	(251)	1,346	14	127	(864)
Net cash (used in)/from investing activities	(1,489)	(575)	(58)	2,093	(7,361)	(4,368)	(1,351)	-
Net cash from/(used in) financing activities	1,971	242	165	(1,353)	5,922	4,036	1,014	1,133
Net cash inflow/(outflow)	206	(116)	331	489	(93)	(318)	(210)	269

8. Interest income

	31 Dec. 2019 KD '000	31 Dec. 2018 KD '000
On financial assets at amortised cost:		
Time deposits	38	46
Loans to customers	10	29
Investments carried at amortised cost	652	243
On financial assets at fair value through profit or loss	285	322
On investments at fair value through OCI	37	39
	1,022	679

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 from financial assets at fair value through profit or loss

	31 Dec. 2019 KD '000	31 Dec. 2018 KD '000
Change in fair value of financial assets at fair value through profit or loss	8,665	1,596
Gain on sale of financial assets at fair value through profit or loss	1,269	1,881
	9,934	3,477

11. General and administrative expenses

	31 Dec. 2019 KD '000	31 Dec. 2018 KD '000
Staff costs	7,360	5,444
Depreciation and amortisation	1,319	490
Other expenses	3,322	3,288
	12,001	9,222

12. Finance costs

	31 Dec. 2019 KD '000	31 Dec. 2018 KD '000
On financial liabilities at amortised cost:		
Bonds issued	1,278	1,272
Bank borrowings	1,431	475
Related party borrowings	29	-
Lease Liabilities	42	-
	2,780	1,747

13. Basic and diluted earnings per share attributable to the owners of the Parent Company

Basic and diluted earnings per share attributable to the owners of the Parent Company is calculated by dividing the profit 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).

	31 Dec. 2019 KD '000	31 Dec. 2018 KD '000
Profit for the year attributable to the owners of the Parent Company (KD '000)	6,957	2,285
Weighted average number of shares outstanding and in issue during the year (excluding treasury shares)	478,201,747	480,682,536
Basic and diluted earnings per share attributable to the owners of the Parent Company	15 Fils	5 Fils

Notes to the Consolidated Financial Statements (continued)

14. Cash and cash equivalents

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

	31 Dec. 2019 KD '000	31 Dec. 2018 KD '000
Cash and bank balances	4,937	4,691
Time deposits	1,332	2,565
	6,269	7,256
Less: Time deposits maturing after three months	(17)	(21)
Cash and cash equivalent for the purpose of consolidated statement of cash flows	6,252	7,235

The Group's time deposits carry an average effective interest rate of 1.85% (31 December 2018: 1.08%) per annum.

15. Accounts receivable and other assets

	31 Dec. 2019 KD '000	31 Dec. 2018 KD '000
Management fees and commission receivable	2,084	1,401
Prepayments	2,686	454
Advance payments to contractors	54	172
Interest receivable	498	90
Other receivables	2,108	1,386
	7,430	3,503

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. 2019 KD '000	31 Dec. 2018 KD '000
Neither past due nor impaired	1,113	1,094
Past due but not impaired	971	307
	2,084	1,401

Aging of past due but not impaired balances:

	31 Dec. 2019 KD '000	31 Dec. 2018 KD '000
0 to 90 days	345	122
90 to 180 days	191	43
Above 180 days	435	142
	971	307

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. 2019 KD '000	31 Dec. 2018 KD '000
Personal loans*	893	791
Provision for credit losses	(488)	(487)
	405	304

*The interest rate on personal loans ranged from 2.00% to 10.00% (31 December 2018: 2.00% 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. 2019 KD '000	31 Dec. 2018 KD '000
Between one month and six months	2	3
Between six months and one year	17	14
Over one year	386	290
Non-performing loans	488	484
	893	791

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 KD488 thousand (31 December 2018: KD484 thousand). The remaining loans to customers of KD405 thousand are performing and are to staff where their indemnity balances exceed the loans balance outstanding.

17. Financial assets at fair value through profit or loss

	31 Dec. 2019 KD '000	31 Dec. 2018 KD '000
Local quoted securities	3,448	2,857
Foreign quoted securities	18,729	18,137
Local managed funds	50,922	42,764
Foreign managed funds	13,374	13,039
Fixed income securities	6,338	5,518
Equity participation	13,835	10,359
	106,646	92,674

The interest rates on fixed income securities range from 2.375% to 7.60% (31 December 2018: 2.375% to 7.50%) per annum.

18. Assets held for sale

During the year, the management of the Group has decided to dispose one of its investment properties which meets the criteria for recognition as non-current assets held for sale. Consequently, the carrying value of this property amounting to KD7,819 thousand has been transferred from investment properties to assets held for sale category in the consolidated statement of financial position (31 December 2018: Nil) (Note 22 and Note 40).

Notes to the Consolidated Financial Statements (continued)

19. Investments at fair value through other comprehensive income

	31 Dec. 2019 KD '000	31 Dec. 2018 KD '000
Foreign debt instruments*	418	427
Foreign equity instruments**	2,317	-
	2,735	427

*The foreign debt instrument is secured by charges over real estate properties and carry interest rate of 7.25% (31 December 2018: 7.25%) per annum.

**These investments in equity instruments are held for medium to long-term strategic purposes. Accordingly, the Group has elected to designate these investments in equity instruments as at FVOCI as it believes that recognising short-term fluctuations in the fair value of these investments in consolidated statement of profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

20. Investments carried at amortised cost

These represent investment in sukuk, a debt instrument amounting to KD4,918 thousand (31 December 2018: KD4,983 thousand) carrying profit rate of 2% above Central Bank of Kuwait discount rate (31 December 2018: 2% above Central Bank of Kuwait discount rate) per annum. Also includes investment in foreign debt instruments amounting to KD4,181 thousand which is secured by charges over real estate properties and carry interest rate of 13% (31 December 2018: Nil) per annum.

Further, carrying value of investments carried at amortised cost as at 31 December 2018 included an investment in a foreign debt instrument (a Euro loan facility provided by the Parent Company to Markaz European Development 1, a foreign company) of KD2,015 thousand carrying interest at 3% per annum. During the year, upon consolidation of the above foreign company, carrying value of the investment as at 31 December 2019 was eliminated against the outstanding balance of the loan facility included in the subsidiary's total liabilities (Note 7.1.2).

21. Investment in associate and joint venture

	31 Dec. 2019 KD '000	31 Dec. 2018 KD '000
Investment in associate (refer below)	1,704	1,821
Investment in joint venture (refer below)	1,890	1,830
	3,594	3,651

21.1 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. 2019 %	31 Dec. 2018 %
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

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

	First Equilease		MZES	
	31 Dec. 2019 KD '000	31 Dec. 2018 KD '000	31 Dec. 2019 KD '000	31 Dec. 2018 KD '000
Carrying value at the beginning of the year	1,821	1,904	1,830	1,327
Additions during the year	-	-	91	574
Share of results of associate/joint venture	(116)	(85)	(25)	8
Share of other comprehensive (loss)/income	(1)	2	(6)	(79)
	1,704	1,821	1,890	1,830

21.3 Summarised financial information of Group's associate and joint venture are as follows (continued):

	First Equilease		MZES	
	31 Dec. 2019 KD '000	31 Dec. 2018 KD '000	31 Dec. 2019 KD '000	31 Dec. 2018 KD '000
Non-current assets	1,258	1,069	3,462	3,354
Current assets	9,165	9,984	318	314
Non-current liabilities	(74)	(62)	-	-
Current liabilities	(207)	(182)	-	(8)
Non-controlling interests	(259)	(248)	-	-
Equity attributable to the owners of the Parent Company	9,883	10,561	3,780	3,660

	First Equilease		MZES	
	31 Dec. 2019 KD '000	31 Dec. 2018 KD '000	31 Dec. 2019 KD '000	31 Dec. 2018 KD '000
Revenue	674	625	-	-
(Loss)/profit for the year	(675)	(493)	(50)	16
Other comprehensive (loss)/income for the year	(6)	13	(12)	(158)

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. 2019 KD '000	31 Dec. 2018 KD '000	31 Dec. 2019 KD '000	31 Dec. 2018 KD '000
Net assets of the associate and joint venture	9,883	10,561	3,780	3,660
Group's ownership interest	17.24%	17.24%	50%	50%
Group's share of net assets	1,704	1,821	1,890	1,830
Carrying amount	1,704	1,821	1,890	1,830

The Group has accounted for its share of results of associate and joint venture using unaudited management accounts as at 31 December 2019.

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

Notes to the Consolidated Financial Statements (continued)

22. Investment properties

The movement in investment properties is as follows:

31 December 2019	Free hold lands KD'000	Projects under development KD'000	Lands & buildings KD'000	Total KD'000
Cost				
At 1 January 2019	12,417	25,063	19,850	57,330
Additions	-	9,504	-	9,504
Transfers	(7,499)	(32,749)	40,248	-
Disposals	(1,051)	(8)	(444)	(1,503)
Transferred to assets held for sale (note 18)	-	-	(7,819)	(7,819)
Reversal of impairment/(impairment)	133	-	(1,198)	(1,065)
Foreign currency adjustment	(4)	-	(39)	(43)
At 31 December 2019	3,996	1,810	50,598	56,404
Accumulated depreciation				
At 1 January 2019	-	-	(500)	(500)
Charge for the year	-	-	(675)	(675)
Relating to disposals	-	-	27	27
At 31 December 2019	-	-	(1,148)	(1,148)
Net book value				
At 31 December 2019	3,996	1,810	49,450	55,256

The movement in investment properties is as follows (continued):

31 December 2018	Free hold lands KD'000	Projects under development KD'000	Lands & buildings KD'000	Total KD'000
Cost				
At 1 January 2018	17,035	18,696	11,022	46,753
Additions	-	12,544	92	12,636
Disposals	(3,155)	(6,197)	9,352	-
Impairment	(1,570)	-	(765)	(2,335)
Foreign currency adjustment	107	20	149	276
At 31 December 2018	12,417	25,063	19,850	57,330
Accumulated depreciation				
At 1 January 2018	-	-	(303)	(303)
Charge for the year	-	-	(197)	(197)
At 31 December 2018	-	-	(500)	(500)
Net book value				
At 31 December 2018	12,417	25,063	19,350	56,830

At 31 December 2019, the fair value of the investment properties is KD61,670 thousand (31 December 2018: KD64,777 thousand). Investment properties were revalued by independent evaluators using market comparable approach, where market price for square meter, annual income and the recent transaction prices for similar properties are significant inputs. The fair value are 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 impairment losses of KD2,309 thousand (31 December 2018: KD2,415 thousand) and impairment reversal of KD1,244 thousand (31 December 2018: KD80 thousand) in respect of certain investment properties.

During the year, finance costs of KD352 thousand (31 December 2018: KD508 thousand) has been capitalised to investment properties under development.

During the year, the Group sold certain investment properties in USA and GCC for aggregate sale consideration of KD2,443 thousand and realised a gain of KD967 thousand.

During the year, investment properties were carried at KD7,819 thousand transferred to assets held for sale. (31 December 2018: Nil) (Note 18).

Investment properties with a carrying value of KD20,849 thousand (31 December 2018: KD20,083 thousand) are secured against bank borrowings. (Note 24).

The Groups investment properties are located as below:

	31 Dec. 2019 KD '000	31 Dec. 2018 KD '000
North America	-	424
GCC	55,256	56,406
	55,256	56,830

23. Accounts payable and other liabilities

	31 Dec. 2019 KD '000	31 Dec. 2018 KD '000
Accrued expenses	3,973	2,250
Post-employment benefits	3,522	3,170
Dividend payable	385	357
Payable to contractors	2,395	2,924
Lease liability	624	-
Other liabilities	4,408	2,203
	15,307	10,904

24. Bank borrowings

This represents following bank borrowings:

- Unsecured loan facilities amounting to KD22,000 thousand obtained from local commercial banks carry interest rate ranging from 2% to 2.5% above Central Bank of Kuwait discount rate. Outstanding balance of these loan facilities as at 31 December 2019 amounted to KD8,000 thousand (31 December 2018: KD5,099 thousand).
- An unsecured Murabaha facility was obtained from a local Islamic bank amounting to KD8,000 thousand with a profit rate of 1.5% to 1.9% above Central Bank of Kuwait discount rate. Outstanding balance of this Murabaha facility as at 31 December 2019 amounted to KD4,905 thousand (31 December 2018: KD4,929 thousand). Also two unsecured Murabaha facilities of USD20,000 thousand equivalent KD 6,061 were obtained from a local Islamic bank with a profit rate of 2% above 6 months LIBOR. Outstanding balance of these Murabaha facilities as at 31 December 2019 amounted to USD19,982 thousand equivalent KD6,056 thousand (31 December 2018: Nil).

Notes to the Consolidated Financial Statements (continued)

24. Bank borrowings (continued)

- c. Two secured loan facilities were obtained from a foreign commercial bank amounting to AED142,350 thousand equivalent to KD11,747 thousand and carry an interest rate of 3.25% to 3.50% above 3 month EIBOR. Outstanding balance of these loan facilities as at 31 December 2019 amounted to AED123,661 thousand equivalent to KD10,204 thousand (31 December 2018: AED123,904 thousand equivalent to KD10,232 thousand). These facilities are secured by certain foreign investment properties.
- d. An unsecured credit facility amounting to USD 10 million was approved from a foreign commercial bank which carries an interest rate of 3.024% per annum. Outstanding balance of this credit facility as at 31 December 2019 amounted to USD275 thousand equivalent KD83 thousand (31 December 2018: Nil).
- e. An unsecured loan facility of USD16,585 thousand equivalent to KD5,026 thousand obtained from a local commercial bank carrying interest rate of 3% above 3 months LIBOR repayable on every six months and mature on 31 October 2022. As of 31 December 2019 this facility was fully availed (31 December 2018: USD7,600 thousand equivalent to KD2,305 thousand). The purpose of this facility is to finance the real estate activities in certain foreign countries.
- f. During the year an unsecured loan facility of EUR2,125 thousand equivalent to KD722 thousand obtained from a related party (represented by a non-controlling interest of a foreign subsidiary) carrying an interest rate of 3% mature in December 2048. Outstanding balance of this facility as at 31 December 2019 amounted to EUR1,903 thousand equivalent to KD646 thousand.
- g. During the year a secured loan facility (development facility) of EUR21,319 thousand equivalent to KD7,239 thousand obtained by a foreign subsidiary from a foreign commercial bank carrying an interest rate of 2.6% above 3 months EURIBOR is repayable as a lump sum payment at the maturity on 15 February 2021. Outstanding balance of this loan facility as at 31 December 2019 amounted to EUR18,702 thousand equivalent to KD6,350 thousand (31 December 2018: Nil). The purpose of this facility is to finance the real estate activities of the above foreign subsidiary and is secured by investment properties.
- h. During the year a secured loan facility of PLN22,000 thousand equivalent to KD1,756 thousand obtained by a foreign subsidiary from a foreign commercial bank carrying an interest rate of 1.8% above 3 months WIBOR per annum is repayable as a lump sum payment at the maturity on 15 August 2020. Outstanding balance of this loan facility as at 31 December 2019 amounted to PLN1,067 thousand equivalent to KD362 thousand (31 December 2018: Nil). The purpose of this facility is to finance the real estate activities of the above foreign subsidiary and is secured by investment properties.

25. Bonds issued

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.
- 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.

26. Share capital and share premium

a. Share capital

	31 Dec. 2019	31 Dec. 2018
	KD '000	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.

27. Treasury shares

	31 Dec. 2019 KD '000	31 Dec. 2018 KD '000
Number of shares	2,600,0000	2,600,000
Percentage of issued shares	0.54%	0.54%
Market value (KD '000)	273	250
Cost (KD'000)	260	260

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

28. 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 transfers 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.

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.

29. Other components of equity

	Fair value reserve KD'000	Foreign currency translation reserve KD'000	Total KD'000
Balance at 1 January 2019	79	476	555
<i>Investments at fair value through other comprehensive income:</i>			
Net change in fair value arising during the year	(253)	-	(253)
Exchange differences arising on translation of foreign operations	-	(98)	(98)
Share of other comprehensive loss of associate and joint venture	-	(7)	(7)
Total other comprehensive loss	(253)	(105)	(358)
Balance at 31 December 2019	(174)	371	197
Balance at 1 January 2018	2,477	413	2,890
Adjustments arising on adoption of IFRS 9 on 1 January 2018	(2,402)	-	(2,402)
Balance at 1 January 2018 (restated)	75	413	488
<i>Investments at fair value through other comprehensive income:</i>			
Net change in fair value arising during the year	9	-	9
Transferred to consolidated statement of profit or loss on redemption	(5)	-	(5)
Exchange differences arising on translation of foreign operations	-	140	140
Share of other comprehensive loss of associate and joint venture	-	(77)	(77)
Total other comprehensive income	4	63	67
Balance at 31 December 2018	79	476	555

Notes to the Consolidated Financial Statements (continued)

30. 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 for the year ended 31 December 2019. The proposed dividend is 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 2 April 2019 approved the consolidated financial statements of the Group for the year ended 31 December 2018 and approved a cash dividend of 5 Fils per share amounting to KD2,391 thousand (31 December 2017: 7 Fils per share amounting to KD3,366 thousand) instead of the proposed cash dividend of 4 Fils per share by the Board of Directors of the Parent Company at their meeting held on 17 February 2019.

31. 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.

	31 Dec. 2019 KD '000	31 Dec. 2018 KD '000
Transactions included in the consolidated statement of profit or loss:		
Interest income on loans to customers	2	22
Management fees and commission	5,727	4,903
Finance costs (Note 24 f)	29	-
Key management compensation:		
Salaries and other short term benefits	793	772
End of service benefits	158	99
Audit committee fees	15	15
Board of Directors' remuneration	245	-
	1,211	886

The annual general assembly of the Shareholders held on 2 April 2019 approved to pay directors' remuneration amounting to KD70 thousand to the board members for the year ended 31 December 2018 and accordingly paid during the year. Also, the parent company management propose to pay for the year ended 31 December 2019 directors' remuneration amounting to KD175 thousand subjects to the approval of the general assembly of the shareholders.

	31 Dec. 2019 KD '000	31 Dec. 2018 KD '000
Balances included in the consolidated statement of financial position:		
Loans to customers	102	22
Accounts receivable and other assets	1,744	1,337
Accounts payable and other liabilities	2,383	1,670
Borrowings (Note 24 f)	646	-

32. 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. 2019 KD'000	31 Dec. 2018 KD'000	31 Dec. 2019 KD'000	31 Dec. 2018 KD'000	31 Dec. 2019 KD'000	31 Dec. 2018 KD'000
Segment revenue	21,637	12,029	1,854	3,272	23,491	15,301
Segment result	7,534	711	(77)	1,140	7,457	1,851
Provisions for KFAS, NLST, Zakat and Board of Directors' remuneration	(518)	(154)	3	(50)	(515)	(204)
Profit/(loss) for the year	7,016	557	(74)	1,090	6,942	1,647
Total assets	180,398	153,528	20,539	18,993	200,937	172,521
Total liabilities	70,175	48,718	11,764	9,751	81,939	58,469
Interest income	509	115	513	564	1,022	679
Finance costs	(2,561)	(1,398)	(219)	(349)	(2,780)	(1,747)
Depreciation	(890)	(280)	(429)	(210)	(1,319)	(490)
Impairment of investment properties	(1,065)	(2,335)	-	-	(1,065)	(2,335)
Purchase of equipment	(345)	(467)	(233)	(73)	(578)	(540)
Addition to investment properties	(9,152)	(12,636)	-	-	(9,152)	(12,636)

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.

33. 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 2019 amounted to KD1,142,838 thousand (31 December 2018: KD1,093,010 thousand). The Group earned management fee of KD8,114 thousand (31 December 2018: KD7,206 thousand) from the asset management activities.

Notes to the Consolidated Financial Statements (continued)

34. Commitments

	31 Dec. 2019 KD '000	31 Dec. 2018 KD '000
Commitments for purchase of investments	2,243	1,686
Commitments for investment properties	83	3,526
Letter of guarantee	1	-
	2,327	5,212

35. Forward foreign exchange contracts

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

	31 Dec. 2019		31 Dec.2018	
	Contractual amounts KD'000	Assets/ (liabilities) KD'000	Contractual amounts KD'000	Assets/ (liabilities) KD'000
Forward foreign exchange contracts	10,625	39	18,213	(64)

36. 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:

36.1 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 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.

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

	31 Dec. 2019 KD'000	31 Dec. 2018 KD'000
US Dollar	38,417	42,660
Saudi Riyals	9,066	5,963
Euro	6,739	1,923
Others	4,349	858

Foreign currency sensitivity is determined based on 2% (31 December 2018: 2%) increase or decrease in exchange rate. There 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 for the year:

	31 Dec. 2019		31 Dec. 2018	
	+ 2%	- 2%	+ 2%	- 2%
	KD'000	KD'000	KD'000	KD'000
Profit for the year	1,171	(1,171)	1,028	(1,028)

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. However, a reasonable possible change in interest and profit rates would not have a significant impact on the Group's consolidated financial statements. The Board has established levels of interest and profit rate risk by setting limits on the interest and profit rate gaps for stipulated periods.

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 for the year and would have been as follows:

Notes to the Consolidated Financial Statements (continued)

36. Risk management objectives and policies (continued)

36.1 Market risk (continued)

c. Equity price risk (continued)

	Profit for the year ended	
	31 Dec. 2019 KD'000	31 Dec. 2018 KD'000
Financials assets at fair value through profit or loss	±444	±420

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.

36.2 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 on-going 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. 2019 KD'000	31 Dec. 2018 KD'000
Bank balances	4,935	4,689
Time deposits	1,332	2,565
Accounts receivable and other assets (excluding prepayment and advance payments)	4,690	2,877
Financial assets at fair value through profit or loss	6,338	5,518
Loans to customers	405	304
Investments at fair value through other comprehensive income	418	427
Investments at amortised cost	9,099	6,998
	27,217	23,378

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.

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 investments measured at FVOCI and amortised cost comprised of mortgaged note receivables and sukuk which are not rated but 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 concentrations of credit risk is set out in note 36.3.

36.3 Concentration of assets

The Group operates in different geographical areas. The distribution of financial assets by geographic region is as follows:

	31 Dec. 2019 KD'000	31 Dec. 2018 KD'000
Kuwait	12,456	12,676
North America	6,641	2,694
GCC	3,280	2,013
Europe	4,807	5,891
Others	33	104
	27,217	23,378

36.4 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.

	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 %
31 December 2019						
Financial liabilities						
Accounts payable and other liabilities	3,925	2,760	3,509	1,591	11,785	
Bank borrowings	2,215	6,930	6,509	31,264	46,918	2.91% to 5.80%
Bonds issued	-	313	938	27,500	28,751	5%
	6,140	10,003	10,956	60,355	87,454	
31 December 2018						
Financial liabilities						
Accounts payable and other liabilities	2,453	335	4,447	499	7,734	
Bank borrowings	602	5,372	1,185	20,913	28,072	4.5% to 6.2%
Bonds issued	-	327	980	27,615	28,922	5.25%
	3,055	6,034	6,612	49,027	64,728	

Notes to the Consolidated Financial Statements (continued)

36. Risk management objectives and policies (continued)

36.4 Liquidity risk (continued)

Maturity profile of assets and liabilities at 31 December 2019:

	Within 1 year KD'000	Over 1 year KD'000	Total KD'000
Assets			
Cash and bank balances	4,937	-	4,937
Time deposits	1,332	-	1,332
Accounts receivable and other assets	7,228	202	7,430
Loans to customers	19	386	405
Financial assets at fair value through profit or loss	106,646	-	106,646
Assets held for sale	7,819	-	7,819
Investments at fair value through other comprehensive income	-	2,735	2,735
Investments carried at amortised cost	-	9,099	9,099
Investment in associate and joint venture	-	3,594	3,594
Investment properties	-	55,256	55,256
Right of use assets	-	600	600
Equipment	-	1,084	1,084
	127,981	72,956	200,937
Liabilities			
Accounts payable and other liabilities	10,194	5,113	15,307
Bank borrowings	14,416	27,216	41,632
Bonds issued	-	25,000	25,000
	24,610	57,329	81,939

Maturity profile of assets and liabilities at 31 December 2018:

	Within 1 year KD'000	Over 1 year KD'000	Total KD'000
Assets			
Cash and bank balances	4,691	-	4,691
Time deposits	2,565	-	2,565
Accounts receivable and other assets	3,299	204	3,503
Loans to customers	17	287	304
Financial assets at fair value through profit or loss	92,674	-	92,674
Investments at fair value through other comprehensive income	-	427	427
Investments carried at amortised cost	-	6,998	6,998
Investment in associate and joint venture	-	3,651	3,651
Investment properties	-	56,830	56,830
Equipment	-	878	878
	103,246	69,275	172,521
Liabilities			
Accounts payable and other liabilities	7,234	3,670	10,904
Bank borrowings	6,101	16,464	22,565
Bonds issued	-	25,000	25,000
	13,335	45,134	58,469

36.5 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
		15	9,739	27.40%
Equity	Investment in real estate	(31 December 2018: 10)	(31 December 2018: 5,557)	(31 December 2018: 18.08%)

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

37.1 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. 2019 KD'000	31 Dec. 2018 KD'000
Financial assets:		
Financial assets at amortised cost:		
Cash and bank balances	4,937	4,691
Time deposits	1,332	2,565
Accounts receivable and other assets (excluding prepayment and advance payments)	4,651	2,877
Loans to customers	405	304
Investments carried at amortised cost	9,099	6,998
Financial assets at fair value through profit or loss	106,646	92,674
Investments at fair value through other comprehensive income	2,735	427
Forward foreign exchange contracts		
At fair value (included under accounts receivables and other assets)	39	-
Total financial assets	129,844	110,536
Financial liabilities:		
Financial liabilities at amortised cost:		
Accounts payable and other liabilities	11,785	7,734
Bank borrowings	41,632	22,565
Bonds issued	25,000	25,000
Forward foreign exchange contracts		
At fair value (included under accounts payables and other liabilities)	-	64
Total financial liabilities	78,417	55,363

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

Notes to the Consolidated Financial Statements (continued)

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

37.2 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).

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			Total
	Level 1	Level 2	Level 3	
31 December 2019				
Financial assets at fair value through profit or loss				
Quoted securities	22,177	-	-	22,177
Managed funds-GCC	-	64,296	-	64,296
Equity participations	-	-	13,835	13,835
Fixed income securities	5,438	-	900	6,338
	27,615	64,296	14,735	106,646
Derivative				
Forward foreign currency contracts held for trading	-	39	-	39
Financial assets at fair value through OCI				
Debt instruments	-	-	418	418
Equity participation	-	-	2,317	2,317
	27,615	64,335	17,470	109,420

	KD'000			Total
	Level 1	Level 2	Level 3	
31 December 2018				
Financial assets at fair value through profit or loss				
Quoted securities	20,994	-	-	20,994
Managed funds-GCC	-	55,803	-	55,803
Equity participations	-	-	10,359	10,359
Fixed income securities	3,764	-	1,754	5,518
	24,758	55,803	12,113	92,674
Derivative				
Forward foreign currency contracts held for trading	-	(64)	-	(64)
Financial assets at fair value through OCI				
Debt instruments	-	-	427	427
	24,758	55,739	12,540	93,037

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

Measurement at fair value

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

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. Investment 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		Fair value hierarchy	Valuation technique(s) and key input (s)	Significant unobservable input (s)	Relationship of unobservable inputs to fair value
	31 Dec. 2019 KD'000	31 Dec. 2018 KD'000				
Financial assets at FVTPL:						
Quoted securities	22,177	20,994	1	Quoted bid prices	N/A	N/A
Managed funds	64,296	55,803	2	NAV Basis	Net Assets Value	Net Assets Value
Fixed income securities	5,438	3,764	1	Quoted bid prices	N/A	N/A
Fixed income securities	900	1,754	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	13,835	10,359	3	Adjusted NAV Basis	Discount for lack of marketability	Lower discount rate, results in higher fair value
Financial assets at FVOCI:						
Debt instruments	418	427	3	Discounted cash flows	Cash flow estimate and discount rate	Higher estimated cash flows and lower discount rate, results in higher fair value
Equity participation	2,317	-	3	Adjusted NAV Basis	Discount for lack of marketability	Lower discount rate, results in higher fair value
Derivative:						
Forward foreign currency contracts held for trading	39	(64)	2	Foreign exchange rate/ DCF method	N/A	N/A

Notes to the Consolidated Financial Statements (continued)

37 Fair value measurement and summary of financial assets and liabilities by category (continued)

37.2 Fair value hierarchy (continued)

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%.

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. 2019 KD'000	31 Dec. 2018 KD'000
Opening balance	12,540	20,351
Reclassification on adoption of IFRS 9	-	(4,973)
Net purchase/redemption	5,929	(2,551)
Net change in fair value	(999)	(287)
Closing balance	17,470	12,540

38. 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.

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.

39. 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'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. 2019 KD'000	31 Dec. 2018 KD'000
Bank borrowings and bonds issued	66,632	47,565
Less: Cash and cash equivalents	(6,252)	(7,235)
Net debt	60,380	40,330
Total equity	118,998	114,052

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. 2019 %	31 Dec. 2018 %
Net debt to equity ratio	50.7	35.4

40. Subsequent events

Subsequent to the reporting date, the Group has disposed one of its foreign investment properties which had been classified as assets held for sale as of 31 December 2019 (note 18), for a total consideration of KD10,300 thousand.

The sale proceeds are expected to ultimately reduce the Group borrowings by KD7,128 thousand. The gain on disposal of this asset will be recognised during the first quarter of 2020 and is not expected to be material to the consolidated financial statements.



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