

Annual Report 2018



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**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



**H. H. Sheikh Jaber Al-Mubarak
Al-Hamad Al-Sabah**
Prime Minister 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



REAL ESTATE

- Middle East and North Africa
- International



INVESTMENT BANKING

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



RESEARCH

- Economic and Policy Research
- Consulting Services



Vision and Mission



VISION

The choice for wealth creation



MISSION

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

Our 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.

THE SEVENTIES

- Offered foreign exchange services
- Launched loan services
- Ventured into USA Real Estate
- Established the first merchant bank in Korea
- Launched trade finance services



THE EIGHTIES

- Started offering portfolio management and advisory services
- Established USA real estate subsidiary 'Mar-Gulf'
- Overcame Souk Al-Manakh financial crisis

THE NINETIES

- Iraqi invasion of Kuwait
- Operations move temporarily to Dubai
- Liberation of Kuwait
- Restructured the company
- Adopted the name “Markaz”
- Listed Markaz on the Kuwait Stock Exchange
- Began fund management
- Launched local and international funds
- Launched direct investment activity
- Launched Investment Banking services

TODAY

- Adopted best practices in terms of corporate governance
- Started operations in Markaz subsidiary offices
- Weathered the global financial crisis
- Launched Islamic funds and funding instruments
- Initiated options trading platform in KSE
- Launched local, regional and international real estate products
- Regional expansion in GCC and the MENA region
- Launched investment fund in oil and gas sector
- Launched economic policy research series: Towards a Sustainable Economic Development
- Adopted a comprehensive communication strategy employing the latest media and PR tools to ensure the highest levels of transparency
- Developed an innovative asset management software solution ensuring maximum efficiency

Board of Directors



Mr. Diraar Y. 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.



Sheikh Humoud Sabah Al-Sabah
Vice Chairman

Sheikh Al-Sabah has over 35 years' experience in general trade and other sectors. He has been the Chairman of Northern Gulf Trading - NGT Hyundai Co. for over 20 years and is owner of Al-Jazira and Quraini Transportation Co. Petroleum Field and the Vice President of Al Masar Leasing and Investment Co.



Mr. Faisal AbdulAziz Al-Jallal
Board Member

Mr. Al-Jallal is the Chairman of the Board Audit Committee and Risk Management Committee. He has over 40 years' experience in the real estate sector. 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.



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 over 30 years' experience in the general trade sector. He has been CEO of Trading Division in Alshaya Group since 1989 and is currently Chairman of Al Ahleia Insurance Company. Mr. Alshaya holds a Bachelor's Degree in Mechanical Engineering from Kuwait University.



Mr. Fahad Yaqoub Al-Jouan
Board Member



Mr. Al-Jouan has over 30 years' experience in the general trade and financial sectors. He is the Deputy Director General of the Al-Jouan General Trading & 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 and Al-Dorra Petroleum Services. Mr. Al-Jouan holds a Bachelor's Degree in Business Administration from Eastern Washington University.



Mr. Adel M. Alghannam
Board Member



Mr. Alghannam had over 25 years' experience in the general trade sector. He is the Board Member and Director Manager for Kapico Group Holding Co. since 2003 and 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 has over 30 years' experience in various sectors. He 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 Emad
Board Secretary

Ms. Emad 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.

- Audit Committee
- Board Steering Committee
- Nominations & Remunirations Committee
- Risk Management Committee

Chairman's Message

Dear Shareholders,

During the year 2018, the global economy witnessed volatility due to several factors that affected the global markets. The US Federal Reserve continued to shape market behavior through a series of interest rate hikes during 2018, bringing its benchmark interest rate in December 2018 to 2.50% from 2.25%. Furthermore, 2018 saw the rise of inward looking trade policies across major economies coupled with the US China trade war through the imposition of trade tariffs. Europe performed in line with growth expectations despite the prolonged negotiations with the UK with regards to Brexit and in parallel to the European Central Bank tightening liquidity. Overall, leading economies kept inflation within target levels, continued to deliver lower unemployment, and enhanced productivity. The year 2018 also marked a recovery for oil exporting countries on the fiscal front backed by relatively high oil prices for a large part of the year. Oil prices received a boost after the US Government announced sanctions on Iran and Venezuelan supply declined, pushing crude prices to a 4-year high in October 2018. However, recent oil demand has been affected by a global economic slowdown coupled with increasing oversupply concerns due to record oil production in the US, Russia and Saudi Arabia during the final months of the year.

These factors led to an uncertain outlook in the global economy. The year ended with heightened global stock market volatility and a significant drop in major equity indices despite earlier benign market conditions. However, the GCC equity markets delivered significant gains with the MSCI GCC index up 12% for the year, with particularly strong performances in Qatar and Abu Dhabi, which registered gains of 20% and 12% respectively. In 2018, GCC governments successfully accessed both domestic and international debt markets to execute primary issuances with the aim to support fiscal deficits. Although GCC equity markets performed strongly, oil price volatility weighed heavily on the economic outlook. However, capital markets in the region benefited from the decisions of MSCI and FTSE index inclusions during the year. MSCI upgraded Saudi Arabia to Emerging Market status starting from 2019 and is also considering upgrading Kuwait's status from Frontier Market to Emerging Market in its 2019 review. FTSE upgraded Kuwait to Emerging Market status and added it to its Emerging Market index in two stages.

This has resulted in greater international investor interest in Kuwait and across the region. Capital from emerging market fund managers is expected to be drawn to Kuwait and other regional countries, as the

MSCI and FTSE emerging market index inclusion is fully implemented, potentially triggering an equity market rerating.

Kuwait benefited from major policy initiatives adopted in 2017 and overall enhanced investor sentiment. GDP growth of 2.9% in 2018 was supported by strong fundamentals of both higher employment and consumer spending, coupled with low inflation. Infrastructure development awards are also expected to pick up going forward, with oil & gas projects underpinning activity. Kuwait's long term sustainability policy to boost hydrocarbon capacity, a target of an additional 2 million bpd refining capacity, is set for 2035. Further policy initiatives could drive non-oil sector growth to over 3% in the near term. The Central Bank of Kuwait continued to maintain a low interest rate environment to benefit overall growth and in turn support private sector development. Overall, Kuwait's fiscal position improved during the year supported by a combination of higher oil prices and lower government spending. However, lower oil prices in the near term may put pressure on the fiscal outlook.

In response, Markaz intends to work with Boursa Kuwait and other industry participants in developing market wide initiatives to foster product innovation, improve access to market data, encourage greater corporate disclosure and overall enhance market liquidity. Such initiatives include market making, issuance of exchange traded derivatives and providing research reports and data on Boursa Kuwait. The exchange's structural initiatives strengthened market momentum and as a result, Boursa Kuwait closed 2018 with a relatively strong performance, rising 9.9% for the Premier Market Index and 5.2% year on year for the Kuwait All share Index.

Overall industry performance in 2018 has been muted whilst the outlook remains cautiously optimistic. However, Markaz delivered relatively excellent performance across its asset management and investment banking services. Markaz was able to achieve sustainable financial performance as a result of its diversification across both products and geographies, at the same time maintaining a precautionary provisioning towards real estate to deal with unprecedented regional volatility.

The management team remained responsive to these unpredictable market conditions, stayed in close dialogue with Markaz clients and ensured financial controls remained robust. Our inspiration to reach to the highest levels of professional standards stems from our responsibilities to all stakeholders of Markaz. In 2018, Markaz was named 'The Best Investment



Bank in Kuwait' from Global Finance Magazine. In addition, Markaz won 'The Most Innovative Financial Institution in Middle East', 'The Best Investment Bank in Kuwait' and 'The Best Asset Manager in Kuwait' awards from EMEA Finance Awards. Furthermore, Markaz research arm, Marmore, was awarded 'Research Provider of the Year' by Euromoney.

Financial Results for the year 2018

Markaz reported steady Operating Revenues of KD 15.30 million during 2018 compared to KD 15.40 million in 2017, primarily driven by a strong performance in the Investment Banking. Management and Investment Banking fees increased by 22% year on year to KD 8.93 million. Net Profit attributable to shareholders of Markaz was KD 2.29 million (EPS 5 fils per share) for 2018, with a margin of 15%. The Assets Under Management (AUM) as of 31 December 2018 increased by 6.4% to KD 1.09 million from KD 1.03 million in 2017.

As for compliance with Central Bank of Kuwait's (CBK) stipulated ratios, Markaz's financial leverage ratio stood at 0.51:1, in comparison to the CBK imposed ratio of 2:1, which indicates Markaz's low leverage rate. The quick ratio was at 12.23% versus the CBK mandate of a minimum of 10%. These ratios reflect Markaz's ability to maintain a liquid and flexible balance sheet.

The Board of Directors have recommended a cash dividend of 4% or 4 fils* per share, amounting to a total of KD 1.91 million.

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

Outlook

In the context of today's market environment, we expect markets volatility to continue throughout the year 2019, with stable but lower oil prices. Demand for new investment products outside the region is expected to continue as investors seek "safety harbors" for their wealth in light of the regional uncertainties, providing new investment opportunities.

We also expect that equity markets in the region will benefit from the flow of funds as KSA and Kuwait become part of the MSCI Index, which will entice family companies to become listed on Boursa Kuwait. In addition, enhanced liquidity in the market will create opportunities for our asset management. Policies and regulations will become more concerned with trust, liquidity and capital flows in the year 2019.

The most critical success factors of the financial sector in Kuwait will be the adoption of new technologies, aiming to provide high quality client services and enhance business performance and profitability. Furthermore, the financial sector will witness more mergers transactions, creating larger economic entities that require enhancing the efficiency of operations as well as attracting and retaining the most qualified professionals. Our capacity and track-record in financial advisory will be instrumental in seizing the opportunities arising from this trend.

In addition, governments will continue to seek the services of local and regional investment banks to access capital markets to fund their deficit and finance privatized projects. Therefore, we expect an increase in investment banking activities in 2019.

Markaz is well equipped to meet the challenges of this dynamic industry and will continue to flourish in the future. Our strengths are represented in the prudent risk management, flexibility of our innovative investment products and the professionalism of our teams.

Believing that our team of professionals is one of the most important assets of the company, team development continues to be an area of strategic focus for Markaz, as we continue to invest in knowledge sharing and learning initiatives. We will also continue creating a corporate culture that is transparent, fulfilling and enables our workforce to achieve their aspirations. The unified and inclusive culture at Markaz helps us recruit and retain the best.

It remains for us to express our sincere appreciation to the entire Markaz team for their relentless dedication and commitment to ensuring the success of the firm as one of the leading asset managers and investment banks in the region. Along with this success, our culture of professional ethics and client focus continues to underpin the identity of Markaz as a leading edge innovative financial institution.

We would also like to thank our shareholders as well as all regulatory authorities, represented by Central Bank of Kuwait, the Capital Markets Authority, Boursa Kuwait and the Ministry of Commerce and Industry for their continued professional guidance and support.

Diraar Yusuf Alghanim
Chairman

*The shareholders at the annual general meeting held on 2nd April 2019 approved to pay dividend of 5 fils per share, amounting to a total of KD 2.39 million.

Executive Management



Mr. Manaf A. Alhajeri
Chief Executive Officer



Mr. Ali H. Khalil
Chief Operating Officer



Mr. Khaled A. Chowdhury
Chief Financial Officer



Ms. Amani I. Al-Omani
Executive Vice President
MENA Equities



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



Mr. M. R. Raghu
Executive Vice President
Published Research



Mr. Peter Kelly
Executive Vice President
Human Resources



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



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



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



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



Ms. 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 Stakeholders,

Despite the increasingly challenging global environment and growing investment risks faced by investors, we, at Markaz, continue to provide our valued clients with unbiased and insightful advice and best in class product innovation. The dedication and expertise of all our employees across each business unit is instrumental to this effort.

At Markaz, providing sound client solutions is at the forefront of all our business endeavors. It is through this approach that we acquired new clients across our businesses while further deepening our relationship with existing clients. Even in times of economic uncertainty, we as an integrated organization stand firmly beside them ready to cater to their individual and diverse needs. This culture has placed Markaz as one of the leading wealth management and investment banking financial institutions in the region, with the trust and loyalty of our clients gained over the last 40 years. We hope to build on this success and drive customer acquisition across all our businesses as we continue our journey through 2019 and beyond. As always, we constantly seek to improve how we conduct business with a special focus on customer service delivery of the highest standards.

2018 Performance Overview

Although the end of the year was marked with turmoil in the global equity markets, with a 6.2% decline in the S&P 500 and emerging markets also declining significantly compared to the highs of 2017, GCC equity markets delivered relative gains with the MSCI GCC index up 12%. Markaz GCC equities AUM increased to KD 642million in 2018 from KD 615 million in 2017, a net increase of 4.4%, primarily due to favorable stock market sentiment during most of the year.

Most of our active equity funds ended the year with strong outperformance to their respective indices and peer groups. With the growing influence of technology in our asset management business, we continue to innovate and widen our product offerings as well as refine our investment strategies in order to outperform benchmark indices. Our ability to generate steady returns for our clients each year is a testament to our market insights, experience and commitment to serve our clients.

The Markaz Fixed Income fund AUM remained stable despite other asset classes delivering stronger relative returns and was the best performing fund among regional peers of the same weighted credit rating.

The prevailing sentiment in the real estate market across the GCC region continues to remain weak, reducing rental rates and sale values by 15% during 2018 in the UAE and Saudi Arabia. However, market conditions remained relatively stable in Kuwait. Markaz counteracted these unfavorable market conditions by optimizing its operating efficiency across its real estate

portfolio to preserve invested capital. We anticipate the headwinds in regional macroeconomic growth to continue to negatively impact the real estate sector in the near term.

During 2018, Markaz MENA real estate business was able to achieve significant progress on its three active developments. We were also able to maintain high occupancy levels across our portfolio of income generating assets.

Our flagship fund, Markaz Real Estate Fund, MREF, was able to weather market conditions and delivered total returns of 3.4% to investors in 2018. MREF had an AUM of KD 80 million and cash return of 5.15% at the end of December 2018. Despite the challenging market scenario, Markaz continues to focus on enhancing its operational model in the real estate business particularly by using technology platforms and is well positioned to capture new distress related opportunities in the market as they emerge. Our real estate team is currently assessing the possibility of launching several new products.

Our international real estate AUM was KD 91.4 million at the end of December 2018. This was driven by our continued effort to be very selective in focusing on projects with strong anticipated fundamentals, such as attractive supply and demand dynamics, rental growth prospects and stable occupancy rates.

During 2018, Markaz' Investment Banking team continued to successfully execute and advise on high profile transactions across corporate advisory, M&A, restructuring and equity capital markets. The main corporate transaction drivers this year were consolidation in the financial sector, strategic moves toward defensive sectors like education and healthcare and investing in technology ventures. The total transaction value executed by Markaz up to December 2018 was over KD1.24 billion across the GCC market. In the coming year, our Investment Banking team continues to leverage the combination of its diverse sector experience and excellence in execution to deepen its advisory dialogue with corporate clients and family offices.

Overall, it has been a strong performance across our businesses this year and has been pleasing to receive broad industry recognition for our enduring efforts and the quality or advice and services delivered. Markaz was named 'Best Asset Manager in Kuwait' by EMEA Finance Awards. This is a testament of our asset management teams' expertise in successfully managing portfolios especially in recently volatile market conditions. In addition, Markaz was named 'Best Investment Bank in Kuwait' and 'The Most Innovative Financial Institution in Middle East' by EMEA Finance Awards. Markaz was also named 'Best Investment Bank in Kuwait' by Global Finance. These awards affirm the quality of our investment banking services across mergers and acquisitions, capital restructurings, in addition to equity



and debt issuances and listing advisory. Furthermore, our published research business, Marmore, was awarded 'Research Provider of the Year' by Euromoney.

As the financial markets continue to face significant pressure across the world and economists signal a reduction in global GDP growth rates, we as a firm are ready to meet these challenges backed by our team's wealth of experience and professional talents. We step confidently into the future, prepared to be attentive to our clients' needs and to fortify these relationships through a combination of results and trust. At Markaz, we also continue to reinvent ourselves, always discovering newer and smarter ways to run our business, while ready to seize opportunities as they emerge.

Gearing up for the Future

The key regional themes looking ahead include the prospect of a lower but stable oil price, with continued regional volatility resulting in lower government spending. As a result, fiscal policy will remain constrained with an emphasis on higher taxation where possible across the GCC. The competitive landscape across the financial services sector is expected to intensify as companies such as commercial banks enter the market and existing players search for enhanced market share and profitability.

Investor clients continue to seek geographic diversification to mitigate the risk of local geopolitical risk through new investment products outside the region. Markaz is well aligned with this strategy with its product offerings in US and European real estate. Although local real estate market conditions continue to deteriorate, opportunities will arise as and when distressed assets became available.

The financial services industry in Kuwait is in the midst of a structural change. More international capital is expected to be drawn to Kuwait and the broader region in the near term as the MSCI and FTSE realign their emerging market indices. Boursa Kuwait has already started to deliver new investment platforms for the international investors and Markaz continues to develop new products in its MENA Equities business. Along with domestic institutional investing, the flow of incremental capital into the region can encourage private family businesses to consider listing on Boursa Kuwait and also issue bonds as a part of their capital structure. In view of the increasingly complex investment requirements and expectations of clients going forward, asset managers have started to adopt transformational financial technologies, not only to better serve clients, but to drive operating efficiencies across organizations. At Markaz, we recognize the need for greater product innovation and focused services across client categories. We believe that innovative products in the future will be led by technology and we strive to build market leading fintech infrastructure across our business.

To get a head start on these dynamic changes in our

industry, Markaz launched the Sustainable Growth Story initiative in September 2018, not only to establish common goals and objectives, but to emphasize the importance of sharing ideas and best practices across the organization. The long-term prospect of a declining oil price in the region will create opportunities for Markaz through the privatization of state-owned assets, but also requires both the investment banking and asset management businesses to be finely tuned to anticipate future market conditions and industry trends. Our Sustainable Growth Story initiative has firmly established this framework across the organization. Given that our business model is diverse and complex, continuous reinvention across our businesses allows for our success to be magnified.

In 2019, we will focus on increasing shareholder value as we continue to further streamline our business operations by refining internal procedures and lowering costs without compromising quality. We also strive to improve project execution times and boost productivity across our organization and believe that these initiatives will allow us to strengthen our position as a market leader. In the future, merger and acquisitions within the industry will become prevalent in the search for overall shareholder value creation.

In conclusion

Client satisfaction is the key to our success and we take pride in truly understanding client needs by engaging in continuous and insightful dialogue. This is also an essential component in effectively understanding client risk appetite and investment preferences. In addition, Markaz aims to continuously lead the financial services industry through dedicated and high-quality market research capabilities. Our diversified portfolio of offerings across product classes as well as geographies makes us a preferred choice amongst the new millennial type of investors who are highly aware of dynamic market conditions, demand the best return on their investment and prefer technology interactive platforms. It is with the support of our stakeholders and the loyalty of our valued clients that we have built the Markaz brand over the last 44 years. In today's markets, Markaz is synonymous with trust and unparalleled service, a responsibility which we take very seriously heading into the years to come. As we continue this journey, I would like to express my personal gratitude for the continued and relentless commitment from all our employees in Kuwait and our offices abroad. Led by our Board of Directors and experienced management team, coupled with our strong desire to serve our economy, Markaz strives to achieve even greater heights in 2019.

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.

2018 Markaz AUM	KD 1.03 Billion
2017 Markaz AUM	KD 0.93 Billion
2016 Markaz AUM	KD 1.09 Billion

Service Offerings

Mutual Funds - Equity



Midaf Fund



Mumtaz Fund



Forsa Financial Fund



Markaz Arabian Fund*



Markaz Islamic Fund

Mutual Funds - Fixed Income



Markaz Fixed Income Fund*



Markaz Real Estate Fund



Markaz Gulf Real Estate Fund*



Portfolio Management - Client and Proprietary

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

Awards & Recognitions



MENA Fund Manager : Mumtaz
2010, '16



Best Asset Manager
2016



Best Asset Manager
2013, '14, '15, '16, '17, '18



Kuwait Equity, Markaz Mumtaz Fund
2007, '08, '10, '11, '12
Markaz Islamic Fund
2008, '10, '11, '12
Markaz Arabian Fund
2010



Best Fund: Markaz Arabian Fund
2014



Best Asset Manager
2010, '11, '12, '13, '14
Best Equities Manager
2015



Best Investment Company
2010



Markaz Islamic Fund
2013

* Private placement



2. Real Estate Investments

Markaz offers real estate portfolios across MENA and the US 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 28 professionals and currently manages KD 289 million in assets in Kuwait, UAE, KSA and Levant. Additionally, the division operates through regional offices in Riyadh, Khobar, Dubai and Abu Dhabi.

Region	Property Portfolio
Kuwait	<ul style="list-style-type: none"> • Markaz is managing part of the National Real Estate Portfolio, owned by Kuwait Investment Authority, with a value up to KD 250 million • Markaz Real Estate Fund with an AUM of KD 80.5 million across 19 properties • Markaz Gulf Real Estate Fund (private placement)
KSA	<p>Markaz started its operations in the KSA in 2006 and now has offices in Riyadh and Khobar.</p> <p>Projects under development:</p> <ul style="list-style-type: none"> • Residential project in Riyadh of 145 units valued at KD 15 million <p>Income Generating Properties</p> <ul style="list-style-type: none"> • Commercial building in Riyadh with 44 units of offices and shops • Commercial building in Dammam with 51 units of offices and shops • Residential building in Khobar of 75 units
UAE	<p>Markaz started its operations in the UAE in 2010. It currently has offices in Dubai and in Abu Dhabi.</p> <p>Projects under development:</p> <ul style="list-style-type: none"> • Residential project in Abu Dhabi of 165 units and valued at KD 18 million • Residential project in Dubai of 149 units and valued at KD 19 million <p>Income Generating Properties</p> <ul style="list-style-type: none"> • Residential building in Abu Dhabi Al Reem Island of 58 units • Residential building in Abu Dhabi Al Reef Island of 35 units • Residential building in Abu Dhabi Al Reem Island (Boardwalk) of 35 units

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 117 properties for a total development and acquisition cost of over USD 1.5 billion. This includes approximately 8,300,000 sq. ft. of industrial warehouse space, 3,500,000 sq. ft. of retail, 1,350,000 sq. ft. of office and almost 3,050 apartment units. Markaz currently manages approximately USD 301 million of real estate assets across multiple funds.

International Track Record

Name of Fund	Overview	Inception	Exit	Size (sq. ft. million)
1. Markaz U.S. Industrial Realty Fund - I (USD 157 million)	12 warehouses across 7 states	2002	2011	4.24
2. Markaz BBK U.S. Retail Fund - II (USD 208 million)	7 retail malls across 6 states	2003	2006	1.49
3. Markaz BBK U.S. Retail Fund - III	13 grocery anchored centers across 5 states	2004	2014	1.63
4. Markaz BBK U.S. Multifamily Fund - IV (USD 67 million)	3 apartments of 796 units across 3 states	2007	2014	na

Name of Program	Overview	Inception	Size (sq. ft. million)
1. Markaz U.S Distressed Debt Program	14 commercial whole loan mortgages of office, industrial, and retail space across 3 states	May 2010	0.41
2. Markaz U.S Development Program - VI	17 commercial development transactions across 6 states	April 2013	Office: 0.6 Industrial: 2.2 Self-Storage: 0.19 Multifamily: 230 units
3. Markaz U.S Value Add Program - VII	3 value-add apartment projects in Austin, Chicago and Kansas City	Feb 2017	Multifamily: 947 units

3. Investment Banking

Since 1997, Markaz has successfully executed investment banking transactions of over USD 4.1 billion (as of 31st December 2018) across the region, 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

M&A and Advisory



Al Hamra
Advisory
2018



Al Mulla International Real Estate Development Co. S.P.C.
Advisory
2018



Eid Food
Advisory
2018



HEISCO
Advisory
2018



ACICO
Advisory
2018



Sultan Center Food Products Company
Restructuring Advisory
2018



NBK Capital Mezzanine Fund I
Advisory
2017



A'ayan Leasing Investment Company
Advisory
2017



Al Ahil Bank of Kuwait
Advisory
2017



Al Wazzan Educational Company
Advisory
2017



FAWSEC
Transaction Advisory
2017



Kuwait Saudi Holding Company
Valuation Advisory
2017

Capital Markets and Listings



United Projects Co. for Aviation Services
Rights Issue
KWD 20.00 Million
Lead Manager and Subscription Agent
2018



Independent Petroleum Group
Right Issue
KWD 10.8 Million
Lead Manager, Underwriter and Subscription Agent
2017



Gulf Bank
Bond Issue
KWD 100 Million
Co-Lead Manager
2016



Kuwait Financial Centre "Markaz"
Bond Issue
KWD 25 Million
Issue Manager
2016



National Industries Group
Murabaha
Syndication KWD 120 Million Participant
2015



ALARGAN Intl. Real Estate Co.
Bond Issue
KWD 26.5 Million
Structuring & Financing Advisor
Lead Manager
2012

Latest Awards



Most Innovative Investment Bank in the Middle East
2016



Best Investment Bank in Kuwait
2011, '12, '14, '15, '16, '17, '18



Best Investment Bank in Kuwait
2013, '14, '15, '16, '17, '18



Best Investment Bank in Kuwait
2013, '14,

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.

In 2018, Marmore, was awarded ‘Research Provider of the Year’ by Euromoney.

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

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.

- Does Brexit pose an economic puzzle to the GCC?
- Brutal October - \$5 trillion wealth wiped away from global equity and bond markets
- GCC Travel & Tourism: Build it but will they come?
- Could Private debt be the new theme for SMEs to access capital?
- Knitting Digital Worlds Together through APIs
- Saudi and Kuwait markets ride the MSCI inclusion wave
- What’s fuelling appetite for Gulf bond issues?
- The Burgeoning Entertainment Industry in Saudi Arabia
- Can Dubai’s 3D printed building vision be a template for addressing the housing crisis in the GCC?
- Natural Gas over Oil: The Changing Narrative

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

Webinars

Marmore’s Webinars provide an in-depth discussion of topical themes that impact various facets of the GCC’s economics and capital markets. Marmore’s webinars are sought after due to the well laid-out presentations and thoughts analysis.

- GCC industry Margine - Winners and Laggards
- Estimating the impact of Brexit on GCC economics
- Which GCC stocks crated/destroyed weattin?
- Estimating GCC Sovereign Debt issuance unti 2020
- Top GCC Risks
- GCC Economic Themes
- GCC Stock Market Outlook
- GCC Liquidity - Impact on Banks, Equity market and Bond markets
- Iran Nudclear Deal - Macroeconomic and Geopolitical implications on GCC
- Innovations in islamic finance
- GCC Banking Outlook 2018
- Fintech the GCC Region
- GCC Economic Themes & Capital Market Outlook for 2018
- Bitcoin, Blockchain and Cryptocurrency Bubble?

Latest Awards

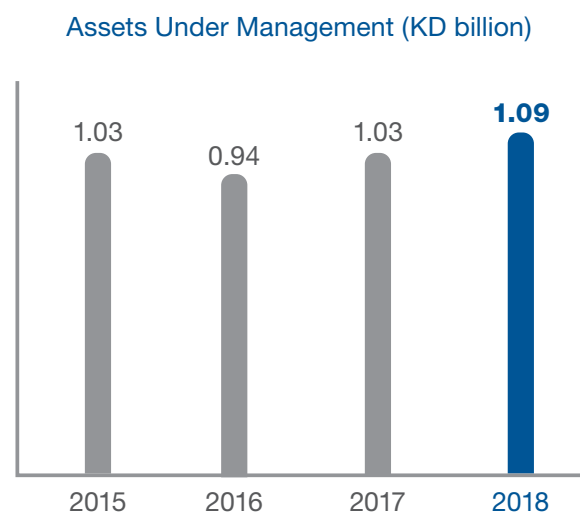
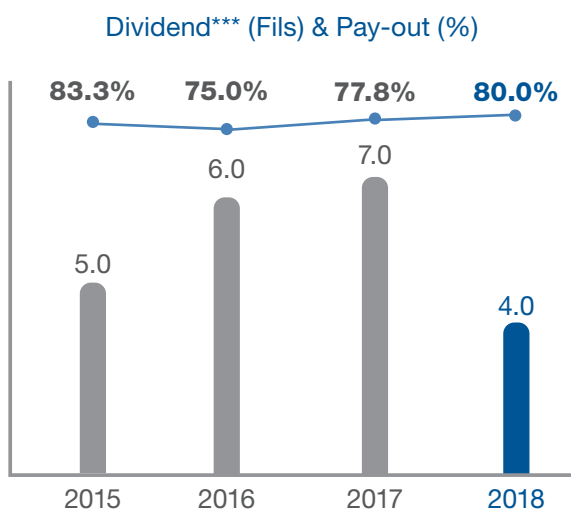
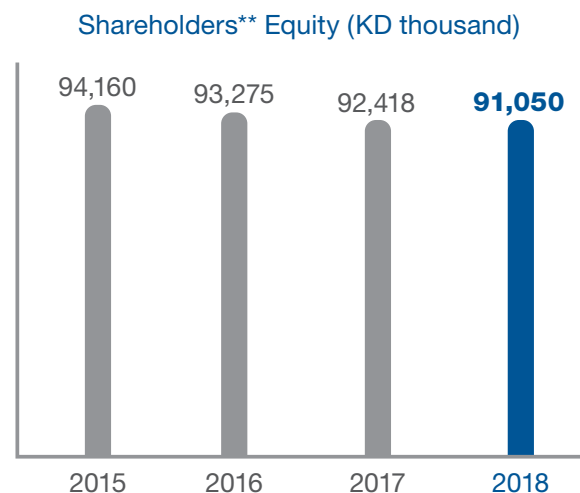
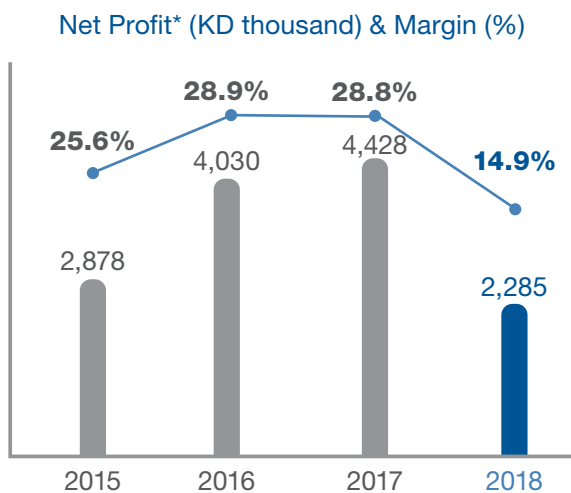
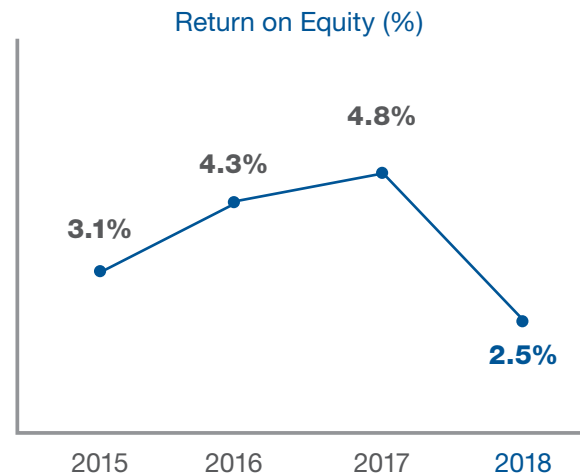
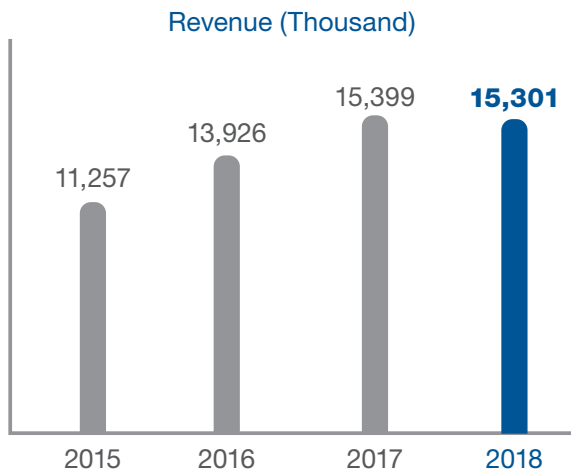


Research Firm
of the year
2018

A Year of Achievements

FINANCIAL HIGHLIGHTS

Consistently delivering shareholder value underpinned by attractive dividend payouts.



■ Dividend per share (Fils)

—●— Dividend Payout (%)

* Net Profit attributable to owner of the parent company.

** Shareholders equity attributable to owner of the parent company.

*** Dividend for 2018 is subject to approval by the shareholders at the AGM.

THOUGHT LEADERSHIP

Leading knowledge sharing initiatives at high profile conferences and sponsored events



Euromoney Kuwait Conference 2018

Mr. Manaf A. Alhajeri, CEO, Markaz gave a **key interview at Euromoney Kuwait Conference 2018**. He stated that the inclusion in FTSE Russel has been the highlight of the year. He stressed on the importance of asking ourselves about the coming steps in order to achieve sustainable liquidity in the Kuwaiti market. Alhajeri pointed out that Kuwait has many success stories in the financial sector in comparison with the broad economy which included more challenging topics such as education and health.



Global Finance Magazine Awards 2018

Kuwait Financial Centre “Markaz” announced winning the “Best Investment Bank in Kuwait for 2018” award for the seventh time in eight years by Global Finance magazine, a specialized financed and investment magazine.

Mr. Ali Hassan Khalil, COO, Markaz, stated that this award affirms Global Finance’s trust in the quality of our investment banking services in the areas of advisory services related to mergers and acquisitions, capital restructuring and disposition, in addition to equity and debt issuances, listing advisory and other advisory services.”



Investing in Kuwait Stock Market: The Latest Developments and Emerging Opportunities

Markaz organized a seminar for its clients and investors titled **“Investing in Kuwait Stock Market: The Latest Developments and Emerging Opportunities”**. The seminar agenda addressed a number of significant developments within Kuwait Stock Market, including the upgrade of Kuwait market in international indices and the market segmentation on Boursa Kuwait, shedding light on potential investment opportunities arising from these developments. The goal of this event was to fulfill our responsibility as an active institutional investor by launching a discussion platform with stakeholders.



Al-Othman: “Oil prices and development projects support our outlook for the real estate sector”

Mr. Bassam N. Al-Othman, EVP, MENA Real Estate stated in an interview that the oil prices and development projects support our outlook for the real estate sector. He added that Markaz is one of the leading innovative financial institutions in the region, which launched the first real estate investment fund in Kuwait, Markaz Real Estate Fund, that focuses on the Kuwaiti real estate market, in addition to other real estate funds and portfolios for private placement.



Launched the first Sustainability Report

Markaz launches its **first sustainability report in accordance with Global Reporting Initiative standards**. The report highlights Markaz performance and activities for the reporting period 2016-2017. It reflects our commitment to sustainability as a core pillar of our corporate strategy. The report focuses on Economic, Social and Environmental categories, in addition to material topics that are most important to our stakeholders and to our business. It was prepared in accordance with the Global Reporting Initiative (GRI) standards, an international independent organization aiming to ensure the highest quality and transparency of institutions' reports disclosing the impact of their business activities on sustainability aspects.



Workshop for Leadership Team and employees on “Winning through Digital Innovation”

The workshop aimed at refining Markaz's position as a pioneer in driving innovation for growth through superior customer engagement, creative product solutions and operating efficiency.

Over the two days, the Leadership Team explored international and regional perspectives on the role of Fintech in cultivating both product and customer service innovation. The breakout team sessions inspired cross-functional debates on how Markaz can best further strengthen its innovation mindset and also continue to circumvent barriers that can often stifle the adoption of change in organizations.



COMMITMENT TO OUR COMMUNITIES

Participating in community service and building a sustainable economy in Kuwait.



“Fikra” entrepreneurship program

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.



Partnership with LOYAC

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.



Markaz held a presentation on “Kuwait Banking 2018 and beyond” in collaboration with Kuwait Banking Association (KBA)

The presentation was delivered by Mr. M.R. Raghu, EVP & Head of Research at Markaz and Managing Director of Marmore MENA Intelligence.

Mr. Raghu talked about the current scenario of Kuwait banking industry and provided insights on the various trends that will determine the industry outlook. According to Mr. Raghu, Kuwait banks are at an inflection point. After years of underperformance relative to GCC peers, some green shoots provide positive guidance. Liquidity is abundant, and asset quality improvement is noticeable.

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

As part of its social and economic responsibility strategy, Markaz supported a series of programs in cooperation with civil society organizations and authorities.

Initiatives focused on health

In the field of health, Markaz has been 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 and the Hope Charity Foundation, supporting these organizations in helping the needy patients in Kuwait and abroad.



Supporting education in many aspects

Markaz also undertook a few initiatives in the field of education by sponsoring the 14th Annual Career Exhibition, organized by College of Business Administration, Kuwait University. Furthermore, Markaz also supported the Indian Community School in Kuwait.



Markaz partnership with AC Milan Soccer Academy

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.



Market Commentary

Global Markets

Global financial markets remained under significant pressure during 2018 especially during the final months of the year. Leading economists signaled a reduction in future growth estimates across key regions as major equity indices declined in response to downside risks emerging. The rise of generally more inward looking trade policies in the previous year, coupled with the US-China trade war, contributed significantly to the onset of a global slowdown. These concerns were clearly reflected in the 6.2% decline in the S&P 500 for 2018. Furthermore, the US Federal Reserve continued to tighten the money supply with hikes in interest rates and last raising its benchmark interest rate in December 2018 from 2.25% to 2.50%. Unsurprisingly, the US Dollar Index strengthened in 2018 and ended the year at 96.17 while the US Treasury 10-year yield ended the year at 2.60%. As a result of these monetary policies, foreign investment flows into emerging markets have receded and corporates now need to plan for the prospect of foreign debt refinancing at higher costs.

During the course of 2018, major European equity indices declined by more than 13% as the region's economic growth outlook faced heightened challenges. The ongoing uncertainty over Brexit pushed the UK's FTSE 100 indices down by 12.0% but a higher decline was recorded in Germany with the benchmark sliding 18.3% during the year. The economic backdrop in Italy continued to worsen as fiscal budget deficits came under the spotlight. [The US market also declined during the year as declines during the final quarter negated high levels reached until September. However, emerging markets suffered from the highest declines in 2018 after being the best performing region during 2017. The MSCI Asia Pacific Index sliding 15.6%, led by a 24.6% decline in China's Shanghai Composite benchmark that more than offset India's Sensex benchmark gains of 5.9%. The steady slowdown in international trade for China, without any visible progress in negotiations with the US, dominated investor fears. The first half of 2018 marked a recovery for oil exporting countries with regards to fiscal deficits, backed by relatively high oil prices compared to the previous year. However, towards the end of 2018, threats of dampened demand due to a global economic slowdown coupled with increasing oversupply from record high oil production in the US, Russia and Saudi Arabia during the final months of the year led to a steep decline in oil prices.

GCC and Kuwait Markets

GCC equity markets delivered significant gains during 2018 with the MSCI GCC index up 12% for the year, showcasing the best performance in five years. The index gains came primarily on the back of more than 20% returns for Qatar, followed by Abu Dhabi and Saudi Arabia with returns of 11.7% and 8.3% respectively. Kuwait was next delivering an annual return of 5.2% while Dubai and Oman recorded double digit declines of 24.9% and 15.2%, respectively. GCC markets continued to experience high volatility during the year, in line with other global markets.

Kuwait's Capital Markets Authority, the CMA, implemented numerous initiatives during 2018 to further transform Boursa Kuwait into a technically advanced international exchange. This included enhanced regulatory requirements for listed companies and market segmentation through the creation of the Premier Market platform. On Boursa Kuwait, there is constant market review and recently, 15 companies were added to the premier market watchlist.

Large capitalization stocks in Kuwait attracted continued investor interest which was reflected in the 9.9% surge in the Premier Market Index that more than offset a decline of 1.9% for the Main Market Index resulting in 5.2% gains for the All Share Index. The best performing sectors in 2018 were basic materials and banking with prominent large capitalization gainers for the year including Boubyan Petrochemicals at 45.5%, Commercial Bank of Kuwait at 37.5% and Boubyan Bank with a gain of 35%. Despite a drop in monthly trading volumes relative to previous years, 2018 has seen a record KD177 million of net capital inflows, with total market capitalization at KD 29 billion.

In addition, the decisions on MSCI and FTSE index inclusions during the year were key contributors to the increased investor demand for large capitalization blue-chip stocks in Kuwait and Saudi Arabia. A key factor that led to the capital inflows to Saudi Arabia and Kuwait, was the announcement by MSCI to upgrade Saudi Arabia to Emerging Market status in 2019 and would also consider upgrading Kuwait's status from Frontier Market to Emerging Market in its 2019 review. During the year, Kuwait's stock market received further prominence when FTSE upgraded the country and added it to its Emerging Market index in two stages.



MENA Real Estate

The real estate markets in the GCC region continued to remain subdued in 2018. In Kuwait the residential sector saw a marginal increase in sales and overall stability in prices, but the sector continued to be weighed down by the prospect of increasing interest rates. Commercial real estate and investment property activity remained low due to increased vacancy rates across portfolios and higher tenant operating costs. Occupancy levels were further impacted by increasingly tighter Government regulation in the residential housing sector. In Saudi Arabia, the residential and commercial sectors continued to underperform, with no improvement despite government stimulus to boost the residential sector. In the UAE, opportunities arose for buyers as residential properties became more affordable with greater inventory levels weighing on both house sales prices and rents.

Subdued performance in key real estate markets continued as a theme across other markets in the MENA region. Jordan's property market continued to be impacted as buyers deal with slow income growth and higher interest costs from banks. However, significant investment from non-Jordanians in the market has contributed to increase prices of apartments and houses. The real estate sector in Lebanon also reached a low point in 2018, being negatively affected by political uncertainty and economic disruptions due to monetary interventions by the central bank.

International Real Estate

From an international perspective, commercial real estate continued its positive trend in 2018, albeit at a slower pace with property prices increasing by approximately 2.0% over last year. The NCREIF index, which is a trusted barometer for real estate as an institutional investment asset class, increased by 7.2% in 2018 and the NAREIT index which is a comprehensive REIT focused index, declined by 4.1%. The US Federal Reserve increased short term interest rates four times in 2018, which led to a negative impact on REIT values and the NAREIT index.

Over the past year, major metros have experienced growth in rental rates due to increased demand for space across all real estate segments. Strong Job growth has been the prevalent factor driving demand in 2018 with the U.S. economy gaining 2.6 million jobs driving the unemployment rate down to 3.9%. With these market conditions, new

supply has started to increase for most product types including multifamily, industrial, office and self-storage.

Investment Banking

Despite 2018 being earlier predicted to become a near record year for the number of global mergers and acquisitions, corporate acquisition appetite was low. Deal plans are subdued in part due to increasing geopolitical concerns, rising regulatory uncertainty and ongoing trade and tariff negotiations, all downward impacting the earnings outlook.

The MENA region experienced an overall improvement in mergers and acquisitions activity compared to previous years. The value of announced mergers and acquisitions transactions with any MENA involvement reached US\$54.9 billion during 2018, 50% more than the value recorded during 2017 and a 3-year high. For Q3 2018, Kuwait accounted for 28% of the M&A transactions in the GCC region, second only to the UAE, which accounted for 48%.

The energy and power, financial services and information technology sectors saw the highest number of transactions, with overall key themes being consolidation to lower operating costs, the sale of assets to deleverage balance sheets and investments in strategically important sectors such as e-commerce.

Some of the largest transactions in the year included HumanSoft's largest shareholder Fahad Al Othman exiting an additional 17% stake for \$226 million, KAMCO's acquisition of 70% stake in Global Investment House for \$157 million and NBK Capital acquiring a 56% stake in Kuwait based online platform 4Sale for \$100 million.

MENA equity and equity-related issuance totaled \$9.4 billion during 2018, which was a 42% increase over 2017. IPOs were worth \$2.1 billion which decreased by 52% from last year. The key sectors for equity related activity in 2018 were financial services, materials and energy and power.

However, debt capital markets remained subdued, resulting in an 18% decrease compared to 2017, reaching \$84.8 billion in 2018. The most active sectors for debt capital in 2018 were government and agencies, financial services and energy and power.

Business Review

Asset Management

MENA Equity Funds

In context of the challenging global capital markets environments, primarily due to global trade tensions, the GCC equity markets delivered relative gains during 2018 with the MSCI GCC index up 12% for the year. Most of the Markaz's active equity funds ended the year with moderate gains. Markaz Investment & Development Fund (MIDAF) and Markaz Fund for Excellent Yields (MUMTAZ) recorded yearly returns of 9.3% and 9.0% respectively. Markaz Islamic Fund (MIF), a Sharia compliant fund, recorded a 7.8% annual return in 2018. Looking forward, Markaz is focused on providing innovative products and investment strategies to create sustainable wealth for clients.

Fixed Income Funds

The Markaz Fixed Income fund AUM remained stable despite other asset classes delivering stronger relative returns. The fund was the best performing fund among regional peers of the same weighted credit rating. The portfolio was invested in diverse sectors across GCC countries including government, financial services, oil and gas, power and utilities, real estate, telecom and transportation.

Portfolio Management

With the increasing volatility in the capital markets, clients have approached Markaz for professional advice with regards to managing private portfolios and this trend is expected to continue. This is further driven by more complex client expectations and the demand for high returns on investments even in challenging market scenarios. The superior long-term track record of Markaz fund management and stringent investment guidelines has been instrumental in developing this product offering. In addition to equities, fixed income portfolios were also managed on behalf of clients that invest in GCC bonds and sukuk markets.

The Markaz international proprietary portfolio outperformed its strategic index by 57 basis points and weighted index by 263 basis points given manager selection and strategic asset allocation. The main drivers for the outperformance are private debt and hedge funds, both of which have increased by 6.7% and 4.3% YTD respectively. The portfolio has outperformed its weighted index by 0.42% but underperformed against the strategic index by 0.29% in Q4 respectively.

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 2018, the fund had KD 81 m in total assets across 19 properties out of which one is an active development. Progress on the development is moving forward within the approved budget and timeframe with leasing activity expected to start within Q2 2019. MREF delivered positive returns of 3.4% to investors in 2018.

In addition, Markaz manages Markaz Gulf Real Estate fund (MGREF) which is an open-ended 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, Markaz has fully exited its investment in developing a commercial building in Jordan, which was part of Markaz Real Estate Opportunities Fund (MREOF), achieving a return on investment of 29%.

Wealth Management & Business Development

The Wealth Management & Business Development (WMBD) Department's objective is to build and maintain long-term relationships between Markaz and investor clients, especially high net worth individuals. The department ensures that the highest standards of client management is maintained at all times. Markaz continues to provide high quality and unbiased advice to its clients, which is particularly valued during challenging market conditions.

The team has successfully established relationships with sovereign funds, pension funds, banks, family offices and high net worth individuals providing them with advice and access to a broad range of Markaz financial products and solutions.

WMBD continued to work actively to enhance the Markaz collaboration with reputable local financial institutions with the aim of further developing its distribution channels and commitment to providing innovative products and solutions.

In the year ahead, WMBD will focus on further expanding its partnerships in Kuwait and abroad.



Private Equity

During 2018 private equity investments at Markaz delivered a total realized return of 6.5%. These investments continued to generate alpha returns, further reinforcing its leadership position during the year. Going forward, Markaz shall continue to actively manage the private equity investments there by maximizing value from our current investments.

MENA Real Estate Overview

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

During the course of 2018, the MENA real estate team was able to achieve significant progress on its 3 active developments, Al Rihab, Parkside and Vezul. Al Rihab, a compound in Riyadh, was handed over within the approved budget and timeframe and leasing activity commenced in December 2018. Parkside and Vezul, which are residential towers in Abu Dhabi and Dubai respectively, are expected to be handed over during the course of Q1 2019. The projects are expected to be completed within the approved budgets and timeframes.

Despite the slowdown in the GCC real estate market, Markaz was able to maintain high occupancy levels across the portfolio of income generating assets. Occupancy across stabilized assets exceeded 95% in Kuwait, UAE and KSA. Even recently launched assets such as Al Maha in Kuwait and Boardwalk in UAE have reached occupancy levels, during the course of 2018, of 85% and 100% respectively.

RED MENA continues to focus on enhancing its operational model and streamline its operations during the current market conditions. Several initiatives such as the implementation of an in-house property activity and increased automation have been launched in 2018. In addition, RED MENA is very well positioned to capture current and upcoming opportunities that may arise. The department is currently assessing the possibility of launching several products which include listing REIT and a portfolio focused on acquiring opportunistic/distressed assets.

KSA

The Al Rawabi Pearl development portfolio is located in Khobar and consists of 83 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 2018, 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 portfolio is located in Riyadh and will consist of 144 residential and 1 retail unit once complete. The property was handed over during the course of 2018 and leasing activities commenced in December 2018. The Aradi development land portfolio is currently under exit and has to date returned circa 85% of capital back to investors.

UAE

The Shams Abu Dhabi residence portfolio is located on Al Reem Island in Abu Dhabi and will consist of 165 residential units once complete. Construction work commenced in 2016 and handover is expected in Q1 2019 after which leasing activities will commence.

The Business Bay residence portfolio located in Dubai to consist of 148 residential and 1 retail unit once complete. Construction work commenced in 2016 and handover is expected in Q1 2019 after which leasing activities will commence.

The Boardwalk residence portfolio is located on Al Reem Island in Abu Dhabi, UAE and consists of 35 residential properties. The complex was completed and handed over in Q4 2017 and currently is managed as income generating asset. 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

The international commercial real estate sector experienced muted growth during 2018 with property prices increasing by 2% as per the Green Street commercial property price index (CPPI). During 2018, Markaz started construction on four new industrial development projects in the U.S. and Europe.

We have been very selective in focusing on projects with strong anticipated fundamentals such as attractive supply and demand dynamics, rental growth prospects and stable occupancy rates.

Markaz has also realized its investments in three development projects within the U.S. consisting of two industrial facilities and one self-storage facility, achieving a weighted average Return on Investment of 27%.

Our international real estate team continues to expand its investment program designed to capitalize on value-add opportunities in the U.S. and select European markets.

Investment Banking

The main corporate transaction drivers in 2018 were consolidation in the financial sector, strategic moves toward defensive sectors like education and healthcare and investing in technology ventures. During the course of the year, our Investment Banking division continued to successfully execute and advise on high profile transactions across corporate advisory, M&A, restructuring and equity capital markets.

The debt restructuring of The Sultan Center and M&A advisory to ACICO in connection with its sale of a minority position in a subsidiary were two landmark transactions in 2018. In addition, the Capital Markets team successfully raised KD 20 million for United Projects for Aviation Services Company (UPAC) through a rights' issue in addition to closing an ECM advisory services and DCM advisory services for two prominent corporate clients. Total transaction value executed up to December 2018 was over KD 1.24 billion across the GCC market.

During 2018, Markaz was named 'Best Investment Bank in Kuwait' and 'Best Investment Bank in Kuwait' by Global Finance. These award recognitions affirm the quality of our investment banking services across mergers and acquisitions, capital restructurings, in addition to equity and debt issuances and listing advisory.

As we look forward, Markaz Investment Banking team continues to deepen its advisory dialogue with corporate clients and family offices offering a combination of sector experience and execution excellence. The year ahead is expected to deliver resilient transaction flow with investors seeking newer investment avenues and opportunities in the private equity space as an alternative to the volatile public markets. Transaction structures are likely to include acquiring spin offs from family businesses, undervalued publicly listed companies, holdings

of banks and funds. Markaz continues to build a strong pipeline of new clients and deals spanning restructuring advisory, M&A and advisory.

Research

Research has always been an integral part of Markaz's market leadership and consistent performance and is a philosophy that is embraced across the organization. Research capabilities are transformed into effective investment strategies and ideas which position Marmore as a thought leader in the region. During 2018, Marmore was awarded the 'Research Provider of the Year' by Euromoney in recognition of Markaz's commitment to developing innovative products, underpinned by Marmore analysts and consultants.

During the year, Markaz organized a presentation in collaboration with the Investment Studies Center (ISC) at the Union of Investment Companies (UIC) titled "Top 30 Stock Picks in GCC based on RODE (return on dividend yield and earnings yield) metrics" at the Kuwait Chamber of Commerce & Industry. Marmore also announced the signing of a memorandum of understanding with the US-Based Sovereign Wealth Fund Institute (SWFI). This will make Marmore the "Knowledge Partner" of SWFI in the Middle East, and will enable it to share insights and intelligence on the region's financial markets, policy, economic, corporate, and banking sectors to the SWFI.

Marmore continued to deliver quality research to meet client needs by offering tailored solutions and published over 71 reports on its research web portal and executed 24 bespoke engagements with entities across the GCC region, ranging from large government and semi government institutions to corporations. Marmore also published 40 blog articles on issues that pertain directly to the regional businesses and economies on a weekly basis. These blogs concerning various research studies were regularly sent out using social media channels and other digital marketing tools.

Given the industry wide recognition received as well as new and exciting developments constantly being made in the business, Markaz is well placed to maintain its market position in the dynamic business conditions and newer challenges facing the industry.

Support Functions

Treasury

The Treasury department has maintained sufficient liquidity levels, yielding the proper balance of assets and liabilities, which enabled Markaz to timely honor its financial obligations. The department



supports all key business units by providing reliable banking services including the arrangement of credit facilities, fund transfers, money markets and foreign exchanges. The department has the latest communication facilities that include the SWIFT platform in addition to the online banking cash management platforms from several banks. The treasury department has funded Markaz and its subsidiaries requirements to honor their respective financial obligations in Kuwait, GCC and internationally in a timely manner. During 2018, the Department has secured three new credit lines for Markaz, a Markaz Subsidiary in the UAE and a Markaz Managed Fund at competitive rates from local banks.

The treasury department continues to establish new and strengthen existing relationships with banks locally and internationally. Furthermore, the department will continue to utilize the latest technologies to enhance its operational efficiency to execute fund transfers, liquidity management and foreign exchange transactions.

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 particular focus on social media.

MCD, in collaboration with Wealth Management & Business Development, Research and International Real Estate Departments, organized a number of events for direct communication with Markaz's broader stakeholders. The events included seminars and conferences in collaboration with associations concerned with the financial sector to exchange views with stakeholders on developments in local, regional and global markets such as "Investing in the Kuwait Stock Market: Opportunities and Risks" presentation, "Kuwait Roadshow to Communicate with Foreign Investor" organized by the Kuwait Direct Investment Promotion Authority (KDIPA), "Kuwait Financial Forum" in collaboration with the Kuwait Banking Association (KBA) and "The top 30 shares in the GCC in accordance with RODE standard" in collaboration with the Union of Investment Companies.

The MCD team continued to publish "engage", the quarterly magazine, 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 with investors.

The MCD team continued to hold the Pivotal Exchange Forum, a platform for all Markaz's employees to express their opinion constructively on how to improve the internal and external business environment, highlight issues that are deemed critical and provide ideas on how to improve overall competitiveness at Markaz. Started four years ago, this forum has covered 21 topics to date and 20 ideas have been proposed of which 40% have been implemented.

MCD continued to implement Markaz 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 addition, MCD launched Markaz's first sustainability report, one of the most important initiatives of Markaz to provide a sustainable business environment for sustainable development by focusing on a range of economic, social and environmental themes, as well as aspects of importance to the stakeholders and Markaz. It was prepared in accordance with the latest international sustainability reporting standards developed by the Global Reporting Initiative, an independent global organization that adopts the responsibility of developing and updating the quality and transparency standards of reports formulated by private and public international institutions to disclose the significance of their operations on key issues related to sustainability.

In 2019, MCD is planning to update Markaz's website adopting international practices while introducing detailed information on Markaz products and performance in an 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 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 regulations and internal policies. The Compliance department is responsible to ensure overall regulatory compliance including adequate controls and governance frameworks through established policies and procedures.

The department ensures overall compliance with AML regulations by setting appropriate policy and procedures, and is also responsible to handle Client complaints. This 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 the department is primarily responsible for managing company-wide risks. Markaz has a comprehensive risk management framework in place 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 the business units, risk management department and the internal audit unit are considered as key pillars for the effectiveness of overall risk management framework.

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

Systems & Operational Controls

The Systems & Operational Controls' VESTIO system, a strategic asset management solution, focuses on consolidating portfolio management, fund management and accounting systems into one platform. VESTIO is designed in line with international best practices with GCC specifications and is responsive to a dynamic regulatory environment. The team is continuously involved in developing and reflecting the ongoing

changes as required by the business units, the management and the regulators.

Information Technology

The Information Technology (IT) department is committed to the creative and innovative use of technology to achieving Markaz's business objectives. The IT department maintains best practices and industry standards across IT infrastructure and technologies. Furthermore, IT infrastructure has been focused on responding to emerging threats and to be more resilient. This has involved enhancing the network and security infrastructure by installing and upgrading new devices such as firewalls, intrusion prevention systems, anti-ransomware, implementing storage units and deploying multiple data backup solutions.

During 2018, there were no security incidents, which is an accomplishment for the IT department. A successful Data Recovery (DR) plan was developed and multiple test runs were successfully executed to ensure Data and Service availability. IT department has now deployed cost effective and competent monitoring solutions to help management proactively act on issues. The IT department has deployed market leading backup solutions to protect business data, withstand extreme circumstances including countywide disaster. The IT department employed independent professional firms to validate compliance and security assessment, followed by deployment of recommended solutions.

In 2019, the department will strive to maintain the highest level of IT security by enhancing and deploying existing or emerging solutions and benchmarking them against industry standards and best practices. The department targets to deploy a number of IT operational enhancements with the intention of cost saving, including corporate and external video conferencing solution. 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, custody, reconciliation and reporting. TPR's processes and systems provide timely and detailed account information to



management, customers and regulatory agencies. As part of effective risk management, TPR has implemented comprehensive operational controls to ensure that Markaz provides effective and secure support for the administration of client accounts. In 2019, 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.

Financial Management

During the year, the Financial Management Department (FMD) continued to achieve effective internal control through established financial best practices and operating policies. This ensured optimal liquidity position, improved levels of transparency, compliance with financial ratios and disclosures of material financial information as required by Central Bank of Kuwait and Capital Markets Authority.

Effective from 1st January 2018, Markaz has fully implemented IFRS 9 and IFRS 15.

Similarly, the KSA and UAE implemented Value Added Tax (VAT) with effect from 1st January 2018. This has been of particular relevance to the MENA Real Estate department where FMD provided advice and services in context of real estate portfolios and property management. The subsidiaries and SPVs of Markaz located in these countries have been successfully registered under the VAT authorities in compliance with the applicable VAT laws.

FMD made major revisions to Financial Policies document in line with the requirements of new International Financial Reporting Standards, successfully submitted all the regulatory and management reports on timely basis and remained compliant with CMA, CBK, Boursa Kuwait, Ministry of Finance and Ministry of Commerce and Industry rules. The department provided training to various staff on IFRS, CMA Laws, AML and Microsoft Excel to update the staff skills. It also developed a separate Procedures document to standardize the processes and procedures and hence improve efficiency.

With the adoption of Oracle Financials System, FMD successfully transitioned from Flexcube to Oracle during 2018. The full implementation of the new system has enhanced the FMD operations and now delivers timely and accurate financial information with greater speed and efficiency. FMD continues to develop and train its staff to meet the requirements of financial technology advancements. The department continues to align with business requirements and plays a pivotal role in reinforcing

financial management standards and control functions across all of Markaz business units.

Human Resources

Human Resources works strategically with heads of departments and senior management to enable all of our people to deliver on business objectives. In 2018, HR continued Markaz's emphasis on leadership development, to expand the capabilities of today's executives and build teams and leaders for sustainable future growth. Leadership Competencies were developed around client expectations and our core operating values. These competencies have been used to build a development framework for our senior tiers of internal leaders. In addition, the Markaz Graduate Program began its second year of operation, with participants building real skills and opening up new opportunities for themselves as a result of this very positive ongoing initiative.

A repositioning of the HR function for 2019 will see an increasingly business-led approach. HR's renewed mission is to positively impact Markaz's performance, through its commitment to optimizing the capabilities of our people. We will continue to invest in leadership and overall development deep within our teams, attracting, developing and retaining the best talent. Our focus will be on business-critical skills, with results delivered through motivated and highly-engaged employees at all levels, coupled with an effective compliance and regulatory training program that visibly strengthens overall governance. Markaz will continue its tradition of building careers and supporting performance with clients and markets as our guide.

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	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	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	Over 40 years of experience in the real estate sector. University degree from Alexandria University	19/4/2017
Ayman Abdullatif Alshaya	Non-Executive	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	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	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 Alghanam	Independent	Over 25 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 2018

Director	Meeting 1/on 15/1/2018	Meeting 2/on 6/2/2018	Meeting 3/ on 25/3/2018	Meeting 4/on 9/5/2018	Meeting 5/on 31/7/2018	Meeting 6/on 7/11/2018	Meeting 7/on 23/12/2018	Number of meetings
Diraar Yusuf Alghanim	✓	✓	✓	✓	✓	✓	✓	7
Humoud Sabah Al-Sabah	x	x	✓	x	✓	✓	✓	4
Faisal AbdulAziz Al-Jallal	✓	✓	✓	✓	x	✓	x	5
Ayman Abdulatif Alshaya	✓	✓	✓	✓	x	✓	✓	6
Fahad Yaqoub Al-Jouan	✓	✓	✓	✓	x	✓	✓	6
Fouzi Ebrahim Al-Mukaimi	x	✓	x	✓	✓	✓	✓	5
Adel Mohammed AlGhannam	✓	✓	✓	✓	✓	✓	x	6

Attended



Absent



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, its 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 Department circulates 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 2018 Achievements:

- A. Approving the plan to purchase treasury shares
- B. Approval and implementation of the training plan for the Board and Executive Management for the year 2018, and the training plan for the years 2019-2020.
- C. Holding training program on the following topics:
 - 1 Regulatory instructions regarding anti-money laundering and the financing of terrorism.
 - 2 Bursa Kuwait instructions regarding the stock market division and the standards followed.
- D. Updating the organizational structure of the Company due to:
 - 1 Modifying the reporting lines of some departments, so as to facilitate the workflow.
 - 2 The restructuring of the Human Resources and Administrative Affairs Department, where two departments have been established; the Human Resources Department and HR Administration & Government Affairs Department.
 - 3 Amending the Risk Management Department’s reporting from the “Board of Directors” to the “Board Risk Management Committee” in accordance with Capital Markets Authority Resolution No. 124 of 2018.
- E. Approving the amendments to internal policies and procedures manuals and issuing new policies, the most important of which are:
 - 1 Amending the Board of Directors Policy and the procedures of the Board of Directors Secretariat.
 - 2 Amendment to the list of authorized signatories: adding certain financial powers to facilitate workflow.
 - 3 Amendment to: “Policy on Delegation of Powers - Management Committees”; “Business Continuity Plan”; “Policy on related Parties Transactions”; “Policy on Gifts, Gratuities & Business Courtesies”; “Policy on Investors’ Complaints”; “Disclosure and Transparency Policy”; “Disclosure and Transparency Procedures”; “Complaints Unit Policy and Procedures”; “Budget & Control Systems Policy and Procedures”; “Process for Authorization of transactions for Markaz entities”; “Policy and procedures for employee participation in managed entities”; “Compliance with requirements of

competence and integrity”; “Procedures for monitoring personal disclosures”.

- 4 “Standards of record keeping systems” required by CMA resolution No. 64 of 2017; and “Custody Services Policy & Procedures” pursuant to CMA Resolution No. 95 of 2018.
- 5 Issuing “Policy and procedures for Common Reporting Standards - CRS” pursuant to the Ministerial Resolution No. 36 for the year 2017 issued by the Ministry of Finance; and the “governance policy of direct investment.”

F. Approval of periodic reports issued by the Risk Management Department

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 2018:
 - 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 auditor.
 - iv. Approved the appointment of an auditor to assess and review the internal control systems (ICR).
 - v. Approve the appointment of an auditor to assess and review Systems and operations of the Custody Services and discuss the report issued by them.
 - vi. Reviewed the periodic reports from the Compliance Department on Clients’ Complaints and periodic reports from Loans.
- 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 2018, the Committee held six meetings.

2 Steering Committee:

- a) Roles and achievements of the Executive Committee in 2018:
 - i. Reviewed the reports from various departments on the performance of local, regional and international investments in securities and real estate.

- ii. Reviewed and recommended to the Board the estimated budget for 2019 and the business plan for the years 2019-2021.
- iii. Approving the plan to purchase treasury shares.
- iv. Approved the liquidation of the “Markaz MENA Islamic Fund” established in Kuwait, and the liquidation of the “Markaz Real Estate Opportunities Fund” established in Bahrain.
- v. 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 2018, the Committee held two meetings.

3 Risk Management Committee:

- a) Roles and achievements of the Risk Management Committee in 2018:
 - 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 due to mergers / acquisitions in the financial sector and its impact on the company.
 - iii. Reviewed the risk control selfassessment (RCSA) results for some departments.
 - iv. Reviewed the periodic risk reports submitted by the risk management department and deliberated on the enterprise-wide risks and mitigations.
 - v. Reviewed the periodic reports from the Compliance Department on Anti-Money Laundering 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 AlGhannam.
- d) In 2018, the Committee held four meetings.

4 Nominations and Remunerations Committee:

- a) Roles and achievements of the Nominations and Remuneration Committee in 2018:
 - i. Reviewed a detailed report on HR activities.

- 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 and Faisal AbdulAziz Al-Jallal.
- d) In 2018, 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 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 with 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.

- The remuneration report was approved and read out by the Chairman at the Annual General Assembly.

**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 second Board meeting for the year 2019, held on February 17, 2019, and discussing the financial statement for the year ended December 31, 2018:

- A memo issued by the Executive Management confirming the soundness and integrity of the financial statements for the year ended December 31, 2018.
- A memo issued by the Financial Management Department regarding the annual review of the capital structure for the year ended December 31, 2018.
- A memo issued by the Financial Management Department regarding the assets and capital expenditures for the year ended December 31, 2018.
- A memo issued by the Financial Management Department regarding the compliance to the delegation of powers to the Executive Management for financial transactions during the year ended December 31, 2018.
- 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, 2018.

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 2018.

Ensure the independence and impartiality of the external auditor.

- The external auditors are independent from the Company.
- 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 are not part of the review and audit work.
- Partners in the auditors' firm 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 (holds the position of Senior Vice President) since October 2, 2012. 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.

Summary detailing the internal control systems.

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

- 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;
- Establish internal controls to ensure the soundness of assets and containment of responsibilities and claims within the approved limits;
- Provide an accounting system for financial transactions, and issue financial reports and statements in accordance with the principles of accounting;
- Establish controls and systems to detect, evaluate and manage risk factors that affect the various activities of the Company.

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

- The Company has outsourced the internal audit responsibilities to an independent audit office, whereas the internal audit unit acts as the coordinator of internal audit work between the Company and the audit office.
- The Internal Audit Officer 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.

- o Submission of report on the review and evaluation of internal control systems to the Board Audit Committee.

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:
 - o If the other party concerned is a related party and is among the list of related parties.
 - o 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.

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.

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:
 - o Major shareholders and ownership stakes;
 - o Auditors and regulators;
 - o 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.

- The Board has approved the “Shareholders’ Rights Policy” in December 2014.
- A summary of the policy and its principles is published on the Company’s website, presenting the following:
 - o Right to be treated on par with other shareholders.
 - o Right to trade or dispose of the shares owned by the shareholder and to exercise pre-emption rights to subscribe for new shares and bonds or sukuk
 - o Right to ownership of shares as kept with and independent registrar.
 - o Right to receive their share of dividend distribution and bonus shares
 - o Right to receive their share of Company’s assets, in case of liquidation.
 - o Right to participate in the General Assembly meetings of shareholders and voting on resolutions.
 - o Right to elect members to the Board of Directors.
 - o Right to monitor the Company’s performance in general and the Board of Directors in particular.

- o 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.
- o Preferential treatment is prohibited, and transactions with related parties are subject to scrutiny and specific procedures to ensure fairness and non-conflict.
- o Complaints from investors are responded to by the Investor Relations Unit and the Board Secretariat.

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:
 - o Stakeholders are, without limitation: shareholders, employees, clients, business partners, suppliers, competitors, creditors, associations and professional bodies, regulators, media and the public.

- o 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.
- o 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.
- o Complaints by stakeholders are handled through the Risk Management Department.

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

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

Rule 10 Improve and Enhance Performance

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

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

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

- During 2018, the Executive Management took the initiative to hold dialogue seminars with the Heads of departments and members of the middle management on how to establish a "business plan" for each department in coordination between the various departments to achieve sustainable growth for each activity individually and for the company as a whole. The Executive Management, in collaboration with professional experts from Churchgate Partners, held workshops with Heads of Departments separately and in groups to put action plans to achieve the goal of sustainability in growth.

As for the usual programs periodically carried out by the Company, 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 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 10th CFA Certification Ceremony, the 6th Professional Accounting and Auditing Conference, students of the College of Engineering and Petroleum and the Indian Public School. In addition, Markaz continued to support the cultural activities of Loyac, as well as Nuqat conference. 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 has been 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, the Hope Charity Foundation.

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" in a specific period, and then Markaz recruits the best of them to complete the year. The program represents an incubator environment for Kuwaiti graduates, through which they can enhance their skills by availing the training and development capabilities of "Markaz", in order to prepare them and to ease their entry to the labor market.

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.

"Markaz" is also constantly collaborating with world-renowned experts from major academic institutions such as the London School of Economics, and the French Sciences

Po University to provide opportunities to explore global thoughts on issues of concern to the Kuwaiti economy. Markaz has as well participated in a workshop organized by Sciences Po University on "Europe, Middle East and North Africa". Markaz participated in the 10th edition of Euromoney Kuwait 2018 that featured major opportunities and challenges in Kuwait in the fields of stock market and the financial services sector in general.

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:

- Partnership law between the public and private sectors Kuwait.
- Free trade zones in the GCC countries
- Areas of Partnership for Sustainable Development - Kuwait and China
- Financing consortium in the GCC
- Prolonging life - health care
- The future of oil and alternative energy to Kuwait
- Small and Medium Enterprises in Kuwait - Accelerating the pace of economic diversification
- Artificial intelligence: the implications of jobs in the GCC

Markaz held a series of seminars for its customer and market experts, including a presentation entitled "Investing in the Kuwait Stock Market: Opportunities and Risks", which discussed a number of important developments in the Kuwaiti stock market, such as the promotion of Boursa Kuwait the global indices and the market segmentation, highlighting the investment opportunities available to investors and the potential risks under these developments. In addition, Markaz participated in New Kuwait Summit, in cooperation with HSBC, which discussed the most important trends and economic issues in the region.

As part of its partnership with economic associations and civil society organizations, Markaz sponsored the "Kuwait Roadshow to Communicate with Foreign Investor" organized by the Kuwait Direct Investment Promotion Authority KDIPA, from London and Silicon Valley. This will continue in Singapore. Markaz also sponsored the Kuwait Financial Forum in collaboration with the Kuwait Banking Association.



Markaz continued collaboration with the Union of Investment Companies in several initiatives such as a seminar on the top 30 shares in the Gulf region in accordance with RODE standard, based on a report issued by Marmore; the research arm of Markaz. The report revealed the best 30 shares in the Gulf region that were identified according to the standard that Marmore called the RODE which consists of several measures including the ROIC (return on investors capital), the ROE (Return on Equity), the dividend yield or earnings per share. It also presented the RODE test results on historical data and the extent to which the investor can obtain returns that exceed market indices by following easy methods of efficient stock selection. Markaz also participated in a seminar on GCC Economic Outlook, organized by The Conference Board for Economic and Commercial Research held at Kuwait Chamber of Commerce and Industry.

3 Promoting sound governance in the business environment

One of the most important initiatives of Markaz to provide a sustainable business environment for sustainable development was issuing its first Sustainability Report, which details Markaz performance across its various activities as part of its commitment to sustainability as a cornerstone for building its corporate strategy.

The report focused on a range of economic, social and environmental themes, as well as aspects of importance to the stakeholders and Markaz. The report was prepared in accordance with the latest international sustainability reporting standards developed by the Global Reporting Initiative, an independent global organization that adopts the responsibility of developing and updating the quality and transparency standards of reports formulated by private and public international institutions to disclose the significance of their operations on key issues related to sustainability.



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 2018, 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 2018, 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 KD8,930 thousand (31 December 2017: KD7,302 thousand) for the year ended 31 December 2018 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.

Other Information included in the Group's 2018 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 2018, 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 2018 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 2018 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 2018 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.
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Kuwait
17 February 2019

Consolidated statement of profit or loss

	Note	Year ended 31 Dec. 2018 KD '000	Year ended 31 Dec. 2017 KD '000
Revenue			
Interest income	8	679	722
Dividend income		1,493	1,283
Management fees and commission income	9	8,930	7,302
Gain from financial assets at fair value through profit or loss	10	3,477	3,340
Gain on redemption of debt instruments at fair value through other comprehensive income		5	-
Gain on redemption/sale of available for sale investments		-	2,733
Gain on liquidation of subsidiaries	7.1.2	334	48
Share of results of associate and joint venture	21	(77)	(153)
Loss on sale of investment properties		-	(405)
Net rental income		517	490
Foreign currency exchange (loss)/gain		(83)	25
Other income		26	14
		15,301	15,399
Expenses and other charges			
General and administrative expenses	11	(9,222)	(8,273)
Finance costs	12	(1,747)	(1,502)
Reversal of provision for credit losses		12	1
Other expenses		(158)	(21)
Impairment of available for sale investments		-	(299)
Impairment of investment properties	22	(2,335)	(993)
		(13,450)	(11,087)
Profit before provisions for contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST), Zakat and Directors' remuneration			
		1,851	4,312
Provision for contribution to KFAS		(22)	(43)
Provision for NLST		(130)	(134)
Provision for Zakat		(52)	(53)
Provision for Directors' remuneration	31	-	(105)
Profit for the year		1,647	3,977
Profit/(loss) for the year attributable to:			
Owners of the Parent Company		2,285	4,428
Non-controlling interests		(638)	(451)
Profit for the year		1,647	3,977
Basic and diluted earnings per share attributable to the owners of the Parent Company			
	13	5 Fils	9 Fils

The notes set out on pages 59 to 110 form an integral part of these consolidated financial statements.



Consolidated statement of profit or loss and other comprehensive income

	Year ended 31 Dec. 2018 KD '000	Year ended 31 Dec. 2017 KD '000
Profit for the year	1,647	3,977
Other comprehensive income/(loss):		
<i>Items that will be reclassified subsequently to statement of profit or loss:</i>		
<i>Available for sale investments:</i>		
- Net change in fair value arising during the year	-	774
- Transferred to consolidated statement of profit or loss on redemption/sale	-	(2,733)
- Transferred to consolidated statement of profit or loss on impairment	-	299
<i>Debt instruments at fair value through other comprehensive income:</i>		
- Net change in fair value arising during the year	11	-
- Transferred to consolidated statement of profit or loss on redemption	(5)	-
<i>Foreign currency translation:</i>		
- Exchange differences arising on translation of foreign operations	154	(477)
Share of other comprehensive loss of associate and joint venture	(77)	(19)
Total other comprehensive income/(loss)	83	(2,156)
Total comprehensive income for the year	1,730	1,821
Total comprehensive income/(loss) for the year attributable to:		
Owners of the Parent Company	2,352	2,281
Non-controlling interests	(622)	(460)
	1,730	1,821

The notes set out on pages 59 to 110 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

	Note	31 Dec. 2018 KD '000	31 Dec. 2017 KD '000
Assets			
Cash and bank balances	14	4,691	7,622
Time deposits	14	2,565	1,430
Accounts receivable and other assets	15	3,503	7,131
Loans to customers	16	304	272
Financial assets at fair value through profit or loss	17	92,674	49,498
Debt instruments at fair value through other comprehensive income	18	427	-
Investments carried at amortised cost	19	6,998	-
Available for sale investments	20	-	49,842
Investment in associate and joint venture	21	3,651	3,231
Investment properties	22	56,830	46,450
Equipment		878	631
Total assets		172,521	166,107
Liabilities and equity			
Liabilities			
Accounts payable and other liabilities	23	10,904	10,309
Bank borrowings	24	22,565	17,516
Bonds issued	25	25,000	25,000
Total liabilities		58,469	52,825
Equity			
Share capital	26	48,080	48,080
Share premium	26	7,902	7,902
Treasury shares	27	(260)	-
Statutory reserve	28	16,005	15,756
Voluntary reserve	28	14,360	14,111
Other components of equity	29	555	2,890
Retained earnings		4,408	3,679
Equity attributable to the owners of the Parent Company		91,050	92,418
Non-controlling interests	7	23,002	20,864
Total equity		114,052	113,282
Total liabilities and equity		172,521	166,107



Diraar Yusuf Alghanim
Chairman



Manaf AbdulAziz Alhajeri
Chief Executive Officer

The notes set out on pages 59 to 110 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

	Equity attributable to the owners of the Parent Company							Non-controlling interests	Total	
	Share capital KD '000	Share premium KD '000	Treasury shares KD'000	Statutory reserve KD '000	Voluntary reserve KD '000	Other components of equity (note 29) KD '000	Retained earnings KD '000			Sub Total KD '000
Balance at 1 January 2018	48,080	7,902	-	15,756	14,111	2,890	3,679	92,418	20,864	113,282
Adjustments arising on adoption of IFRS 9 on 1 January 2018 (refer note 4.1)	-	-	-	-	-	(2,402)	2,402	-	-	-
Balance at 1 January 2018 (Restated)	48,080	7,902	-	15,756	14,111	488	6,081	92,418	20,864	113,282
Purchase of treasury shares	-	-	(260)	-	-	-	-	(260)	-	(260)
Net change in non-controlling interests	-	-	-	-	-	-	-	-	2,666	2,666
Effect of change in ownership percentage of subsidiaries (refer note 7)	-	-	-	-	-	-	(94)	(94)	94	-
Payment of cash dividend (refer note 30)	-	-	-	-	-	-	(3,366)	(3,366)	-	(3,366)
Transactions with owners	-	-	(260)	-	-	-	(3,460)	(3,720)	2,760	(960)
Profit/(loss) for the year	-	-	-	-	-	-	2,285	2,285	(638)	1,647
Total other comprehensive income	-	-	-	-	-	67	-	67	16	83
Total comprehensive income/(loss) for the year	-	-	-	-	-	67	2,285	2,352	(622)	1,730
Transfer to reserves	-	-	-	249	249	-	(498)	-	-	-
Balance at 31 December 2018	48,080	7,902	(260)	16,005	14,360	555	4,408	91,050	23,002	114,052

The notes set out on pages 59 to 110 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity (continued)

	Equity attributable to the owners of the Parent Company						Non-controlling interests	Total	
	Share capital	Share premium	Statutory reserve	Voluntary reserve	Other components of equity (note 29)	Retained earnings			Sub Total
	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000	
Balance at 1 January 2017	48,080	7,902	15,280	13,635	5,037	3,341	93,275	22,000	115,275
Net change in non-controlling interests	-	-	-	-	-	-	-	1,346	1,346
Effect arising on liquidation of subsidiaries	-	-	-	-	-	-	-	(2,241)	(2,241)
Effect of change in ownership percentage of subsidiaries	-	-	-	-	-	(253)	(253)	253	-
Payment of cash dividend (refer note 30)	-	-	-	-	-	(2,885)	(2,885)	-	(2,885)
Payment of cash dividend to non-controlling interests	-	-	-	-	-	-	-	(34)	(34)
Transactions with owners	-	-	-	-	-	(3,138)	(3,138)	(676)	(3,814)
Profit/(loss) for the year	-	-	-	-	-	4,428	4,428	(451)	3,977
Total other comprehensive loss	-	-	-	-	(2,147)	-	(2,147)	(9)	(2,156)
Total comprehensive (loss)/income for the year	-	-	-	-	(2,147)	4,428	2,281	(460)	1,821
Transfer to reserves	-	-	476	476	-	(952)	-	-	-
Balance at 31 December 2017	48,080	7,902	15,756	14,111	2,890	3,679	92,418	20,864	113,282

The notes set out on pages 59 to 110 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

	Note	Year ended 31 Dec. 2018 KD '000	Year ended 31 Dec. 2017 KD '000
OPERATING ACTIVITIES			
Profit for the year		1,647	3,977
Adjustments for:			
Interest income		(679)	(722)
Dividend income		-	(1,283)
Depreciation		490	388
Gain on redemption of debt instruments at fair value through OCI		(5)	-
Gain on redemption/sale of available for sale investments		-	(2,733)
Gain on liquidation of subsidiaries		(334)	(48)
Share of results of associate and joint venture		77	153
Loss on sale of investment properties		-	405
Impairment of available for sale investments		-	299
Impairment of investment properties		2,335	993
Reversal of provision for credit losses		(12)	(1)
Finance costs		1,747	1,502
		5,266	2,930
Changes in operating assets and liabilities:			
Financial assets at fair value through profit or loss		1,588	(6,457)
Accounts receivable and other assets		3,627	(1,829)
Loans to customers		(20)	(19)
Accounts payable and other liabilities		604	1,959
Net cash from/ (used in) operating activities		11,065	(3,416)
INVESTING ACTIVITIES			
Change in time deposits maturing after three months		805	31
Purchase of equipment		(540)	(361)
Proceeds from redemption/sale of available for sale investments		-	16,482
Proceeds from redemption of debt instruments at fair value through OCI		23	-
Purchase of available for sale investments		-	(23,680)
Purchase of investments carried at amortised cost		(2,025)	-
Addition to investment properties		(12,128)	(13,726)
Proceeds from sale of investment properties		-	1,279
Increase in investment in joint venture		(574)	(401)
Proceeds from liquidation of subsidiaries (net of cash and cash equivalent)		-	5,061
Dividend income received		-	1,283
Interest income received		666	737
Net cash used in investing activities		(13,773)	(13,295)

Consolidated statement of cash flows (continued)

	Note	Year ended 31 Dec. 2018	Year ended 31 Dec. 2017
FINANCING ACTIVITIES			
Dividend paid		(3,371)	(2,933)
Dividend paid to non-controlling interests shareholders		-	(34)
Proceeds from bank borrowings		16,992	14,517
Repayment of bank borrowings		(11,943)	(5,147)
Purchase of treasury shares		(260)	-
Net change in non-controlling interests		2,666	(894)
Finance costs paid		(2,247)	(1,778)
Net cash from financing activities		1,837	3,731
Decrease in cash and cash equivalents		(871)	(12,980)
Foreign currency adjustments		(120)	(31)
Cash and cash equivalents at the beginning of the year	14	8,226	21,237
Cash and cash equivalents at the end of the year	14	7,235	8,226

The notes set out on pages 59 to 110 form an integral part of these consolidated financial statements.



Notes to the consolidated financial statements

1. Incorporation and activities

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

The principal activities of the Parent Company are as follows:

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

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

The Parent Company’s Board of Directors approved these consolidated financial statements for issue on 17 February 2019 and are subject to the approval of the General Assembly of the shareholders of the Parent Company.

Notes to the consolidated financial statements (continued)

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.

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 2018 which have been adopted by the Group. Information on these new standards which are relevant to the Group, is presented below:

<i>Standard or Interpretation</i>	<i>Effective for annual periods beginning</i>
IFRS 9 Financial Instruments: Classification and Measurement	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
Amendments to IFRS 7 Financial Instruments: Disclosures relating to disclosures about the initial application of IFRS 9	1 January 2018

Several other amendments and interpretations apply for the first time in 2018, but do not have a material impact on the consolidated financial statements of the Group.

Impact of initial application of IFRS 9 Financial Instruments

During the year, the Group has applied IFRS 9 Financial Instruments effective from 1 January 2018 (as revised in July 2014) with the exception of requirements of the Expected Credit Losses (“ECL”) on credit facilities as noted in note 3 above. The transition provisions of IFRS 9 allow an entity not to restate comparatives.

Further, the Group has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures.

IFRS 9 introduced new requirements for:

- The classification and measurement of financial assets and financial liabilities,
- Impairment of financial assets, and
- General hedge accounting.

Details of these new requirements as well as their impact on the Group’s consolidated financial statements are described below:

a) Classification and Measurement of Financial Assets

The date of initial application is 1 January 2018. Accordingly, the Group has applied the requirements of IFRS 9 to financial instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. Comparative amounts in relation to financial instruments that continue to be recognised as at 1 January 2018 have not been restated.



Notes to the consolidated financial statements (continued)

4. Changes in accounting policies (continued)

4.1 New and amended standards adopted by the Group (continued)

a) Classification and Measurement of Financial Assets (continued)

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVOCI);
- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination in other comprehensive income; and
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

When a debt investment measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortised cost or at FVOCI are subject to impairment.

(b) Impairment of financial assets

Impairment of credit facilities (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 credit facilities:

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the Group to recognise a loss allowance for expected credit losses on:

- (1) Debt instruments measured subsequently at amortised cost or at FVOCI;
- (2) Trade receivables and contract assets; and
- (3) Financial guarantee contracts.

In particular, IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated creditimpaired financial asset.

Notes to the consolidated financial statements (continued)

4. Changes in accounting policies (continued)

4.1 New and amended standards adopted by the Group (continued)

Impact of initial application of IFRS 9 Financial Instruments (continued)

(b) Impairment of financial assets (continued)

However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated creditimpaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables and contract assets.

The Group has applied simplified approach to impairment for trade and other receivables (represented by management fees and other dues from clients) as required or 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. The measurement of receivables under IFRS 9 did not have a material impact on the consolidated statement of profit or loss of the Group.

The Group's balances with banks are low risk and are considered to be fully recoverable and hence measurement of bank balances under IFRS 9 did not have a material impact on the consolidated statement of profit or loss of the Group. The Group's debt instruments 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. In all cases, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The consequential amendments to IFRS 7 have also resulted in more extensive disclosures about the Group's exposure to credit risk in the consolidated financial statements (refer note 36 for details).

(c) Classification and measurement of financial liabilities

A significant change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised.

Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

The Group does not have any financial liabilities designated as at FVTPL, hence the application of IFRS 9 has had no impact on the classification and measurement of the Group's financial liabilities.

(d) General hedge accounting

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Group's risk management activities have also been introduced.

(e) Disclosures in relation to the initial application of IFRS 9

The management of the Group reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Group's financial assets as regards their classification and measurement.



Notes to the consolidated financial statements (continued)

4. Changes in accounting policies (continued)

4.1 New and amended standards adopted by the Group (continued)

Impact of initial application of IFRS 9 Financial Instruments (continued)

The following table shows the previous measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets as of 1 January 2018:

	Original Classification under IAS 39	New classification under IFRS 9	Original Car- rying amount under IAS 39	Re-measure- ment -ECL/ others	New carrying amount under IFRS 9
			KD '000	KD '000	KD '000
Financial assets					
Cash and bank balances	Loans and re- ceivables	At amortized cost	7,622	-	7,622
Time deposits	Loans and re- ceivables	At amortized cost	1,430	-	1,430
Accounts receivable and other assets*	Loans and re- ceivables	At amortized cost	4,832	-	4,832
Loans to customer	Loans and re- ceivables	At amortized cost	272	-	272
Derivative:					
- Forward foreign cur- rency contracts held for trading	FVTPL (includ- ed in other assets)	FVTPL	17	-	17
Investments:					
- Debt instruments (Sukuk)	AFS	At amortized cost	4,973	-	4,973
- Debt instruments (others)	AFS	FVOCI	439	-	439
- Fixed income secu- rities	FVTPL	FVTPL	761	-	761
- Managed funds	AFS	FVTPL	25,129	-	25,129
- Managed funds	FVTPL	FVTPL	22,071	-	22,071
- Quoted securities	AFS	FVTPL	4,362	-	4,362
- Quoted securities	FVTPL	FVTPL	26,666	-	26,666
- Unquoted securities	AFS	FVTPL	1,305	-	1,305
- Equity participation	AFS	FVTPL	13,634	-	13,634

*Excluding non-financial assets of KD2,282 thousand and derivative of KD17 thousand.

(AFS - Available for sale, FVOCI - Fair value through other comprehensive income, FVTPL - Fair value through profit or loss)

Notes to the consolidated financial statements (continued)

4. Changes in accounting policies (continued)

4.1 New and amended standards adopted by the Group (continued)

Impact of initial application of IFRS 9 Financial Instruments (continued)

The following table summarises the new measurement categories under IFRS 9 by class of financial asset as at 1 January 2018:

	IFRS 9 Categories		
	Financial assets at Fair Value Through Profit or Loss (FVTPL)	Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI)	Financial Assets at Amortised cost
	KD '000	KD '000	KD '000
Cash and bank balances	-	-	7,622
Time deposits	-	-	1,430
Accounts receivable and other assets excluding derivative	-	-	4,832
Derivative	17	-	-
Loans to customers	-	-	272
Investments	93,928	439	4,973
Balance at 1 January 2018	93,945	439	19,129

Impairment of Credit facilities (loans to customers)

The adoption of IFRS 9 did not result in any change in the classification and measurement of loans to customers. These credit facilities are carried at amortised cost less any amounts written off and provision for impairment. The provision for impairment is based on the provisioning requirements of Central Bank of Kuwait as long as it is the higher.

Summary of impact on application of IFRS 9:

As allowed by the transition provisions of IFRS 9, the Group elected not to restate comparative information for prior periods with respect to classification and measurement, and impairment requirements. Accordingly, the information presented for the comparative periods does not generally reflect the requirements of IFRS 9 but rather those of IAS 39. However, there are no differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 as disclosed above.

The implementation of IFRS 9 has resulted in the following impact:

Assets	Balance at 31 December 2017 as reported	Adjustments	Balance at 1 January 2018 as restated
	KD '000	KD '000	KD '000
Financial assets at fair value through profit or loss	49,498	44,430	93,928
Investments at amortized cost	-	4,973	4,973
Debt instruments at fair value through other comprehensive income	-	439	439
Available for sale investments	49,842	(49,842)	-



Notes to the consolidated financial statements (continued)

4. Changes in accounting policies (continued)

4.1 New and amended standards adopted by the Group (continued)

Summary of impact on application of IFRS 9 (continued):

The following table analyses the impact on transition to IFRS 9 to fair value reserve and retained earnings:

	Fair value reserve KD '000	Retained earnings KD '000
Closing balance under IAS 39 - 31 December 2017	2,477	3,679
Impact of reclassifications & re-measurements:		
Securities, equity participation and managed funds from available for sale to FVTPL	(2,402)	2,402
Adjustments arising on adoption of IFRS 9 - 1 January 2018	(2,402)	2,402
Opening balance under IFRS 9 - 1 January 2018	75	6,081

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaced IAS 18 "Revenues", IAS 11 "Construction Contract" and several revenues - related Interpretations and provides a new control-based revenue recognition model using five-step approach to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group recognises revenue from the following major sources:

- Management fee and commission income which represent asset management, custody incentive fee and commission income and other management fees. The Group has reassessed its revenue recognition policy and has concluded that it will continue to recognize fees when services are rendered. Hence, application of IFRS 15 on 1 January 2018 did not have any material impact on the Group's consolidated financial statements.
- Dividend income represents distributions made by investments classified in accordance with IFRS 9. The Group has reassessed its revenue recognition policy and has concluded that it will continue to recognize revenue at the time the rights to receive cash flows is established. Hence, application of IFRS 15 on 1 January 2018 did not have any material impact on the Group's consolidated financial statements.

4.2 IASB Standards issued but not yet effective

At the date of authorisation of these 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 to the Group's consolidated financial statements.

Notes to the consolidated financial statements (continued)

4. Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

<i>Standard or Interpretation</i>	<i>Effective for annual periods beginning</i>
IFRS 10 and IAS 28 Sale or Contribution of Assets between and an Investor and its Associate or Joint Venture - Amendments	No stated date
IFRS 16 Leases	1 January 2019
IFRIC 23 Uncertainty over income tax treatments	1 January 2019
IAS 28 - Amendments	1 January 2019
IAS 1 and IAS 8 - Amendments	1 January 2020
IFRS 3 - Amendments	1 January 2020
Annual Improvements to IFRS Standards 2015-2017 Cycle	1 January 2019

IFRS 10 and IAS 28 Sale or Contribution of Assets between and 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 16 Leases

IFRS 16 will replace IAS 17 and three related Interpretations. Leases will be recorded on the statement of financial position in the form of a right-of-use asset and a lease liability.

Management is yet to fully assess the impact of the Standard and therefore is unable to provide quantified information. However, in order to determine the impact, management is in the process of:

- performing a full review of all agreements to assess whether any additional contracts will now become a lease under IFRS 16's new definition
- deciding which transitional provision to adopt; either full retrospective application or partial retrospective application (which means comparatives do not need to be restated). The partial application method also provides optional relief from reassessing whether contracts in place are, or contain, a lease, as well as other reliefs. Deciding which of these practical expedients to adopt is important as they are one-off choices
- assessing their current disclosures for finance and operating leases as these are likely to form the basis of the amounts to be capitalised and become right-of-use assets
- determining which optional accounting simplifications apply to their lease portfolio and if they are going to use these exemptions
- assessing the additional disclosures that will be required.



Notes to the consolidated financial statements (continued)

4. Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

IFRIC 23 Uncertainty over income tax treatments

The Interpretation clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRIC IC had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specified item of income in a tax return is an uncertain treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

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 28 - Amendments

The amendments to IAS 28 clarify that an entity applies IFRS 9 *Financial Instruments* 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.

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.

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.

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.

Notes to the consolidated financial statements (continued)

4. Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

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

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.



Notes to the consolidated financial statements (continued)

5. Summary of significant accounting policies (continued)

5.1 Basis of consolidation (continued)

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.

5.1.1 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.

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 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 interest 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.

Notes to the consolidated financial statements (continued)

5. Summary of significant accounting policies (continued)

5.3 Revenue recognition

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

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

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

The Group recognises revenue from the following major sources:

5.3.1 Rendering of services

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

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

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

Fee income from providing transaction services

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

5.3.2 Interest income

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

5.3.3 Dividend income

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

5.3.4 Rental income

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

5.3.5 Revenue from sale of investment properties

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

5.4 Operating expenses

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

5.5 Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of a qualifying asset are capitalised during the 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.



Notes to the consolidated financial statements (continued)

5. Summary of significant accounting policies (continued)

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.

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.

Notes to the consolidated financial statements (continued)

5. Summary of significant accounting policies (continued)

5.7 Investment in associate (continued)

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



Notes to the consolidated financial statements (continued)

5. Summary of significant accounting policies (continued)

5.10 Equipment (continued)

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)

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.



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)

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.

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)

Impairment of Financial Assets (continued):

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 shortfall represent the difference between cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive. The key elements in the measurement of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Group estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, forward looking macro-economic scenarios etc.



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)

Measurement of ECLs (continued)

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

Provision for credit losses in accordance with CBK instructions

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

A credit facility is classified as a bad loan (non-performing loan) when the interest or a principal instalment is past due more than 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, 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.

Notes to the consolidated financial statements (continued)

5. Summary of significant accounting policies (continued)

5.11 Financial instruments (continued)

5.11.2 Classification and Measurement of Financial Liabilities (continued)

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 financial statements unless the Group has both legal right and intention to offset.

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

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

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

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

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

5.12 Trade and settlement date accounting

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



Notes to the consolidated financial statements (continued)

5. Summary of significant accounting policies (continued)

5.13 Amortised cost of financial instruments

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

5.14 Offsetting of financial instruments

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

5.15 Fair value of financial instruments

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

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

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

Notes to the consolidated financial statements (continued)

5. Summary of significant accounting policies (continued)

5.17 Equity, reserves and dividend payments (continued)

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

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

5.18 Treasury shares

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

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

5.19 Provisions, contingent assets and contingent liabilities

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

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

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

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

5.20 Foreign currency translation

5.20.1 Foreign currency transactions

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

5.20.2 Foreign operations

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



Notes to the consolidated financial statements (continued)

5. Summary of significant accounting policies (continued)

5.20 Foreign currency translation

5.20.2 Foreign operations (continued)

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.

6. Significant management judgements and estimation uncertainty

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

6.1 Significant management judgments

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

6.1.1 Business model assessment

The Group classifies financial assets after performing the business model test (please see accounting policy for financial instruments sections in note 5.11). This test includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured and the risks that affect the performance of the assets.

Notes to the consolidated financial statements (continued)

6. Significant management judgements and estimation uncertainty (continued)

6.1.1 Business model assessment (continued)

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 property as trading property if it is acquired principally for sale in the ordinary course of business.

The Group classifies property as property under development if it is acquired with the intention of 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.

6.2 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 in accordance with accounting policies stated in note 5.9, the recoverable amount of an asset is determined based on higher of fair value and value in use.

Notes to the consolidated financial statements (continued)

6. Significant management judgements and estimation uncertainty (contd.)

6.2 Estimates uncertainty (continued)

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. 2018	31 Dec. 2017	
		%	%	
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	69.75	58.92	Investment Fund
Markaz Fixed Income Fund (note 7.1.1)	Kuwait	76.38	78.21	Investment Fund
Markaz Mena Islamic Fund (note 7.1.2)	Kuwait	-	100.00	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

Notes to the consolidated financial statements (continued)

7. Subsidiary companies (continued)

7.1.1 The ownership of Markaz Arabian Fund and Markaz Fixed Income Fund increased by 10.83% and decreased by 1.83% respectively (31 December 2017: increased by 0.75% and 4.55% respectively) due to changes in units held by non-controlling interest holders as a result of subscription and redemption of the fund's units. These changes in the ownership resulted in a net loss of KD94 thousand which was included in the consolidated statement of changes in equity.

7.1.2 Liquidation of a subsidiary fund

During the year, the Group has 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.

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. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
	%	%	KD '000	KD '000	KD '000	KD '000
Arab Gulf Real Estate Development Company WLL	0.15	0.15	(55)	(157)	5,045	3,424
Bay View Real Estate Company WLL	0.15	0.15	(683)	(36)	5,100	4,920
Al Rihab Real Estate Development Company WLL	0.15	0.15	(36)	(78)	4,180	3,906
Markaz Arabian Fund	30.25	41.08	267	65	3,645	4,101
Individually immaterial subsidiaries with non-controlling interests			(131)	(245)	5,032	4,513
			(638)	(451)	23,002	20,864

No dividend was paid to the NCI during the year (31 December 2017: 34 thousand).

Notes to the consolidated financial statements (continued)

7. Subsidiary companies (continued)

7.2 Subsidiaries with material non-controlling interests (continued)

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

	31 December 2018				31 December 2017			
	Arab Gulf Real Estate	Bay View Real Estate	Al Rihab Real Estate	Markaz Arabian Fund	Arab Gulf Real Estate	Bay View Real Estate	Al Rihab Real Estate	Markaz Arabian Fund
	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000
Non-current assets	16,969	15,450	9,915	-	9,667	11,956	8,500	-
Current assets	203	624	88	12,112	1,004	1,072	674	10,035
Total assets	17,172	16,074	10,003	12,112	10,671	13,028	9,174	10,035
Liabilities	(6,410)	(8,503)	(236)	(63)	(3,459)	(5,746)	(233)	(53)
Total liabilities	(6,410)	(8,503)	(236)	(63)	(3,459)	(5,746)	(233)	(53)
Equity attributable to the owners of the Parent Company	5,717	2,471	5,587	8,404	3,788	2,362	5,035	5,881
Non-controlling interests	5,045	5,100	4,180	3,645	3,424	4,920	3,906	4,101
Total equity	10,762	7,571	9,767	12,049	7,212	7,282	8,941	9,982

Notes to the consolidated financial statements (continued)

7. Subsidiary companies (continued)

7.2 Subsidiaries with material non-controlling interests (continued)

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

	31 December 2018			31 December 2017				
	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	9	-	7	1,134	-	-	-	384
(Loss)/profit for the year attributable to the owners of the Parent Company	(59)	(303)	(49)	615	(166)	(16)	(106)	92
(Loss)/profit for the year attributable to NCI	(55)	(683)	(36)	267	(157)	(36)	(78)	65
(Loss)/profit for the year	(114)	(986)	(85)	882	(323)	(52)	(184)	157
Total other comprehensive income/(loss)	60	30	33	(83)	86	(120)	(98)	38
Total comprehensive (loss)/income for the year	(54)	(956)	(52)	799	(237)	(172)	(282)	195
Total comprehensive (loss)/income for the year attributable to the owners of the Parent Company	(28)	(293)	(30)	557	(122)	(53)	(161)	115
Total comprehensive (loss)/income for the year attributable to NCI	(26)	(663)	(22)	242	(115)	(119)	(121)	80
Total comprehensive (loss)/income for the year	(54)	(956)	(52)	799	(237)	(172)	(282)	195
	31 December 2018			31 December 2017				
	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
Net cash from/(used in) operating activities	1,346	14	127	(864)	1,368	228	(390)	439
Net cash used in investing activities	(7,361)	(4,368)	(1,351)	-	(4,391)	(4,445)	(3,623)	-
Net cash from/(used in) financing activities	5,922	4,036	1,014	1,133	3,007	4,752	4,111	(129)
Net cash (outflow)/inflow	(93)	(318)	(210)	269	(16)	535	98	310



Notes to the consolidated financial statements (continued)

8. Interest income

	Year ended 31 Dec. 2018	Year ended 31 Dec. 2017
	KD '000	KD '000
On financial assets at amortised cost:		
- Time deposits	46	33
- Loans to customers	29	17
- Investments carried at amortised cost	243	-
On financial assets at fair value through profit or loss	322	35
On debt instruments at fair value through OCI	39	-
Available for sale investments	-	463
Other	-	174
	679	722

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

	Year ended 31 Dec. 2018	Year ended 31 Dec. 2017
	KD '000	KD '000
Change in fair value of financial assets at fair value through profit or loss	1,596	2,410
Gain on sale of financial assets at fair value through profit or loss	1,881	930
	3,477	3,340

11. General and administrative expenses

	Year ended 31 Dec. 2018	Year ended 31 Dec. 2017
	KD '000	KD '000
Staff costs	5,444	5,407
Depreciation	490	388
Other expenses	3,288	2,478
	9,222	8,273

12. Finance costs

	Year ended 31 Dec. 2018	Year ended 31 Dec. 2017
	KD '000	KD '000
On financial liabilities at amortised cost:		
- Bonds issued	1,272	1,243
- Bank borrowings	475	259
	1,747	1,502

Notes to the consolidated financial statements (continued)

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).

	Year ended 31 Dec. 2018	Year ended 31 Dec. 2017
Profit for the year attributable to the owners of the Parent Company (KD '000)	2,285	4,428
Weighted average number of shares outstanding and in issue during the year (excluding treasury shares)	480,682,536	480,801,747
Basic and diluted earnings per share attributable to the owners of the Parent Company	5 Fils	9 Fils

14. Cash and cash equivalents

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

	31 Dec. 2018	31 Dec. 2017
	KD '000	KD '000
Cash and bank balances	4,691	7,622
Time deposits	2,565	1,430
	7,256	9,052
Less: Time deposits maturing after three months	(21)	(826)
Cash and cash equivalent for the purpose of consolidated statement of cash flows	7,235	8,226

The Group's time deposits carry an average effective interest rate of 1.08% (31 December 2017: 0.81%) per annum.

15. Accounts receivable and other assets

	31 Dec. 2018	31 Dec. 2017
	KD '000	KD '000
Management fees and commission receivable	1,401	1,196
Prepayments	454	507
Advance payments to contractors	172	1,775
Due from a related party (refer note 31)	-	2,118
Interest receivable	90	77
Other receivables	1,386	1,458
	3,503	7,131



Notes to the consolidated financial statements (continued)

15. Accounts receivable and other assets (continued)

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. 2018	31 Dec. 2017
	KD '000	KD '000
Neither past due nor impaired	1,094	1,025
Past due but not impaired	307	171
	1,401	1,196

Aging of past due but not impaired balances:

	31 Dec. 2018	31 Dec. 2017
	KD '000	KD '000
0 to 90 days	122	116
90 to 180 days	43	23
Above 180 days	142	32
	307	171

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. 2018	31 Dec. 2017
	KD '000	KD '000
Personal loans*	791	761
Provision for credit losses	(487)	(489)
	304	272

*The interest rate on personal loans ranged from 2.00% to 10.00% (31 December 2017: 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. 2018	31 Dec. 2017
	KD '000	KD '000
Between one month and six months	3	3
Between six months and one year	14	3
Over one year	290	269
Non-performing loans	484	486
	791	761

Notes to the consolidated financial statements (continued)

16. Loans to customers (continued)

Provision for credit losses is made in accordance with Central Bank of Kuwait requirements. The total non-performing loans which have been fully provided amounts to KD484 thousand (31 December 2017: KD486 thousand). The remaining loans to customers of KD307 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. 2018	31 Dec. 2017
	KD '000	KD '000
Local quoted securities	2,857	2,903
Foreign quoted securities	18,137	23,763
Local managed funds	42,764	22,071
Foreign managed funds	13,039	-
Fixed income securities	5,518	761
Equity participation	10,359	-
	92,674	49,498

The interest rates on fixed income securities range from 2.375% to 7.50% (31 December 2017: 7.00% to 9.00%) per annum.

18. Debt instruments at fair value through other comprehensive income

This represents investment in foreign debt instrument amounting to KD427 thousand which is secured by charges over real estate properties and carry average interest rate of 7.25% (31 December 2017: 7.25%) per annum.

19. Investments carried at amortised cost

These represent investment in sukuk, a debt instrument amounting to KD4,983 thousand carrying profit rate of 2% above Central Bank of Kuwait discount rate (31 December 2017: 2% above Central Bank of Kuwait discount rate) per annum and in a debt instrument amounting to KD2,015 thousand carrying an interest rate of 3% per annum.

20. Available for sale investments

	31 Dec. 2018	31 Dec. 2017
	KD '000	KD '000
Quoted securities	-	4,362
Unquoted securities	-	1,305
Managed funds	-	25,129
Equity participation	-	13,634
Debt instruments	-	5,412
	-	49,842

The Group has partially applied, for the first time, IFRS 9 "Financial Instruments" as described in note 3 effective from 1 January 2018. Accordingly, the management of the Group has re-classified its available for sale investments as described in Note 4.



Notes to the consolidated financial statements (continued)

21. Investment in associate and joint venture

	31 Dec. 2018	31 Dec. 2017
	KD '000	KD '000
Investment in associate (refer below)	1,821	1,904
Investment in joint venture (refer below)	1,830	1,327
	3,651	3,231

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. 2018	31 Dec. 2017
				%	%
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. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
	KD '000	KD '000	KD '000	KD '000
Carrying value at the beginning of the year	1,904	2,041	1,327	961
Additions during the year	-	-	574	401
Share of results of associate/joint venture	(85)	(128)	8	(25)
Share of other comprehensive income/(loss)	2	(9)	(79)	(10)
	1,821	1,904	1,830	1,327

21.3 Summarised financial information of Group's associate and joint venture are set out below:

	First Equilease		MZES	
	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
	KD'000	KD'000	KD'000	KD'000
Non-current assets	1,069	1,590	3,354	2,488
Current assets	9,984	9,916	314	181
Non-current liabilities	(62)	(45)	-	-
Current liabilities	(182)	(180)	(8)	(15)
Non-controlling interests	(248)	(239)	-	-
Equity attributable to the owners of the Parent Company	10,561	11,042	3,660	2,654

Notes to the consolidated financial statements (continued)

21. Investment in associate and joint venture (continued)

21.3 Summarised financial information of Group's associate and joint venture are set out below:

	First Equilease		MZES	
	Year ended 31 Dec. 2018 KD'000	Year ended 31 Dec. 2017 KD'000	Year ended 31 Dec. 2018 KD'000	Year ended 31 Dec. 2017 KD'000
Revenue	625	752	-	-
(Loss)/profit for the year	(493)	(742)	16	(50)
Other comprehensive income/(loss) for the year	13	(52)	(158)	(20)

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. 2018 KD'000	31 Dec. 2017 KD'000	31 Dec. 2018 KD'000	31 Dec. 2017 KD'000
Net assets of the associate and joint venture	10,561	11,042	3,660	2,654
Group's ownership interest	17.24%	17.24%	50%	50%
Group's share of net assets	1,821	1,904	1,830	1,327
Carrying amount	1,821	1,904	1,830	1,327

The Group has accounted for its share of results of associate and joint venture using unaudited management accounts as at 31 December 2018.

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:

	Free hold lands KD'000	Projects under development KD'000	Lands & buildings KD'000	Total KD'000
31 December 2018				
Cost				
At 1 January 2018	17,035	18,696	11,022	46,753
Additions	-	12,544	92	12,636
Transfers	(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
31 December 2017				
Cost				
At 1 January 2017	17,817	4,965	13,259	36,041
Additions	-	13,731	331	14,062
Disposals	-	-	(1,833)	(1,833)
Impairment	(380)	-	(613)	(993)
Foreign currency adjustment	(402)	-	(122)	(524)
At 31 December 2017	17,035	18,696	11,022	46,753
Accumulated depreciation				
At 1 January 2017	-	-	(296)	(296)
Charge for the year	-	-	(156)	(156)
Relating to disposals	-	-	149	149
At 31 December 2017	-	-	(303)	(303)
Net book value				
At 31 December 2017	17,035	18,696	10,719	46,450

Notes to the consolidated financial statements (continued)

22. Investment properties (continued)

At 31 December 2018, the fair value of the investment properties is KD64,777 thousand (31 December 2017: KD48,979 thousand). Investment properties were revalued by independent evaluators using market comparable approach that reflects recent transaction prices for similar properties and is therefore 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 an impairment loss of KD2,335 thousand (31 December 2017: KD993 thousand) in respect of certain investment properties.

During the year, finance costs of KD508 thousand (31 December 2017: KD336 thousand) has been capitalised to investment properties under development.

The Groups investment properties are located as below:

	31 Dec. 2018	31 Dec. 2017
	KD '000	KD '000
North America	424	392
GCC	56,406	46,058
	56,830	46,450

23. Accounts payable and other liabilities

	31 Dec.	31 Dec.
	2018	2017
	KD '000	KD '000
Accrued expenses	2,250	2,405
Post-employment benefits	3,170	2,875
Dividend payable	357	362
Payable to contractors	2,924	2,787
Other liabilities	2,203	1,880
	10,904	10,309



Notes to the consolidated financial statements (continued)

24. Bank borrowings

This represents following bank borrowings:

- a) Unsecured loan facilities amounting to KD24,800 thousand obtained from local commercial banks carry interest rate ranging from 1.5% to 2.5% above Central Bank of Kuwait discount rate. Outstanding balance of these loan facilities as at 31 December 2018 amounted to KD5,099 thousand (31 December 2017: KD4,128 thousand).
- b) Unsecured two Murabaha facilities were 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 these Murabaha facilities as at 31 December 2018 amounted to KD4,929 thousand (31 December 2017: KD5,958 thousand).
- c) Unsecured two loan facilities were obtained from a foreign commercial bank amounting to AED142,350 thousand equivalent to KD11,756 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 2018 amounted to AED123,904 thousand equivalents to KD10,232 thousand (31 December 2017: AED68,577 thousand equivalents to KD5,635 thousand).
- d) An unsecured credit facility amounting to USD 10 million was approved from a foreign commercial bank which carries an interest rate of 3.275% per annum. No amount has been availed from this loan facility as of 31 December 2018. (31 December 2017: USD5,950 thousand equivalents to KD1,795 thousand).
- e) During the year, unsecured loan facility of USD16,585 thousand equivalent to KD5,030 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. Outstanding balance of this loan facility as at 31 December 2018 amounted to USD7,600 thousand equivalent to KD2,305 thousand. The purpose of this facility is to finance the real estate activities in certain foreign countries.

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. 2018	31 Dec. 2017
	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

- a) Share premium

Share premium is not available for distribution.

Notes to the consolidated financial statements (continued)

27. Treasury shares

	31 Dec. 2018	31 Dec. 2017
Number of shares	2,600,000	-
Percentage of issued shares	0.54%	-
Market value (KD '000)	250	-
Cost (KD'000)	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.



Notes to the consolidated financial statements (continued)

29. Other components of equity

	Fair value reserve KD'000	Foreign currency translation reserve KD'000	Total KD'000
Balance at 1 January 2018	2,477	413	2,890
Adjustments arising on adoption of IFRS 9 on 1 January 2018 (note 4.1)	(2,402)	-	(2,402)
Balance at 1 January 2018 (restated)	75	413	488
<i>Debt instruments 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
Balance at 1 January 2017	4,141	896	5,037
<i>Available for sale investments :</i>			
- Net change in fair value arising during the year	769	-	769
- Transferred to consolidated statement of profit or loss on redemption	(2,732)	-	(2,732)
- Transferred to consolidated statement of profit or loss on impairment	299	-	299
Exchange differences arising on translation of foreign operations	-	(464)	(464)
Share of other comprehensive loss of associate and joint venture	-	(19)	(19)
Total other comprehensive loss	(1,664)	(483)	(2,147)
Balance at 31 December 2017	2,477	413	2,890

30. Proposed dividends and Annual General Assembly

The Annual General Assembly of the shareholders held on 14 March 2018 approved the consolidated financial statements of the Group for the year ended 31 December 2017 and approved cash dividend of 7 Fils per share (31 December 2016: 6 Fils per share) amounting to KD3,366 thousand (31 December 2016: KD2,885 thousand). Dividends were paid after the Annual General Assembly of the shareholders.

Notes to the consolidated financial statements (continued)

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. 2018	31 Dec. 2017
	KD '000	KD '000
Transactions included in the consolidated statement of profit or loss:		
Interest income on loans to customers	22	4
Management fees and commission	4,903	4,653
Key management compensation:		
Salaries and other short term benefits	772	771
End of service benefits	99	184
Audit committee fees	15	15
Board of Directors' remuneration	-	105
	886	1,075

	31 Dec. 2018	31 Dec. 2017
	KD '000	KD '000
Balances included in the consolidated statement of financial position:		
Loans to customers	22	32
Accounts receivable and other assets	1,337	1,048
Due from a related party*	-	2,118
Accounts payable and other liabilities	1,670	1,664

* This represents a secured short term advance payment given to a related party with an interest rate of 6% per annum. During the year, the Parent Company has received the total amount due in cash.

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.



Notes to the consolidated financial statements (continued)

32. Segmental information (continued)

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. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Segment revenue	12,029	13,759	3,272	1,640	15,301	15,399
Segment result	711	4,216	1,140	96	1,851	4,312
Provisions for KFAS, NLST, Zakat and Board of Directors' remuneration	(154)	(321)	(50)	(14)	(204)	(335)
Profit for the year	557	3,895	1,090	82	1,647	3,977
Total assets	153,528	142,102	18,993	24,005	172,521	166,107
Total liabilities	48,718	42,953	9,751	9,872	58,469	52,825
Interest income	115	145	564	577	679	722
Finance costs	(1,398)	(1,342)	(349)	(160)	(1,747)	(1,502)
Depreciation	(280)	(261)	(210)	(127)	(490)	(388)
Impairment of available for sale investments	-	(241)	-	(58)	-	(299)
Impairment of investment properties	(2,335)	(993)	-	-	(2,335)	(993)
Purchase of equipment	(467)	(60)	(73)	(301)	(540)	(361)
Addition to investment properties	(12,636)	(14,062)	-	-	(12,636)	(14,062)

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 2018 amounted to KD1,093,010 thousand (31 December 2017: KD1,026,984 thousand). The Group earned management fee of KD7,206 thousand (31 December 2017: KD6,583 thousand) from the asset management activities.

Notes to the consolidated financial statements (continued)

34. Commitments

	31 Dec. 2018	31 Dec. 2017
	KD '000	KD '000
Commitments for purchase of investments	1,686	4,018
Commitments for investment properties	3,526	16,606
	5,212	20,624

35. Forward foreign exchange contracts

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

	31 Dec. 2018		31 Dec. 2017	
	Contractual amounts	Assets/ (liabilities)	Contractual amounts	Assets/ (liabilities)
	KD'000	KD'000	KD'000	KD'000
Forward foreign exchange contracts	18,213	(64)	10,903	17

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.



Notes to the consolidated financial statements (continued)

36. Risk management objectives and policies (continued)

36.1 Market risk (continued)

a) Foreign currency (continued)

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

	31 Dec. 2018	31 Dec. 2017
	KD'000	KD'000
US Dollar	42,660	28,695
Saudi Riyals	5,963	5,320
Euro	1,923	296
Others	858	1,268

Foreign currency sensitivity is determined based on 2% (31 December 2017: 2%) increase or decrease in exchange rate. These has been no change during the year in the methods and assumptions used in preparing the sensitivity analysis.

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

	31 Dec. 2018		31 Dec. 2017	
	+ 2%	- 2%	+ 2%	- 2%
	KD'000	KD'000	KD'000	KD'000
Profit for the year	1,028	(1,028)	712	(712)

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" (31 December 2017: "financial assets at fair value through profit or loss" and "available for sale investments").

Notes to the consolidated financial statements (continued)

36. Risk management objectives and policies (continued)

36.1 Market risk (continued)

c) Equity price risk (continued)

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 equity would have been as follows:

	Profit for the year		Equity	
	31 Dec. 2018 KD'000	31 Dec. 2017 KD'000	31 Dec. 2018 KD'000	31 Dec. 2017 KD'000
Financials assets at fair value through profit or loss	±420	±533	-	-
Available for sale investments	-	-	-	±87

The Group's sensitivity to 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 ongoing basis. The Group seeks to avoid undue concentrations of risks with individuals or Groups of customers in specific locations or business through diversification of its activities. It also obtains security when appropriate.

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

	31 Dec. 2018 KD'000	31 Dec. 2017 KD'000
Bank balances	4,689	7,620
Time deposits	2,565	1,430
Accounts receivable and other assets (excluding prepayment and advance payments)	2,877	4,849
Financial assets at fair value through profit or loss	5,518	5,169
Loans to customers	304	272
Debt instruments at fair value through other comprehensive income	427	-
Investments at amortised cost	6,998	-
Available for sale investments	-	30,541
	23,378	49,881



Notes to the consolidated financial statements (continued)

36. Risk management objectives and policies (continued)

36.2 Credit risk (continued)

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 debt instruments 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 balance 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. 2018	31 Dec. 2017
	KD'000	KD '000
Kuwait	12,676	28,690
North America	2,694	4,489
GCC	2,013	2,484
Europe	5,891	13,413
Others	104	805
	23,378	49,881

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.

Notes to the consolidated financial statements (continued)

36. Risk management objectives and policies (continued)

36.4 Liquidity risk (continued)

	Upto 1 month	Upto 1-3 months	3-12 months	1 to 5 years	Total	Weighted average effective interest/ profit rate
	KD'000	KD'000	KD'000	KD'000	KD'000	%
31 December 2018						
Financial liabilities						
Accounts payable and other liabilities	2,452	335	4,447	499	7,733	
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%
	3,054	6,034	6,612	49,027	64,727	

31 December 2017						
Financial liabilities						
Accounts payable and other liabilities	2,717	1,681	3,036	-	7,434	
Bank borrowings	9,754	240	2,312	5,890	18,196	2.9% to 5.3%
Bonds issued	-	313	938	28,750	30,001	5%
	12,471	2,234	6,286	34,640	55,631	

Maturity profile of assets and liabilities at 31 December 2018:

	Within 1 year	Over 1 year	Total
	KD'000	KD'000	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
Debt instruments 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



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 2017:

	Within 1 year KD'000	Over 1 year KD'000	Total KD'000
Assets			
Cash and bank balances	7,622	-	7,622
Time deposits	1,430	-	1,430
Accounts receivable and other assets	6,933	198	7,131
Loans to customers	5	267	272
Financial assets at fair value through profit or loss	49,498	-	49,498
Available for sale investments	4,974	44,868	49,842
Investment in associate and joint venture	-	3,231	3,231
Investment properties	-	46,450	46,450
Equipment	-	631	631
	70,462	95,645	166,107
Liabilities			
Accounts payable and other liabilities	7,434	2,875	10,309
Bank borrowings	11,943	5,573	17,516
Bonds issued	-	25,000	25,000
	19,377	33,448	52,825

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 (31 December 2017: available for sale investments) in the statement of consolidated financial position.

Funding Strategy	Type of activities	Number of SPVs	Fair value of Group's investment in SPVs KD '000	% of Net asset attributable to Group
Equity	Investment in real estate	10 (31 December 2017: 9)	5,557 (31 December 2017: 8,026)	18.08% (31 December 2017: 27.25%)

Notes to the consolidated financial statements (continued)

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. 2018	31 Dec. 2017
	KD'000	KD'000
Financial assets:		
Financial assets at amortised cost:		
- Cash and bank balances	4,691	7,622
- Time deposits	2,565	1,430
- Accounts receivable and other assets (excluding prepayment and advance payments)	2,877	4,832
- Loans to customers	304	272
- Investments carried at amortised cost	6,998	-
Financial assets at fair value through profit or loss	92,674	49,498
Debt instruments at fair value through other comprehensive income	427	-
Available for sale investments:		
- At fair value	-	49,842
Forward foreign exchange contracts		
- At fair value	-	17
Total financial assets	110,536	113,513
Financial liabilities:		
Financial liabilities at amortised cost:		
- Accounts payable and other liabilities	10,840	10,309
- Bank borrowings	22,565	17,516
- Bonds issued	25,000	25,000
Forward foreign exchange contracts		
- At fair value	64	-
Total financial liabilities	58,469	52,825

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:

31 December 2018	KD'000			
	Level 1	Level 2	Level 3	Total
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

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 (continued)

31 December 2017

	KD'000			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Quoted securities	26,666	-	-	26,666
Managed funds-GCC	-	22,071	-	22,071
Fixed income securities	761	-	-	761
	27,427	22,071	-	49,498
Derivative				
Forward foreign currency contracts held for trading	-	17	-	17
Available for sale investments				
Quoted securities	4,362	-	-	4,362
Managed funds				
- GCC	-	14,427	-	14,427
- Others	-	10,702	-	10,702
Debt instruments	-	-	5,412	5,412
Equity participations	-	-	13,634	13,634
Unquoted securities	-	-	1,305	1,305
	4,362	25,129	20,351	49,842
	31,789	47,217	20,351	99,357

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.

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 (continued)

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. 2018 KD'000	31 Dec. 2017 KD'000				
Financial assets at FVTPL:						
Quoted securities	20,994	26,666	1	Quoted bid prices	N/A	N/A
Managed funds	55,803	22,071	2	NAV Basis	N/A	N/A
Fixed income securities	3,764	761	1	Quoted bid prices	N/A	N/A
Fixed income securities	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	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	427	-	3	Discounted cash flows	Cash flow estimate and discount rate	Higher estimated cash flows and lower discount rate, results in higher fair value
Derivative:						
Forward foreign currency contracts held for trading	(64)	17	2	Foreign exchange rate	N/A	N/A
Available for sale investments:						
Quoted securities	-	4,362	1	Quoted bid prices	N/A	N/A
Unquoted securities	-	1,305	3	Discounted cash flows	Cash flow estimate and discount rate	Higher estimated cash flows and lower discount rate, results in higher fair value
Managed funds	-	25,129	2	NAV Basis	N/A	N/A
Debt instruments	-	5,412	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	-	13,634	3	Adjusted NAV Basis	Discount for lack of marketability	Lower discount rate, results in higher fair value

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

Notes to the consolidated financial statements (continued)

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

Level 3 fair value measurements

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

	31 Dec. 2018	31 Dec. 2017
	KD'000	KD'000
Opening balance	20,351	6,975
Transfer from level 2 to level 3	-	13,634
Reclassification on adoption of IFRS 9	(4,973)	-
Net disposal/redemption	(2,551)	(116)
Net change in fair value	(287)	(142)
Closing balance	12,540	20,351

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.

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

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

The capital structure of the Group consists of the following:

	31 Dec. 2018	31 Dec. 2017
	KD'000	KD'000
Bank borrowings and bonds issued	47,565	42,516
Less: Cash and cash equivalents	(7,235)	(8,226)
Net debt	40,330	34,290
Total equity	114,052	113,282

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. 2018	31 Dec. 2017
	%	%
Net debt to equity ratio	35.4	30.3