ANNUAL REPORT 2014

عاما
YEARS

المركز
MARKAZ

H.H. SHEIKH SABAH AL-AHMAD AL-JABER AL-SABAH

The Amir of The State of Kuwait

H.H. SHEIKH NAWAF AL-AHMAD AL-JABER AL-SABAH

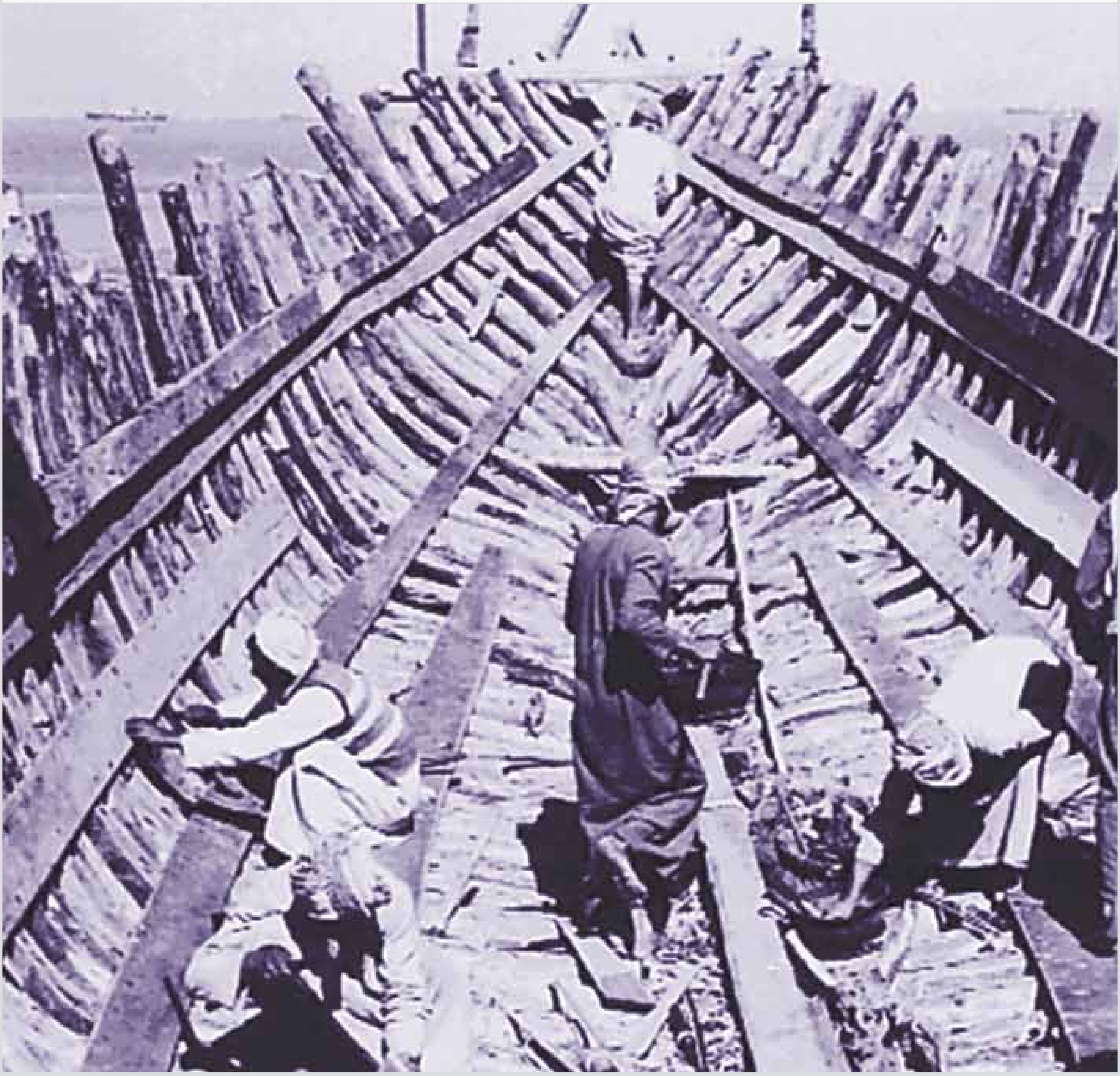
The Crown Prince

H.H. SHEIKH JABER AL-MUBARAK AL-HAMAD AL-SABAH

The Prime Minister

“Work is life; it is the patriotic duty of each individual towards Kuwait. Each one of us must observe the commands of God while performing his work honestly and truthfully for the sake of Kuwait, our homeland that has given us much and asked nothing in return but honesty, faithfulness and loyalty”.

His Highness Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah
The Amir of The State of Kuwait



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4	Mr. Ayman Abdulatif Alshaya	Director
5	Mr. Fahad Yaqoub Al-Jouan	Director
6	Mr. Fouzi Ebrahim Al-Mukaimi	Director
7	Mr. Adel Mohammed AlGhannam	Director
	Ms. Maha I. Al-Kadi	Board Secretary

BOARD STEERING COMMITTEE

Mr. Diraar Yusuf Alghanim	Chairman
Mr. Ayman Abdulatif Al-Shaya	Director
Mr. Fahad Yaqoub Al-Jouan	Director

AUDIT COMMITTEE

Mr. Faisal AbdulAziz Al-Jallal	Chairman
Mr. Fouzi Ebrahim Al-Mukaimi	Director
Mr. Adel M. AlGhannam	Director

MANAGEMENT TEAM

Manaf A. Alhajeri
Chief Executive Officer

Ali H. Khalil
Chief Operating Officer

Khaled A. Chowdhury
Chief Financial Officer

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

Amani I. Al-Omani
Executive Vice President
MENA Equities

Gopal Menon
Executive Vice President
International Investments

Hussein Ali Zeineddin
Senior Vice President
Management Information Systems (MIS) & Operations in addition to Compliance & Risk Management (Acting Head)

M.R. Raghu
Senior Vice President
Published Research

Ali Mustafa Abdal
Senior Vice President
Human Resources & Administration

Maha I. Al-Kadi
Senior Vice President
Corporate Affairs & Fund Administration

Abdullatif W. Al-Nusif
Vice President
Private Banking

Alrazi Al-Budaiwi
Assistant Vice President
Media & Communications

DIRECTORS' REPORT 2014

The year 2014 marked Markaz's 40th anniversary.

Markaz has always focused on a balanced dual path of growth and stability.

Knowledge and innovation have been the values Markaz relied on when launching financial instruments in the local, regional and international markets.

Our investment landscape has undergone fundamental changes that redefined the business practices governing the financial sector, which has been reflected in developing your company's business model and improving its organizational flexibility.

The first half of the year saw gains across GCC capital markets, while the second half saw losses due to the geopolitical events.

Overall, Markaz investments had a positive year.

Directors' Report 2014

Dear Stakeholders,

The year 2014 marked the 40th anniversary since the establishment of Kuwait Financial Centre (K.P.S.C.) "Markaz". Looking back on our journey over the last four decades, we feel proud of our contributions to the financial sector in general and to the national economy in particular, which have, in turn, contributed to the significant development the region has witnessed over the period.

During the past forty years, we have witnessed shifts in the demographic, social, and technological landscape, which have naturally been accompanied by some political and economic shocks. From its earliest days, your company has focused on a balanced dual path of growth and stability. This strategy is reflected in our robust investment policies, sound and prudent investment choices, and judicious operations management. Moreover, our governance strategy is built on the principles of efficiency, transparency, accountability, capacity building, and last but not least, investing and developing human resources to ensure their competitiveness on a global stage.

Since its establishment in 1974, Markaz has sought to provide sophisticated and competitive financial services which give its investors and clients a window on regional and global markets. Knowledge and innovation have been the values we relied on when launching financial instruments in the local market as well as those in MENA, East Asia, and North America, in addition to our participation in investment, industrial, and real estate projects, both locally and abroad.

The deep knowledge base at Markaz enabled us to follow prudent and stringent due diligence policies; this has resulted in the ability to accurately predict and adapt to changes in the investment landscape. An example of this was illustrated when Markaz was able to register growth and overcome obstacles thrown up by the global financial crisis of 2008 and its aftershocks.

The new millennium has seen opportunities arise at a faster pace as well as the risks and –intermittent crises – that accompany such prospects. Consequently, our investment landscape has undergone fundamental changes that have redefined the business practices that govern the financial sector, which has been reflected in the development of your company's business model and improvement in its organizational flexibility. Numerous factors have aided Markaz in adapting to this new business reality and the economic challenges it presents, including: reducing company borrowings, increasing solvency, improving operational efficiency, controlling operating costs, and prudently distributing risk.

A Close Look on 2014

The first half of the year saw gains across GCC capital markets, with the S&P GCC Index rising by 8.4%. However, the second half of 2014 saw geopolitical events that brought the index down to a net loss of 2.5% by the end of the year. One factor in this result was the increasing political strife in Iraq and other areas of the region. Another reason was to do with disequilibrium in the supply and demand of global oil markets as significant growth in United States' shale oil production coupled with reduced global demand saw oil prices retreat by 48% in 2014.

Global markets had a positive year. The S&P 500 Index was up 11% by year's end. In Emerging Markets, China and India were up 53% and 30%, respectively; despite that, the MSCI Emerging Market Index lost 5% for the year. One of the most significant developments in Emerging Markets was the 60% drop in the Russian Ruble against the Dollar.

Overall, Markaz investments had a positive year despite sharp fluctuations in regional markets in the second half of 2014. Our policy of distributing assets and diversification to combat these fluctuations paid off through growth in assets under management and stable performance in funds and products.

Markaz was awarded "Best Asset Manager in Kuwait" by Global Investor and "Best Investment Bank in Kuwait" by Euromoney.

In 2014, Markaz was awarded "Best Asset Manager in Kuwait" by Global Investor for the fifth consecutive year, as well as from EMEA Finance. Markaz also received the "Best Investment Bank in Kuwait" award from Global Finance, Euromoney, and EMEA Finance. These awards are a testament to Markaz's skills in executing successful products in the debt markets, stocks and indices, and mergers and acquisitions, as well as providing excellent overall financial services for the benefit of its clients.

Financial Results for the Year 2014

Markaz achieved a net profit of KD 4.02 million, an Earning per Share of 8 Fils.

For the year ending 31st December 2014, Markaz achieved a net profit of KD 4.02 million, an Earnings per Share (EPS) of 8 Fils, as compared with a 2013 net profit of KD 6.23 million, an Earnings per Share (EPS) of 13 Fils. Fees and Charges increased 18% over 2013 to KD 7.58 million. Total equity attributable to shareholders stood at KD 97 million in 2014.

Total Assets under Management were up 11.7% compared to 2013.

The decline in net profit by 35% in 2014 is attributable to unrealized losses in the fourth quarter of the year due to declines in regional markets on the back of lower oil prices. This was offset, however, by gains in GCC Real Estate markets as well as those in the United States, in addition to gains in the financial services sector. Total assets under management (AUM) were up 11.7% to KD 1.089 billion[1] as of 31st of December 2014 compared to the previous year.

In compliance with regulatory measures by the Central Bank of Kuwait (CBK), Markaz's financial leverage ratio[2] stood at 0.32:1, in comparison to the CBK imposed ratio of 2:1, which indicates Markaz's low leverage rate. The quick ratio[3] was at 21.59% versus the CBK mandate of a minimum of 10%. These percentages reflect Markaz's ability to maintain a liquid and flexible balance sheet in order to achieve sustainable results.

Capital Intelligence affirmed Markaz bonds as 'BBB' with a forward looking rating of 'Stable'.

In December 2014, Capital Intelligence, an international rating agency, affirmed Markaz bonds as 'BBB', which reflects the company's overall excellent financial standing, decreasing debts, and improving earnings in 2013 and the first nine months of 2014. Furthermore, the agency gave Markaz a forward looking rating of 'Stable' due to the company's track record of establishing diversified and successful investment products as well as its ability to maintain a reputation of outstanding risk management.

Markaz Board of Directors recommended a cash dividend of 6 Fils per share, or 6% of nominal value of shares.

Markaz Board of Directors recommended a cash dividend of 6 Fils per share, or 6% of nominal value of shares, for shareholders on record as of the date of the General Assembly meeting. The Board has recommended a bonus to the Board of Directors amounting to KD 80,500 in 2014.

1 Not including National Real Estate Fund
2 Total Liabilities to Total Shareholder Equity
3 The ratio of liquid assets to Total Liabilities Indicates exposure to external forces relative to total shareholder equity

Global growth is expected to reach 3.5% in 2015, with signs to an economic recovery in Europe.

Markaz will continue to expand its activities in GCC and MENA markets.

Markaz will expand its geographical reach through direct investment.

Markaz will continue on its aim to be the premier destination for mergers and acquisitions.

Outlook

In accordance with forecasts from the International Monetary Fund (IMF), we expect global growth of 3.5% in 2015. Moreover, the US economy is expected to show a slower growth of 3.6% in 2015 due to inflationary pressures. Signs point to a recovery in Europe as Emerging Market exports to the area increase on the back of recent recovery in those markets.

We also see opportunities for many of the GCC markets to experience recovery from the steep decline in revenues over the last half of 2014, which was precipitated by negative investor sentiment on the back of retreating oil prices. Lower crude oil prices will result in regional governments tightening current expenditures as well as raising capital expenditure, all of which will be tied to clear performance indicators.

Based on these expectations, Markaz will continue to expand its activities in GCC and MENA markets through existing products as well as the launching of new products and services aimed at institutions and high net worth individuals. Markaz will also expand its geographical reach through direct investment in MENA real estate in order to solidify its position as a leading manager of developmental and income-generating real estate. Furthermore, international investments constitute a vital arm for the distribution of assets across financial markets and international real estate through offerings to individual investors.

Building on its track record of successful mergers and acquisitions and the attracting of local and international clients, Markaz will continue on its aim to be the premier destination for mergers and acquisitions. To that end, we expect to see a lift in equity markets as well as fixed income markets in 2015, which will give Markaz the ability to seize opportunities given its deep knowledge base and unique track record in these markets.

Following forty years since the establishment of Markaz, and with a renewed look towards the future and its opportunities, we reaffirm our commitment to the values of sustainable development for our company, partners, and community through best practices and leadership in the financial sector.

In closing, all that remains is to thank Markaz family for their continued efforts to preserve the company's position as a stable and credit-worthy institution. We express our gratitude as well to the regulatory bodies of Capital Market Authority, the Central Bank of Kuwait, Kuwait Stock Exchange, and Ministry of Commerce and Industry, in addition to various private, public, and civil society institutions for their trust and partnership with Markaz in our continued pursuit of the common good.

The Board of Directors

19 February 2015




OUR ACTIVITIES



Our Activities

Asset Management

MENA Equities

The 6 Gulf Arab indices have fallen into a negative territory since 30th of November 2014 as Brent heads for its worst year since 2008.

The six Gulf Arab indices including Abu Dhabi, Saudi Arabia and Dubai have fallen into a negative territory since 30th of November 2014 as Brent headed for its worst year since 2008. Kuwait market ended 2014 on a decline of 3.1% shedding the strong performance of 9.1% during the first 9M of the year.

Saudi market lost 2.4% during 2014. The market reached its highest level during Q3 2014 driven by CMA decision to allow for direct foreign ownership in the market for qualified foreign investors. However, with the decline of oil prices, the market reversed its direction downward erasing the gains of 27% for the 9M 2014 and declined by 23% during Q4 2014.

Qatar market was the top gainer among its GCC peers gaining 18% for 2014. During the year, Qatar market gained 33% till September 2014. However, as a result of correction in GCC market, the index followed its peers losing 11% from its peak. Meanwhile, Dubai index had the worst performance in the region declining 25% during Q4 2014. Abu Dhabi's index sank 11% during Q4 2014 brining down its gain for 2014 to 6%.

Markaz was named "Best Asset Manager in Kuwait" by Global Investor and EMEA Finance.

In 2014, Markaz was named "Best Asset Manager in Kuwait" by Global Investor Magazine for the fifth consecutive year and by EMEA Finance Magazine.

Markaz funds investing in MENA posted positive results for the year.

Markaz funds investing in the Middle East and North Africa region posted positive results for the year. For more details on our MENA funds' performances, please visit Markaz website: www.markaz.com

Markaz obtained license from CMA in 2014 for different activities.

As for regulatory development in 2014, Markaz obtained license from CMA for the following activities:

- Broker (Not registered with KSE)
- Portfolio Management
- Establishment and management of collective investment schemes
- Investment Advisor
- Issue Manager

The MENA Equities Department at Markaz is currently working on designing a new fund that will target equities following Sharia principles. The new fund will invest within the MENA Markets.

International Investments

While global growth was generally muted during the year, the recovery in the US and UK continued to strengthen.

While global growth was generally muted during the year, the recovery in the United States and the United Kingdom continued to strengthen. A collapse of crude oil prices, geopolitical events, a strong dollar and poor performance of the European economy were some of the significant headwinds faced by investors in 2014.

Despite the weakness in Energy stocks, the S&P 500 still finished the year not far off its historical highs and enjoyed its longest streak of annual gains (6 years) since the 1990's surging by 11.4%. The MSCI AC World Index climbed 2.09% and the MSCI Europe Index rallied 4.09%. The EM MSCI posted its first back-to-back annual decline in 12 years (4.6%) whilst the Rouble had its worst year since the Russian default in 1998.

Markaz's International Investments proprietary portfolio declined by 0.52% underperforming Markaz strategic benchmark by 97 bps, due to the 3rd party fund managers who delivered below par returns. For more details regarding Markaz international funds and portfolios, please visit Markaz website: www.markaz.com

Markaz will continue to increase its allocations to alternative investment strategies.

In 2015, Markaz will continue to increase its allocation to alternative investment strategies that focus on absolute returns and are uncorrelated to general equity markets. Select Emerging markets such as India and China will also be added to the list of potential investment opportunities.

Private Equity

Private equity fund raising for the year 2014 totaled USD 486 billion and the amount could increase by 10% – 20% as more data becomes available, setting 2014 fundraising on par or higher than 2013. For the year, a total of USD 332 billion buy-out deals were announced, a 10% increase compared to 2013 and the largest value since the financial crisis. Buyout fund managers for the year also set a record in terms of exits with 1,604 valued at USD 428 billion, 30% higher than the year before.

Markaz Private Equity Portfolio generated approximately a 13.4% return on its assets.

For the year 2014, the Markaz Private Equity portfolio generated approximately a 13.4% return on its assets. For more details regarding the performance of Markaz Private Equity portfolio, please visit Markaz website: www.markaz.com

Treasury

Markaz Treasury Department has maintained sufficient liquidity levels.

Markaz's 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 arranges best banking services including fund transfers, money market and foreign exchange to all of Markaz's departments and subsidiaries to timely honor their commitments. The department is manned with experienced staff and is equipped with modern communication facilities to run the operations swiftly and smoothly.

Investment Banking

Corporate Finance Advisory

Capital markets continued to improve in 2014 with an upsurge in merger and acquisition (M&A) activity. However, recent decline in oil prices and resultant macro-economic uncertainty pose key challenges to growth in transaction activity.

Markaz has been recognized as the best investment bank in Kuwait by Euromoney, Global Finance and EMEA Finance.

In 2014, once again, Markaz have been recognized by the industry as the best investment bank in Kuwait (Euromoney, Global Finance and EMEA Finance) for its active participation in a large number of cutting-edge transactions. Markaz has successfully executed 13 mandates in 2014 on behalf of its clients. The flagship project for the year involved assisting a consortium of international creditors in resolving their USD 200 million loan to International Investment Group through a sophisticated settlement process.

Markaz has entered 2015 with a very strong pipeline of deals. it is in process of executing eight on-going assignments, spanning a variety of corporate finance activities: transaction (M&A) advisory, restructuring, valuation, IPO and offset.

Fixed Income

A total of USD 36.24bn was raised in the GCC primary Bond and Sukuk market, a reduction of 21.45%.

During 2014, a total of USD 36.24bn was raised in the GCC primary Bond and Sukuk market, a reduction of 21.45% as compared to USD 46.14 billion raised in 2013. S&P MENA Bond and Sukuk Index gained 6.765% over the year, reaching 108.74 by the end of December 2014. While GCC countries 5 Year CDSs spread widened during 2014 (Bahrain's 0.73%, Qatar 39.28%, Saudi Arabia's 21.29% Abu Dhabi's 15.53%), Dubai's 5Y CDS shrank by 6.15%.

Markaz Fixed Income Program continued to invest in GCC fixed income market with total AUM of USD 59 million.

Markaz Fixed Income Program, a portfolio based program, continued to invest in GCC fixed income market on behalf of clients with total AUM of USD 59 million. The portfolio's returns in 2014 varied depending on the risk profile of the client, ranging from 4.0%- 9.0%.

Meanwhile, Markaz Fixed Income Fund (MFIF) continued focusing on high quality bonds and sukuk issued in the GCC and MENA region, with low to medium durations. The fund's volatility level in 2014 was low due to low average duration. For more details on MFIF performance, please visit Markaz website: www.markaz.com

Capital Markets

In 2014, Markaz was appointed as the Listing Advisor to list the shares of Specialties Group Holding Company (SGHC) in the official market of the Kuwait Stock Exchange. SGHC is involved in manufacturing and trading of construction materials, oil and gas and real estate activities. The Company had a paid-up capital of KD 15 million and total assets of KD 41.96 million by the end of December 2013. The company was listed on 16 February 2014.

Markaz Capital Markets team also provided advisory services to a Food company, to assist in identifying its potential growth opportunities and define high level strategic plans. In addition, the team provided Debt advisory services to one of Kuwait's major banks.

Structured Solutions

Markaz Structured Solutions team has successfully completed the development of its fully-fledged asset management solution.

Markaz Structured Solutions team has successfully completed the development of its fully-fledged asset management solution that is intended to replace all currently used portfolio, fund management and accounting systems at Markaz; thereby enabling the firm to consolidate and streamline its core operations by means of a single integrated platform that will vastly improve its risk control and management capabilities and its operational efficiency.

Markaz continues its efforts to provide innovative derivatives solutions and further develop the options market in Kuwait. The team is currently working with both the CMA and KSE to develop rules and regulations for introducing new derivative products into the market such as the put options and Islamic options.

MENA Real Estate

Kuwait real estate market continued its upward trend for the office sector and commercial retail properties while the investment and prime industrial properties sectors are stabilizing. KSA residential real estate market remains attractive while the office market is still stable. Residential properties in Abu Dhabi and Dubai improved noticeably in the first three quarters of the year and stagnated in the last quarter. Residential properties in Qatar remained stable while the office market is still suffering from oversupply.

Markaz Real Estate Fund continued to make steady monthly cash distributions to investors, generating a total return of 11.5% for 2014.

In 2014, Markaz Real Estate Fund (MREF) reached a net asset size of KD 118 million and owns a portfolio of 44 properties. MREF is progressing with developing its land plots in Dasman and Bneid El Gar in Kuwait. Financially, the fund continued to make steady monthly cash distributions to investors, and generating a total return of 11.5% for 2014.

As for residential real estate development in Saudi Arabia, Markaz has completed the construction and sales of its Villas Development in Al Khobar and expects to complete the distribution to investors during 2015.

Also in Saudi Arabia, Markaz acquired a plot in Al Khobar Rawabi neighborhood with the aim of developing it into a residential apartment complex for rental targeting expatriates living in KSA. Markaz has carried out the market study, design and permitting, and is progressing with the construction as planned.

In Riyadh, Markaz acquired a land plot in Riyadh to be developed into a residential compound. Markaz has carried out the market study, and is now in the design and permitting phase.

In the UAE, Markaz acquired two plots in Reem Island as part of its Shams Abu Dhabi Development with the aim of developing them into residential apartments for rental targeting expatriates living in Abu Dhabi. Markaz has carried out the market study, and is now in the design and permitting phase. In addition, Markaz acquired a land plot in Dubai Business Bay to be developed into a residential building. Markaz has carried out the market study, and is now in the design and permitting phase.

Markaz continues to manage part of the KIA National real estate portfolio with a maximum value of KD250 million targeting investments in Kuwait's real estate market.

Markaz initiated 4 new development transactions, including: two office projects in Dallas, TX, one industrial project in San Antonio, TX, and an apartment project in Phoenix, AZ.

Markaz's research efforts were further supported by Marmore MENA Intelligence Pvt. Ltd, the research subsidiary of Markaz.

37 additional reports were published in 2014 under the infrastructure, sector, periodic and economic policy categories.

Markaz continues to manage part of the KIA National real estate portfolio with a maximum value of KD 250 million targeting investments in Kuwait's real estate market.

International Real Estate

The U.S. real estate market has continued to perform well during the year, with the NCREIF (private) index increasing by 8.5% (until September 2014) and NAREIT (public) index edging up 27.1% since the beginning of the year. Rising net operating incomes (lower vacancy rates and rising rents, supported by a stronger economic footing) and stable (low) cap rates, have contributed to this performance, across all core property types. The growth in net operating incomes, prevalent low yields, and increased balance sheet strength of lenders have also given rise to an increase in development activity, especially for apartment projects, but also increasing for industrial and office properties.

Consistent with the above, Markaz continues to sell core properties under its management at prevalent low yields and is redeploying capital in development projects in high growth markets. This year, Markaz sold two apartment properties (from its fourth U.S. real estate fund), thirteen retail properties (all of the properties in its third U.S. real estate fund) and three properties from its distressed portfolio. During the year, Markaz initiated 4 new development transactions, including: two office projects in Dallas, TX, one industrial project in San Antonio, TX, and an apartment project in Phoenix, AZ.

Going forward, Markaz expects to continue to allocate additional capital to development projects in the U.S., especially in high growth geographies. A key area of interest for Markaz is urban infill locations.

Support Departments

Research

In pursuit of its goal to increase breadth and scope of its research mandates, Markaz's Published Research Department continued to push forward its efforts to conduct researches in the area of economic policy, capital markets, infrastructure and various key business sectors.

Markaz's research efforts were further supported by Marmore MENA Intelligence Pvt. Ltd, the research subsidiary of Markaz based in Chennai (India). The team at Marmore is consistently being strengthened and embarking on challenging research assignments to meet the research needs of Markaz, through publication of thematic research reports via its dedicated ecommerce website – www.e-marmore.com – and providing customized research solutions to its external clients.

The year 2014 saw 37 various additional reports published under the infrastructure, sector, periodic and economic policy categories. During the year, Markaz exploited some of the unconventional research themes by publishing reports on subjects like The Internet of Things – Big Data, Bitcoin, Update on Kuwait's BOT Law, Kuwait SMEs, etc.

Markaz bolstered its commitment to conducting Infrastructure researches and added a slew of country specific reports on key infrastructure segments such as: power, ports, aviation and water. A report on GCC Affordable Housing was also published to ascertain housing needs of the region.

Considering the response to and demand for Markaz's research, the Research Department will continue to strive to publish interesting and region specific pertinent research reports with additional emphasis on providing customized solutions through Marmore for research on demand from its external clients. For more details about Markaz research offerings, please visit Marmore website: www.e-marmore.com

Notable milestones of PBD include the successful launch and closing of various investment products in the region and internationally, and enhancing Markaz collaboration with reputable institutes.

The PBD ensured that all client information are in compliance with the new directives and laws of the CMA.

The Media and Communication Department completed a comprehensive audit of Markaz's image and reflected the findings into an integrated corporate communication strategy.

The department also completed a revamp of Markaz website www.markaz.com in English and Arabic.

The department continued to implement Markaz's Corporate Social and Economic Responsibility strategy in collaboration with several reputable civil society organizations.

Markaz has a comprehensive Risk Management, Compliance and Control Framework in place to ensure that the company and its related entities are appropriately governed.

Private Banking

The Private Banking Department (PBD) continued catering to Markaz clients' needs and interests given the economic trends prevailing in the economy.

Through its network of clients, PBD ensured raising funds for projects within a specified timeline by developing product launches aligned with the products' strategy. Notable milestones include the successful launch and closing of various investment products in the region and internationally.

The PBD, responsible for the institutional and banking relationships as well, continued to enhance Markaz collaboration with reputable local institutions through its dedicated team of Relationship Managers.

With the changing regulatory landscape in Kuwait, the PBD ensured that all client information are in compliance with the new directives and laws of the CMA.

Media & Communication

In 2014, the Media and Communication Department at Markaz completed a comprehensive audit of the company's image with an independent consultant. The department reflected the audit's findings into an integrated corporate communication strategy to ensure clear communication of key corporate messages to internal and external stakeholders through conventional and digital media.

The department also completed during the year a revamp of Markaz website www.markaz.com. The new website provides enhanced browsing experience for its users in English and Arabic, and raises the standards of transparency as it offers detailed information about the performance of Markaz's products in an interactive manner.

The department continued to implement Markaz's Corporate Social and Economic Responsibility strategy, which is based on three main pillars: 1) building the human resources 2) aligning our business environment with the principles of sustainable development 3) adopting the principles of good governance in business environment. In order to achieve the objectives of this strategy, Markaz collaborates with several reputable civil society organizations in several areas including health, education, environment and economic sustainability.

In 2015, the department will implement its corporate communication plan focusing on raising Markaz's regional brand awareness to be in par with the company's leadership position in the region. For more details on Markaz communications and Corporate Social and Economic Responsibility (CSER) activities, please visit our website: www.markaz.com

Compliance and Risk Management

Markaz has a comprehensive Risk Management, Compliance and Control Framework in place to ensure that the company and its related entities are appropriately governed. The Board directs the policy and process framework and is responsible for risk management and for all risk control systems that are implemented in Markaz, as well as related entities.

The Board's governance mandate, along with the Corporate Governance rules and principles mandated by the Capital Markets Authority (CMA), are being implemented through an independent Compliance and Risk Management Department. The department identifies measures, evaluates and reports on all credit risks, operational, liquidity and market risks to which Markaz is exposed. It carries out periodic risk control and monitoring activities, and also prepares and implements new review and control policies.

The department also follows up and documents governance activities in the company including the Board's Steering Committee, which reviews and approves investment performance and investment decisions; and the Board Audit Committee which checks the effectiveness of internal controls. As part of its mandate, the Department coordinates with regulatory auditors, internal auditors, and rating agencies.

The Information Technology Department completed in 2014 virtualizing Markaz's Servers with an advanced data protection.

Information Technology

The Information Technology Department completed in 2014 virtualizing Markaz's Servers with an advanced data protection that unifies backup, replication and data recovery, adding Zero Down Time that follows the business values for all critical servers. They have also successfully upgraded the storage technology to improve efficiency, capacity and performance to the network. Expansion of the corporate network was completed successfully to include the Al-Khobar and Abu Dhabi offices and plans to expand further in the coming year to meet the company's requirements. The company website has been enhanced to meet client and employee requirements, using latest technologies in web development.

Financial Management Department

The Financial Management Department (FMD) provided its full support in setting up the accounting and reporting logistics for a number of new entities established during the year to ensure accurate and timely aggregate activities and monitoring environment.

In line with the financial reporting requirements of the Capital Market Authority (CMA) and Central Bank of Kuwait (CBK), appropriate mechanisms and services were developed by FMD in order to strengthen our internal control systems and improve efficiency and effectiveness. In order to keep up with the growing accounting development and enhance the quality and versatility of reporting as per IAS and IFRS, FMD embarked on the plan for replacement of its existing financial system with a latest system. The department hopes to finalize the selection of an optimum financial system and a suitable implementation during 2015.

The Transaction Processing and Reporting Department (TPR) has implemented comprehensive operational controls to ensure that the company provides safe and sound support for the administration of client accounts.

Transaction Processing & Reporting Department

To reinforce the effectiveness of risk management at Markaz, the Transaction Processing and Reporting Department (TPR) has implemented comprehensive operational controls to ensure that the company provides safe and sound support for the administration of client accounts.

Continuous monitoring and revision of well-defined policies and procedures ensure proficient flow of work and clearly defined responsibilities of the personnel involved in handling transactions, reconciliation and reporting.

The TPR currently strives to achieve Markaz's top management vision for a paperless back office by harnessing the power of business process automation and associating a document management solution. The department has made significant progress in this direction and hopes to achieve the objective of paperless office for TPR before the end of financial year 2015.

Human Resources & Administration Department

In 2014, the Human Resources and Administration Department (HRAD) at Markaz further enhanced and improved related policies and procedures to ensure that employees have full clarity of rules and regulations governing their daily operational practices.

Markaz has refined specific pillars with its "Performance Management Scheme" to further improve the set HR model.

Following up on the set HR model that was introduced in 2013, HRAD have refined specific pillars within Markaz "Performance Management Scheme" to further improve the set HR model.

In addition, HRAD have conducted a full Compensation Study, benchmarking Markaz pay scale for all job levels against various sectors locally and regionally, with emphasis on the Financial Sector and revamping the grading structure and related job descriptions.

The establishment of a "Talent Management System" was a key agenda item for 2014.

The establishment of a "Talent Management System" was also a key agenda item for 2014 to further enhance staff development and training. Where competency profiling has been considered leading to the formulation of employees' career path/progression; succession planning, leadership development with the use of different assessment tools, including psychometric tests.

The framework and roadmap was defined and agreed for the Talent Management System, inclusive of the automation of the process, which will be implemented in 2015.

Net Profit
4
Million KD

Cash dividend
6%

EPS
8
Fils

المركز
MARKAZ

2014

Fees & Charges
7.6
Million KD

AUM
1.1
Billion KD

Total equity
97
Million KD

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Kuwait Financial Centre – K.P.S.C.
Kuwait

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Kuwait Financial Centre – K.P.S.C. ("Parent Company") and its subsidiaries, ("the Group") which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as adopted for use in 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors' consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kuwait Financial Centre K.P.S.C. and its subsidiaries as at 31 December 2014, and their financial performance and cash flows for the year ended 31 December 2014 in accordance with International Financial Reporting Standards, as adopted for use in the State of Kuwait.

Report on Other Legal and Regulatory Matters

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. 25 of 2012, as amended, and its Executive Regulations 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 No. 25 of 2012, as amended, and its 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 2014 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, to the best of our knowledge and belief, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization 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 2014, that might have had a material effect on the business of the Parent Company or on its financial position.

Talal Y. Al-Muzaini
Licence No. 209A
Deloitte & Touche Al-Wazzan & Co.

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

Kuwait

19 February 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS - YEAR ENDED 31 DECEMBER 2014

		KD'000	
	Notes	31 December 2014	31 December 2013
Revenue			
Interest income	4	**972**	1,277
Dividend income		**726**	545
Management fees and commission	5	**7,580**	6,438
Gain on sale of investments at fair value through profit or loss		**1,207**	921
Change in fair value of investments at fair value through profit or loss	6	**(961)**	3,387
Gain on redemption/ sale of available for sale investments		**2,243**	1,670
Share of results from associate/joint venture	16	**(3)**	89
Gain on sale of investment properties	17	**1,945**	1,403
Net income from investment properties		**547**	209
Foreign exchange gain		**435**	21
Other income		**8**	22
		14,699	15,982
Expenses and other charges			
General and administrative expenses	7	**(7,834)**	(6,743)
Impairment of available for sale investments	15	**(374)**	(207)
Provisions		**(96)**	(70)
Finance costs	8	**(1,096)**	(1,058)
		(9,400)	(8,078)
Profit before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST), Zakat and directors' remuneration		**5,299**	7,904
Provision for contribution to KFAS	9	**(39)**	(60)
Provision for NLST	9	**(116)**	(174)
Provision for Zakat	9	**(46)**	(70)
Directors' remuneration	28	**(81)**	(140)
Profit for the year		**5,017**	7,460
Attributable to:			
Owners of the Parent Company		**4,021**	6,231
Non-controlling interests	27	**996**	1,229
		5,017	7,460
Basic and diluted earnings per share attributable to the owners of the Parent Company	10	**8 Fils**	13 Fils

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME - YEAR ENDED 31 DECEMBER 2014

	KD'000	
	31 December 2014	**31 December 2013**
Profit for the year	**5,017**	7,460
Other comprehensive income:		
Items that will be reclassified subsequently to consolidated statement of profit or loss:		
Available for sale investments:		
- Net change in fair value arising during the year	**2,960**	4,556
- Transferred to consolidated statement of profit or loss on sale	**(2,243)**	(1,670)
- Transferred to consolidated statement of profit or loss on impairment	**374**	207
Others		
- Exchange differences arising on translation of foreign operations	**514**	28
- Share of other comprehensive income of joint venture/associate	**1**	1
Total other comprehensive income for the year	**1,606**	3,122
Total comprehensive income for the year	**6,623**	10,582
Total comprehensive income attributable to:		
Owners of the Parent Company	**5,408**	9,312
Non-controlling interests	**1,215**	1,270
	6,623	10,582

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION - 31 DECEMBER 2014

		KD'000	
	Notes	31 December 2014	31 December 2013
Assets			
Cash and bank balances	11	**7,848**	3,833
Time deposits	11	**75**	3,517
Investments at fair value through profit or loss	12	**38,195**	42,949
Accounts receivable and other assets	13	**5,767**	3,545
Loans to customers	14	**3,798**	8,248
Available for sale investments	15	**61,835**	58,856
Investment in associate/joint venture	16	**2,993**	2,177
Investment properties	17	**24,201**	13,507
Property and equipment		**326**	403
Total assets		**145,038**	137,035
Liabilities and equity			
Liabilities			
Accounts payable and other liabilities	18	**8,428**	5,856
Bank borrowings	19	**4,663**	-
Bonds	20	**22,000**	22,000
Total liabilities		**35,091**	27,856
Equity			
Share capital	21	**53,130**	53,130
Share premium	22	**7,902**	7,902
Legal reserve	23	**14,544**	14,114
Voluntary reserve	23	**14,490**	14,060
Treasury shares	24	**(16,342)**	(16,342)
Treasury shares reserve		**7,973**	7,973
Other components of equity	26	**9,703**	8,316
Retained earnings		**5,601**	7,095
Equity attributable to owners of the Parent Company		**97,001**	96,248
Non-controlling interests	27	**12,946**	12,931
Total equity		**109,947**	109,179
Total liabilities and equity		**145,038**	137,035

Diraar Yusuf Alghanim
Chairman

Manaf AbdulAziz Alhajeri
Chief Executive Officer

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – YEAR ENDED 31 DECEMBER 2014

	KD 000's										
	Attributable to the owners of the Parent Company										
	Share Capital	Share premium	Legal reserve	Voluntary reserve	Treasury shares	Treasury shares Reserve	Other components of equity	Retained earnings	Sub Total	Non-controlling interests	Total
Balance at 31 December 2012	53,130	7,902	13,446	13,392	(16,342)	7,973	5,235	5,116	89,852	12,034	101,886
Net change in non-controlling interests	-	-	-	-	-	-	-	-	-	(404)	(404)
Effect of changes in ownership percentage of subsidiaries(Note 3)	-	-	-	-	-	-	-	(31)	(31)	31	-
Dividend paid	-	-	-	-	-	-	-	(2,885)	(2,885)	-	(2,885)
Transactions with owners	-	-	-	-	-	-	-	(2,916)	(2,916)	(373)	(3,289)
Profit for the year	-	-	-	-	-	-	-	6,231	6,231	1,229	7,460
Other comprehensive income	-	-	-	-	-	-	3,081	-	3,081	41	3,122
Total comprehensive income for the year	-	-	-	-	-	-	3,081	6,231	9,312	1,270	10,582
Transfer to reserves	-	-	668	668	-	-	-	(1,336)	-	-	-
Balance at 31 December 2013	53,130	7,902	14,114	14,060	(16,342)	7,973	8,316	7,095	96,248	12,931	109,179
Net change in non-controlling interests	-	-	-	-	-	-	-	-	-	(1,047)	(1,047)
Effect of changes in ownership percentage of subsidiaries(Note 3)	-	-	-	-	-	-	-	153	153	(153)	-
Cash dividend paid	-	-	-	-	-	-	-	(4,808)	(4,808)	-	(4,808)
Transactions with owners	-	-	-	-	-	-	-	(4,655)	(4,655)	(1,200)	(5,855)
Profit for the year								4,021	4,021	996	5,017
Other comprehensive income	-	-	-	-	-	-	1,387	-	1,387	219	1,606
Total comprehensive income for the year	-	-	-	-	-	-	1,387	4,021	5,408	1,215	6,623
Transfer to reserves	-	-	430	430	-	-	-	(860)	-	-	-
Balance at 31 December 2014	**53,130**	**7,902**	**14,544**	**14,490**	**(16,342)**	**7,973**	**9,703**	**5,601**	**97,001**	**12,946**	**109,947**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS – YEAR ENDED 31 DECEMBER 2014

		KD'000	
	Notes	31 December 2014	31 December 2013
Operating Activities			
Profit for the year		**5,017**	7,460
Adjustments for:			
Interest income		**(972)**	(1,277)
Dividend income		**(726)**	(545)
Depreciation	7	**243**	304
Gain on redemption/ sale of available for sale investments		**(2,243)**	(1,670)
Impairment of available for sale investments		**374**	207
Share of results of associate/joint venture		**3**	(89)
Gain on sale of investments properties		**(1,945)**	(1,403)
Provisions		**96**	70
Finance costs		**1,096**	1,058
Changes in operating assets and liabilities:			
Investments at fair value through profit or loss		**4,754**	(4,716)
Accounts receivable and other assets		**(2,423)**	826
Loans to customers		**4,491**	(373)
Accounts payable and other liabilities		**2,525**	398
Net cash from operating activities		**10,290**	250
Investing Activities			
Term deposit maturing after three months		**(11)**	(7)
Purchase of property and equipment		**(75)**	(136)
Proceeds from redemption/sale of available for sale investments		**10,401**	6,041
Purchase of available for sale investments		**(11,239)**	(6,657)
Purchase of investment properties	17	**(17,652)**	(295)
Proceeds from sale of investment properties		**8,812**	8,188
Dividend income received		**726**	545
Interest income received		**1,036**	1,258
Net cash (used in) / from investing activities		**(8,002)**	8,937
Financing Activities			
Cash dividends paid		**(4,763)**	(2,847)
Bank borrowings		**4,663**	-
Finance costs paid		**(1,093)**	(1,058)
Net change in non-controlling interests		**(1,047)**	(404)
Net cash used in financing activities		**(2,240)**	(4,309)
Foreign currency adjustments		**514**	28
Increase in cash and cash equivalents		**562**	4,906
Cash and cash equivalents at beginning of the year		**7,286**	2,380
Cash and cash equivalents at end of the year	11	**7,848**	7,286

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. Incorporation and activities

Kuwait Financial Centre - K.P.S.C. ("the Parent Company") was incorporated in 1974 in accordance with the Commercial Companies Law in the State of Kuwait. The Parent Company is listed on the Kuwait Stock Exchange and is governed under the directives of the Central Bank of Kuwait and Capital Market Authority of Kuwait.

The principal activities of the Parent Company and its subsidiaries ("the Group") are investment management, corporate financing, private equity funds, mutual funds and real estate funds and real estate funds management, real estate investments, money market and foreign exchange deals.

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

These consolidated financial statements of the Group for the year ended 31 December 2014 were authorised for issue by the Parent Company's board of directors on 19 February 2015 and are subject to the approval of the General Assembly of the shareholders.

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 available for sale and derivative financial instruments that have been measured at fair value.

The consolidated financial statements have been presented in Kuwaiti Dinars ("KD") which is the functional and presentation currency of the Parent Company rounded off to the nearest thousand.

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), as modified by the State of Kuwait for financial services institutions regulated by Central Bank of Kuwait. These regulations require adoption of all IFRS except for the IAS 39 requirement for collective impairment provision, which has been replaced by the Central Bank of Kuwait requirement for a minimum general provision as described under the accounting policy for impairment of financial assets.

2.1 New and amended IFRS that are issued and effective and are relevant to the Group

The accounting policies are consistent with those used in the previous year except for the following new and amended IFRS and new accounting policy for investment in joint venture as disclosed in note 2.12 below:

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact to the Group, since the Parent Company is not considered an investment entity under IFRS 10.

IAS 32 Offsetting Financial Assets and Financial Liabilities

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments have no impact on the Group's consolidated financial statement.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have no impact to the Group as the Group has not novated its derivatives during the current or prior periods.

IAS 36 Recoverable Amount Disclosures for Non-Financial Assets

These amendments remove the unintended consequences of IFRS 13 Fair Value Measurement on the disclosures required under IAS 36 Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period. These amendments have no material impact on the Group's consolidated financial statements.

Annual Improvements 2010-2012 Cycle

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Group's consolidated financial statement.

Annual Improvements 2011-2013 Cycle

In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at 1 January 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Group, since the Group is an existing IFRS preparer.

The adoption of the above amendments did not have any significant impact on the financial position or performance of the Group.

2.2 New standards and interpretations issued but not yet effective and are relevant to the Group

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. The Group intends to adopt those standards when they become effective. However, the Group expects no significant impact from the adoption of the amendments, on its consolidated financial position or performance.

IFRS 9 'Financial Instruments':

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

IFRS 15 Revenue from contracts with customers

The standard's requirements will apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The standard will apply to annual periods beginning on or after 1 January 2017.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarifies that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

The application of the above standards is not expected to have a material impact on the financial position or performance of the Group as and when they become effective, except for IFRS 9 which will result in amendments and/or additional disclosures relating to classification, measurement and associated risks of financial instruments.

Basis of preparation (continued)

2.3 Basis of consolidation

The Group consolidates the financial statements of the Parent Company and subsidiaries, (i.e. investees that it controls), and investees controlled by its subsidiaries.

The Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- Voting rights and potential voting rights;

The financial statements of subsidiaries are included in the consolidated financial statements on a line-by-line basis, from the date on which control is transferred to the Group until 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.

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.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the Parent Company and the non-controlling interests based on their respective ownership interests.

When a controlling interest in the subsidiaries is disposed off, the difference between the selling price and the net asset value plus cumulative translation difference and goodwill is recognised in the consolidated statement of profit or loss.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Parent Company.

2.4 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 consolidated statement of profit or loss.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non-controlling 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 consolidated statement of profit or loss immediately.

2.5 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when payment is made. Revenue arises from rendering of services and is measured by reference to the fair value of consideration received or receivable.

The Group earns fees and commission income from diverse range of asset management, investment banking, custody and brokerage services provided to its customers. 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.

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.

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

Dividend income other than those from investments in associates and joint venture are recognised at the time the right to receive payment is established.

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

2.6 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.

2.7 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production 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.

2.8 Financial instruments

Classification

In the normal course of business the Group uses financial instruments, principally cash and bank balances, time deposits, accounts receivables, investments, loans to customers, accounts payable and other liabilities, bank borrowings, bonds and derivatives.

In accordance with International Accounting Standard (IAS) 39, the Group classifies financial assets as “at fair value through profit or loss”, “loans and receivables” or “available for sale”. All financial liabilities are classified as “other than at fair value through profit or loss”.

Recognition/de recognition

A financial asset or a financial liability is recognized when the Group becomes a party to the contractual provisions of the instrument. A financial asset (in whole or in part) is derecognized when the contractual rights to receive cash flows from the financial asset has expired or the Group has transferred substantially all risks and rewards of ownership and has not retained control. If the Group has retained control, it continues to recognize the financial asset to the extent of its continuing involvement in the financial asset.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de recognition of the original liability and recognition of a new liability.

Regular way purchase and sale of financial assets are recognized using trade date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

Measurement

All financial assets or financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue are added except for those financial instruments classified as “at fair value through profit or loss”.

Basis of preparation (continued)

2.8 Financial instruments (continued)

Financial assets at fair value through profit or loss

Financial assets classified as "at fair value through profit or loss" (FVTPL) are divided into two sub categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if they are managed and their performance is evaluated and reported internally on a fair value basis in accordance with a documented investment strategy. Derivatives are classified as "held for trading" unless they are designated as hedges and are effective hedging instruments.

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are subsequently measured and carried at amortised cost using the effective yield method.

Cash and bank balances, time deposits, accounts receivable and other assets, loans to customers are classified as loans and receivables.

Available for sale

These are non-derivative financial assets not included in any of the above classifications and principally acquired to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. These are subsequently measured and carried at fair value and any resultant gains or losses are recognized in the consolidated statement of profit or loss and other comprehensive income and reported within the fair value reserve in equity. When the "available for sale "asset is disposed of or impaired, the related accumulated fair value adjustments are transferred to the consolidated statement of profit or loss as gains or losses.

Financial liabilities other than at fair value through profit or loss

Financial liabilities "other than at fair value through profit or loss" are subsequently measured and carried at amortized cost using the effective yield method. Equity interests are classified as financial liabilities if there is a contractual obligation to deliver cash or another financial asset.

Accounts payable and other liabilities, bank borrowings and bonds are classified as financial liabilities other than at fair value through profit or loss.

Financial guarantees

Financial guarantees are subsequently measured at the higher of the amount initially recognized less any cumulative amortization and the best estimate of the amount required to settle any financial obligation arising as a result of the guarantee.

Fair values

Fair value is 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For financial instruments quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities. The fair value of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published net assets value.

For unquoted financial instruments fair value is determined by reference to the market value of a similar investment, discounted cash flows, other appropriate valuation models or brokers' quotes.

For financial instruments carried at amortised cost other than short term receivables, the fair value is estimated by discounting future cash flows at the current market rate of return for similar financial instruments.

For investments in equity instruments, where a reasonable estimate of fair value cannot be determined, the investment is carried at cost.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to settle on a net basis.

Impairment

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset or a group of similar assets may be impaired. If such evidence exists, the asset is written down to its recoverable amount. The recoverable amount of an interest bearing instrument is determined based on the net present value of future cash flows discounted at original effective interest rates; and of an equity instrument is determined with reference to market rates or appropriate valuation models. Any impairment loss is recognised in the consolidated statement of profit or loss. For "available for sale" equity investments, reversals of impairment losses are recorded as increases in fair valuation reserve through equity.

Financial assets are written off when there is no realistic prospect of recovery.

2.9 Cash and cash equivalents

Cash on hand, demand and time deposits with banks whose original maturities do not exceed three months are classified as cash and cash equivalents in the consolidated statement of cash flows.

2.10 Derivative financial instruments and hedge accounting

Derivative financial instruments are accounted for as FVTPL except for derivatives designated as hedging instruments in cash flow hedge relationships or fair value hedge relationship, which requires a specific accounting treatment. To qualify for hedge accounting, the hedging relationship must meet several strict conditions with respect to documentation, probability of occurrence of the hedged transaction and hedge effectiveness.

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.

Changes in fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in profit or loss in the line item relating to the hedged item.

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 only foreign exchange forwards contracts.

Basis of preparation (continued)

2.11 Investment in associate

Associate is entity over which the Group is able to exert significant influence but which are neither subsidiaries nor joint ventures. 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 and joint ventures are eliminated to the extent of the Group's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

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.

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.

2.12 Interests in joint ventures

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 require unanimous consent of the parties sharing control. A joint venture is a joint arrangement whereby 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.

2.13 Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation and are initially measured at cost, including transaction costs, Subsequently, investment properties are accounted for using the cost model whereby these investments are stated at cost less accumulated depreciation and impairment losses, if any. The Group depreciates its investment property except land on the straight-line method over their expected useful lives of over 45 years.

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

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.

Fair values of investment properties are determined based on the market comparable approach that reflects recent transaction prices for similar properties/ capitalisation of net income method. The capitalisation rate adopted is made by reference to the yield rates observed by the valuers for similar properties in the locality and adjusted based on the valuers knowledge of the factors specific to the respective properties.

Fair value measurement takes into account the a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

2.14 Property and equipment

Property and other equipment (comprising fittings, furniture, vehicles and decoration) are initially recognised at acquisition cost or manufacturing 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 property and equipment. The following useful lives are applied:

	Years
Office equipment and software	3 - 5
Motor vehicles	3 - 4
Furniture and fixtures	7 - 10
Decorations	7

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.

2.15 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.

2.16 Treasury shares

Treasury shares consist of the Parent Company's own issued shares that have been reacquired by the Group and not yet reissued or cancelled. 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.

2.17 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.

2.18 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.

Basis of preparation (continued)

2.19 Foreign currency translation

The functional currency of an entity is the currency of the primary economic environment in which it operates and in the case of the Parent Company it is the Kuwaiti Dinar and in the case of subsidiaries it is their respective national currencies or the applicable foreign currency. Foreign currency transactions are recorded at the rates of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated to Kuwaiti Dinars at the rates of exchange prevailing on that date. Resultant gains and losses are taken to the consolidated statement of profit or loss.

Translation differences on non-monetary items, such as equities classified as available for sale financial assets are included in the fair valuation reserve in equity.

The profit or loss and cash flow statements of foreign operations are translated into the Parent Company's reporting currency at average exchange rates for the year and their statements of financial position are translated at exchange rates ruling at the year-end. Exchange differences arising from the translation of the net investment in foreign operations (including goodwill, long term receivables or loans and fair value adjustments arising on business combinations) are taken to the consolidated statement of profit or loss and other comprehensive income. When a foreign operation is sold, any resultant exchange differences are recognized in the consolidated statement of profit or loss as part of the gain or loss on sale.

2.20 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.

With respect to its Kuwaiti national employees, the Group 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.

2.21 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.

2.22 Significant management judgments and estimation uncertainty

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates 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.

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:

Classification of investments

On acquisition of an investment, management has to decide whether it should be classified as "at fair value through profit or loss", "available for sale" or as "loans and receivables". In making that judgment the Group considers the primary purpose for which it is acquired and how it intends to manage and report its performance. Such judgment determines whether it is subsequently measured at cost or at fair value and if the changes in fair value of instruments are reported in the statement of profit or loss or directly in equity.

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 investment 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.

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.

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.

Impairment of available for sale investments

The Group treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is “significant” or “prolonged” requires considerable judgment.

Impairment of non financial assets

The Group’s management tests annually whether tangible assets have suffered impairment. The recoverable amount of an asset is determined based on value-in-use method. This method uses estimated cash flow projections over the estimated useful life of the asset discounted using market rates.

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

Impairment of loans to customers

An estimate of the collectible amount of loans to customers is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis.

Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates. Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the consolidated statement of profit or loss.

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.

3. Subsidiaries

Following are the subsidiaries which are consolidated in the Group financials.

Name	Country of incorporation	Voting capital Held 31 December 2014	Voting capital Held 31 December 2013	Purpose
Mar-Gulf Management Inc.	USA	100%	100%	Assets management
First Management and Economic Consultancy Company – KSCC	Kuwait	85%	85%	Economic consultancy
MDI Holding Limited	Cayman Islands	66.66%	66.66%	Property management
MDI Management Limited	Cayman Islands	66.66%	66.66%	Property management
MDI Ventures Ltd	Cayman Islands	50%	50%	Property management
Markaz Offshore Ltd.	Cayman Islands	100%	100%	Investment
Marmore Mena Intelligence Private Limited	India	96.25%	96.25%	Consultancy
Aradi Development Limited	Cayman Islands	20%	20%	Real Estate
Markaz Real Estate Investment Company WLL	KSA	100%	100%	Real Estate
Rimal Venture Company WLL	Bahrain	100%	100%	Assets management
Markaz Fixed Income Fund	Kuwait	82.5%	98.79%	Investment Fund
Markaz Arabian Fund	Bahrain	57.89%	55.06%	Investment Fund
Newly incorporated companies in 2014				
Arab Gulf Real Estate Development Company WLL	Kuwait	99.55%	-	Real Estate
Bay View Real Estate Company WLL	Kuwait	99.55%	-	Real Estate
Boardwalk International Real Estate Company WLL	Kuwait	99.55%	-	Real Estate
Al Rihab Real Estate Development Company WLL	Kuwait	99.55%	-	Real Estate

The total issued capital of Aradi Development Company is USD 23,275 divided into one voting ordinary share at par value of USD 0.001 each, which is held by the Parent Company and 14,028,436 non-voting shares at par value of USD 0.001 each, of which 20% is held by the Parent Company. As per the articles of association of Aradi Development Limited, the holders of the voting ordinary shares elect the board of directors. As the Parent Company holds the only voting share, it gives it control over Aradi Development Company. The management of the Parent Company has the power based on its ability to appoint and remove the Board of Directors at any time without restriction and govern the business activities of Aradi Development Limited.

The Group holds 82.5% of the issued units of Markaz Fixed Income Fund, a fund managed by the Parent Company. The Group assessed that it controls Markaz Fixed Income Fund as the other unit holders does not have the ability to remove the Parent Company as the manager of the fund, also the Group has significant exposure to variable returns based on its investment in the units of the Fund. Therefore the Parent Company concluded that it acts as the principal and not as an agent.

The Group holds 57.89% of the issued units of Markaz Arabian Fund, a fund managed by the Parent Company. The Group assessed that it controls Markaz Arabian Fund as the other unit holders does not have the ability to remove the Parent Company as the manager of the fund, also the Group has significant exposure to variable returns based on its investment in the units of the Fund. Therefore the Parent Company concluded that it acts as the principal and not as an agent.

During the year, the Group's ownership change in Markaz Fixed Income Fund and Markaz Arabian Fund were due to changes in units held by non-controlling interest holders resulting in a net gain KD 153 thousand (2013: net loss KD 31 thousand). As the Parent Company continues to control these funds, the net gain/(loss) resulting from changing in units has been recognised in equity.

4. Interest income

	KD'000 31 December 2014	KD'000 31 December 2013
From:		
Time deposits	**36**	28
Investments at fair value through statement of profit or loss	**178**	251
Available for sale investment	**567**	643
Loans to customers	**189**	354
Others	**2**	1
	972	1,277

5. Management fees and commission

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

6. Change in fair value of investments at fair value through profit or loss

	KD'000	
	31 December 2014	31 December 2013
Trading securities	**(468)**	2,471
Designated on initial recognition	**(493)**	916
	(961)	3,387

7. General and administrative expenses

	KD'000	
	31 December 2014	31 December 2013
Staff costs	**4,528**	4,275
Depreciation	**243**	304
Other expenses	**3,063**	2,164
	7,834	6,743

8. Finance costs

	KD'000	
	31 December 2014	31 December 2013
Bonds	**1,051**	1,051
Borrowings	**45**	7
	1,096	1,058

9. Taxation

Kuwait Foundation for the Advancement of Sciences (KFAS)

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

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 after deducting directors' fees for the year. As per law, profit from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST have to be deducted from the profit for the year.

Zakat

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

10. 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 in issue excluding treasury shares.

	31 December 2014	31 December 2013
Profit for the year attributable to the owners of the Parent Company (KD '000)	**4,021**	6,231
Weighted average number of shares in issue during the year (excluding treasury shares) ('000s)	**480,802**	480,802
Basic and diluted earnings per share attributable to the owners of the Parent Company	**8 Fils**	13 Fils

11. Cash and cash equivalents

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

	KD'000	
	31 December 2014	31 December 2013
Cash and bank balances	**7,848**	3,833
Time deposits	**75**	3,517
	7,923	7,350
Less: Time deposits maturing after three months	**(75)**	(64)
Cash and cash equivalent for statement of cash flow	**7,848**	7,286

The Group's time deposits yield interest at an average interest rate of 0.68% (2013: 0.47%) per annum.

12. Investments at fair value through profit or loss

	KD'000	
	31 December 2014	31 December 2013
Trading:		
Local quoted securities	**812**	-
Foreign quoted securities	**12,497**	14,065
	13,309	14,065
Designated on initial recognition:		
Local managed funds	**21,305**	23,357
Foreign quoted securities	**2,106**	1,792
Fixed income securities	**1,475**	3,735
	24,886	28,884
	38,195	42,949

The investments in managed funds are carried at net asset value provided by the respective fund managers due to the nature of those investments. Management believes the net asset value provided by the fund managers represents the best estimate of fair value available for these investments.

The interest rates on fixed income securities range from 4.75% to 10.75% (2013: 4.75% to 10.75%) per annum.

Fixed income securities with a carrying value of KD 940 thousand (2013: KD 3,200 thousand) are secured against a bank borrowing facility.

13. Accounts receivable and other assets

	KD'000	
	31 December 2014	**31 December 2013**
Management fees and commission receivable	**725**	795
Interest receivable	**172**	236
Receivable from brokers	**3,563**	892
Prepayments	**307**	293
Others	**1,000**	1,329
	5,767	3,545

The net carrying value of accounts and other receivables is considered a reasonable approximation of fair value. The carrying amount of the receivable is considered a reasonable approximation of fair value as this financial asset (which is measured at amortised cost) is expected to be paid within six months, such that the effect of any difference between the effective interest rate applied and the estimated current market rate is not significant.

14. Loans to customers

	KD'000	
	31 December 2014	**31 December 2013**
Commercial loans	**1,899**	3,525
Personal loans	**2,420**	5,285
	4,319	8,810
Provision for credit losses	**(521)**	(562)
	3,798	8,248

The maturity profile of loans to customers are as follows:

	KD'000	
	31 December 2014	**31 December 2013**
Up to one month	-	1,625
Between one month and six months	**971**	939
Between six months and one year	**1,934**	3,688
Over one year	**931**	2,079
Non-performing loans (fully impaired)	**483**	479
	4,319	8,810

Provision for credit losses is made in accordance with Central Bank of Kuwait requirements including general provision on the balance of regular facilities for which no specific provisions are made.

The total non-performing loans which have been fully provided amounts to KD 483 thousand (2013: KD 479 thousand).

The interest rate on loans to customers ranges between 4.50% to 6.00% (2013: 4.50% to 6.00%) per annum for commercial loans and between 2.00% to 6.00% (2013: 2.00% to 6.00%) per annum for personal loans.

All loans are denominated in KD or US Dollars. Commercial loans are secured by charges over property and investments in the funds and securities held in fiduciary portfolios on behalf of the borrowers.

15. Available for sale investments

	KD'000	
	31 December 2014	31 December 2013
Quoted securities	**11,989**	13,816
Unquoted securities	**817**	832
Managed funds	**26,826**	20,826
Equity participation	**14,565**	15,858
Debt instruments	**7,638**	7,524
	61,835	58,856

Fair value of investments in equity participations are determined mostly based on net assets value provided by the investment managers as this represents the best estimate of fair value available for these investments.

During the year, the Group recognised an impairment loss of KD 374 thousand (2013: KD 207 thousand) in respect of certain available for sale investments. Management has performed an analysis of the underlying investments which indicates that there are no further impairment.

Investments in debt instrument amounting to KD 2,618 thousand (2013: KD 2,493 thousand) are secured by charges over real estate properties.

Debt instruments include a syndicated murabaha for KD 4,979 thousand (2013: KD 4,988 thousand) provided to a local Kuwaiti company with an option to convert this facility into equity securities of another Kuwaiti listed company at an agreed price in the event of default or on maturity, whichever is earlier.

16. Investment in associate and joint venture

Details of the Group's associate and joint venture are as follows:

Name	Country of incorporation	Proportion of ownership interest held by the Group		Purpose
		31 December 2014	31 December 2013	
Associate:				
First Equilease for Equipment and Transportation Company KSC (FEETC)	Kuwait	17.22%	17.22%	Transportation and Leasing
Joint Venture:				
MZES Gayrimenkul Alim Satim Company, Turkey(MZES)	Turkey	50%	-	Real Estate

The Parent Company holds 50% of the share capital of MZES and the remaining shares are held by another company, which gives the Group joint control, as all decisions about the relevant activities require unanimous consent of both the parties sharing control.

The summarised financial information of FEETC and MZES are as below:

	KD'000			
		31 December		
	2014 FEETC	2014 MZES	2014 Total	2013 FEETC
Current assets	**8,187**	**98**	**8,285**	**10,823**
Non-current assets	**5,797**	**1,529**	**7,326**	**2,467**
Current liabilities	**(970)**	**(13)**	**(983)**	**(109)**
Non- current liabilities	**(22)**	-	**(22)**	**(222)**
Non-controlling interest of associate	**(301)**	-	**(301)**	**(318)**
Net assets	**12,691**	**1,614**	**14,305**	**12,641**
Revenue	**1,164**	-	**1,164**	**3,112**
Profit for the year	**(83)**	**(19)**	**(1,02)**	**601**
Other comprehensive income for the year	**16**	**(3)**	**13**	**7**

A reconciliation of the above summarised financial information to the carrying amount of the equity accounted investments is set out below:

	31 December 2014			2013
	FEETC	MZES	Total	FETC
Net assets- (KD 000's)	**12,691**	**1,614**	**14,305**	**12,641**
Proportion of Group's ownership	**17.22%**	**50%**	**-**	**17.22%**
Carrying amount of the Group's interest -(KD 000's)	**2,186**	**807**	**2,993**	**2,177**

No dividend was received from the associate or joint venture during the year. FEETC and MZES are private companies; therefore, no quoted prices are available for their shares. The investments in FEETC and MZES are accounted for using the equity method in accordance with IAS 28.Neither the associate or joint venture are individually material to the Group.

17. Investment properties

Movement in investment properties for the year are as follows

	KD'000		
	Land	Building	Total
Cost			
31 December 2012	13,740	6,449	**20,189**
Additions	28	267	**295**
Disposals	(6,102)	(751)	**(6,853)**
FX change	30	17	**47**
31 December 2013	7,696	5,982	**13,678**
Additions	17,652	-	**17,652**
Disposals	(5,266)	(1,968)	**(7,234)**
FX change	218	95	**313**
31 December 2014	20,300	4,109	**24,409**
Depreciation			
31 December 2012	-	72	**72**
Charge for the year 2013	-	120	**120**
Disposals	-	(21)	**(21)**
31 December 2013	-	171	**171**
Charge for the year 2014	-	91	**91**
Disposals	-	(54)	**(54)**
31 December 2014	-	208	**208**
Net book value			
31 December 2013	7,696	5,811	**13,507**
31 December 2014	20,300	3,901	**24,201**

As at 31 December 2014, the fair value of the investment properties is KD 26,927 thousand (31 December 2013: KD 18,674 thousand).Investment properties were revalued by independent valuers 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 is their current use. There has been no change to the valuation technique during the year.

The Group sold certain investment properties in USA and GCC for aggregated sale consideration of KD 8,812 thousand (31 December 2013: KD 8,188 thousand).and realized a gain of KD 1,945 thousand (31 December 2013: KD 1,403 thousand).

The Groups investment properties are located as below:

	KD'000	
	31 December 2014	31 December 2013
North America	**3,901**	5,811
GCC	**20,300**	7,696
	24,201	13,507

18. Accounts Payable and other liabilities

	KD'000	
	31 December 2014	**31 December 2013**
Accrued Expenses	**1,949**	1,810
Post employment benefits	**1,907**	1,620
Dividend Payable	**424**	379
Provisions and others	**4,148**	2,047
	8,428	5,856

19. Bank borrowings

These represent unsecured loan facilities amounting to KD 22.4 million obtained from local commercial banks and carries interest rate ranging from 2% to 3% above Central Bank of Kuwait discount rate. As at 31 December 2014, an amount of KD 4.6 million (31 December 2013: Nil) was drawn against these facilities.

The Group has USD 1.3 million overdraft facility from a foreign bank. The facility carries interest at 1% per annum above the bank's overnight rate and is secured by way of certain fixed income securities (note 12). At 31 December 2014, the Group has not drawn any amount from this facility (31 December 2013: Nil).

20. Bonds

This represents unsecured bonds issued on 19 December 2011 by the Parent Company in the principal amount of KD 22,000 thousand as follows:

- KD 12,200 thousand with a fixed rate of 5.00% payable half yearly in arrears maturing on 19 December 2016.
- KD 9,800 thousand with variable rate of 2.50%, above Central Bank of Kuwait Discount rate, which is payable half yearly in arrears maturing on 19 December 2016.

21. Share capital

	KD'000	
	31 December 2014	**31 December 2013**
Authorised, issued and fully paid shares of 100 Kuwait Fils each	**53,130**	53,130

22. Share premium

Share premium is not available for distribution.

23. Reserves

The Companies Law No 25 of 2012 and the Parent Company's articles of association require that, 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 legal reserve. The shareholders of Parent Company may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital.

Distribution of legal 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, a percentage of the profit for the year attributable to the owners of the Parent Company before KFAS, NLST, Zakat and Directors' remuneration, as proposed by the Board and approved by the AGM, is transferred to the voluntary reserve. The Board has proposed to transfer 10% to the voluntary reserve.

There are no restrictions on distribution of voluntary reserve.

24. Treasury shares

	31 December 2014	**31 December 2013**
Number of shares(000's)	**50,498**	50,498
Percentage of issued shares	**9.5%**	9.5%
Cost (KD ‹000)	**16,342**	16,342
Market value (KD 000's)	**5,555**	7,676

Treasury share reserve is not available for distributions. Reserves of the Parent Company equivalent to the cost of treasury shares have been earmarked as non distributable.

25. Proposed dividend

The Board of Directors of the Parent Company has proposed a cash dividend of 6 fils per share amounting to KD 2,885 thousand. The proposed dividend is subject to the approval of the shareholders at the Parent Company's Annual General Assembly.

The shareholders' Annual General Assembly held on 17 April 2014 approved the consolidated financial statements of the Group for the year ended 31 December 2013 and declared cash dividend of 10 Fils per share amounting to KD 4,808 thousand for the year ended 31 December 2013 which was paid in 2014 following that approval.

26. Other components of equity

	Fair value reserve	KD 000's Foreign currency translation reserve	Total
Balance at 1 January 2013	5,256	(21)	5,235
Available for sale investments			
- Net change in fair value arising during the year	4,542	-	4,542
- Transferred to consolidated statement of profit or loss on sale	(1,670)	-	(1,670)
- Transferred to consolidated statement of profit or loss on impairment	207	-	207
Exchange differences arising on translation of foreign operations	-	1	1
Share of other comprehensive income of associate	-	1	1
Total other comprehensive income	3,079	2	3,081
Balance at 31 December 2013	8,335	(19)	8,316
Available for sale investments			
- Net change in fair value arising during the year	2,956	-	2,956
- Transferred to consolidated statement of profit or loss on sale	(2,279)	-	(2,279)
- Transferred to consolidated statement of profit or loss on impairment	374	-	374
Exchange differences arising on translation of foreign operations	-	335	335
Share of other comprehensive income of associate/ joint venture	-	1	1
Total other comprehensive income	1,051	336	1,387
Balance at 31 December 2014	**9,386**	**317**	**9,703**

27. Non- controlling interests

Details of subsidiaries that have material non controlling interests to the Group are disclosed below:

	Proportion of ownership interests held by non-controlling interests		KD 000's Profit/ (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
	2014	2013	2014	2013	2014	2013
MDI Holding Limited	**33.34%**	33.34%	**15**	14	**294**	284
MDI Management Limited	**33.34%**	33.34%	**14**	82	**713**	1,003
MDI Ventures Ltd	**50%**	50%	**353**	(13)	**2,099**	2,914
Aradi Development Limited-(Aradi)	**80%**	80%	**330**	(32)	**2,882**	3,378
Markaz Arabian Fund-(MAF)	**42.11%**	44.94%	**303**	1,176	**6,093**	5,287
Markaz Fixed Income Fund (MFIF)	17.50%	1.21%	**(18)**	3	**856**	57
Individually immaterial subsidiaries with non- controlling interests			**(1)**	(1)	**9**	8
			996	1,229	**12,946**	12,931

27. Non- controlling interests (continued)

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below:

	KD '000 31 December 2014					
	MDI Holding Limited	MDI Management Limited	MDI Ventures Ltd	Aradi	MAF	MFIF
Current assets	82	56	630	477	14,555	1,583
Non current assets	817	2,085	3,616	3,805	-	3,322
Current liabilites	(16)	(3)	(48)	(680)	(85)	(12)
	883	2,138	4,198	3,602	14,470	4,893
Equity attributable to:						
- Owners of the Parent Company	589	1,425	2,099	720	8,377	4,834
- Non controlling interests	294	713	2,099	2,882	6,093	59
	883	2,138	4,198	3,602	14,470	4,893
Revenue	57	140	1,196	648	1,079	(68)
Expenses	(12)	(97)	(490)	(235)	(359)	(37)
Profit for the year	45	43	706	413	720	(105)
Profit attributable to:						
- Owners of the Parent Company	30	29	353	83	417	(87)
- Non controlling Interests	15	14	353	330	303	(18)
	45	43	706	413	720	(105)
Other comprehensive income attributable to:						
- Owners of the Parent Company	170	108	152	(22)	(40)	(21)
- Non controlling Interests	85	54	152	(90)	(29)	(4)
	255	162	304	(112)	(69)	(25)
Total comprehensive income attributable to:						
- Owners of the Parent Company	200	137	505	61	377	(107)
- Non controlling Interests	100	68	505	240	274	(23)
	300	205	1,010	301	651	(130)
Net cash (used in)/from:						
Operating activities	(12)	(213)	252	538	(1,285)	194
Investing activities	78	135	2,755	1,244	-	1,099
Financing activities	(73)	(1,035)	(2,640)	(1,315)	1,516	(45)
Net cash flow	(7)	(1,113)	367	467	231	1,248

	KD '000 31 December 2013 MDI Holding Limited	MDI Management Limited	MDI Ventures Ltd	Aradi	MAF	MFIF
Current assets	85	1,053	457	3	11,908	341
Non-current assets	781	2,131	5,391	4,876	-	4,405
Current liabilites	(14)	(177)	(20)	(656)	(143)	(10)
	852	3,007	5,828	4,223	11,765	4,736
Equity attributable to:						
- Owners of the Parent Company	568	2,004	2,914	845	6,478	4,679
- Non controlling interests	284	1,003	2,914	3,378	5,287	57
	852	3,007	5,828	4,223	11,765	4,736
Revenue	58	443	190	-	2,932	261
Expenses	(16)	(198)	(216)	(40)	(314)	(36)
Profit/ (loss) for the year	42	245	(26)	(40)	2,618	225
Profit/ (loss) attributable to:						
- Owners of the Parent Company	28	163	(13)	(8)	1,442	222
- Non controlling Interests	14	82	(13)	(32)	1,176	3
	42	245	(26)	(40)	2,618	225
Other comprehensive income attributable to:						
- Owners of the Parent Company	(2)	6	25	5	(8)	(167)
- Non controlling Interests	(1)	3	25	21	(6)	(2)
	(3)	9	50	26	(14)	(169)
Total comprehensive income attributable to:						
- Owners of the Parent Company	26	169	12	(3)	1,434	55
- Non controlling Interests	13	85	12	(11)	1,170	1
	39	254	24	(14)	2,604	56
Net cash flow from operating activities	15	(57)	(67)	(39)	148	217
Net cash flow from investing activities	75	858	82	-	-	(44)
Net cash flow from financing activities	(72)	72	-	35	(458)	32
Net cash flow	18	873	15	(4)	(310)	205

28. Related party transactions

Related parties represent associated companies, 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. Transactions between the Parent Company and its subsidiaries which are related parties of the Parent Company have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

During the year, the Group entities entered into the following transactions with related parties that are not members of the Group:

	KD'000	
	31 December 2014	**31 December 2013**
Transactions included in the consolidated statement of profit or loss:		
Interest income	**61**	105
Management fees and commission	**5,693**	5,111
	5,754	5,216
Key management compensation:		
Salaries and other short-term benefits	**822**	645
Terminal benefits	**189**	58
Directors remuneration	**81**	140
	1,092	843
Balances included in the consolidated statement of financial position:		
Loans to customers	**56**	1,372
Accounts receivable and others	**471**	508
	527	1,880
Accounts payable and other liabilities	**1,169**	982

Board of Directors remuneration is subject to approval of shareholders in the Annual General Assembly.

29. Segmental analysis

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 profit or loss.

The revenues and profits generated by the Group from business segments are summarised as follows:

Asset management

- GCC and MENA investments
- International investments
- Private equity
- Real estate

Investment banking

- Corporate finance & advisory
- Oil and gas
- Treasury
- Loans
- Structured finance and derivatives

	KD'000					
	Asset Management		Investment Banking		Total	
	2014	2013	2014	2013	2014	2013
Segment income	**12,311**	13,560	**2,388**	2,422	**14,699**	15,982
Segment profit	**5,646**	6,948	**(347)**	956	**5,299**	7,904
KFAS, NLST, Zakat and directors remuneration	**(282)**	(376)	**-**	(68)	**(282)**	(444)
Profit/(loss) for the year	**5,364**	6,572	**(347)**	888	**5,017**	7,460
Total segment assets	**118,490**	103,104	**26,548**	33,931	**145,038**	137,035
Total segment liabilities	**27,108**	17,749	**7,983**	10,107	**35,091**	27,856
Interest income	**-**	-	**972**	1,277	**972**	1,277
Finance cost	**-**	-	**(1,096)**	(1,058)	**(1,096)**	(1,058)
Depreciation	**(128)**	(172)	**(115)**	(132)	**(243)**	(304)
Impairment of available for sale investments	**(102)**	(207)	**(272)**	-	**(374)**	(207)
Purchase of property and equipment	**(24)**	(40)	**(51)**	(96)	**(75)**	(136)
Purchase of investment properties	**(17,652)**	(295)	**-**	-	**(17,652)**	(295)

Segment income above represents income generated from external customers.

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

30. 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 as at 31 December 2014 amounted to KD 1,089,085 thousand (2013: KD 975,159 thousand). The Group earned management fee of KD 6,641 thousand (2013: KD 5,518 thousand) from these activities.

31. Contingent liabilities and commitments

	KD'000	
	31 December 2014	31 December 2013
Commitments for purchase of investments	**4,390**	4,698
Letters of guarantee	**157**	-

32. Derivative financial instruments

Derivatives are financial instruments that derive their value by referring to interest rate, foreign exchange rate or other indices. Notional principal amounts merely represent amounts to which a rate or price is applied to determine the amounts of cash flows to be exchanged and do not represent the potential gain or loss associated with the market or credit risk of such instruments.

The derivatives held for trading are given below:

	31 December 2014 KD'000			31 December 2013 KD'000		
	Assets	Liabilities	Contractual amounts	Assets	Liabilities	Contractual amounts
Held for trading:						
Forward foreign exchange contracts	**-**	**239**	**8,935**	-	31	8,914

Derivatives are carried at fair value and expire within one year.

33. Financial risk management objectives

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

The board of directors of the Parent Company are ultimately responsible for setting out risk management objectives. The Group's risk management function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks.

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

33.1 Market risk

Market risk is the risk that changes in market prices, such as equity prices, foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and equity prices.

a) Equity price risk

The Group is exposed to the equity price risk with respect to its equity investments. Equity investments are classified either as investments at fair value through statement of profit or loss or available for sale investments. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio in accordance with the limits set by the Group.

The equity price risk sensitivity analysis shown below has been determined based on the quoted market price of investments at fair value through statement of profit or loss and available for sale investments that are listed on the Kuwait Stock Exchange and other stock exchange at the reporting date.

There has been no change in the methods and the assumptions used in the preparation of the sensitivity analysis. If equity price had been 2% (2013: 2%) higher/lower, the effect on the profit and equity for the year ended 31 December would have been as follows:

	31 December 2014			31 December 2013		
	%	KD'000		%	KD'000	
Market indices:	Change in price	Effect on profit	Effect on equity	Change in price	Effect on profit	Effect on equity
Kuwait Stock Exchange	**2%**	**10**	**-**	2%	-	-
Other stock exchange	**2%**	**226**	**240**	2%	266	276

The Group is not significantly exposed to any single stock exchange other than the Kuwait Stock Exchange and Gulf Corporation Council (GCC) Stock Exchanges.

b) Foreign currency risk

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters and hedging strategies like forward foreign exchange contracts are used to ensure positions are maintained within the established limits.

The carrying amounts of the Group's foreign currency exposure at the reporting date are as follows:

	Financial liabilities KD'000		Financial assets KD'000	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
US Dollars	**669**	727	**51,374**	54,016
Euros	**4**	4	**3,265**	3,806
Sterling Pounds	**1**	1	**67**	97
Bahraini Dinars	**-**	-	**356**	367
UAE Dirhams	**-**	-	**8,499**	470
Qatari Riyals	**-**	-	**222**	533
Others	**7**	5	**8,532**	4,105

The Group is maintaining exposure mainly to the US Dollars, Euros and UAE Dirhams.

The following table details the Group's sensitivity to a 2% (2013: 2%) increase and decrease in the KD against US Dollars, Euros and UAE Dirhams. The sensitivity analysis includes only outstanding US Dollars, Euros and UAE Dirhams denominated monetary assets and liabilities and adjusts their translation at the year end for a 2% change in foreign currency rates. All other variables are held constant.

There has been no change in the methods and the assumptions used in the preparation of the sensitivity analysis.

	+2 % Impact KD'000		-2 % Impact KD'000	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Profit for the year	**582**	478	**(582)**	(478)
Equity	**667**	673	**(667)**	(673)

The effect on equity is due to the changes in fair value of available for sale investments.

c) Interest rate risk

The Group is exposed to interest rate risk as it places and borrows funds at floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings.

The following table illustrates the sensitivity of the profit for the year to a reasonably possible change in interest rates of + 1% and - 1% (2013: + 1% and - 1%) with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Group's financial instruments held at each financial position date. All other variables are held constant. There has been no change in the methods and the assumptions used in the preparation of the sensitivity analysis.

A positive number below indicates an increase in profit and negative number indicates a decrease in profit.

	31 December 2014 KD'000		31 December 2013 KD'000	
	+1%	**-1%**	+1%	-1%
Profit for the year	**(44)**	**44**	69	(69)

33.2 Credit risk management

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group uses publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management annually. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Group does not have any significant credit risk exposure to any single counterparty or any Group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 5% of gross monetary assets at any time during the year.

Exposure to credit risk

The carrying amount of financial assets which is net of impairment losses, recorded in the consolidated statement of financial position represents the Group's maximum credit exposure without taking account of the value of any collateral obtained. The maximum exposure to credit risk at the reporting date was:

	KD'000	
	31 December 2014	31 December 2013
Bank balances	**7,846**	3,831
Time deposits	**75**	3,517
Accounts receivable and other assets	**5,460**	3,252
Investments at fair value through profit or loss	**22,780**	27,092
Loans to customers	**3,798**	8,248
Available for sale investments	**34,464**	28,350
	74,423	74,290

33. Financial risk management objectives (continued)

The maximum exposure to credit risk at the reporting date by geographic region was:

	KD'000 31 December 2014	KD'000 31 December 2013
Kuwait	**52,906**	55,214
North America	**10,342**	9,680
GCC	**5,671**	2,296
Europe	**4,239**	5,665
MENA	**110**	208
Others	**1,155**	1,227
	74,423	74,290

There are no past due assets. Loans and advances of KD 483 thousand (2013: KD 479 thousand) are impaired and is fully provided for.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates. The Group assesses the credit quality of financial assets using internal records and customer profiles.

33.3 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.

	KD'000 Upto 1 month	Upto 1-3 months	3-12 months	1 to 5 years	Total	Weighted average effective interest rate %
31 December 2014						
Financial liabilities						
Accounts payable and other liabilities	2,276	1,234	3,011	-	6,521	
Borrowings	505	2,046	78	2,287	4,916	4% to 5%
Bonds	-	-	1,016	23,051	24,067	4.5% to 5%
	2,781	3,280	4,105	25,338	35,504	
Commitments				4,390	4,390	
31 December 2013						
Financial liabilities						
Accounts payable and other liabilities	2,489	486	1,261	-	4,236	
Bonds	-	-	1,016	24,102	25,118	4.5% to 5%
	2,489	486	2,277	24,102	29,354	
Commitments	-	-	-	4,698	4,698	

The maturity profile of the Group's asset and liabilities are as follows:

31 December 2014	Up to one year	More than one year	Total
	KD'000		
Assets:			
Cash and bank balances	7,848	-	**7,848**
Time deposits	75	-	**75**
Investments at fair value through profit or loss	38,195	-	**38,195**
Accounts receivable and other assets	5,492	275	**5,767**
Loans to customers	2,876	922	**3,798**
Available for sale investments	-	61,835	**61,835**
Investment in associate and joint venture	-	2,993	**2,993**
Investment properties	-	24,201	**24,201**
Property and equipment	-	326	**326**
	54,486	**90,552**	**145,038**
Liabilities			
Accounts payable and other liabilities	6,521	1,907	**8,428**
Borrowings	2,504	2,159	**4,663**
Bonds	-	22,000	**22,000**
	9,025	**26,066**	**35,091**

31 December 2013	Up to one year	More than one year	Total
	KD'000		
Assets:			
Cash and bank balances	3,833	-	3,833
Time deposits	3,517	-	3,517
Investments at fair value through profit or loss	42,949	-	42,949
Accounts receivable and other assets	3,347	198	3,545
Loans to customers	6,190	2,058	8,248
Available for sale investments	-	58,856	58,856
Investment properties	-	13,507	13,507
Investment in associate	-	2,177	2,177
Property and equipment	-	403	403
	59,836	77,199	137,035
Liabilities			
Due to banks and other financial institutions			
Accounts payable and other liabilities	4,236	1,620	5,856
Bonds	-	22,000	22,000
	4,236	23,620	27,856

34. Financial instruments measured at fair value

Fair value represents amounts at which an asset could be exchanged or a liability settled on an arm's length basis. In the opinion of the Group's management the carrying amounts of financial assets and liabilities as at 31 December 2014 and 2013 approximate their fair values.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

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

31 December 2014	KD'000			
	Level 1	Level 2	Level 3	Total
Investments at fair value through profit or loss				
Quoted securities				
- Listed in GCC	13,309	-	-	13,309
- Listed in the United States of America	2,106	-	-	2,106
Funds				
- GCC	-	21,299	-	21,299
- United States of America	-	6	-	6
Fixed income securities				
- Europe	940	-	-	940
Forward FX contracts held for trading	-	(239)	-	(239)
Available for sale investments				
Quoted securities and funds				
- Listed in GCC	595	-	-	595
- Listed in Europe	4,904	-	-	4,904
- Listed in the United States of America	6,490	-	-	6,490
Funds				
- GCC	-	16,989	-	16,989
- Europe	-	3,211	-	3,211
- United States of America	-	5,580	-	5,580
- Others	-	1,046	-	1,046
Debt instruments				
- GCC	-	-	5,021	5,021
- United States of America	-	-	2,617	2,617
Equity participations and other investments				
- GCC	-	860	-	860
- Europe	-	1,056	-	1,056
- United States of America	-	5,113	-	5,113
- Others	-	7,536	-	7,536
Unquoted securities				
- GCC	-	-	195	195
- Europe	-	-	622	622
	28,344	62,457	8,455	99,256

	KD'000			
	Level 1	Level 2	Level 3	Total
31 December 2013				
Investments at fair value through profit or loss				
Quoted securities				
- Listed in GCC	14,065	-	-	14,065
- Listed in Europe	60	-	-	60
- Listed in the United States of America	1,732	-	-	1,732
Funds				
- GCC	-	23,357	-	23,357
Fixed income securities				
- Europe	3,200	-	-	3,200
Forward FX contracts held for trading	-	(31)	-	(31)
Available for sale investments				
Quoted securities and funds				
- Listed in GCC	727	-	-	727
- Listed in Europe	6,267	-	-	6,267
- Listed in the United States of America	6,822	-	-	6,822
Funds				
- GCC	-	12,225	-	12,225
- Europe	-	2,026	-	2,026
- United States of America	-	5,831	-	5,831
- Others	-	744	-	744
Debt instruments				
- GCC	-	-	5,031	5,031
- United States of America	-	-	2,493	2,493
Equity participations and other investments				
- GCC	-	1,043	-	1,043
- Europe	-	1,412	-	1,412
- United States of America	-	4,755	-	4,755
- Others	-	8,648	-	8,648
Unquoted securities				
- GCC	-	-	195	195
- Europe	-	-	637	637
	32,873	60,010	8,356	101,239

34. Financial instruments measured at fair value (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	KD 000's Fair value as at 2014	2013	Fair value Hierarchy	Valuation technique(s) and key input (s)	Significant unobservable input (s)	Relationship of unobservable inputs to fair value
Investment at fair value through Profit `or loss:						
Quoted securities	15,415	15,857	1	Quoted bid prices	N/A	N/A
Funds	21,305	23,357	2	NAV basis	N/A	N/A
Fixed income securities	940	3,200	1 & 3	Quoted prices and discounted cash flows	Interest rate	Higher the interest rate, lower the value
Derivative financial liabilities	(239)	(31)	2	Discounted cash flows, estimated based on observable foreign exchange rates	N/A	N/A
Available for sale investments						
Quoted securities	11,989	13,816	1	Quoted bid prices	N/A	N/A
Unquoted securities	817	832	3	Discounted cash flows	Cash flow estimate and discount rate	Higher estimated cash flows and lower discount rates, results in higher fair value
Funds	26,826	20,826	2	NAV basis and others	N/A	N/A
Debt instruments	7,638	7,524	3	Discounted cash flow	Interest rate	Higher the interest rate, lower the value
Equity Participation	14,565	15,858	2	NAV basis	N/A	N/A

The impact on 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%.

For financial instruments carried at amortized cost, fair values are not materially different from their carrying values and is used only for disclosure purpose. Fair value of such financial instruments are classified under level 3 determined based on discounted cash flow basis, with most significant inputs being the discount rate that reflects the credit risk of counterparties.

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

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

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:

	KD '000 Available for sale investments
31 December 2014	
Opening balance	**8,356**
Sales	**(73)**
Gain recognised in other comprehensive income	**172**
Closing balance	**8,455**
31 December 2013	
Opening balance	8,458
Sales	(125)
Gain recognised in other comprehensive income	23
Closing balance	8,356

Changing inputs to the level 3 valuations to reasonably possible alternative assumptions would not change significantly amounts recognized in the consolidated statement of profit or loss, total assets, total liabilities or total equity.

35. Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, human error, systems 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 overall risk management.

36. Capital management objectives

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from previous year.

The capital structure of the Group consists of equity attributable to the owners of the Parent Company, comprising issued share capital, share premium and reserves as disclosed in notes 21, 22, and 23 respectively, treasury shares as disclosed in note 24, retained earnings and debt consists of bank borrowings and bonds disclosed in note 19 & 20.

Gearing ratio

The gearing ratio at year end was as follows:

	KD'000	
	31 December 2014	31 December 2013
Debt	**26,663**	22,000
Less: Cash and cash equivalents (see note 11)	**(7,848)**	(7,286)
Net debt	**18,815**	14,714
Equity	**109,947**	109,179
Net debt to equity ratio	**17.11%**	13.48%

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Kuwait Financial Centre K.P.S.C. | Asset Management | Investment Banking
P.O. Box 23444, Safat 13095, State of Kuwait Fax +965 2242 5828