Docusign Envelope ID: 68773880-76A5-4C8C-BB99-0B727EA45CD0

Reference: 165/BK/CCD/24

Date: 13 November 2024

M/s Boursa Kuwait,

State of Kuwait

Greetings,

<u>Sub: Disclosure of Material Information- Kuwait Financial Centre K.P.S.C</u>

With reference to the above subject regarding the disclosure of material information as specified in Module 10 "Disclosure and Transparency" of the Capital Markets Authority Executive Regulations of Law No. 7 of 2010, and based on Chapter IV Article (4-1) of that module;

We are pleased to announce that the international rating agency, Capital Intelligence, has affirmed the bond rating of Kuwait Financial Centre's KWD35mn senior unsecured bonds due 20 December 2025 at "BBB" on 13/11/2024. Accordingly, please find attached the disclosure of credit rating form with the required details.

Sincerely,

الإشارة: 165/BK/CCD/24

التاريخ: 13 نوفمبر 2024

السادة/ شركة بورصة الكويت المحترمين،

دولة الكويت

تحية طيبة وبعد ،،،

<u>وضوع: الافصاح عن المعلومات الجوهرية- شركة المركز المالي الكويتي م.ك.ع.</u>

بالإشارة إلى الموضوع أعلاه بخصوص الافصاح عن المعلومات الجوهرية كما ورد في الكتاب العاشر "الافصاح والشفافية" من اللائحة التنفيذية للقانون رقم 7 لسنة 2010، واستناداً الى الفصل الرابع مادة (4-1) من ذلك الكتاب.

نحيطكم علماً **بتثبيت تصنيف سندات** شركة المركز المالي الكويتي ش.م.ك.ع. غير المضمونة المستحقة في 20 ديسمبر 2025 بقيمة 35 مليون دينار كويتي، عند الدرجة الاستثمارية BBB وذلك من قبل شركة التصنيف الائتماني الدولية كابيتال انتليجنس في 2024/11/13 . وعليه تجدون مرفق طيه نموذج الإفصاح عن هذا التصنيف الائتماني مع مدلولاته.

وتفضلوا بقبول فائق الاحترام،،،

DocuSigned by:

23D6DC526C49422...

Maha Abdulsalam Imad مهى عبدالسلام عماد

Executive Vice President نائب رئيس تنفيذي

DS

Note: This is a translation for ease of reference only. The binding text is the Arabic text. In case of any difference between the Arabic and the English texts, the Arabic will prevail.

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Disclosure of Credit Rating Form

Date	13 November 2024
Listed Company's Name	Kuwait Financial Centre K.P.S.C. "Markaz"
Rating Agency	Capital Intelligence
Bond Rating and Grade Category	Bond Rating: BBB (KWD35mn senior unsecured bonds due on 20 December 2025) Grade Category: Investment Grade
Implications of the Rating	According to Capital Intelligence's rating definitions on their website, bonds and financial obligations that are rated BBB are regarded as medium grade. These securities are neither highly nor lowly protected. Both interest payments and principal security are currently adequate but certain protective elements may be missing or may be slightly more unreliable in the longer-term. Obligations rated BBB do not display very strong investment characteristics. The obligations form the lowest investment grade level and some may possibly possess speculative characteristics.
Rating's effect on the status of the Company	No impact is expected on the Company's financial position
Outlook	The Outlook is "Stable"
Press release or executive summary	Attached

DocuSigned by:

23D6DC526C49422...

Maha Abdulsalam Imad
Executive Vice President

DS

Note: This is a translation for ease of reference only. The binding text is the Arabic text. In case of any difference between the Arabic and the English texts, the Arabic will prevail.

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Ref: KW05023CRA04-05

13 November 2024

Kuwait Financial Centre – Issue Rating Affirmed with a Stable Outlook

Capital Intelligence Ratings (CI Ratings or CI) today announced that it has affirmed the 'BBB' issue rating assigned to Kuwait Financial Centre's (Markaz; the issuer) KWD35mn or USD equivalent 5-Year Senior Unsecured Bond. The Outlook on the rating remains Stable.

The issue rating is driven by Markaz's resilient financial metrics in terms of both liquidity and debt profile with the latter improving in 2023 through a significant reduction of bank borrowings. Other supporting factors are the good debt maturity profile, the high level of unencumbered assets and the maintenance of substantial unutilised – but committed – funding lines. The rating also reflects the issuer's well-established franchise and good reputation in the region, especially in Kuwait. The experienced management team has demonstrated its ability to effectively navigate the Company through many challenging operating environments and market cycles. As the bond does not contain any structural credit enhancements or result in a degree of effective subordination, the issue rating is in line with our assessment of the issuer's general capacity to meet its senior unsecured obligations.

The key constraint and challenge for the issuer remains the volatility of earnings, which relates to its substantial portfolio of financial assets measured at fair value through profit and loss (FVTPL). Other constraints are the concentrations in terms of individual holdings, the still high exposure to the real estate sector despite the recent decline, the concentration in funding sources, and the reliance on asset sales and/or refinancing for repayment of bonds issued.

Notwithstanding its relatively small size, Markaz has a strong reputation as a fund manager in Kuwait. Its portfolio of AUM continued to grow in 2023 and accelerated in H1 24 with the recovery of the financial markets. It has retained its sound market share and its position among the top three fund managers domestically.

While financial markets were subdued in 2023, real estate market conditions were generally more favourable especially in the GCC. Consequently, the Company exited and disposed of a number of investment properties. Together with a large drop in cash balances and deposits with banks, its asset base contracted sharply in 2023. There were also some shifts between asset classes as a number of financial investments were reclassified to investment in associates. Nonetheless, the asset composition in 2023 was stable with the portfolio of financial assets at FVTPL forming close to half of total assets. This portfolio is fairly liquid as reflected by the high proportion of Level 1 and 2 fair value investments. However, this large portfolio will continue to expose the Company to the potential volatility of the financial markets. In the first six months of 2024, assets grew moderately aided largely by the recovery of the financial markets.

By geography, as in the previous years, the largest proportion of Markaz's assets remained in Kuwait and the GCC – an area which it knows best – followed by the US and Europe. Concentration by individual holdings and in the real estate sector however remained high. The top five individual holdings accounted for over 40% of total assets at end-H1 24, while the real estate exposure stood at over 20% despite the large disposal of investment properties last year. This concentration risk is partly mitigated by the fact that the large proportion of the top 5 holdings relates to the Company's managed funds while its long spanning experience and knowledge of the real estate sector worldwide provides comfort to its real estate exposure. Following the disposal of most of its GCC investment properties in 2023, the focus going forward is on the US and Europe and in the logistics and housing segments. While the exit from investment properties has resulted in large one-off gains, recurring income from real estate exposure as a percentage of total income is moderate.

Funding and liquidity remain key supporting factors for the rating. The Company has a fairly wide lender base comprising local banks and foreign institutions. A positive development was the repayment of a large proportion of bank borrowings last year. While bank borrowings increased again in H1 24, they remained significantly lower than the level seen at end-2022. The good debt maturity profile was also maintained at

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end-H1 24. Concentration in funding sources however remains and relates to the bond under review. EBITDA to interest expense coverage improved in 2023 on the back of the large gain from disposal of investment properties but fell back to a still sound level in H1 24. The improvement in debt to equity metrics was modest as the substantial lowering of debt was largely offset by the equally large contraction of equity due to a noticeable drop in minority interests. Internal capital generation was however constrained by moderately large dividend payments. That said, the dividend payout ratio improved on the back of a much higher net profit. The Company's ability to continue to raise funds on an unsecured standalone basis remains a key strength and reflects its well-established franchise and good reputation in the market. Bank borrowings at subsidiaries are moderate and were largely secured against projects being financed.

Liquidity and Short-Term Debt Repayment Capacity

Notwithstanding the negative operating cashflow, the Company's liquidity position is considered good and remains supported by its large portfolio of fairly liquid financial assets at FVTPL. It also continues to maintain a substantial amount of unutilised but committed lines and its assets remain largely encumbered. The Company continued to maintain a good debt maturity profile. Its short-term debt obligations were more than covered by cash balances and deposits with banks in both 2023 and H1 24.

However, the repayment of large facilities such as the bond under review will remain reliant on asset sale and/or refinancing as core revenue remains comparatively modest. Refinancing risk is considered moderate given the Company's good access to the capital market, its well-established franchise and good reputation. Moreover, there is strong investor demand for good quality bonds given the very quiet capital market in Kuwait with limited bond issuances over the past two years.

As for earnings, due to its business model and given the large portfolio of financial assets at FVTPL, Markaz's earnings will remain volatile in line with the movements of the financial markets. While fee and asset management income declined in 2023, net profit nearly doubled on the back of the large gain from the disposal of investment properties. Going forward, the Company is expecting a solid net profit for this year given the still bullish financial markets, as well as some smaller sales of investment properties. Profitability metrics have remained erratic in line with the trend of the industry, and better than those of its immediate and largest peer in Kuwait.

Rating Outlook

The Stable Outlook indicates that the issue rating is likely to remain unchanged over the next 12 months. The outlook balances challenges relating to the effect of financial markets volatility against the Company's generally sound financial standing, solid liquidity, and well-established franchise and market reputation.

Rating Dynamics: Upside Scenario

Though seen as being unlikely within the next 12 months, the Outlook could be revised to Positive if the Company's already sound financial metrics strengthen significantly, potential volatility in TCI reduces noticeably, and recurring income expands.

Rating Dynamics: Downside Scenario

Although not our base case, the Outlook could be revised to Negative or the rating lowered by one notch in the next 12 months if there is a significant general weakening of financial metrics – and if such a weakening appears unlikely to be rectified in the short term. The normal volatility in earnings and/or OCI relating to market movements would not normally be sufficient to trigger such a downside scenario.

Ratings

Issue Rating – KWD35mn Senior Unsecured Bond	
Long-Term	**Outlook**
BBB	**Stable**

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Contact

Primary Analyst: Agnes Seah, Senior Credit Analyst; E-mail: agnes.seah@ciratings.com
Secondary Analyst: Darren Stubing, Senior Credit Analyst
Committee Chairperson: Rory Keelan, Senior Credit Analyst

About the Ratings

The credit ratings have been issued by Capital Intelligence Ratings Ltd, P.O. Box 53585, Limassol 3303, Cyprus.

The following information sources were used to prepare the credit ratings: public information and information provided by the rated entity. Financial data and metrics have been derived by CI from the rated entity's financial statements for FY2020-23 and H1 2024. CI may also have relied upon non-public financial information provided by the rated entity and may also have used financial information from credible, independent third-party data providers. CI considers the quality of information available on the rated entity to be satisfactory for the purposes of assigning and maintaining credit ratings. CI does not audit or independently verify information received during the rating process.

The principal methodologies used to determine the ratings are the Non-Bank Financial Institutions Rating Methodology, dated 27 April 2022 (see http://www.ciratings.com/page/nbfi-ratings), and the Bond Rating Methodology (see http://www.ciratings.com/page/rating-methodologies/bond-ratings). Information on rating scales and definitions, the time horizon of rating outlooks, and the definition of default can be found at www.ciratings.com/page/our-policies-procedures. Historical performance data, including default rates, are available from a central repository established by ESMA (CEREP) at http://cerep.esma.europa.eu

This rating action follows a scheduled periodic (annual) review of the instrument. Ratings on the issue were first released in November 2020. The ratings were last updated in November 2023. The rating and rating outlook were disclosed to the rated entity prior to publication and were not amended following that disclosure. The ratings have been assigned or maintained at the request of the rated entity or a related third party.

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